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LAW FIRM BUSINESS

Smaller deals fuel state's firms

Big deals that often go to New York lawyers have slowed, but mid-market is robust

By Robert Pierce
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PALO ALTO — With the heady days of giant private equity deals becoming a thing of the past, mid-size deals are stepping in to fill the void, leaving California lawyers with a fatter book of business as a result.

Although New York law firms tend to scoop up private equity deals with higher dollar values, California firms thrive on mid-size deals, which is where the action is now playing out.

"We've seen a pretty robust pace of transactions over the past 12 months while at the upper end of the market, there was really some slowdown that we didn't notice in the middle market," said David A. Breach, a San Francisco partner with Kirkland & Ellis LLP.

Breach co-founded Kirkland & Ellis' San Francisco office in 2003, and the firm now has roughly 70 lawyers dedicated to private equity between its Los Angeles, Palo Alto and San Francisco offices. Of those lawyers, two-thirds are focused on middle-market deals with a third focused on large deals.


S. Todd Rogers / Daily Journal
Howard S. Glazer is a partner with Ropes &Gray LLP in San Francisco.

Middle-market deals have several advantages over large deals right now, according to Howard S. Glazer, a partner with Ropes & Gray LLP in San Francisco. For instance, large buyouts need several banks to lend billions of dollars. Overall market and political uncertainty make it more difficult for buyers and sellers to come to an agreement on price, he said.

"In the middle market, it's easier to get over that," he said. "You can have earn-outs and they're almost all private transactions."

Jones agreed middle-market deals are currently easier to get done.

"At present, mid-market funds are viewed as a space with less overcrowding for deals and more attractive prospects for investment," he said.

Both middle-market and upper-market deal flow peaked in 2007 with 181 and 97 deals closed, respectively, according to Pitchbook, a research firm that analyzes private equity deals. During the financial collapse, however, those numbers fell more drastically for upper market deals, with 42 deals in 2008, 10 in 2009 and 28 in 2010. Middle market deals also fell but then rebounded with 88 deals in 2008, 48 deals in 2009 and 111 deals in 2010.

"In the years following the collapse of Lehman Brothers and the economic volatility that has followed, there has been a general trend of private equity capital moving towards mid-market and away from large- and mega-market deals," said Alex Jones, a spokesman for Preqin, a private equity intelligence provider.

As a result, California lawyers have been able to rake in large amounts of work that may have otherwise gone elsewhere.

"For California-based lawyers in the private equity market, the market in the Bay Area is strong and relatively large, one of the largest in the U.S.," Glazer said. "More than the other large markets, it's more of a middle market private equity community. There's obviously [private equity firms like] TPG and Hellman & Friedman and Silver Lake Partners — those are three large cap players in this area. But otherwise it's entirely a middle-market geography."

Breach acknowledged East Coast firms still dominate when it comes to lawyers who are experienced in leveraged acquisitions.

"All things being equal, a client would prefer to work with a lawyer in his or her time zone, but they really value expertise above all else," he said.

West Coast firms recognize the value in hiring experienced leveraged acquisition lawyers. Ropes & Gray opened an office in the Bay Area a decade ago, and the growing prominence of the private equity community puts it in the top four private equity markets in the country — along with New York City, Chicago and Boston — Glazer said.

"As a firm, we've been out here for 10 years, but we've gone from zero to 10 private equity lawyers in the last 18 months because of the size of the market out here and how active it is," he said.