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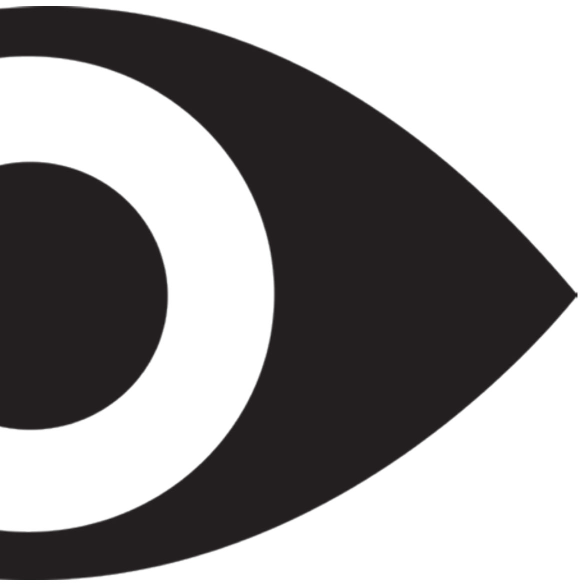

Private Eyes

LAW FIRMS FOCUSED ON ADVISING THE BOOMING PRIVATE EQUITY MARKET HAVE SOARED TO NEW HEIGHTS—AND SEE NO SIGNS OF SLOWING.

By Roy Strom

ALL OF BIG LAW'S BEST-KNOWN PRIVATE EQUITY PRACTICES HAVE A compelling origin story.

There's the tale of Simpson Thacher & Bartlett's former chairman Richard Beattie, as a 33-year-old associate in the late 1970s, working with the founders of KKR & Co. before they had even started the place. Ropes & Gray chairman R. Bradford Malt's dealings with Mitt Romney and Bain Capital date back to the mid-1980s. Jack Levin of Kirkland & Ellis reportedly had to ask his first client what a venture capital deal even was in the late 1970s. The Carlyle Group's Bruce Rosenblum, who joined the buyout giant's management committee in 2000, is a former executive committee member at Latham & Watkins.

It's hard to overstate the importance of those stories. As the biggest private equity shops have boomed in the past two decades, they have propelled their favored lawyers and firms to new financial heights. It is no coincidence that two firms with some of the busiest private equity lawyers, Kirkland and Latham, are also No. 1 and No. 2 in the Am Law 100.

Even so, there is a more pressing story to tell about the relationship between buyout firms and law firms: a growth story.

Private equity is pushing past its pre-recession heights and it is not expected to slow down. Mergermarket states that the value of private equity deals struck in the first half of 2018 set a record. PricewaterhouseCoopers expects that the assets under management in the private equity industry will more than double from $4.7 trillion in 2016 to $10.2 trillion in 2025.

With twice as much dry powder to spend on deals, private equity firms will play a large role in determining the financial winners and losers of the Am Law 100 over the next five-plus years. It amounts to a power shift from traditional Wall Street banking clients and their preferred, so-called white-shoe firms to those other outfits that advise hard-charging private equity leaders.

And as more money flows into the coffers of private equity firms, they are expanding their services. Increasingly, they act as their own investment banks. KKR, one of the largest publicly traded buyout shops, reported last year that it generated $440 million in fees related to taking companies public, underwriting new deals or syndicating debt and equity. That figure was up roughly two-and-a-half times from the prior year.

“What you’re really talking about is money, and a change in the form of money that has shifted the power base for private equity lawyers,” says Kay Hoppe, a veteran legal recruiter based in Chicago. “Private equity lawyers used to be nice to have, and they are now lawyers who are viewed as essential. They are fuel for the machine.”

It is hard to find law firm managing partners who don’t acknowledge the attraction of private equity clients. Their deals act as a lure, catching work for a variety of practice groups: tax, M&A, finance and employee benefits. And lawyers often end up handling legal work for the very companies they help private equity holders buy. Then, of course, there is always the sale of that business. A single private equity deal for one of the big buyout firms can generate fees ranging from $1 million to $10 million, sources say.

“It’s kind of like there’s a perfect storm taking all those things into consideration that makes private equity a big driver in the success of many firms, and an aspirational growth priority in many more firms,” says Kent Zimmermann, who does law firm strategy consulting at The Zeughauser Group.

So, who will win the competition for this lucrative practice over the next several years? It’s hard to tell for certain, but there is a group of firms with an embedded competitive advantage, and they are bulking up on talented lawyers to solidify their relationships with the biggest funds. Those top-end funds are also where much of the future growth in assets will be. Still, there is opportunity in new and smaller funds for enterprising lawyers.

It’s worth noting that a similar doubling in private equity assets already took place from 2007 to 2016, according to PwC. So there is something to be learned from the winners of that time period, a group that includes, roughly, Kirkland, Latham, Simpson Thacher and Ropes & Gray. All four firms are ranked in the top two bands for private equity by Chambers and Partners.

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—Will Shields

ROPES & GRAY

Ropes & Gray employed just under 400 lawyers in the mid-1990s when the firm first began representing private equity companies. Today, it has nearly 1,200 lawyers, thanks in large part to strong relationships with such buyout giants as Advent International Corp., Bain, Kohlberg & Co. and TPG.

Like Kirkland, Ropes & Gray’s gross revenue doubled from 2007 to 2016, from $733 million to $1.5 billion. And among Kirkland, Latham and Simpson Thacher, Ropes & Gray has increased its head count during that time span by the greatest percentage—nearly 50 percent. Will Shields, co-chairman of the firm’s private equity transactions practice, says Ropes & Gray’s international growth has been aimed at “hubs of PE activity” in London, Seoul and Tokyo.

“Serving the private equity industry has been fundamental to our strategy forever, or at least over the last two or three decades,” Shields says. “And we are happy we’ve made that bet. Looking forward, we continue to feel very bullish about the fortunes of law firms serving private equity, because we think the industry’s growth has been tremendous and we think it’s continuing to go that direction.”

Judging by league tables that track deals (somewhat imperfectly, as they are self-reported by firms), Kirkland has a leading position in the practice. According to Mergermarket, the firm handled 1,184 private equity deals from 2013 through this June. Latham was closest with 609. Ropes & Gray handled 323, while Simpson Thacher signed up 319. Below is a look at how those firms have grown their practices and what they plan to do to stay on top.