

Profitable times for law firms despite upsets

BY CRISTINA MUNTEAN

With almost all Czech-based law firms announcing increased revenues, 2006 will generally go down as a good year for local attorneys. But not everything is looking rosy — rumors abound that some international firms will pull out of the market this year.

On the bright side, revenue streams flowed thanks to sturdy economic growth and tremendous investment inflows. While international players bet more and more on the real estate "gold mine," domestic firms keep an eye on the emerging East, looking to up the expansion momentum with new offices abroad or through local acquisitions.

Czech law firm Konečná & Šafář targets Romania

New European Union (EU) member Romania has lured a Czech law firm, illustrating the growing attraction to move further east.

As the sixth largest Czech law firm in terms of its number of lawyers in 2006, **Konečná & Šafář** will open an office in Romanian capital Bucharest in April.

It's less than a year since two other major Czech law firms opened their first East European offices. On June 15, 2006, second-largest domestic law firm in terms of its pool of lawyers, **Brzobohatý Brož & Honsa** opened a Moscow office, while fourth-largest, **Peterka & Partners**, has set up an office in Kiev, Ukraine.

"The Czech legal market is already saturated. Expansion to the East is a logical development for our company because of the further growth potential present on the Romanian market," Pavel Šafář, a partner with Konečná & Šafář told *CBW*.

Šafář said the firm monthly receives up to five requests to legally advise Czech or Slovak clients in Romania. The firm's trend, he said, is to "follow their clients closely." Šafář estimated it took between € 50,000 (Kč 1.4 million) and € 100,000 to open the office, to have one senior partner and up to five lawyers.

Konečná & Šafář intended to open the Bucharest office three years ago, but delayed the opening

because of a gloomier outlook are usually haunted by the ghosts of some big international players who have departed the Czech scene already — such as **Freshfields Bruckhaus Deringer**, **Dewey Ballantine (DB)** and **Hogan & Hartson (H&H)** — because of downward-bound fees and tough competition.

"I anticipate a number of firms will follow in their footsteps and, over time, will leave the market, whether in 2007 or subsequent years," said Alex Cook, counsel with **Clifford Chance** Czech Republic. "It may not be excluded that some international firms will pull out, since the profitability of partners in the local offices will remain lower than that of

their peers abroad," added Josef Vejmelka, a partner with **Vejmelka & Wunsch (V&W)**.

— Lovells, no to goodbye?

The closure of U.K.-based **Lovells'** Berlin office, scheduled for April, strengthened speculation that Lovells will be the first "big name" to say goodbye to Prague in 2007, but Miroslav Dubovský, a partner with **Lovells Czech Republic**, brushed off the talk. "We're not considering closing the office, either in 2007 or later," he said, adding the firm had "a lot of clients" and 2006 revenues were higher than in 2005. However, no financial figures were disclosed.

According to British publication *Legal Week*, Lovells will shut its Berlin office in the wake of a five-lawyer banking team departing to form a finance boutique. "The closure follows a strategic review of the office by the firm and doesn't affect our commitment to developing our presence in Germany," Dubovský said. "There are currently no plans to close any offices in Central and Eastern Europe (CEE) or globally. We intend to maintain our presence in Prague," said Karen Snell, the Lovells U.K. press office manager.

— Consolidation in the air

While the book remains open for who'll be the first to leave, lawyers also predict further local market consolidation. V&W's Vejmelka said one option would involve domestic firm mergers. "This will come sooner or later, but Czechs are very careful and sensitive in this respect, especially in cases when their revenues are perpetually growing," he said. "An acquisition of a similar firm is always an option, also for our firm," he said.

International firms also don't exclude local acquisition possibilities. "If anybody approaches us, we're open to discussions, although our priority is internal growth," said Jan Matějček, managing partner of **White and Case** in Prague.

Jane Townsend, managing partner with **Allen & Overy** Prague (A&O), said she doesn't expect any major finance or commercial law firms consolidation. "[Rather] we'd expect to see single and small groups of practitioners from time to time leaving firms either to set up their own firms or occasionally to join other firms," she said.

Those groups who've already left are in no mood to go back. "We ourselves are a spin-off and a boutique

— we have no intention of going back to a network or acquiring other practices," said Stephen Kines, a partner with **Kines**, a law boutique specializing in IT and telecommunications.

New entrants, meanwhile, look at how to strengthen activities. "We'd like to expand our team through lateral hiring, as the preliminary results of our Prague activities are pleasing," said Thu Nga Haškovcová, a partner with law office **Braun Haškovcová**.

Some firms are also considering consolidation through new local branches. **Rowan Legal** has approved local branch openings in cities like Ostrava, North Moravia and Plzeň, West Bohemia, said Martin Maisner, a lawyer with the firm.

Lovells' Berlin story looks similar to a recent move that shook **Linklaters'** Prague office. Linklaters saw a five-lawyer real estate (RE) team — half of its entire division — leave at the end of January. "We've seen people come and go in our real estate practice as well as in other practices," said Kamil Blažek, a partner with Linklaters in the Czech Republic. Blažek added that Linklaters has replaced some lawyers so that the number of Prague office RE specialists remains at about the same level as at the start of 2006.

"This departure isn't a danger either to the existence of our RE practice or to the quality of work we deliver or to Linklaters in the Czech Republic," he said.

— Real estate "gold mine"

The Linklaters RE specialists' departure drew attention to the lucrative RE advisory sector. The majority of law firms said their RE revenues increased in 2006. Vladimira Papimik, managing partner with **Squire Sanders & Dempsey** in Prague, said the demand for RE advisory is driven by concerns about the expected property VAT increase and the limited supply of advisors. For **Seddon's**, more than 80 percent of its 2006 revenue came from RE advisory, according to partner Libor Ulovec. For **Clifford Chance**, 2006 saw the firm's RE team grow from five to 12 members. "Approximately 35 percent of our office revenue came from real estate work," Cook said. Also, **Nörr Stiefenhofer Lutz, Procházka Randl Kubr, Konečná & Šafář** and **Salans** expanded their RE teams. For **White and Case**, the largest international firm in Prague in terms of the number of lawyers, RE accounted for roughly 20 to 25 percent of 2006 revenues, Matějček said. ■