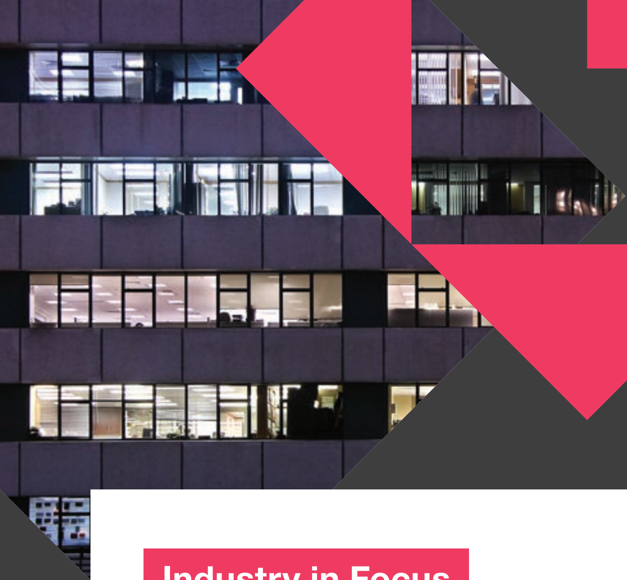


Industry in Focus

Agility through turbulent times

PwC Law Firms' Survey 2022

#PwCLawSurvey

pwc

This is the 31st PwC Law Firms' Survey.

The editorial team for 2022 consists of:

Kate Wolstenholme

Kate leads our Law Firms' Advisory Group ('LFAG') and works with national and international law firms on audit, accounting and strategy issues. She is chair of PwC's Risk Committee and a member of PwC's Supervisory Board and Public Interest Body.

Leon Hutchinson

Leon is an Assurance Director who works with a number of national and international law firm clients, advising them on accounting issues and SRA Accounts Rules compliance.

Tony Hodgson

Tony is a Partner in our Consulting practice. He leads assignments with law firms in areas such as pricing, matter management, business support services and IT.

Alexa Highfield

Alexa Highfield is a Partner in our People and Organisation practice. She has spent more than 15 years advising law firms on managing and communicating change and ensuring they are fit for the future.

Lucy Robson

Lucy leads our Tax practice for UK headquartered law firms, providing international structuring and partnership tax advisory services and tax risk and governance support, as well as partnership and partner tax compliance services.

Liz Connolly

Liz leads our US law firm tax practice and is the main advisor in the UK to the AMLaw100. Liz also focuses on UK headquartered law firms and other professional practice firms leading advice on M&A, IPO listing and international structuring.

David Baxendale

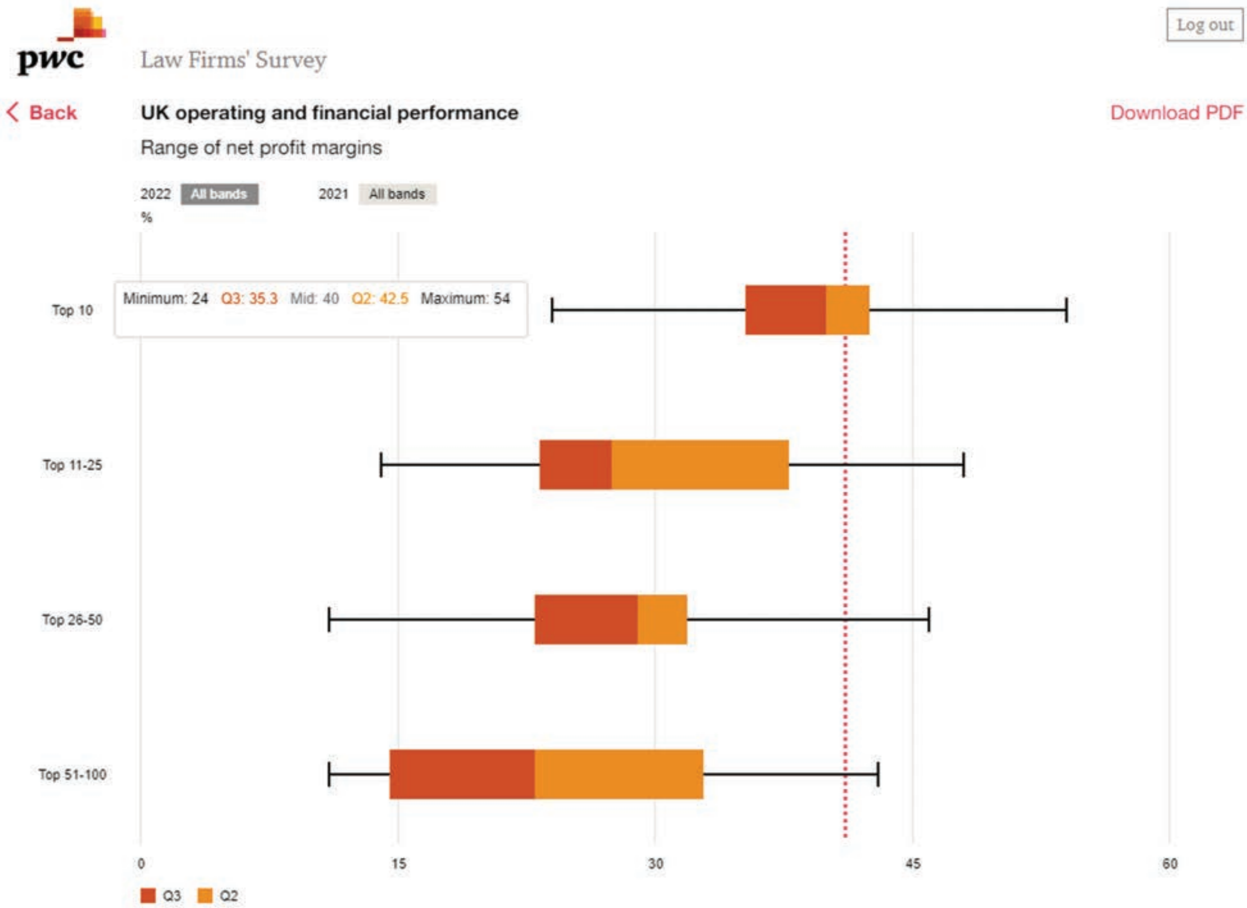
David is a Partner in our Deals business who advises law firms and other financial stakeholders on sources of funding and appropriate funding structures.

Our Law Firms' Advisory Group harnesses the expertise of specialists nationally and internationally to provide assistance with:

- Audit
- Direct and indirect taxation
- Strategic consultancy
- IT strategy, selection and implementation (Finance/PMS, HR and CRM)
- Cost reduction and outsourcing
- Mergers and acquisitions
- Capital Markets advisory
- Compliance with SRA Accounts Rules and associated regulatory requirements
- Working capital management and financing
- Limited Liability Partnerships and other structuring advice
- Partner reward
- Employee and employer issues (reward structures and taxation)
- Internal audit and other risk management services
- Cyber security services

We would like to thank all other members of the LFAG who helped with this year's survey, particularly Colleen Dunn, Katie Neish, Tiarnan Branson, Dan Wicks, Dan Holmes, John Carter, Craig Shaw, James Rashleigh, Nicola Orpin, Merve Ozden, Faizaan Naseem, Nina Feighoney-Smith, Rachel Kelly, Sophie Herrington, Sanah Faridi and Flori Mackintosh who contributed significantly to the production of this report.

In addition to the information presented in this report, all participating firms have access to an interactive online benchmarking tool that holds a vast amount of data from our survey. This tool also benchmarks the individual firms' results against their associated peer group banding.



Please contact a member of our Law Firms' Advisory Group for a demonstration of our online benchmarking tool and to see how you can compare the results of your firm to that of your peers.

The survey results are presented by size of firm using the bandings Top 10, Top 11-25, Top 26-50 and Top 51-100, except where otherwise stated (analysis for these bandings of firms has been adjusted to exclude high volume firms where their impact is considered significant). The classification is by annual global fee income.

Our report is based on survey responses from firms at consistent response rates to prior years. We've also drawn upon, where relevant, other published financial information. This summary document focuses on the key findings from our survey.

Our thanks are due, as always, to the firms which participated in this survey. We appreciate that the questionnaire takes considerable time to complete. All of the responses are processed in full and we have a significant amount of data that isn't fully reproduced here. If you'd like further information on the responses to any of the questions, please contact one of our editorial team.

Key definitions

Global Top 10	Top 10 (by global revenue) UK headquartered firms where international revenue exceeds 20% of total revenue.
Global Top 11-25	Top 11-25 (by global revenue) UK headquartered firms where international revenue exceeds 20% of total revenue.
UK	Operations of all UK offices only.
International	Operations of all international offices only.

Contents

Overview and key themes

Introduction

Over the past year, the UK continued to experience ongoing challenges from COVID-19, with associated lockdowns lasting until January 2022. Law firms responded well to that challenge, with strong results for the year illustrating their resilience and ability to adapt in the face of the pandemic.

The confidence firms expressed in last year's survey about future financial performance has been borne out in positive results this year. **A large number of firms have reported bumper increases and record fee income, profits and PEP.** Over 80% of global Top 25 firms increased fee income and profits. Almost 90% of UK firms increased fee income, whilst 65% experienced a rise in profits.

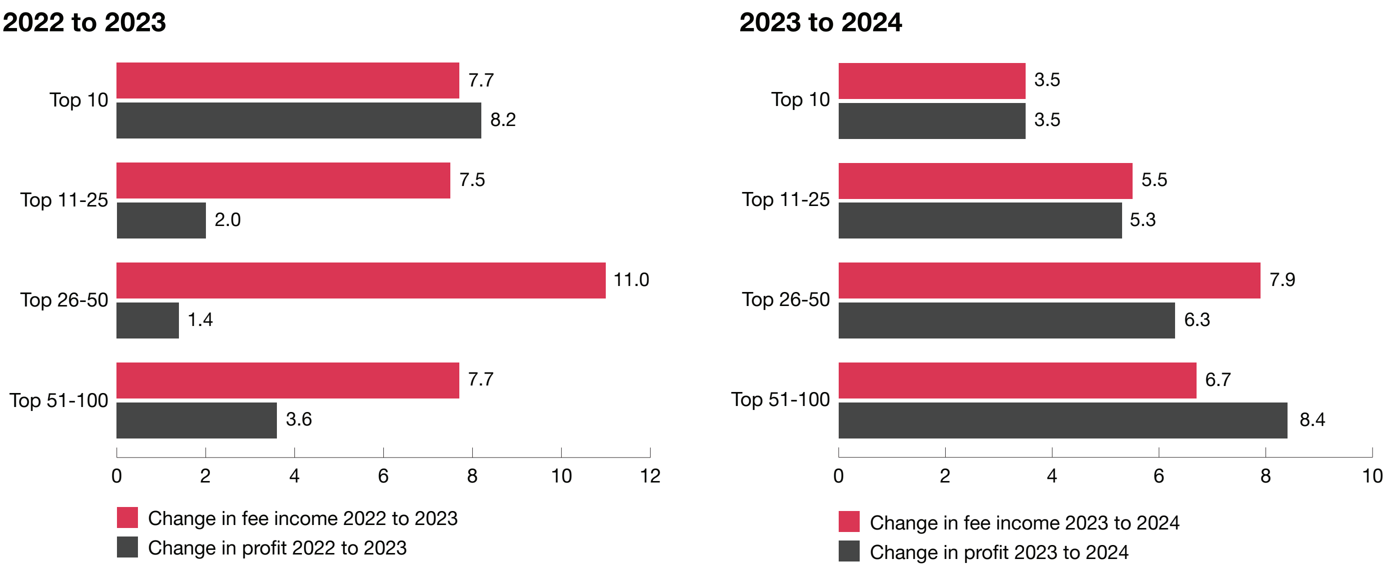
Most practice areas performed strongly across the suite of services offered by law firms. There have been high levels of M&A activity, and other areas have also seen strong activity levels, including arbitration, employment, refinancing, restructuring and insolvency.

Staff costs continue to increase at unprecedented rates across the legal sector and this continues to impact upon profitability. Other costs have been managed well; for example, **property costs are down with approximately one third of Top 100 firms reducing their office footprint in the year** and marketing & BD is not yet back at pre-pandemic levels.

However, just two months after the last COVID lockdown we saw the beginning of the Russia/Ukraine conflict. This has impacted the global economy significantly, with the ongoing energy crisis, rising cost of living, and significant increases in inflation and interest rates.

Despite this economic uncertainty, law firms expressed reasonable confidence over future financial results when our survey was completed in July 2022. Over 90% of the Top 100 predicted an increase in fee income in FY23 and FY24, although confidence over profits was more muted with approximately 60% and 80% of Top 100 firms expecting profit increases in FY23 and FY24 respectively. As firms now approach the second half of FY23, our sense is that the level of caution over future performance continues to rise.

Predicted movements in fee income and profits: 2022 to 2023 and 2023 to 2024 (%)



Law firms have identified four key areas that they are most concerned about regarding future financial performance ambitions. These are: shortage of talent; cyber risk; macroeconomic uncertainty; and inability to recover costs through pricing. These are legitimate concerns and in the current environment any of these could have a detrimental impact on law firms' results in the next 2-3 years.

Shortage of talent

Law firms have now identified this as their number one concern. Since the end of the final lockdown of the pandemic, partners and fee earners have been on the move, more so than at any time in the last two years. The war for talent, coupled with a shortage of supply exacerbated by the so-called 'Great Resignation', have caused eye-watering staff cost inflation.

In response, the vast majority of law firms have reviewed and refined their salary offering, bonuses and benefits in the last year. However, ever-increasing remuneration levels are not sustainable as a long-term solution. Furthermore, as a new generation comes through, other factors are becoming equally if not more important. Therefore, **law firms need to prioritise their strategy towards areas including work life balance, the hybrid or remote working model and their ESG policies**, all of which are increasingly valued by staff today.

Cyber risk

This is a risk which continues to increase as hackers become more sophisticated and implement new forms of attack. It is clear that law firms are responding to this risk with **a significant increase in cyber security spend in the last year.** The rise in spend across the Top 100 bandings is between 50% and 79%. However, this spend may have to increase further and we note that in the current year it only stands at between 0.3% and 0.5% of fee income across the bandings.

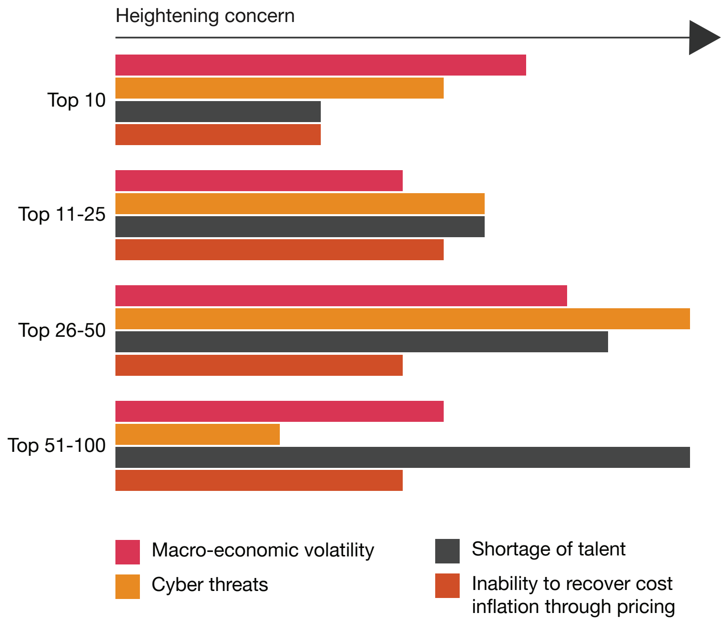
Macroeconomic uncertainty

The uncertainty in the economic environment has been bubbling for a few years and the onset of the Russia/ Ukraine conflict has seen a significant shift in short to medium term confidence. High inflation and tightening of credit markets have led to nervousness about valuations and slowing of the deals market, although the weakening of sterling will increase the deal flow for foreign buyers. The currency impact on results for FY23 looks set to be more significant than we've seen for a number of years, rewarding those firms with a greater international presence.

Inability to recover costs through pricing

With high levels of inflation and the cost of living crisis continuing to put pressure on salary demands, the ability to keep recovering cost inflation through pricing will be a challenge, especially as clients look to manage their cost base through difficult times. Firms will need to keep close to market trends to make the right calls over pricing in light of supply and demand, and may need to look beyond pricing – e.g. through taking out non-core costs, improving the operating model and leveraging technology innovation.

Top four threats to firms meeting or exceeding their ambitions over the next two years



Significant disruption is expected in the economy for the foreseeable future. However, whilst dealing with the challenges highlighted above has been the key priority for legal firms, many have continued to pursue expansion into new markets and services. Growth through M&A has been relatively limited among the Top 50 firms when compared to pre-COVID years, although there continues to be consolidation in specific segments of the market (e.g. Volume Personal Injury, Intellectual Property) which can have ripple effects into the wider legal market, including consolidation driven by PE backed firms. Several top law firms have expanded into adjacent service lines; either providing managed services enabled by the combination of legal technology and low cost delivery centres, or expanding their advisory offerings to include high value consulting on new and emerging topics e.g. Regulation, ESG and Risk and Compliance.

Against the background of the challenges law firms face, we believe **successful firms will be those that bring a strategic growth mindset to alleviate immediate cost and staffing pressures without compromising mid to long term ambitions. Agility in responding quickly to challenges will ensure firms thrive through potentially turbulent times ahead.**

Global financial performance

Global law firms headquartered in the UK have delivered strong financial results over the course of the last year. All of the Top 10 firms that participated in our survey increased both fee income and profits, with 70% of those firms seeing profit growth outstrip fee income growth. In the Top 11-25, 73% posted increases in fee income and profit.

Average fee income growth was 8.5% (2021: 4.2%) in Top 10 firms to £1,191m. At the profit level (profit before full and fixed equity partner remuneration - as this allows a better comparison across a range of partnership models in UK and international offices), average growth was 9.2% (2021: 18.5%) to an average of £505m (2021: £468m). While profit growth has halved from 2021, which was an unusually exceptional year, this is still a strong result.

Top 11-25 firms have not achieved the growth of their larger competitors. Their average fee income and profit growth was 5.8% (2021: 4.3%) and 3.0% (2021: 17.1%) respectively, to £394m and £130m. The range of results in the Top 11-25 spreads much further than the Top 10, with the two highest performers in terms of profit growth across the Top 25 coming from the Top 11-25 banding.

The source of average fee income and profit growth differs across the two bandings, both in terms of jurisdictional impact and through rates and chargeable hours.

In Top 10 firms, the growth contribution from UK and international offices is relatively even for both fee income and profit. Chargeable hours are broadly flat and it is increases in headcount (up 3%) and rates that have supported their financial results. The average rate per hour for UK and international offices increased by 8.1% and 9.1% respectively.

In Top 11-25 firms, approximately two thirds of fee income and 87% of profit growth comes from international offices. In contrast to the Top 10, there is not a consistent trend across firms between increasing chargeable hours or increasing rates, driving the increase in fee income. Average rate per hour has risen by 6.5% for UK offices, but remained flat across international offices. There appears to be a clear distinction between the Top 11-25 and larger firms in the level of cost increase that can be passed onto clients, particularly internationally.

Top 10 firms continue to report excellent net profit margins (before full and fixed equity partner remuneration), with the average increasing to 40.4% (2021: 39.9%) this year. Top 11-25 firms have seen the average margin remain consistent at 34.1%.

Both Top 10 and 11-25 firms have achieved similar reductions in the global average staff cost to fee income ratio (including both fee earners and non fee earners). The reduction in Top 10 firms is to 38.0% (2021: 38.6%) and in Top 11-25 firms it is 43.0% (2021: 43.4%).

Other notable cost ratio movements include property costs for Top 10 firms, which have reduced by 1.6 percentage points to 7.0%. This likely reflects a largely fixed cost against the noted increases in fee income, along with certain firms reducing their office space as they move to a more agile and hybrid working environment (refer to the later section: 'Hybrid working and the role of the office'). Conversely, marketing and business development costs have increased across Top 25 firms, reflecting a renewed focus with the pandemic now receding.

Global – Average percentage profit and loss account

	Top 10	Top 10	Top 11-25	Top 11-25
	2022	2021	2022	2021
	%	%	%	%
Fee Income	**100**	**100**	**100**	**100**
Staff costs – fee earners	27.0	27.1	28.2	28.9
Staff costs – non-fee earners	11.0	11.5	14.8	14.8
Property costs	7.0	8.6	7.7	8.1
IT revenue costs	2.7	2.7	2.8	2.5
Marketing and BD costs	0.8	0.5	1.0	0.6
Finance function costs	1.3	0.9	0.6	0.7
Depreciation	1.7	1.8	1.8	2.0
Insurance costs	1.2	1.1	1.6	1.4
Bad debts and disbursement	0.8	0.5	1.2	1.7
Foreign exchange differences	-0.4	0.3	-0.2	0.2
All other costs	6.5	5.1	6.4	5.0
Profit before fixed share equity remuneration	**40.4**	**39.9**	**34.1**	**34.1**
Fixed share equity partners' remuneration	3.9	3.7	8.5	7.6
Net profit margin	**36.5**	**36.2**	**25.6**	**26.5**

UK – Average percentage profit and loss account

	Top 10		Top 11-25		Top 26-50		Top 51-100	
	2022	2021	2022	2021	2022	2021	2022	2021
	%	%	%	%	%	%	%	%
Fee income	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Staff costs - fee earners	26.1	26.4	28.1	27.1	29.5	28.5	30.9	32.2
Staff costs - non-fee earners	10.0	10.7	14.5	15.6	14.1	14.2	13.9	13.3
Property costs	6.8	8.9	7.1	7.9	6.6	7.6	7.6	8.0
IT revenue costs	3.1	2.8	3.1	2.5	3.3	3.5	4.1	3.9
Marketing & BD costs	0.8	0.5	1.1	0.7	1.3	1.0	1.7	1.0
Finance function costs	1.4	1.0	0.3	1.2	0.6	0.7	0.7	0.8
Depreciation	1.9	1.9	1.5	2.0	1.7	1.9	1.8	2.0
Insurance costs	1.3	1.1	1.9	2.0	2.2	2.2	2.7	2.5
Bad debts & disbursements	1.0	0.5	1.0	1.5	0.8	1.2	0.7	0.9
Foreign exchange differences	-0.2	0.1	0.0	0.3	0.0	0.1	0.0	0.0
All other costs	5.1	4.6	5.1	4.1	4.2	4.7	4.5	3.6
Profit before fixed share equity remuneration	**42.7**	**41.5**	**36.3**	**35.1**	**35.7**	**34.4**	**31.4**	**31.8**
Fixed share equity partner remuneration	3.5	3.3	7.0	6.3	8.7	9.5	7.1	7.2
Net profit margin	**39.2**	**38.2**	**29.3**	**28.8**	**27.0**	**24.9**	**24.3**	**24.6**
Staff cost ratio (all staff costs)	**36.1**	**37.1**	**42.6**	**42.7**	**43.6**	**42.7**	**44.8**	**45.5**
Staff cost ratio (all staff, inc. FSEP costs)	**39.6**	**40.4**	**49.6**	**49.0**	**52.3**	**52.2**	**51.9**	**52.7**

UK Financial Performance

While the period covered by this survey was not impact-free in terms of COVID-19 and associated lockdowns, it was certainly more normalised than the prior year.

At this time last year, firms were optimistic about the future. Across the Top 100, 90% were predicting fee income increases, with the remaining 10% expecting fee income to remain static. The actual outturn largely reflects what was predicted, with 89% of Top 100 firms achieving growth in fee income.

The extent of fee income growth achieved has outperformed expectation. Top 10 firms achieved an average increase in fee income of 10.2% (forecast: 4.5%); Top 11-25 growth was 6.3% (forecast: 2.9%); and the Top 26-50 firms increase was 12.5% (forecast: 7.7%). Top 51-100 firms fell just short of their forecast of 7.7%, posting a rise of 7.5%.

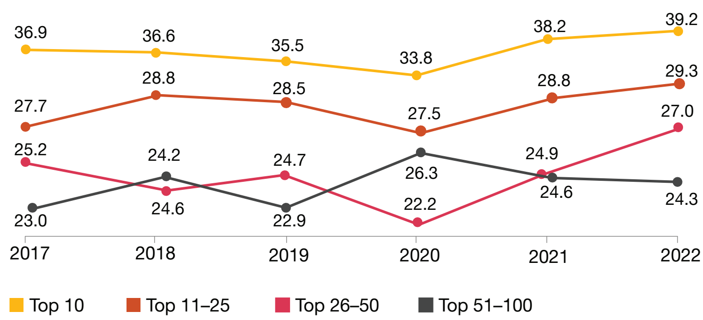
The legal sector has experienced significant staff cost inflation over recent years, following trends in the US market, with all bandings experiencing rising salaries. Looking at total staff costs in absolute terms, this has risen, on a like for like basis, for Top 10 firms by 4.3%, Top 11-25 by 8.0%, Top 26-50 firms by 15.4%, and Top 51-100 firms by 9.7%.With the current high levels of UK inflation, salary pressure is unlikely to abate in the foreseeable future.

All bandings also achieved reductions in the property cost ratio and this was most significant in the Top 10 with a fall of 2.1 percentage points to 6.8%.

In terms of profit, 65% of Top 100 firms reported profit growth (compared to 76% in 2021). All bandings of firms outperformed their forecasts with respect to the level of increase in profits, some significantly: Top 10 profits grew on average by 12.6% (forecast: 4.7%); Top 11-25 by 8.1% (forecast: 1.8%); Top 26-50 by 14.6% (forecast: 0.0%); and Top 51-100 by 2.0% (forecast: 1.3%).

There is a significant range in performance by individual firm when it comes to profit movements from prior year. Ranges within bandings are as follows: (i) Top 10: -3.1% to +33.2%; (ii) Top 11-25: -40.1% to +40.9%; (iii) Top 26-50: -7.4% to +50.4%; and (iv) Top 51-100: -52.4% to +49.1%. This illustrates that profitability in individual law firms can be volatile and with the current economic environment as it is, this is likely to continue for the short term at least.

Movement in UK net profit margins: 2017 to 2022



Average net profit margins for the Top 50 bandings have all increased to levels not experienced for a number of years. Top 10 firms recorded a 39.2% (2021: 38.2%) net profit margin, their highest since 2015; Top 11-25 firms reached 29.3% (2021: 28.8%), their highest since 2009; and Top 26-50 firms achieved 27.0% (2021: 24.0%), their best performance since 2010.

Record years were also noted in respect of profit per full equity partner ('PEP'). Top 10 PEP increased 10% to £1,404k (2021: £1,275k); Top 11-25 was up 13% to £868k (£768k); Top 26-50 up 26% to £650k (2021: £516k) and Top 51-100 posted a more modest 4% increase to £464k (2021: £445k). With full equity partner headcount remaining fairly flat (except in the Top 11-25 where it fell by 5.5%), this PEP performance is representative of underlying increases in profit.

People

As the UK legal sector emerged from the pandemic, overall headcount numbers have gradually started to rise. Comparing average headcount year on year, we see increases across the bandings: Top 10 by 1.3%; Top 11-25 by 3.6%; Top 26-50 by 3.3%; and Top 51-100 by 3.5%.

Narrowing this down to the fee earner population, headcount has risen across all bandings, as follows: Top 10 by 0.8%; Top 11-25 by 0.9%; Top 26-50 by 4.7%; and Top 51-100 firms by 2.3%.

The overall trend indicates that firms approached recruitment with more confidence as we started to emerge from the impacts of the pandemic.

UK headcount

	Top 10			Top 11-25			Top 26-50			Top 51-100		
	Avg 2022	Avg 2021	% mvt 2021-2022	Avg 2022	Avg 2021	% mvt 2021-2022	Avg 2022	Avg 2021	% mvt 2021-2022	Avg 2022	Avg 2021	% mvt 2021-2022
Full equity partners	153	153	0.0%	69	73	-5.5%	56	54	3.7%	30	29	3.4%
Fixed-share equity partners	52	50	4.0%	57	52	9.6%	60	62	-3.2%	22	17	29.4%
Non-equity partners	2	3	-33.3%	7	1	600.0%	6	3	100.0%	11	13	-15.4%
Total Partners	**207**	**206**	**0.5%**	**133**	**126**	**5.6%**	**122**	**119**	**2.5%**	**63**	**59**	**6.8%**
9+ year pqe	132	169	-21.9%	110	117	-6.0%	96	93	3.2%	43	45	-4.4%
6-8 year pqe	179	157	14.0%	53	57	-7.0%	54	48	12.5%	23	24	-4.2%
3-5 year pqe	141	134	5.2%	71	71	0.0%	65	59	10.2%	31	27	14.8%
1-2 year pqe	135	136	-0.7%	48	51	-5.9%	40	43	-7.0%	21	23	-8.7%
Newly qualified	44	42	4.8%	33	32	3.1%	21	20	5.0%	8	11	-27.3%
Legal executives and paralegals	131	126	4.0%	68	62	9.7%	114	106	7.5%	51	48	6.3%
Trainees	147	137	7.3%	63	58	8.6%	41	40	2.5%	22	19	15.8%
Total fee-earners (including partners)	**1,116**	**1,107**	**0.8%**	**579**	**574**	**0.9%**	**553**	**528**	**4.7%**	**262**	**256**	**2.3%**
Business services and secretarial	956	938	1.9%	432	402	7.5%	326	323	0.9%	152	144	5.6%
Total	**2,072**	**2,045**	**1.3%**	**1,011**	**976**	**3.6%**	**879**	**851**	**3.3%**	**414**	**400**	**3.5%**

UK Staff turnover

	Top 10		Top 11-25		Top 26-50		Top 51-100	
	2022	2021	2022	2021	2022	2021	2022	2021
	%	%	%	%	%	%	%	%
Full equity partners	4	3	5	4	2	3	2	3
Fixed share equity partners	1	3	7	6	5	5	3	6
Non-equity partners	3	–	15	19	12	2	5	9
9+ years pqe	13	9	17	13	14	13	17	12
6-8 years pqe	15	12	18	11	15	10	14	12
3-5 years pqe	19	12	26	15	22	13	18	16
1-2 years pqe	17	15	24	12	28	16	20	17
Newly qualified	7	2	14	9	12	8	12	11
Paralegals and legal executives	30	28	25	22	27	21	23	21
Trainees	7	10	10	12	8	8	12	8
Business Support staff	19	17	20	12	17	13	18	20

UK chargeable hours

	Top 10			Top 11-25			Top 26-50			Top 51-100		
	Avg 2022	Avg 2021	% mvt 2021-2022	Avg 2022	Avg 2021	% mvt 2021-2022	Avg 2022	Avg 2021	% mvt 2021-2022	Avg 2022	Avg 2021	% mvt 2021-2022
Full equity partners	1,155	1,195	-3.3%	1,046	1,066	-1.9%	938	969	-3.2%	862	916	-5.9%
Fixed share equity partners	1,300	1,158	12.3%	1,055	1,102	-4.3%	966	1,031	-6.3%	899	889	1.1%
9+ year pqe	1,234	1,309	-5.7%	1,221	1,310	-6.8%	1,082	1,148	-5.7%	994	1,000	-0.6%
6-8 year pqe	1,386	1,361	1.8%	1,297	1,358	-4.5%	1,182	1,196	-1.2%	1,073	1,100	-2.5
3-5 year pqe	1,431	1,438	-0.5%	1,283	1,390	-7.7%	1,200	1,251	-4.1%	1,084	1,151	-5.8%
1-2 year pqe	1,441	1,438	0.2%	1,286	1,299	-1.0%	1,204	1,244	-3.2%	1,048	1,094	-4.2%
Newly qualified	1,246	1,335	-6.7%	1,190	1,272	-6.4%	1,066	1,194	-10.7%	900	1,034	-13.0%
Paralegals	901	1,096	-17.8%	1,048	1,006	4.1%	888	921	-3.6%	835	743	12.4%
Trainees	1,074	1,009	6.4%	984	1,082	-9.1%	840	843	-0.4%	735	765	-3.9%

What is most striking in terms of headcount is the levels of staff turnover. Across all post qualified fee earner grades, all but one grade across all the Top 100 bandings have seen staff turnover increase. Levels of turnover are certainly running much higher than the last few years; for example, across the 1-2 years pqe grade the turnover rate for the year was between 17% in Top 10 firms and 28% in Top 26-50 firms.

Rising turnover data comes as no surprise given the current climate in the labour market. The impacts of 'The Great Resignation' are being felt across all sectors, as recruitment unlocks after two years of stasis and the workforce embraces new opportunities and looks to capitalise on salary inflation and changing priorities.

More acutely within the legal sector, there has been an ongoing war for talent with many firms opting to regularly review salary levels, particularly at the newly qualified level, as well as looking at bonus schemes and benefit programmes to combat a mass flight of talent.

Our survey revealed that 84% of Top 100 firms have reviewed or refined their salary offering over the past 12 months, with 76% of firms stating the same with bonuses and 57% with benefits.

Whilst cash compensation has been the most prominent lever that firms have used to attempt to attract and retain talent in recent years, we anticipate that firms will need to think more broadly and innovatively to remain competitive in the future: truly embracing hybrid and flexible working, focusing on health and wellbeing of the workforce, acknowledging generational differences in the approach to work and adopting a more holistic approach to the employee 'deal'.

When it comes to utilisation, the overarching trend this year is a fall in chargeable hours, with this being an intentional reigning in of unsustainable levels of busyness for some. In Top 10 firms most grades experienced a reduction in chargeable hours (of between 1% and 18%).

Going against this trend were fixed share equity partners (up 12%) and trainees (up 6%). Every grade across the Top 11-25 and 26-50 firms saw chargeable hours fall (by between 1% and 11%), with the only exception being paralegals in Top 11-25 firms (up 4%).

Trainee minority ethnic representation increased across all bandings, albeit there is a significant variation across each, with the Top 10 reporting 24% minority ethnic trainees and the Top 51-100 just 9%. At full equity partner level, representation ranges from 4% in the Top 51-100, to 7% in Top 10 firms.

The above findings point to the ongoing challenges both female and minority ethnic fee earners face in progressing their careers through to partner. Whilst change of this nature does take time to evidence itself in data, firms should reflect on their existing diversity strategies, initiatives and commitments and assess if these are having the desired impact and really delivering both the scale and speed of change that firms wish to see.

There is perhaps an opportunity afforded by the pandemic to make more radical changes in this area. Hybrid and flexible working provides greater opportunities for parents to balance childcare responsibilities with developing a career that may previously have required a greater office presence. Access to an increasingly global talent pool could enable firms to diversify their workforce in a way that was formerly thought unthinkable, reaching out to geographical areas that would previously have been beyond their reach.

Financing

Over the last two surveys we saw law firms improve overall lockup, with a 'cash drive' mentality which saw collections prioritised. The efforts in this regard clearly coincided with COVID-19 and its associated lockdowns.

The current financial year is, somewhat, a return to normality, and with it, the focus on lock up has certainly backtracked. All bandings except the Top 26-50 experienced a significant deterioration in their year end total lock up statistics.

We note that average lock up throughout the year has not deteriorated to the same extent across the bandings, being a 1% to 2% increase across the Top 50 (average in year lock up for Top 51-100 firms improved by 2.8%). This, coupled with the movements on year end lock up, suggests that the deterioration in working capital was most marked in the final quarter of the year, coinciding with an increasingly uncertain economic environment.

Top 10 firms experienced the worst deterioration, seeing total year end lock up increase by 13.9% to 131 days. Top 26-50 firms limited the rise to 1.7% (now 118 days) and are now the best performing in the Top 100, replacing the Top 11-25 who have held that mantle for a number of years.

We also note that in a year of significant deterioration, only 14% of the Top 100 included 'improving working capital performance' as a top three priority for their business support functions. Given the likelihood of a recession with inevitable insolvencies, coupled with rising interest rates, we expect a renewed focus on working capital in the coming months.

The achievement of a reporting and governance process that provides live visibility of matters with high and growing WIP and debtors, which can then trigger a relatively seamless process to invoice raising and submission, along with cash collection, is the aspiration of most firms. Blockers to achieving this consistently include poor or inaccessible reporting, opaque billing terms within client contracts, poor time recording, poor interfaces between time-recording and finance systems, and partners/fee earners' lack of focus on cash and general reluctance to bill clients.

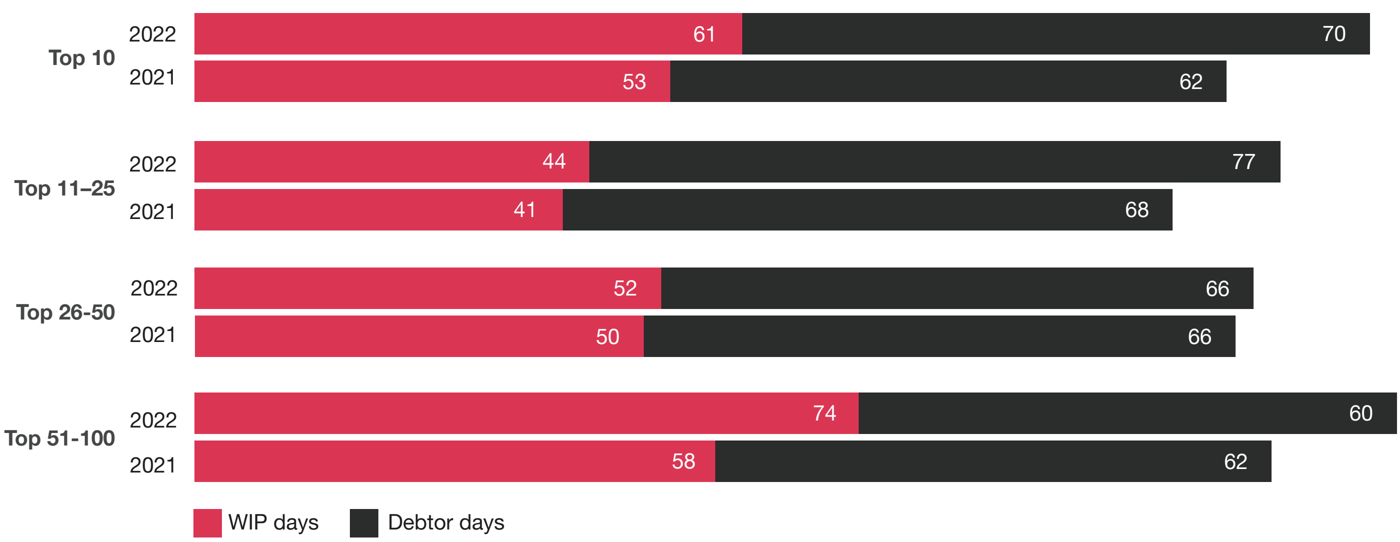
There is a whole range of options to address the above issues, from lightweight technology to new systems to process changes and training. Practice level targets that reflect the nuance of different types of work are key in order to achieve and maintain motivation.

The percentage of profit distributions drawn by partners in the year in which profit is earned has been sporadic across Top 100 firms in the last couple of years. The current year has seen this settle somewhat, with most firms distributing between 40% and 60% in the year the profit is earned. An average across the Top 100 bandings in this respect is around 50%: Top 10: 54%; Top 11-25 and 26-50: 49%; and Top 51-00: 52%.

While direct external funding has increased slightly in the Top 10 firms (up from 7% to 8%), it has fallen across all other Top 100 bandings: Top 11-25: down from 13% to 8%; Top 26-50: down from 10% to 9%; and Top 51-100: down from 18% to 16%.

The looming tax change, which will bring forward a substantial tax liability for many firms, means we may see external financing as a proportion of overall financing increase in the future, especially if the trend of in-year pay out increases is set to continue. With rising financing costs, firms should look first to cash locked up within their own operations to fund this through improved working capital management where possible.

Year end WIP and debtor days



Business support

Improving the use of technology remains the number one priority as firms continue to embrace and implement a range of new technologies, to improve internal support functions and in delivering legal services.

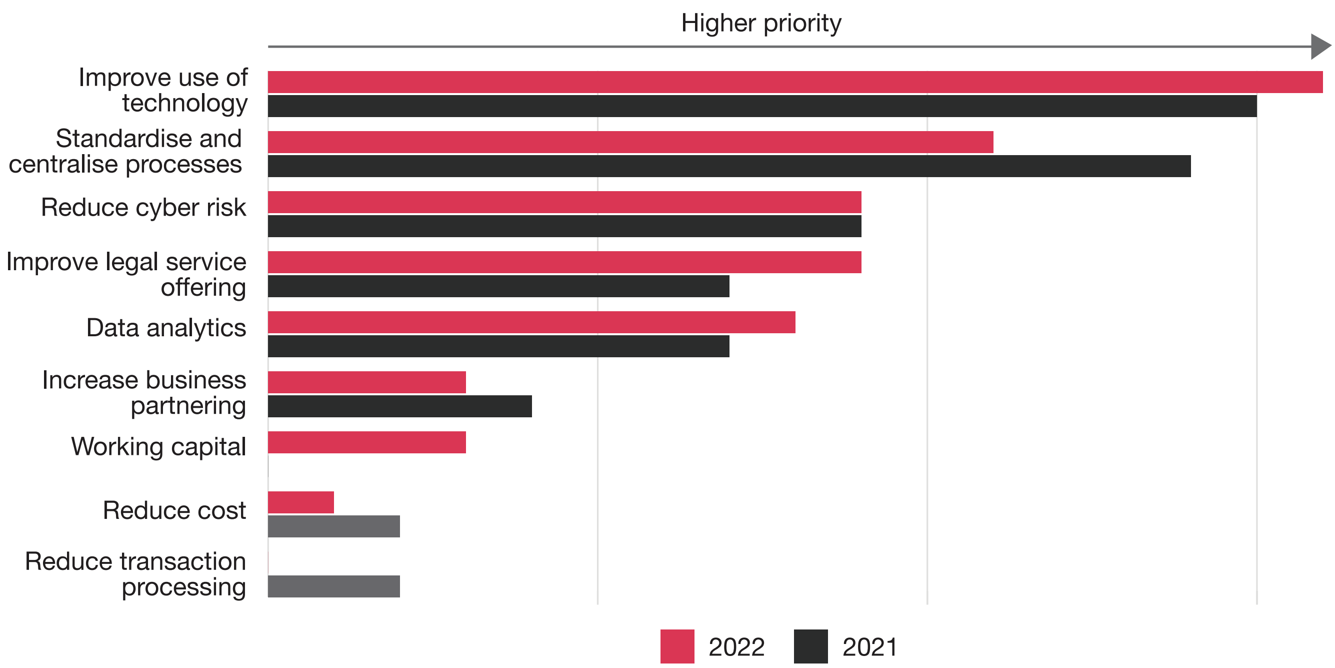
Investing in cloud-based technologies has accelerated in the wake of the pandemic and forward-thinking firms are building a robust digital and data focused backbone. These firms will benefit from enhanced collaboration across hybrid teams and clients, using automation to release time for value add activities and a better use of data to drive insights and increase client satisfaction.

Many firms are making ESG programmes a priority, particularly as their clients become more interested in understanding their achievements in this area. For those that are increasing their use of cloud services, the timing is serendipitous, because this can provide the platform to collate the very data needed to report progress against their ESG goals.

Improving the legal service offering has become an increased priority for firms this year. Firms' solutions to this are broad, but overall are intended to improve the experience for their lawyers and enhance client service. For example, firms are prioritising ways to improve and automate the end-to-end legal process, including pricing, resourcing, document management, matter management, reporting and billing.

Support function costs as a percentage of fee income have remained largely unchanged compared to prior year, with no banding seeing a movement by support function greater than 1.2 percentage points.

Top priorities for business support over the next twelve months (Top 100 firms)



Cyber risk

Advanced human-operated ransomware operations are currently perceived to pose the most critical threat to the legal sector, with a number of law firms having their data exposed on leak sites and suffering extortion. The number of threat actors engaged in ransomware operations is increasing, powered by the rise in prominence of Ransomware-as-a-Service (RaaS) arrangements and affiliate schemes.

The pace and frequency of publicly reported attacks has almost doubled in the last year and leaking of stolen data, or the threat to do so, became standard procedure for the majority of high profile threat actors. Clearly, law firms need continual focus on preventing ransomware attacks and should ensure they have up to date ransomware incident response plans in place that are regularly exercised by senior management.

Compared with prior year, there are more firms in the Top 10, 26-50 and 51-100 where management have engaged in a crisis management exercise in the last twelve months. However, there are still a number of firms across all bandings that are not performing such exercises at least once each year (Top 10: 30%; Top 11-25: 21%; Top 26-50: 33%; and Top 51-100: 55%).

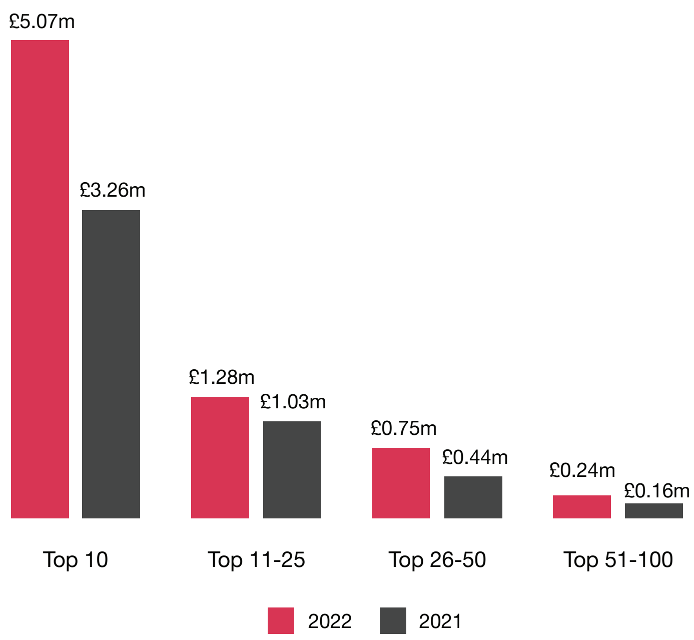
Law firms also need to be aware of the ransomware threat to their clients. Public entities and state-owned enterprises are a potential target for nation state espionage-motivated activity, such as intelligence gathering. While sectors of interest might change across regions, overall we assess information pertaining to clients in the aviation, energy, maritime, government, technology and telecommunications sectors to be of most interest.

Reports also suggest sabotage-motivated nation state activity has targeted law firms to plant evidence in order to manipulate high-profile cases; or instances of 'hack for hire' operations seeking to obtain evidence or other sensitive documentation. There have also been large-scale information leaks specifically involving the legal sector, including the Pandora Papers.

Supply chain attacks are also a key cyber risk to law firms and, therefore, firms should consider who is handling their data and whether it is adequately protected.

Law firms have responded to the ever increasing cyber risk by investing more funds in cyber security technology and staff, as follows: Top 10: up 56% to £5.1m; Top 11-25: up 24% to £1.3m; Top 26-50: up 70% to £0.75m; and Top 51-100: up 50% to £0.2m. Across the Top 100 firms, cyber spend as a percentage of fee income has increased from 0.33% to 0.46%.

Average Cyber Security Spend (£m)



Despite the increased spend in this area, there is a skills shortage and it is a challenge for firms to attract and retain key staff with the right skills and experience to support the delivery of an effective cyber security strategy.

Attackers continue to target people, essentially focusing on 'human vulnerability'. Remote and hybrid working models, and the resulting risks that arise from this, present further challenges to cyber security risk management.

Threat actors continue to develop their use of social engineering tactics in targeting the human element for attacks such as email phishing campaigns and spear phishing. Phishing attacks continue to be the most frequent cyber security incident experienced by Top 100 law firms, with 77% reporting such an incident. There is also a significant proportion of incidents caused by employees, maliciously or unintentionally. Of the Top 100 law firms, 71% experienced incidents unintentionally caused by staff, and 8% had experienced an incident caused by a malicious insider at least once.

Law firms need to include 'human cyber risk' within their cyber strategy and this should include behaviour led approaches to building a strong security culture. Role based cyber security training and awareness continues to be an effective method to help prevent employees intentionally or unintentionally being the cause of a cyber incident. Law firms should ensure that the human cyber risk, including that arising from third parties, is understood and well managed across the business, and that policies, processes and controls to manage human cyber risk consider the complete relationship journey, including recruitment screening, role changes and offboarding.

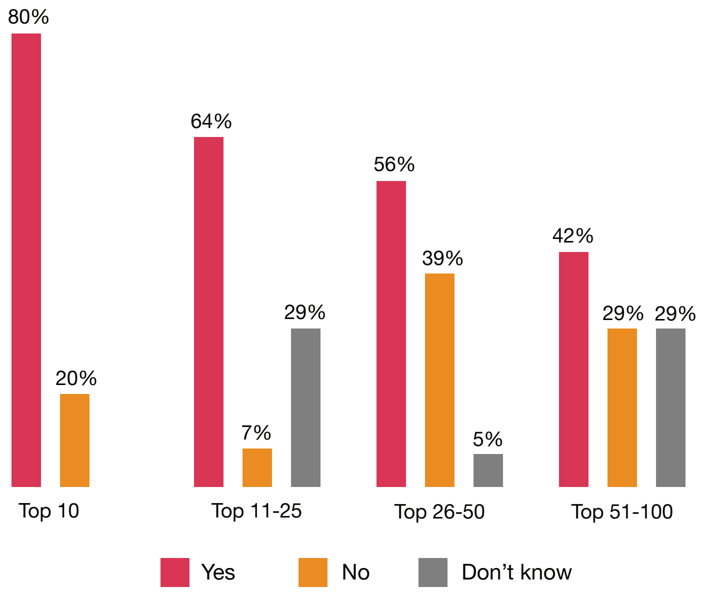
Hybrid working and the role of the office

As firms emerge from the pandemic, the lasting impact of the change in ways of working can be seen in firms' approaches to time spent in the office by employees, and the potential reduction in office space.

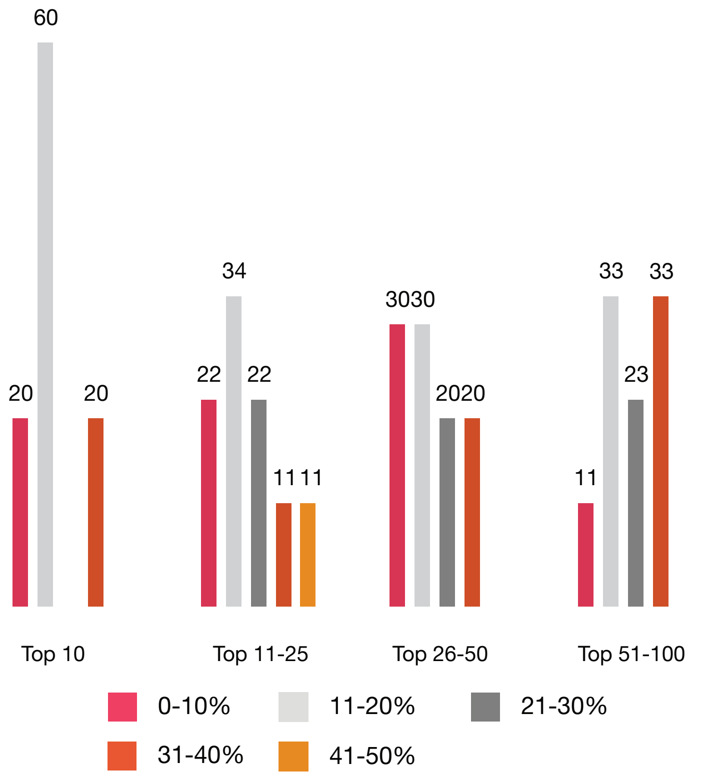
When firms were asked on average how much of their time employees have spent in the office over the past three months, the most prevalent response across the Top 100 was 41%-60% (equivalent to 2-3 days a week), followed by 21%-40% (equivalent to 1-2 days a week). These two categories accounted for over 92% of all responses, indicating the dramatic impact the pandemic has had on office presence. Only 3% of Top 100 firms reported a presence of 81%-100% (equivalent to 4-5 days a week), whilst 5% stated there was a presence of 0-20% (equivalent to 0-1 day each week).

The knock on impact of the above is seen in 36% of Top 100 firms who have reduced their office footprint over the course of the last year; a further 56% expect to reduce their office footprint in the future. The average reduction in office footprint in the last 12 months was 13%. When asked about future office footprint reduction, the most common answer across the Top 100 (36%) was 11-20%.

Number of firms that expect to reduce office footprint



Expected reduction in office footprint



Environmental, Social and Governance (ESG)

Environmental, Social and Governance (ESG) has recently grown to one of the most important factors impacting an entity's strategy. Accordingly, we introduced a set of ESG related questions in this year's survey focused on the following five topics: (i) key drivers; (ii) policy; (iii) organisational leadership; (iv) influence on the business model; and (v) specific-measurable targets.

By far, law firms identified a 'moral duty' as the most important driver for ESG activities. Following this, client pressure, value protection, value creation and recruitment and retention of staff all rank ahead of other areas.

Firms are at differing stages of their journey in respect of implementing an ESG policy in their business. Of the Top 100, 26% have introduced and embedded a policy, 46% have a policy largely formulated, but have not yet fully implemented it, while 26% have stated that the policy is in its infancy. The remaining 2%, as of yet, have no policy in place.

The organisational ESG leadership is typically assigned either to the Board or a senior partner across Top 100 firms; 34% and 32% respectively. We also note that assigning the role to a subject matter expert has occurred in 17% of the Top 100. The most common form of ESG leadership in Top 10 and 26-50 firms is a senior partner (50% and 44% respectively) and in Top 11-25 and 51-100 firms it is the Board (50% and 38% respectively).

In terms of the influence of ESG on existing business models, most Top 100 firms expect the key impacts will be over travel policies, selection of suppliers, recruitment of employees and firms' organisation strategy.

In Top 10 firms, the most common ESG targets are in respect to greenhouse gas emissions, gender representation rates and race and ethnicity representation rates (83% for each category). These areas were also the most common in Top 11-25 firms (being 71%, 86% and 57% respectively). Most Top 26-50 firms have ESG targets in regard to greenhouse gas emissions (78%) and gender representation rates (72%), while 50% of this band have targets on employment engagement metrics.

Due to recent developments on a global scale, ESG has become an important topic for law firms, much like companies in other sectors. Law firm leaders will be fully aware that ESG is now an essential aspect of a strategy that needs to be integrated into management systems. To enable an effective integration of ESG into business practices, law firms will be expected to establish ESG into their corporate governance structure and firm-wide strategies and policies, whilst performing transparent reporting.

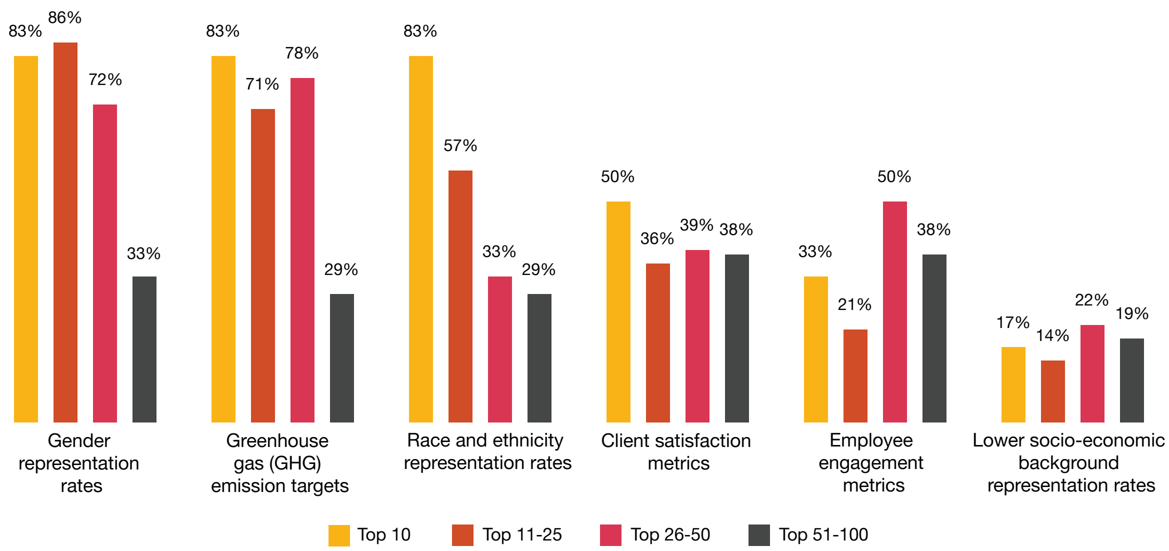
Recently, customers' expectations with regards to environmental and social concerns have increased along with their effort to manage their total impact across their whole value chain, including their suppliers.

Enhancing in-house practices and internal expertise in terms of ESG will enable law firms to widen the range of their offering to clients, whilst demonstrating an awareness of their concerns and differentiating themselves amongst other firms. This will lead to client retention and attracting a broader client base.

Besides managing client expectations, it is becoming increasingly important for talent attraction and retention to meet the expectations of prospective and future employees. Especially amongst the younger generation, there will be a preference to work for entities which can demonstrate that they value equality, diversity and social responsibility.

There are now many stakeholders that are interested in how law firms are responding to ESG, including clients, regulators, employees and suppliers. Each of these needs to be fully considered to ensure a firms' ESG policy meets the requirements of all stakeholders.

Areas where firms have set specific and measurable ESG targets



At a glance

1. Global financial performance

Global headcount

- Top 10 firms' global fee earner headcount increased on average by 3.0%, with partner numbers growing by 2.2% and all other fee earners (excluding partners) rising by 3.2%.
- On average, the Top 10 firms have seen headcount for business support staff remain broadly flat (up less than 1%).
- The Top 11-25 firms have invested more in their global headcount: (i) partner numbers are up 15.4%; (ii) fee earner headcount is up 17.7%; and (iii) business support staff are up by 23.6%.

Global fees

- Average fee income growth was 8.5% (2021: 4.2%).
- The range of growth in fee income amongst the Top 10 firms was between 6.1% and 14.1%.
- Top 11-25 firms average fee income growth was 5.8% (2021: 4.3%). The range in fee income movement was from – 4.6% to +15.4%.
- The source of fee income growth in Top 10 firms was derived 46% from the UK and 54% from international offices.
- In Top 11-25 firms, 39% of fee income growth was derived from the UK and 61% from international offices.

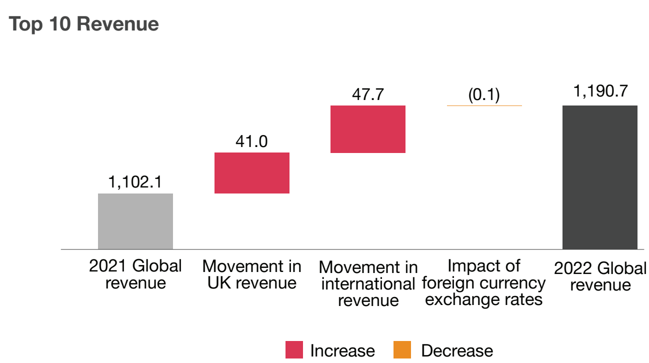
Global profits

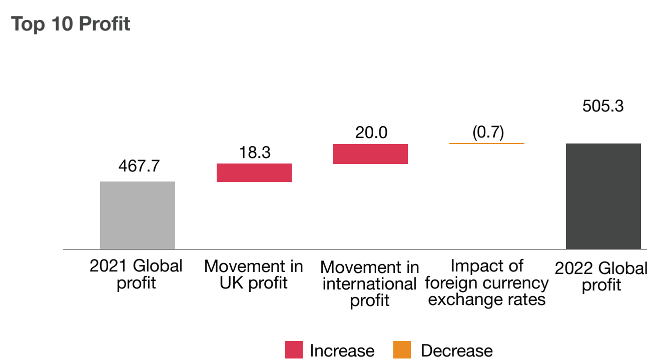
- Top 10 firms' average profit (before full and fixed equity partner remuneration) growth was 9.2% (2021: 18.5%). This growth ranged from 1.8% to 14.9%.
- Top 11-25 firms' average profit (before full and fixed equity partner remuneration) growth was 3.0% (2021: 17.1%). The movement in profit ranged from -31.1% to +20.9%. Excluding the -31.1% outlier, average profit growth becomes 5.9%.
- International offices contributed 51% and 87% to profit growth for Top 10 and 11-25 firms respectively.
- Top 10 firms reported an average global net profit margin (defined as profits before full equity and fixed share equity remuneration as a proportion of fee income) of 40.4% (2021: 39.9%); while Top 11-25 firms achieved 34.1% (2021: 34.1%).
- The range of global net profit margins in Top 10 firms is from 32.9% to 49.0% (2021: 30.5% to 49.0%) and in Top 11-25 firms it is from 22.0% to 51.1% (2021: 25.0% to 44.5%).

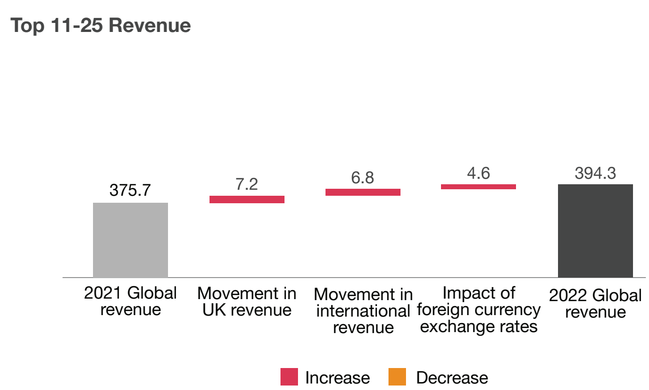
International analysis

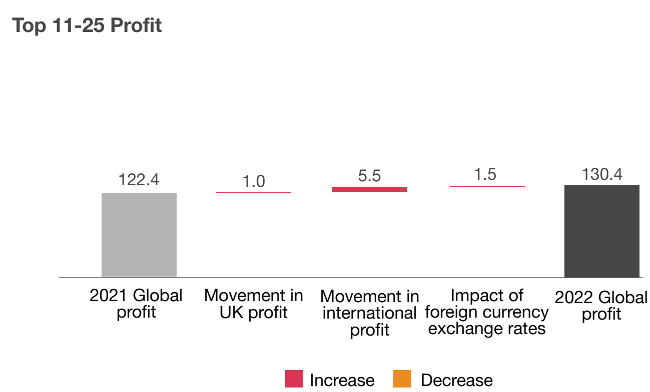
- Top 10 firms have improved net profit margins in all regions in which they operate, with the exception of Central and Eastern Europe (fall from 30.4% to 17.8%; albeit, on a like for like basis the fall is 5.5 percentage points), Australia (fall from 40.0% to 38.7%) and Africa (fall from 33.0% to 30.0%).
- The range of average net profit margins for Top 10 firms was from 17.8% in Central and Eastern Europe (with the next best performing region being Africa at 30.0%) to 39% in Asia & Far East (excluding China), although, this is closely followed by Western Europe and Australia (both 38.7%).
- Top 11-25 firms saw an increase in their net profit margins in the all regions in which they operate. The most notable increases in net profit margin by region for Top 11-25 firms were in Rest of Asia and Far East (from 10.2% to 23.0%), USA (from 7.0% to 27.3%) and Australia (from 14.0% to 27.0%).

Global fee income and profits: Source of growth

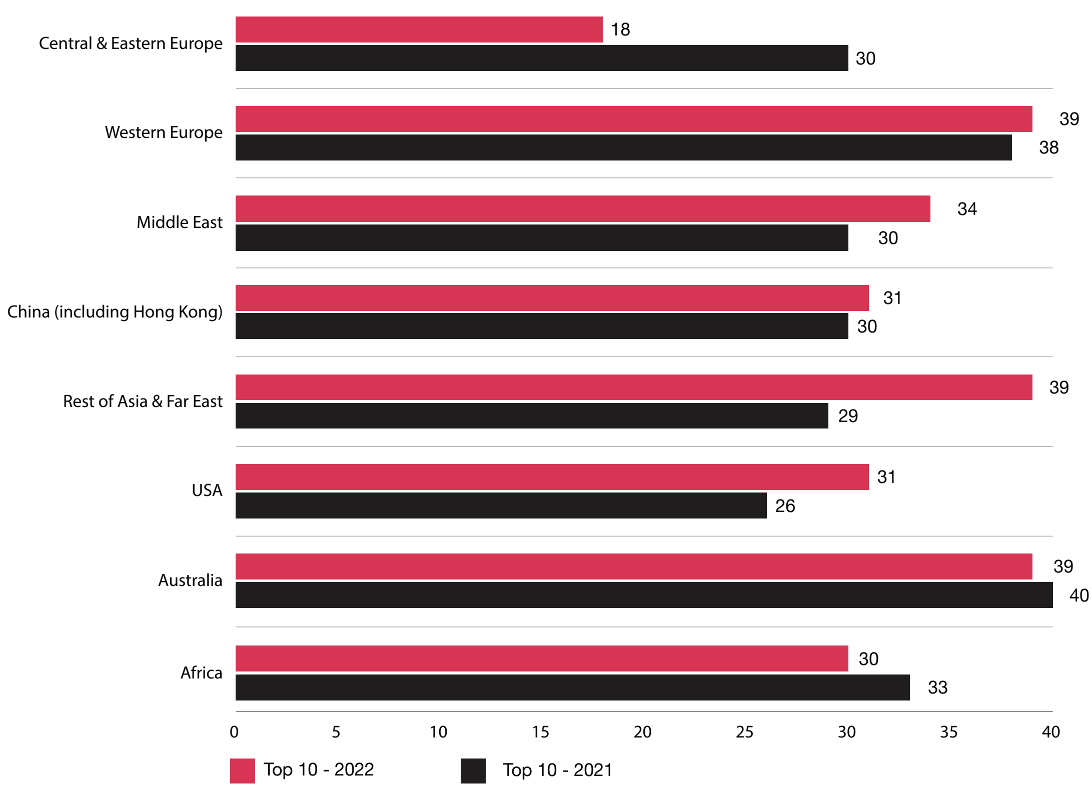








International net profit margins



2. UK financial performance

UK Fees

- Average UK fee income growth across the Top 100 firms was 9.1%; a continued improvement on 2021 (4.4%) and 2020 (3.7%).
- Unlike previous years, the Top 26-50 outperformed the other bandings with a 12.5% increase in fee income. The other bandings achieved the following: (i) Top 10: 10.2%; (ii) Top 11-25: 6.3%; and (iii) Top 51-100: 7.5%.
- More Top 100 firms experienced fee income growth in 2022 than the previous two years (89% vs 74% in 2021 and 70% in 2020).
- Of the 11% of Top 100 firms which saw a reduction in fee income, this ranged from 0.6% to 6.6%.
- There is a large spike in the number of Top 100 firms achieving double digit fee income growth (2022: 41%; 2021: 12%; 2020: 14%).
- Fees per fee earner has increased across all bandings: Top 10 up 7.7% to £476k; Top 11-25 up 3.6% to £344k; Top 26-50 up 16.5% to £261k; and Top 51-100 up 2.6% to £196k.
- Top 25 firms have achieved the fees per fee earner growth off a stable fee earner headcount; however, Top 26-50 and 51-100 firms' headcount has increased.
- All bandings in the Top 100 reported increases in fees per chargeable hour: Top 10 by 8.1% to £375; Top 11-25: 6.5% to £312; Top 26-50: 15.1% to £259; and Top 51-100: 5.3% to £217.

Fee income write offs

- The level of unplanned fee income write offs has increased this year, reversing the improving trend of the last few years. Most notably, 80% of Top 10 firms recorded write offs of 10-25% (2021: 67%). This is the worst performance across the Top 100 bandings.
- In the prior year, 42% of the Top 11-25 firms reported write-offs of less than 5% (the best performing band in prior year); however, this has now dropped to just 14% of those firms.

UK Costs

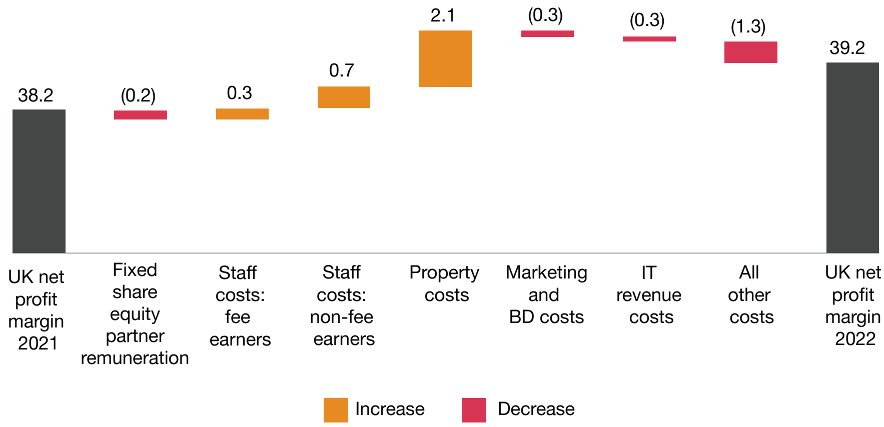
- All bandings except the Top 26-50 have reduced their staff cost ratio (excluding fixed share equity partners): Top 10: from 37.1% to 36.1%; Top 11-25: 42.7% to 42.6%; and Top 51-100: 45.5% to 44.8%. The Top 26-50 firms saw their average staff cost ratio increase by 0.9 percentage points to 43.6%.
- The property cost ratio fell for all bandings: Top 10: 8.9% to 6.8%; Top 11-25: 7.9% to 7.1%; Top 26-50: 7.6% to 6.6%; and Top 51-100: 8.0% to 7.6%.

UK profits

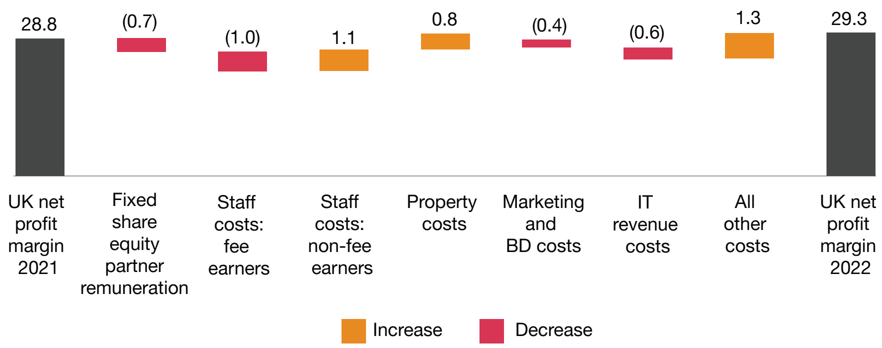
- Across the Top 100, 65% of firms increased profits, compared to 76% in 2021 and the 89% of firms that increased revenue this year.
- The range of percentage growth in profit achieved by individual firms continues to be much wider than the range for revenue growth.
- All of the Top 50 bandings increased their average net profit margins: Top 10: from 38.2% to 39.2%; Top 11-25: from 28.8% to 29.3%; and Top 26-50: from 24.9% to 27.0%. Top 51-100 firms saw a slight deterioration in their average net profit margin, from 24.6% to 24.3%.
- All of the Top 100 bandings posted record PEP levels (Top 10: up 10.1% to £1,404k; Top 11-25: up 13.0% to £868k; Top 26-50: up 26.0% to £650k; and Top 51-100: up 4.3% to £464k).
- All bandings have dramatically increased their profit per equity partner over the last 10 years (Top 10: 55%; Top 11-25: 94%; Top 26-50: 72%; and Top 51-100: 64%).

Net profit margin bridge: 2021 to 2022

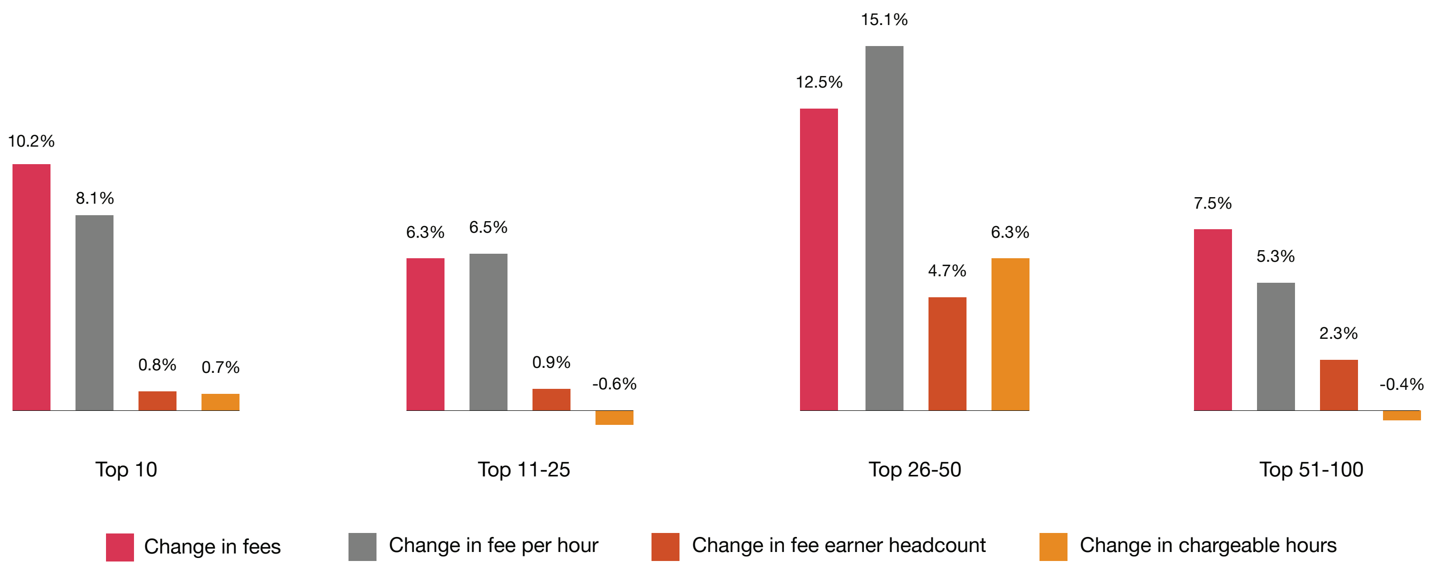
Top 10



Top 11-25



Change in UK fees, fee per hour, fee earner headcount and fee earner chargeable hours



3. People

Headcount

- Total UK partners increased across the bandings: Top 10 by 0.5%; Top 11-25 by 5.6%; Top 26-50 by 2.5%; and Top 51-100 by 6.8%. However, full equity partners have remained broadly flat year on year.
- Overall, UK fee earner headcount (including partners) also rose: Top 10 by 0.8%; Top 11-25 by 0.9%; Top 26-50 by 4.7%; and Top 51-100 by 2.3%.
- The reduction in newly qualified staff from last year across the Top 50 bandings has been reversed: Top 10 up by 4.8%, Top 11-25 up by 3.1%; and Top 26-50 up by 5.0%. In Top 51-100 firms, the newly qualified headcount dropped by 27.3% to 8 heads.
- Trainee numbers have increased across all bandings: Top 10 by 7.3%, Top 11-25 by 8.6%; Top 26-50 by 2.5%; and Top 51-100 by 15.8%.
- There has been investment in business support staff, with increases across the bandings: Top 10 by 1.9%; Top 11-25 by 7.5%; Top 26-50 by 0.9%; and Top 51-100 by 5.6%.

Leverage

- The ratio of fee earners to non-fee earners has fallen across all bandings except the Top 26-50 (Top 10: 1.18 to 1.16; Top 11-25: 1.47 to 1.38; Top 26-50: 1.67 to 1.72; and Top 51-100: 1.81 to 1.74)
- The ratio of fee earners to full equity partners has risen slightly in the Top 10 (6.9 to 7.1), Top 26-50 (10.0 to 10.1) and Top 51-100 (9.4 to 9.5), but has increased more sharply in the Top 11-25 (6.7 to 7.4).

Staff turnover

- Turnover of full equity partners has risen slightly in the Top 10 (from 3.3% to 4.3%) and Top 11-25 (4.2% to 4.5%), with lateral moves increasing post pandemic.
- Across the post qualified fee earner grades, all bandings saw staff turnover increase.
- For the business support population, staff turnover is up in the Top 10 (from 16.8% to 18.8%); Top 11-25 (from 11.9% to 19.6%); and Top 26-50 (from 13.0% to 16.6%), but has reduced in the Top 51-100 (from 20.3% to 18.0%).

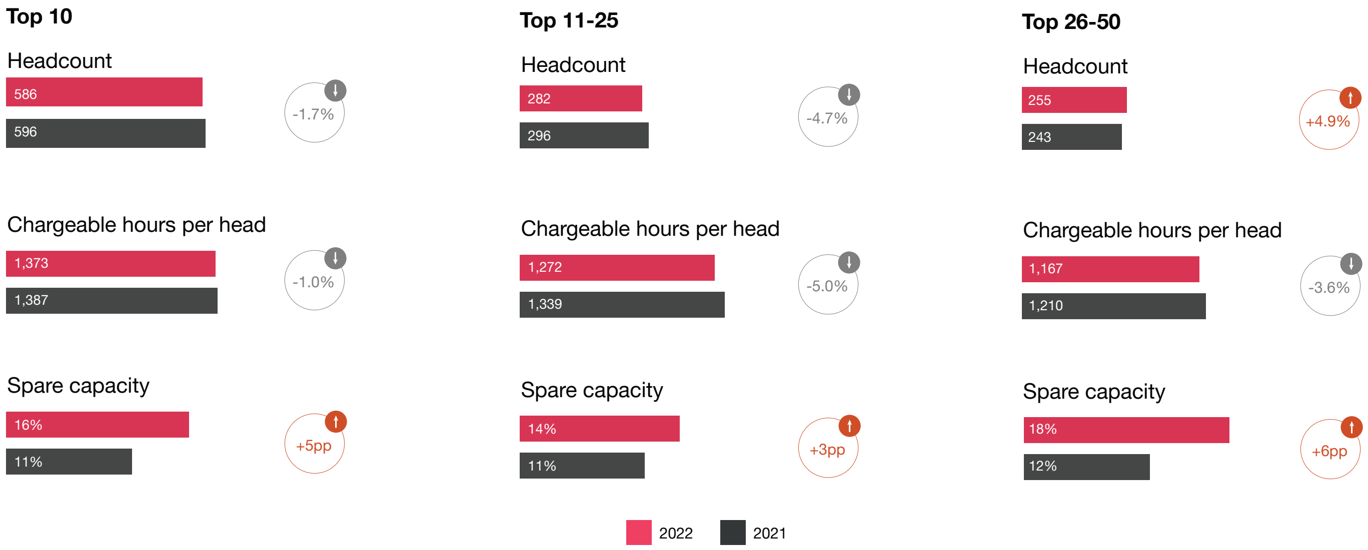
Chargeable hours

- Chargeable hours of partners fell across all grades in the Top 50 bandings, except for fixed share equity partners in the Top 10 (a 12% increase to 1,300 hours).
- There was a fall in average chargeable hours across the vast majority of post qualified fee earner grades.
- The largest falls in post qualified fee earner chargeable hours were in newly qualified for the Top 26-50 (down by 10.7% to 1,066 hours) and Top 51-100 (down by 13.0% to 900 hours).

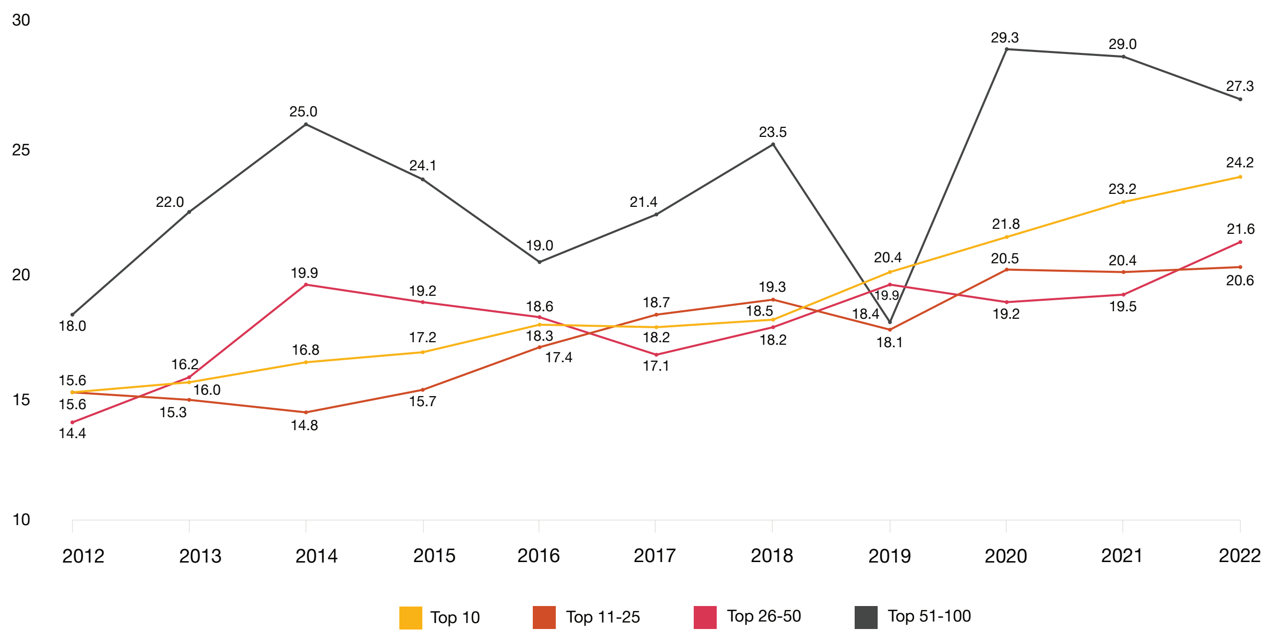
Diversity

- Female representation in the trainee population has grown this year in the Top 10 (57% to 60%), Top 11-25 (60% to 64%) and Top 26-50 (61% to 64%), with a small decrease in the Top 51-100 (64% to 63%)
- Female representation at full equity partner level has increased slightly in the Top 10 (23.2% to 24.2%), Top 11-25 (20.4% to 20.6%) and Top 26-50 (19.5% to 21.6%), with a reduction in the Top 51-100 (29.0% to 27.3%)
- Minority ethnic representation at the trainee level increased in all bandings: Top 10: 23.2% to 24.0%; Top 11-25: 18.1% to 20.2%; Top 26-50: 16.7% to 16.9%; and Top 51-100: 5.3% to 8.3%.
- The movement in minority ethinic representation at full equity partner level is mixed: Top 10: down from 7.7% to 6.5%; Top 11-25: up from 3.8% to 5.4%; Top 26-50: up from 4.2% to 4.8%; and Top 51-100: down from 5.1% to 4.1%.

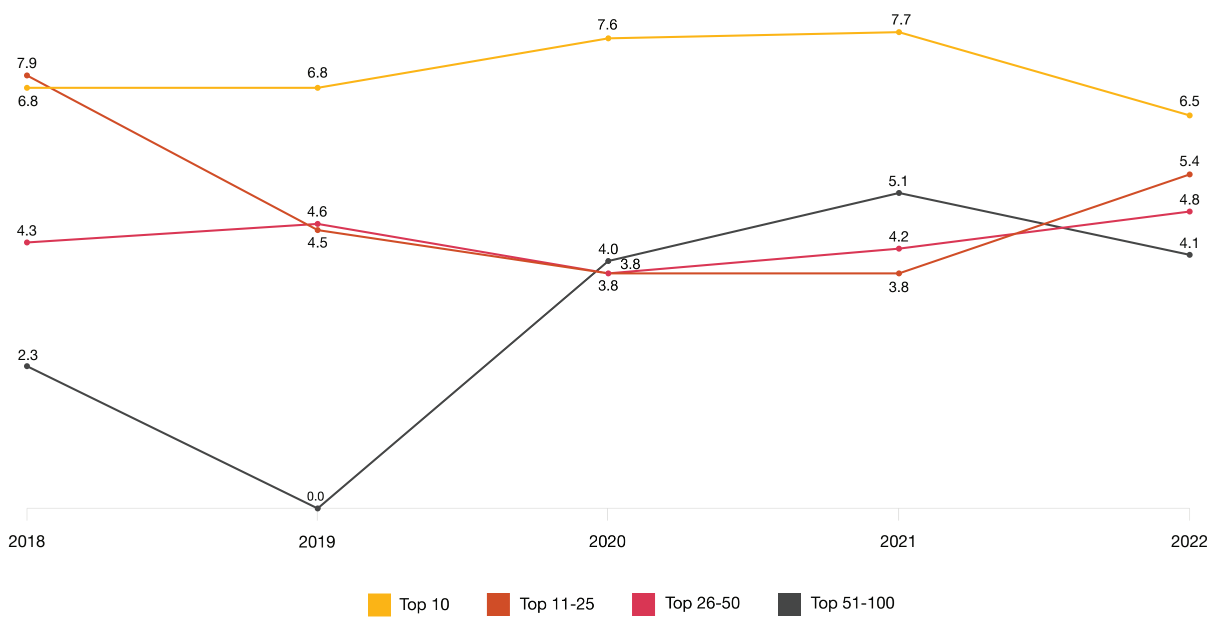
Movement in headcount, chargeable hours per head and spare capacity (1-9+ pqe)



Trend in female representation at full equity partner level



Trend in minority ethnic representation at full equity partner level



4. Financing

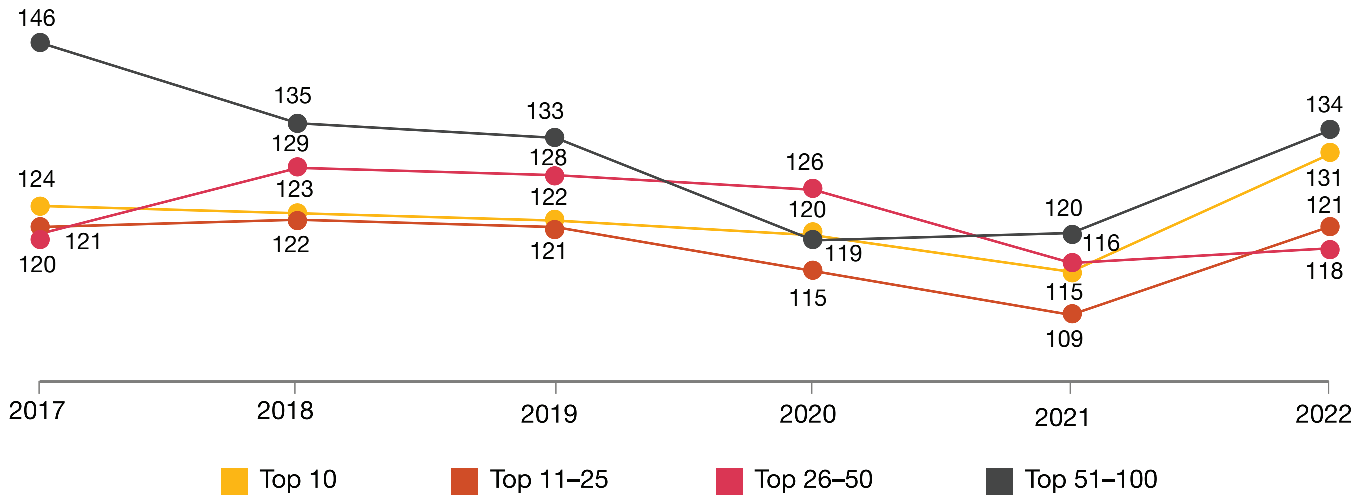
Lock Up

- Year end lock up days increased across all bandings: Top 10: up 13.9% to 131 days; Top 11-25: up 11.0% to 121 days; Top 26-50: up 1.7% to 118 days; and Top 51-100: up 11.7% to 134 days.
- For Top 10 firms, there has been an equal deterioration in year end WIP (up 8 to 61 days) and debtor days (up 8 to 70 days).
- In Top 11-25 firms, year end debtor days are the primary factor (up 9 to 77 days).
- For both Top 26-50 and Top 51-100 firms, WIP days were the main contributing factor, with Top 26-50 firms increasing from 50 to 52 days and for Top 51-100 firms it increasing from 58 to 74 days.
- Average lock up has not deteriorated at the same rate as year end lock up, with limited movements from prior year: Top 10: up 1.4% to 147 days; Top 11-25: up 2.2% to 139 days; Top 26-50: consistent at 139 days; and Top 51-100: down 2.8% to 140 days.
- The disparity between year end and average total lock up has reduced since prior year. Top 10 firms average lock up falls 16 days (2021: 30 days) short of year end lock up; the same statistic across the bandings is as follows: Top 11-25: 18 days (2021: 27 days); Top 26-50: 21 days (2021: 22 days); and Top 51-100: 6 days (2021: 24 days).
- The reduction in the average to year end lock up gap should not be taken as a success, rather a note that year end lock up has deteriorated significantly and overall both year end and average lock up need to improve.

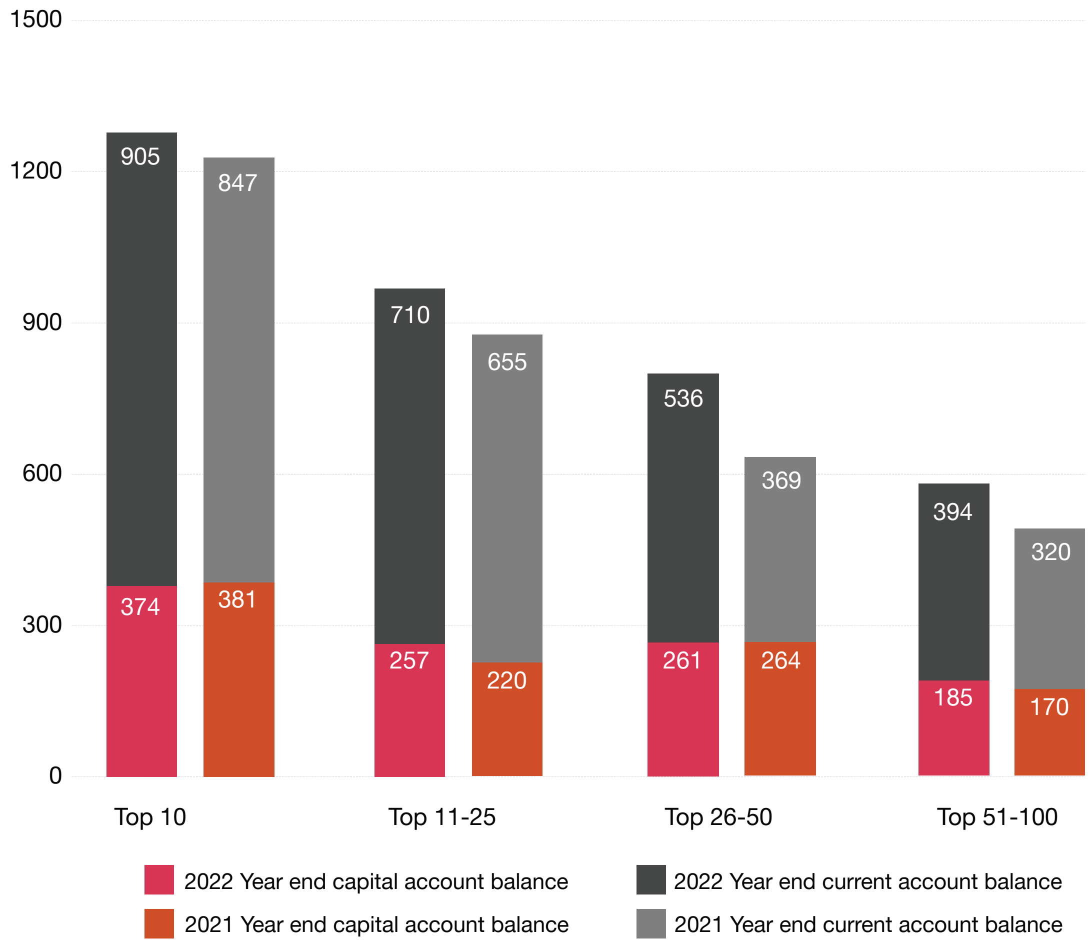
Financing

- Firms outside the Top 10 have reduced the level of their UK external funding as a proportion of total funding; Top 11-25 from 13% to 8%; Top 26-50 from 10% to 9%; and Top 51-100 from 18% to 16%. Top 10 average UK external funding increased slightly from 7% to 8%.
- The average balance of UK partner capital accounts has increased in Top 11-25 firms (up 16.8% to £257k) and 51-100 (up 8.8% to £185k); but remained broadly flat in Top 10 (down 1.8% to £374k) and 26-50 firms (down 1.1% to £261k).
- The average UK partner current account balance has increased across all bandings of firms, reflecting strong profits over the past two years: Top 10: up 6.8% to £905k; Top 11-25: up 8.4% to £710k; Top 26-50: up 45.3% to £536k (note: on a like for like basis the average UK partner current account balance in Top 26-50 firms is up 31.5%); and Top 51-100: up 23.1% to £394k.
- Average profit distributions in the year in which profit is earned are relatively similar across the bandings: 54% in Top 10 firms; 49% in Top 11-25 and 26-50 firms and 52% in Top 51-100 firms.
- At least 92% of profits are distributed to partners across each of the Top 100 bandings by the end of the year after the profit has been recorded.
- Only 4% of Top 100 firms have moved away from a 100% distribution model and hold back profits for further investment within the firm.

Trend in average UK year end total lock up days



Average capital and current account balances per full equity partner (£'000)



5. Business support, risk and ESG

Top priorities for business support over the next 12 months

- As in previous years, 'Improving the use of Technology' and 'Standardising & Centralising Processes' remain the top two priorities for business support functions.
- 'Improve Legal Service Offering' has increased in priority to become the joint third highest, together with 'Reduce Cyber Risk' which continues to be an important priority.
- Support function costs as a percentage of fee income remained largely consistent with last year – the highest costs being IT revenue (ranging from 4.4% to 6.0% across the Top 100 bandings), facilities management and operations (2.7% to 3.5%) and the finance function (2.5% to 3.0%).
- IT revenue costs attract the largest cost per fee earner, between £11.3k and £18.7k across the Top 100 bandings. The second highest is facilities management and operations with a cost per fee earner of between £5.1k and £15.6k.
- The lowest support cost function by fee earner is innovation and strategy, with a range across the Top 100 bandings of £0.8k to £6.8k.

Legal technologies

- The average external spend as a percentage of fee income on legal technologies across the Top 100 firms was 0.7% (2021: 0.7%). Within individual bandings, the ratio was highest in the Top 51-100 at 1.1% (2021: 0.9%) and lowest in the Top 10 at 0.1% (2021: 0.5%).
- This year, 'Document Management Systems' became the most common tool invested in by firms to date.
- In the coming year, the top three priority areas for legal technology investment are 'Document Management Systems', 'Matter Management' and 'Collaboration tools'.

Cyber risk and security

- Cyber threats remain a key concern, with 78% of the Top 100 reporting they are extremely or somewhat concerned about cyber threats, although this is down from prior year (90%).
- Cyber threats were the second joint highest concern reported across the Top 100 firms, and the highest concern for Top 26-50 firms.
- All bandings have reported an increase in having a dedicated Cyber Security Chief (or equivalent) or a dedicated CIO (or equivalent) with responsibility for cyber security. In Top 10 firms, 100% stated that they had either a dedicated Cyber Security Chief or CIO (or equivalent) who had responsibility for cyber security; this was 86% in the Top 11-25 firms, 71% in the Top 26-50, and 52% in the Top 51-100.
- Across the range of cyber security incidents, between 4% and 20% across the Top 100 bandings state they don't know if an attack has taken place or not.

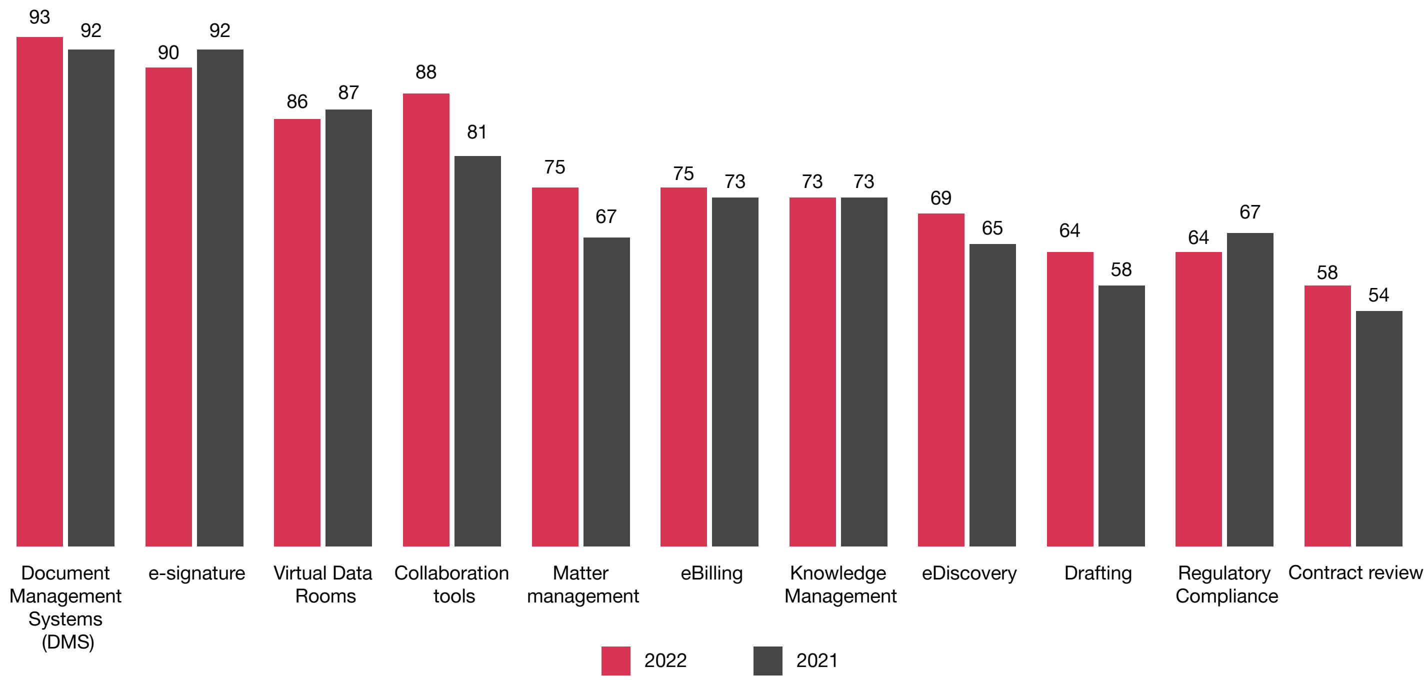
Business continuity plans and crisis management exercises

- Across the Top 100 bandings, 79% to 83% of firms test their business continuity plans at least every 12 months.
- The performance of crisis management exercises is not as strong, with 70% of Top 10, 79% of Top 11-25, 67% of Top 26-50 and 45% of Top 51-100 performing such an exercise at least every 12 months.
- The most common cyber security scenarios were: (1) ransomware; (2) data loss or breach; and (3) phishing attacks.

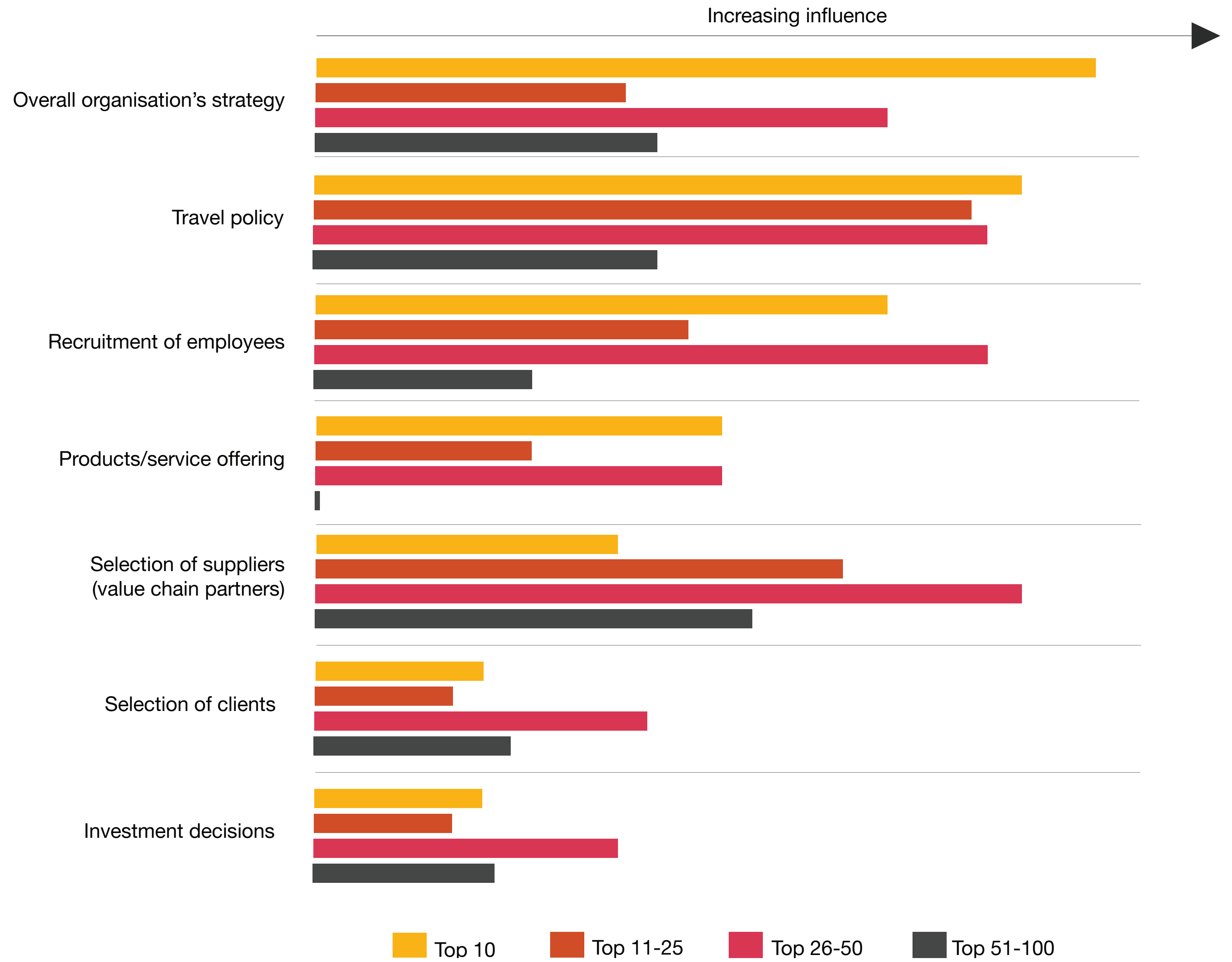
Environmental, Social and Governance (ESG)

- The proportion of firms in the Top 10 that have a well-developed and embedded ESG policy is 50% and this drops to 21%, 28% and 19% in Top 11-25, 26-50 and 51-100 firms respectively.
- The number of Top 11-25, 26-50 and 51-100 firms that have a policy at the immature stages is 29%, 22% and 38% respectively.
- The responsibility of organisational ESG leadership is assigned to a senior partner in 50% of Top 10 firms, whereas it is at the Board level in 50% of Top 11-25 firms.
- In Top 26-50 and 51-100 firms, 6% and 5% respectively have no ESG lead in place.
- The top three ESG categories that Top 10 firms expect to influence their business model in the next five years are their (i) overall strategy of the firm; (ii) travel policy; and (iii) recruitment of employees. For Top 11-25 firms it is their (i) travel policy; (ii) selection of suppliers; and (iii) both recruitment of employees and the firm's overall strategy.
- The majority of Top 50 firms have set ESG targets: Top 10: 100%, Top 11-25: 93%; and Top 26-50: 89%. This drops off in the Top 51-100 where 57% of firms have set ESG targets.
- The most common areas selected for ESG targets are greenhouse gas emissions, gender representation rates and race and ethnicity representation rates.

Legal technologies – Areas of most common investment (Top 100 firms)



Extent of ESG influence over business models in the next five years



Appendix: Key performance indicators

Key performance indicators (UK)

Top 10

	2017	2018	2019	2020	2021	2022
UK fees per chargeable hour (£)	297	302	315	331	347	375
UK fees per full equity partner (£000)	2,729	2,935	3,063	3,187	3,360	3,649
UK fees per fee earner (£000)	380	395	415	414	442	476
UK profit per full equity partner (£000)	1,043	1,066	1,120	1,067	1,275	1,404
UK profit per fee earner (£000)	152	152	155	148	179	196
Profit margin (%) - before full equity partner remuneration	36.9	36.6	35.5	33.8	38.2	39.2
Staff cost ratio (%)	38.5	39.4	37.9	38.9	37.1	36.1
1->9 year PQE fee earner utilisation (hours)	1,395	1,478	1,465	1,341	1,387	1,379
Lock up days (year end)	124	123	122	120	115	131
Average number of full equity partners - UK	147	142	146	151	153	153
Average number of fee earners (incl. partners) - UK	1,101	1,065	1,165	1,137	1,107	1,116

Top 11-25

	2017	2018	2019	2020	2021	2022
UK fees per chargeable hour (£)	256	266	285	300	293	312
UK fees per full equity partner (£000)	2,277	2,416	2,491	2,473	2,450	2,791
UK fees per fee earner (£000)	290	303	325	321	332	344
UK profit per full equity partner (£000)	647	729	734	710	768	868
UK profit per fee earner (£000)	90	95	98	95	106	106
Profit margin (%) - before full equity partner remuneration	27.7	28.8	28.5	27.5	28.8	29.3
Staff cost ratio (%)	42.5	41.8	41.1	41.4	42.7	42.6
1->9 year PQE fee earner utilisation (hours)	1272	1309	1347	1289	1339	1272
Lock up days (year end)	121	122	121	115	109	121
Average number of full equity partners - UK	78	74	70	72	73	69
Average number of fee earners (incl. partners) - UK	722	644	653	575	574	579

Top 26-50

	2017	2018	2019	2020	2021	2022
UK fees per chargeable hour (£)	210	213	228	223	225	259
UK fees per full equity partner (£000)	1,734	1,974	2,037	2,228	2,149	2,494
UK fees per fee earner (£000)	216	224	237	223	224	261
UK profit per full equity partner (£000)	415	467	516	467	516	650
UK profit per fee earner (£000)	56	61	68	55	61	76
Profit margin (%) - before full equity partner remuneration	25.2	24.2	24.7	22.2	24.9	27.0
Staff cost ratio (%)	42.3	42.3	43.2	45.1	42.7	43.6
1->9 year PQE fee earner utilisation (hours)	1,205	1,230	1,235	1,216	1,210	1,167
Lock up days (year end)	120	129	128	126	116	118
Average number of full equity partners-UK	53	59	59	57	54	56
Average number of fee earners (incl. partners)-UK	497	536	513	539	528	553

Top 51-100

	2017	2018	2019	2020	2021	2022
UK fees per chargeable hour (£)	178	201	200	213	206	217
UK fees per full equity partner (£000)	1,627	1,630	1,959	1,792	1,855	1,947
UK fees per fee earner (£000)	169	183	188	207	191	196
UK profit per full equity partner (£000)	347	381	460	452	445	464
UK profit per fee earner (£000)	40	47	49	58	52	52
Profit margin (%) - before full equity partner remuneration	23.0	24.6	22.9	26.3	24.6	24.3
Staff cost ratio (%)	45.6	44.7	45.3	44.7	45.5	44.8
1->9 year PQE fee earner utilisation (hours)	1,038	1,122	1,122	1,139	1,086	1,050
Lock up days (year end)	146	135	133	119	120	134
Average number of full equity partners-UK	24	27	25	28	29	30
Average number of fee earners (incl. partners)-UK	219	229	330	244	256	262

Key performance indicators (Global)

Top 10	2017	2018	2019	2020	2021	2022
Fees per all partners (£000)	1,949	2,065	2,154	2,167	2,213	2,320
Fees per fee earner (£000)	379	408	410	387	415	432
Profits per all partners (£000)	790	810	916	804	927	977
Profits per fee earner (£000)	151	158	158	142	171	180
Profit margin (%) - before full and fixed equity partner remuneration	38.3	37.9	38.0	35.2	39.9	40.4
Staff cost ratio (%)	39.8	40.3	39.4	40.6	38.6	38.0
Average number of all partners - global	477	473	481	489	499	510
Average number of fee earners (incl. partners) - global	2,390	2,354	2,640	2,666	2,592	2,671

Top 11-25	2017	2018	2019	2020	2021	2022
Fees per all partners (£000)	1,039	1,052	1,102	1,162	1,221	1,220
Fees per fee earner (£000)	281	270	293	285	310	321
Profits per all partners (£000)	338	362	370	375	431	454
Profits per fee earner (£000)	91	93	98	92	109	119
Profit margin (%) - before full and fixed equity partner remuneration	33.3	34.3	33.6	31.7	34.1	34.1
Staff cost ratio (%)	42.6	42.0	43.0	44.1	43.7	43.0
Average number of all partners - global	200	237	246	253	280	315
Average number of fee earners (incl. partners) - global	778	995	939	1,069	1,128	1,291

Notes

Notes

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