Peer Monitor

Legal Industry Update, 2013 Year in Review

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THOMSON REUTERS

“Winning isn’t everything, but the will to win is everything”

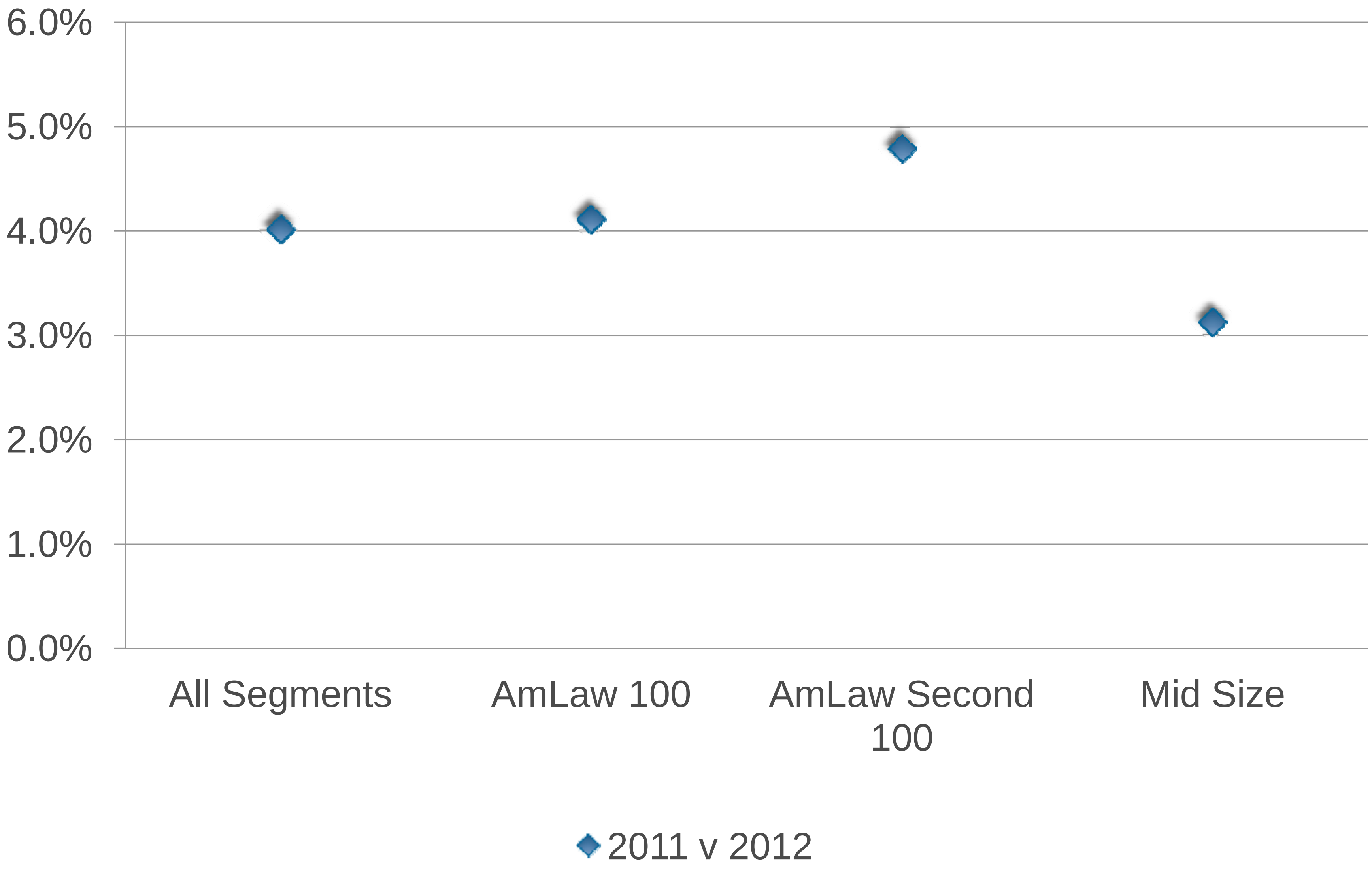
Vince Lombardi

TODAY’S DISCUSSION

- 2013 Overall Financial Performance
- KPIs
  - Soft Demand and Its Implications
  - Key Performance Indicators
  - Variability and Top Performing Firms
  - Practice Splits
  - Balance
  - Rates & Realization
- Expenses
- Sentiment & 2014 Forecast

2013 FINANCIAL PERFORMANCE

Cash Collection Growth



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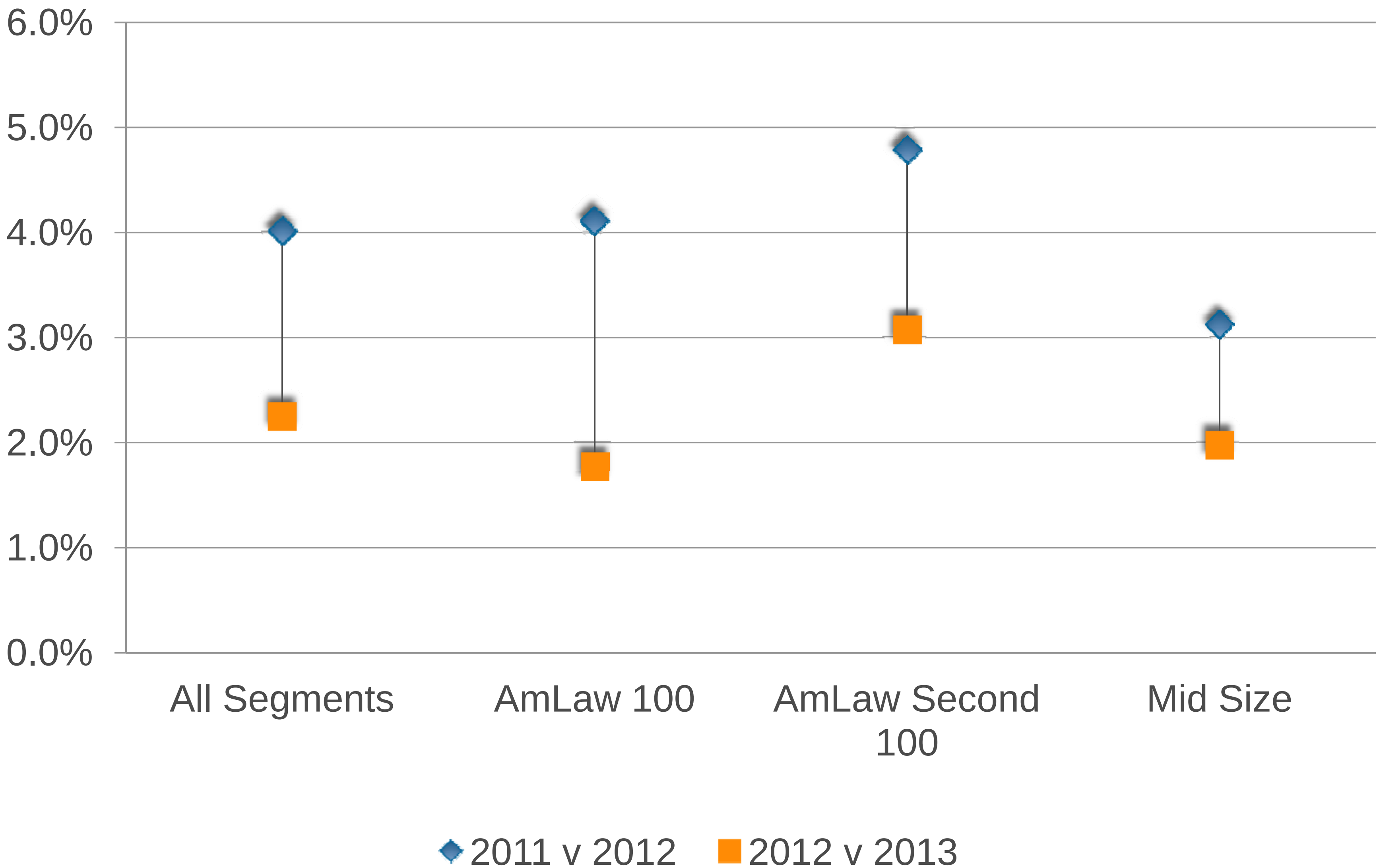
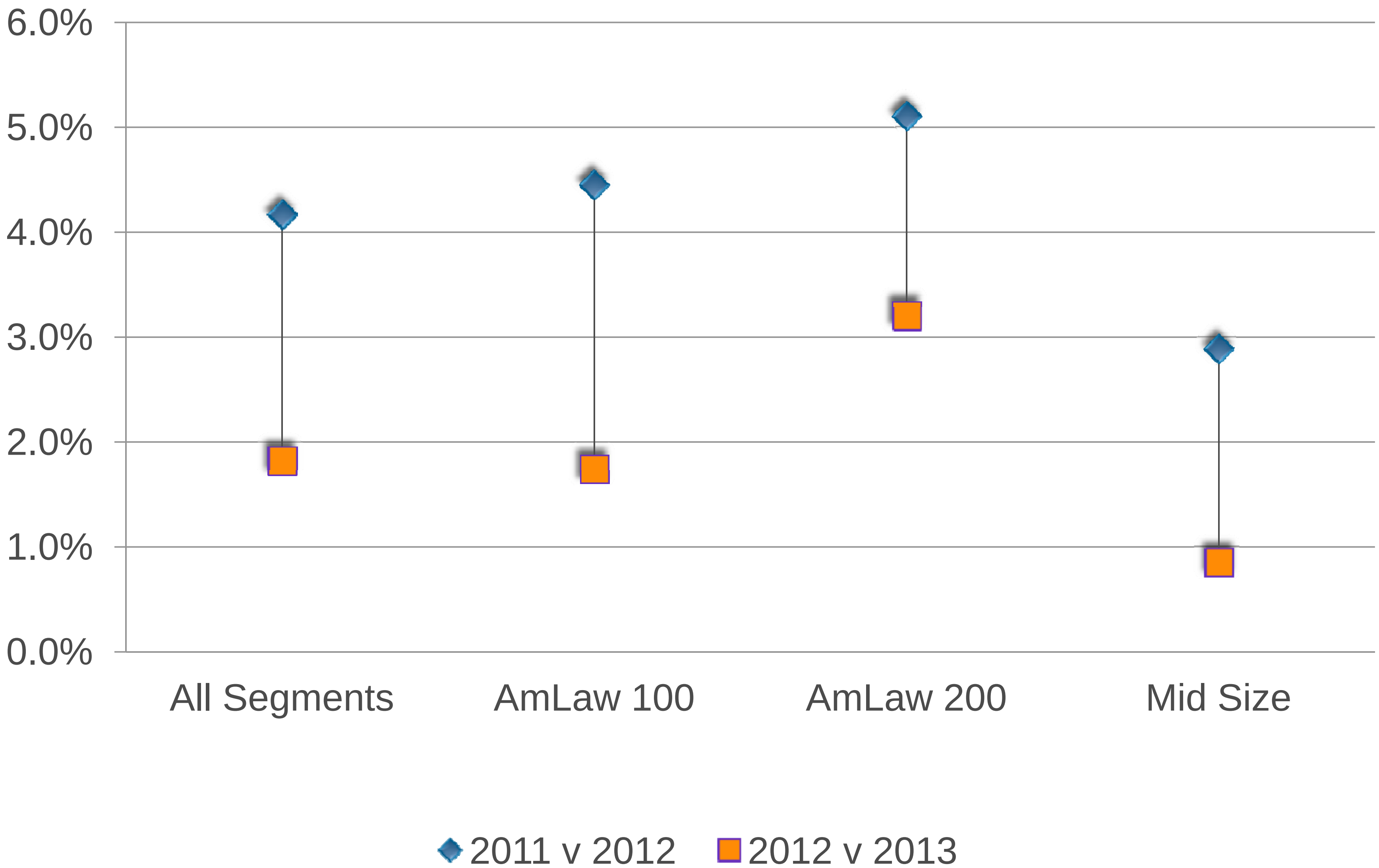
Cash Collection Growth



Revenue Growth



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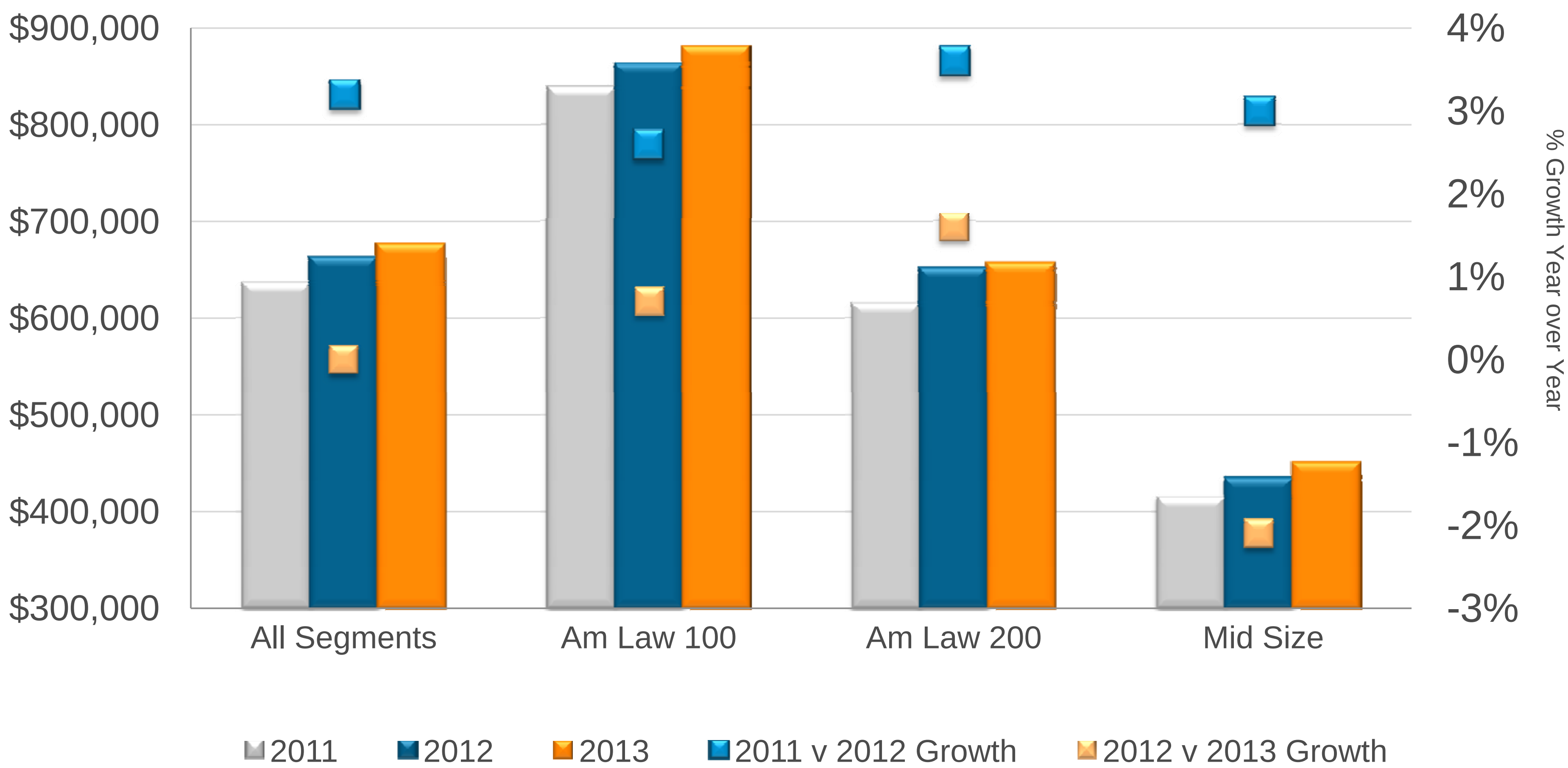
Profit per Partner



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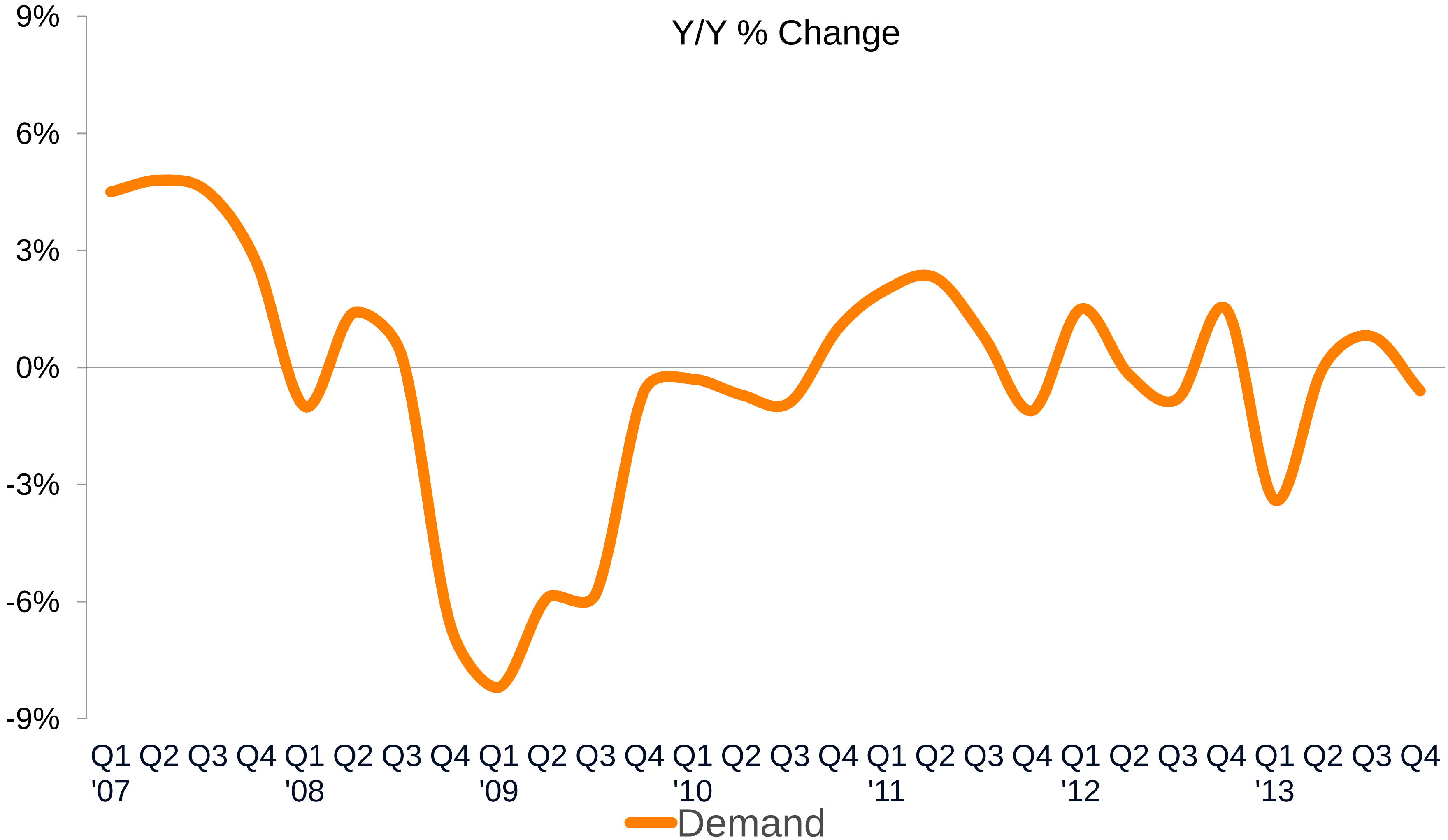
2013 DEMAND WAS SOFT

7-Year Pattern for Demand Growth



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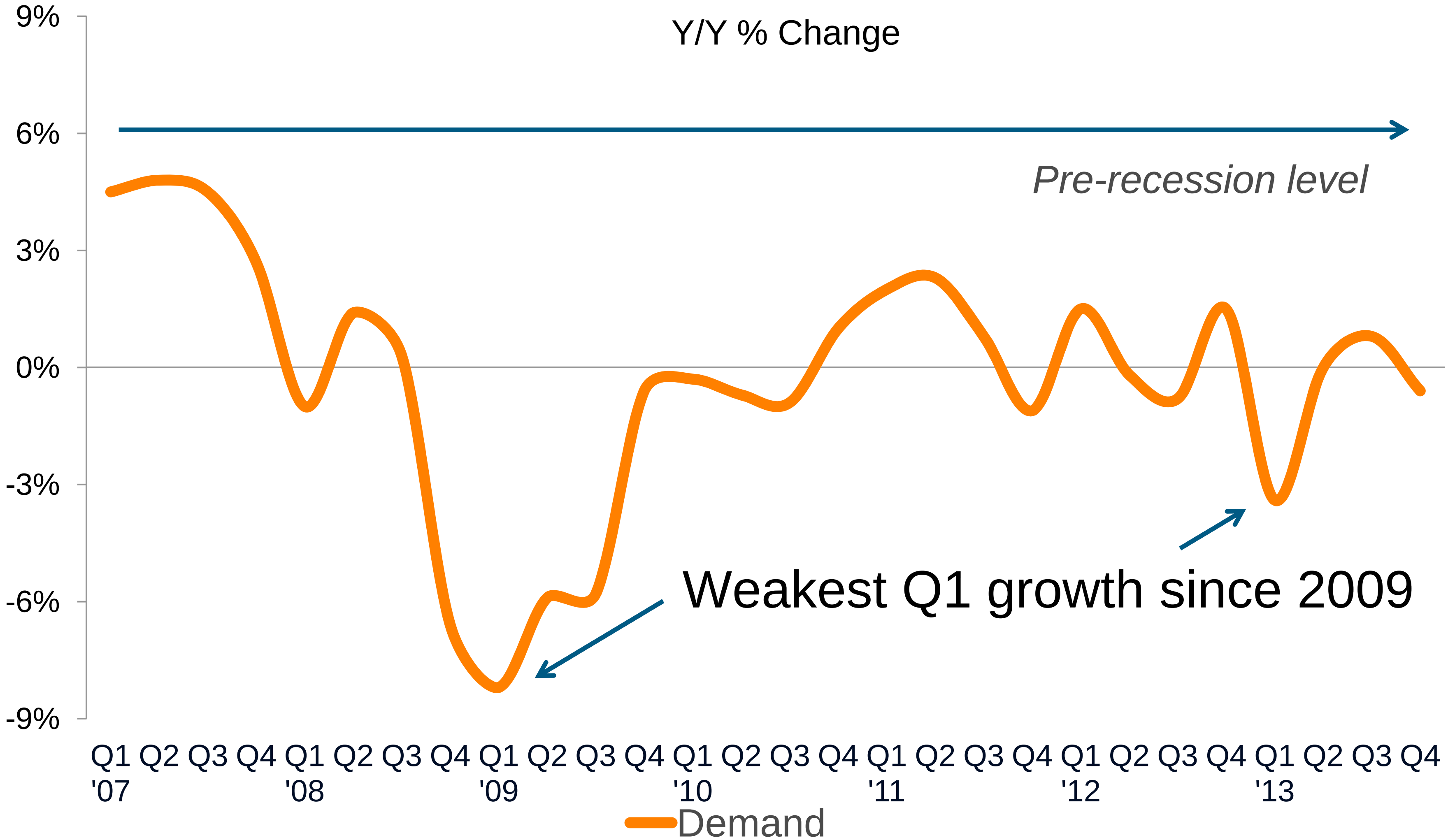
All timekeepers

7-Year Pattern for Demand Growth



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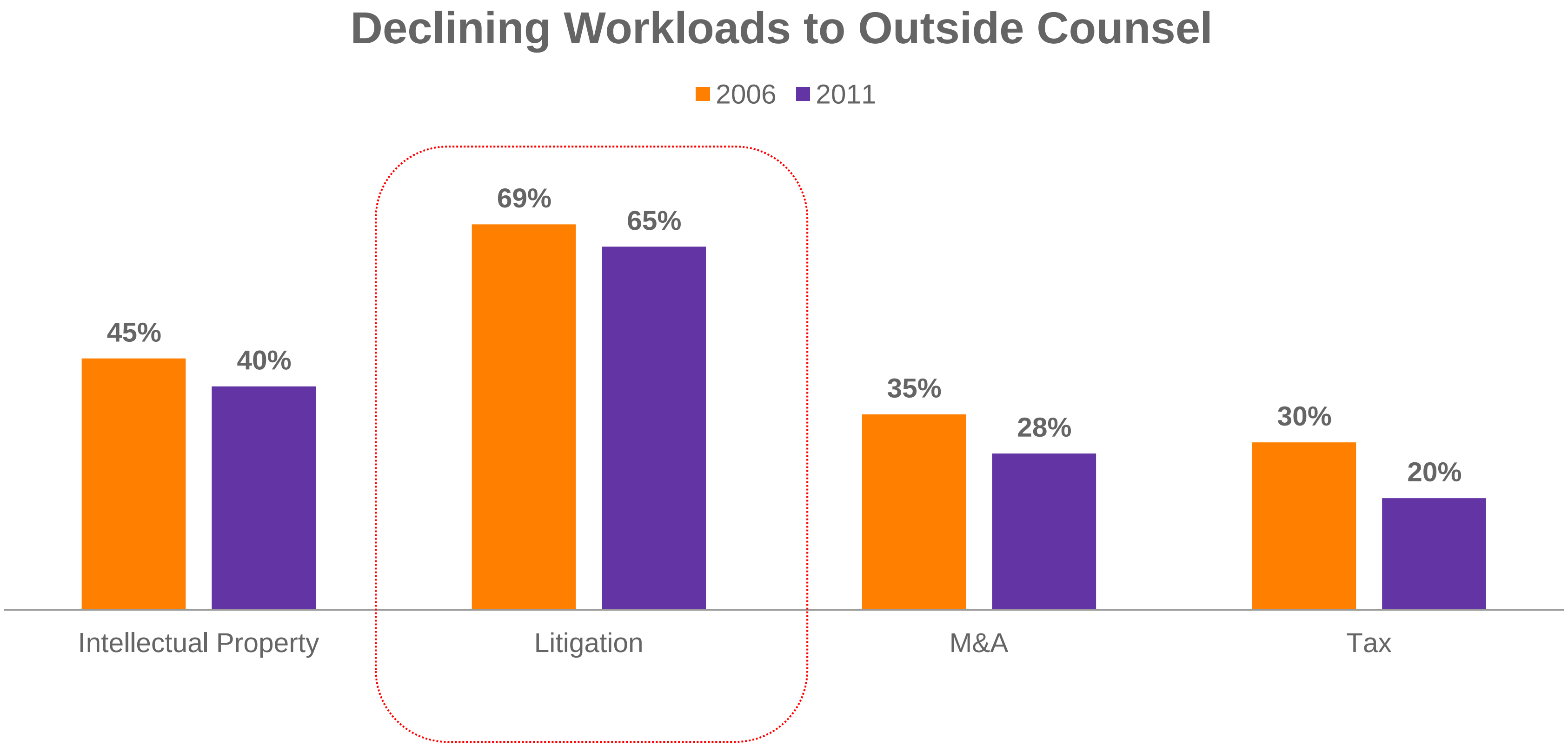
SEEPAGE

Firms Losing Share to In-house Resources

Work traditionally handled by outside counsel is now staying and managed within the corporate legal department. What work is being done in-house rather than with outside counsel?



** 2012 ACC Census*

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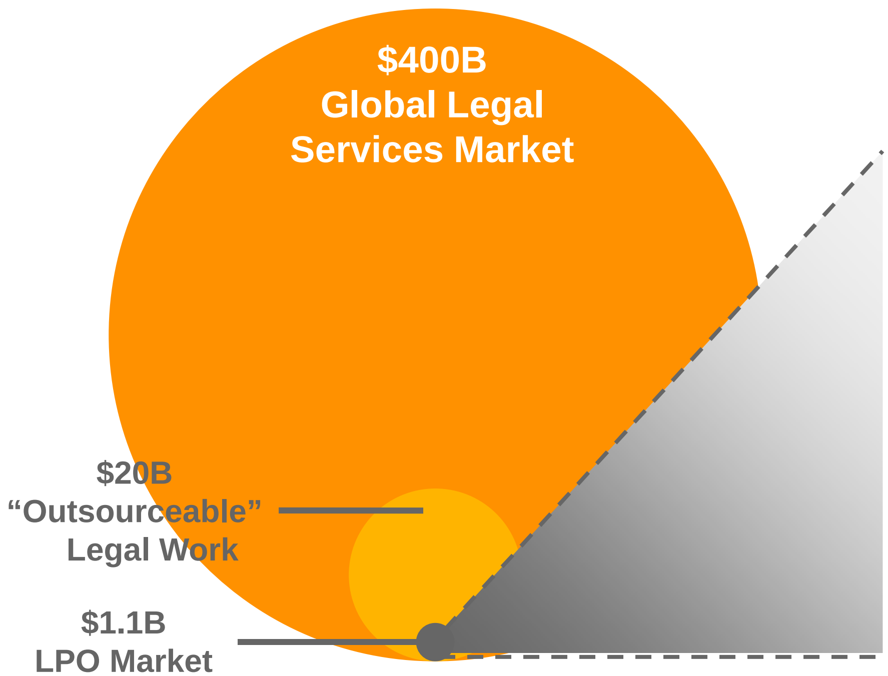
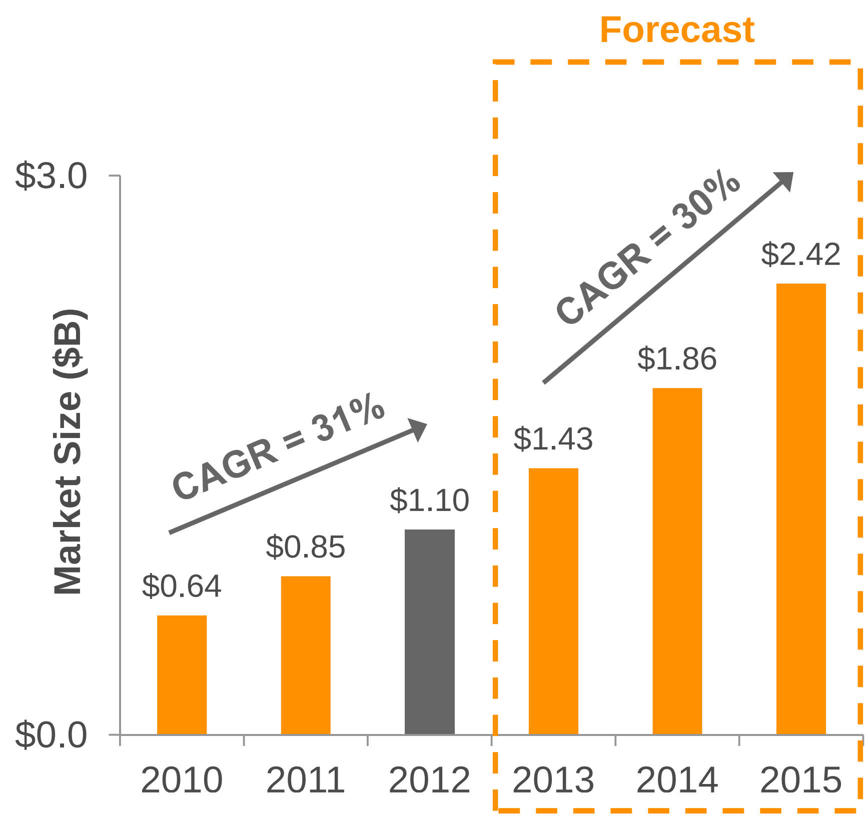
Overview of LPO Market
LPO Market Size and Future Growth

Current LPO market represents only a fraction of potential market; robust future market growth of 30% is expected through 2015

Current LPO Market Size



LPO Market Growth



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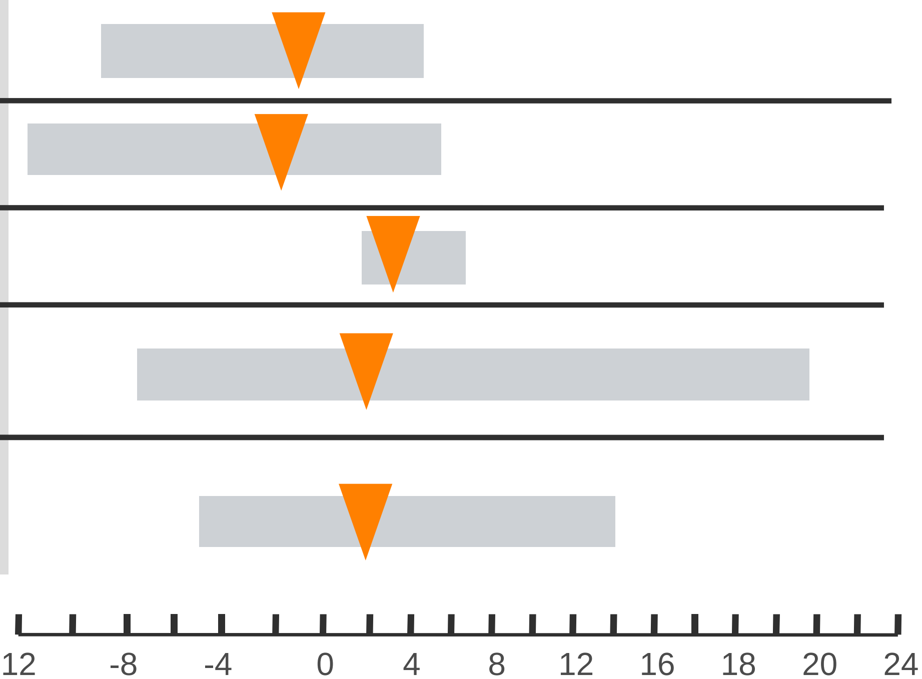
Source: The 2012 Legal Outsourcing Market Global Study & TR Strategy Analysis

Q4 2013 Analysis (Year-over-Year)

PMI Key Factors

	Q4 2013	Q4 2012	Q4 2011
Demand	-0.6%	1.5%	-1.1%
Productivity	-1.5%	-0.3%	-3.8%
Rates	3.1%	4.0%	3.0%
Direct Expenses	1.8%	2.3%	5.2%
Overhead Expenses	2.0%	3.9%	3.4%



Current Reading (Q4 2013)

Change from last Q4 2012

Up Flat Down

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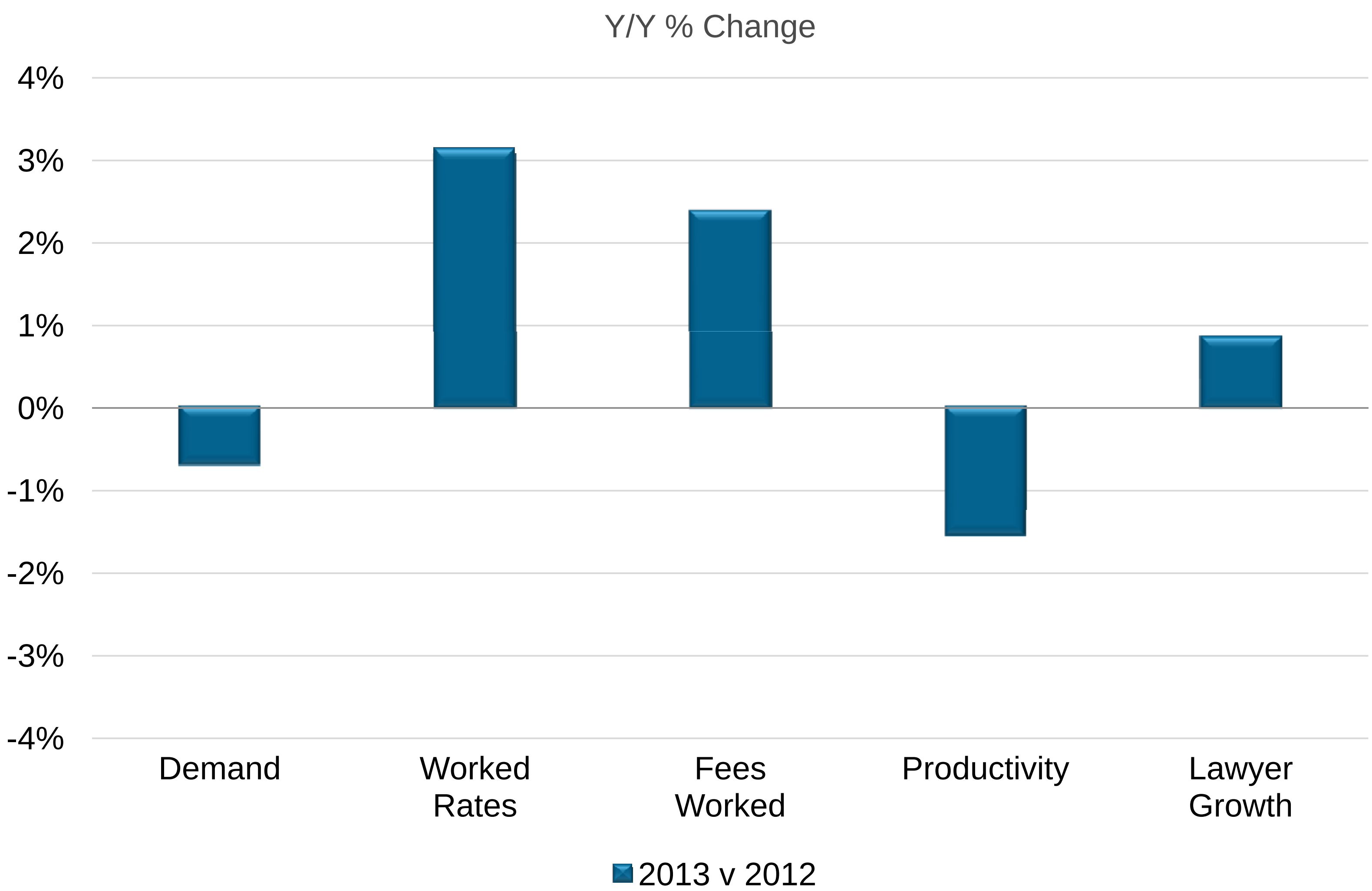
Key Performance Measures – All Segment



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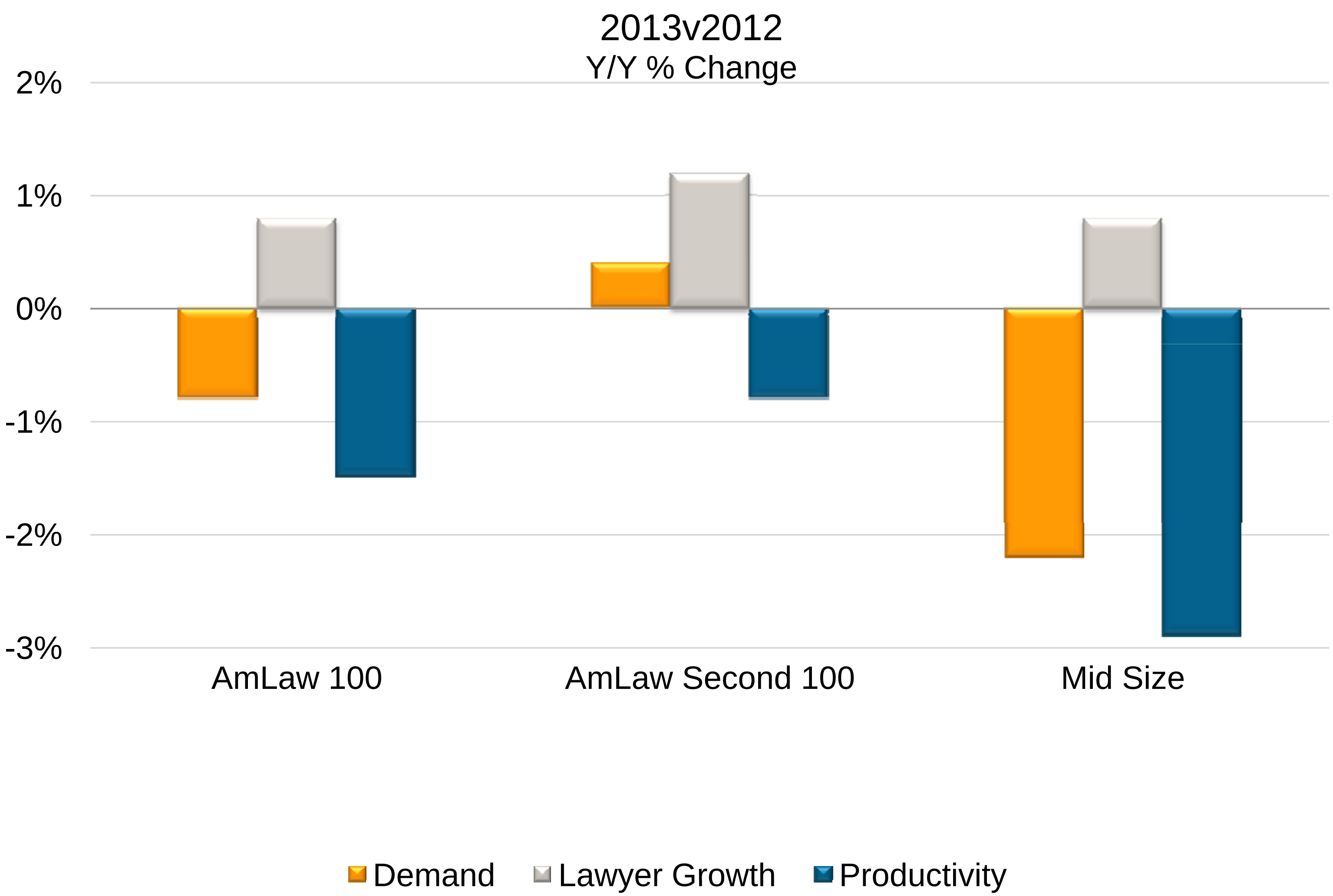
All timekeepers

BY SEGMENT

Key Performance Measures



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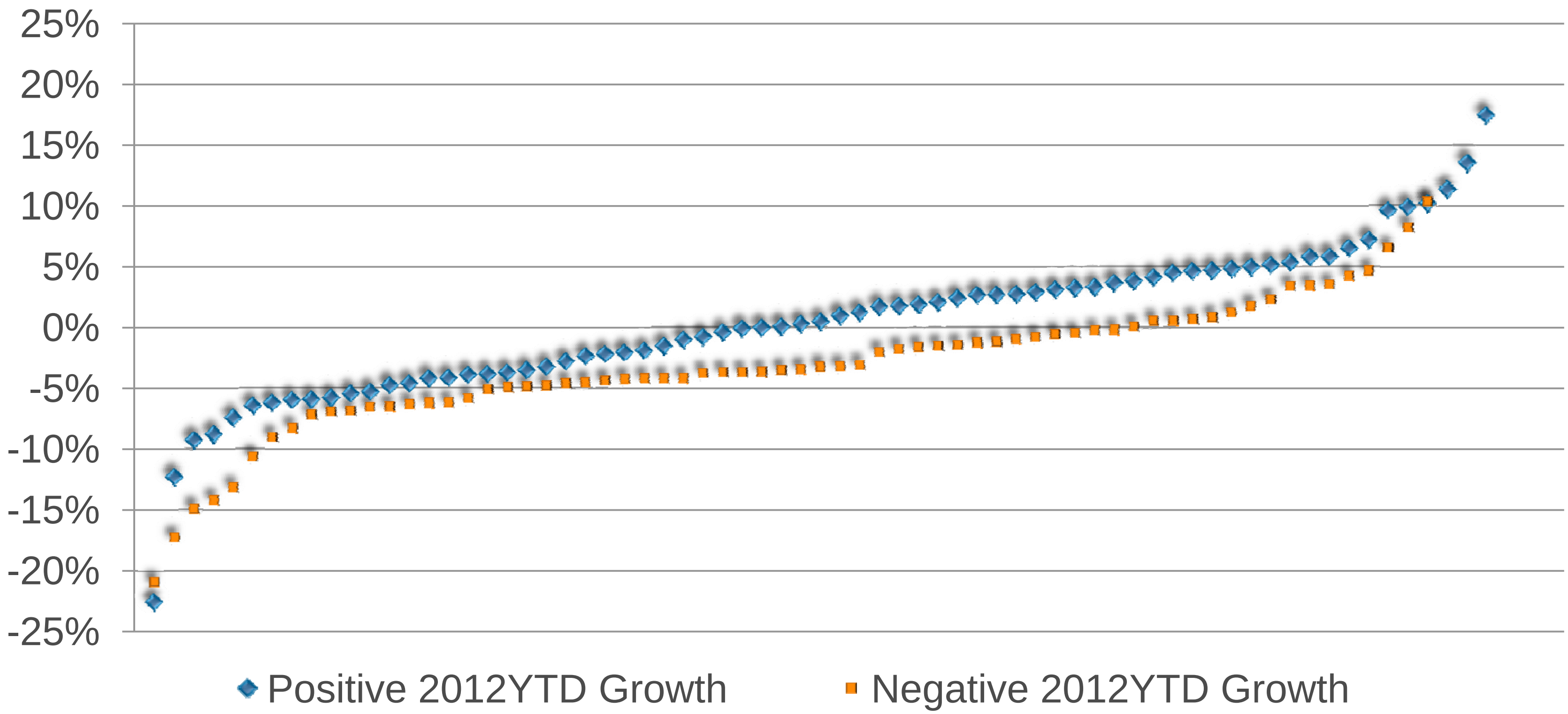
VARIANCE

2013 v 2012 Demand Growth by Firm



Year over Year Growth	Proportion
Remained Positive	28%
Remained Negative	37%
Flipped Positive to Negative	24%
Flipped Negative to Positive	12%

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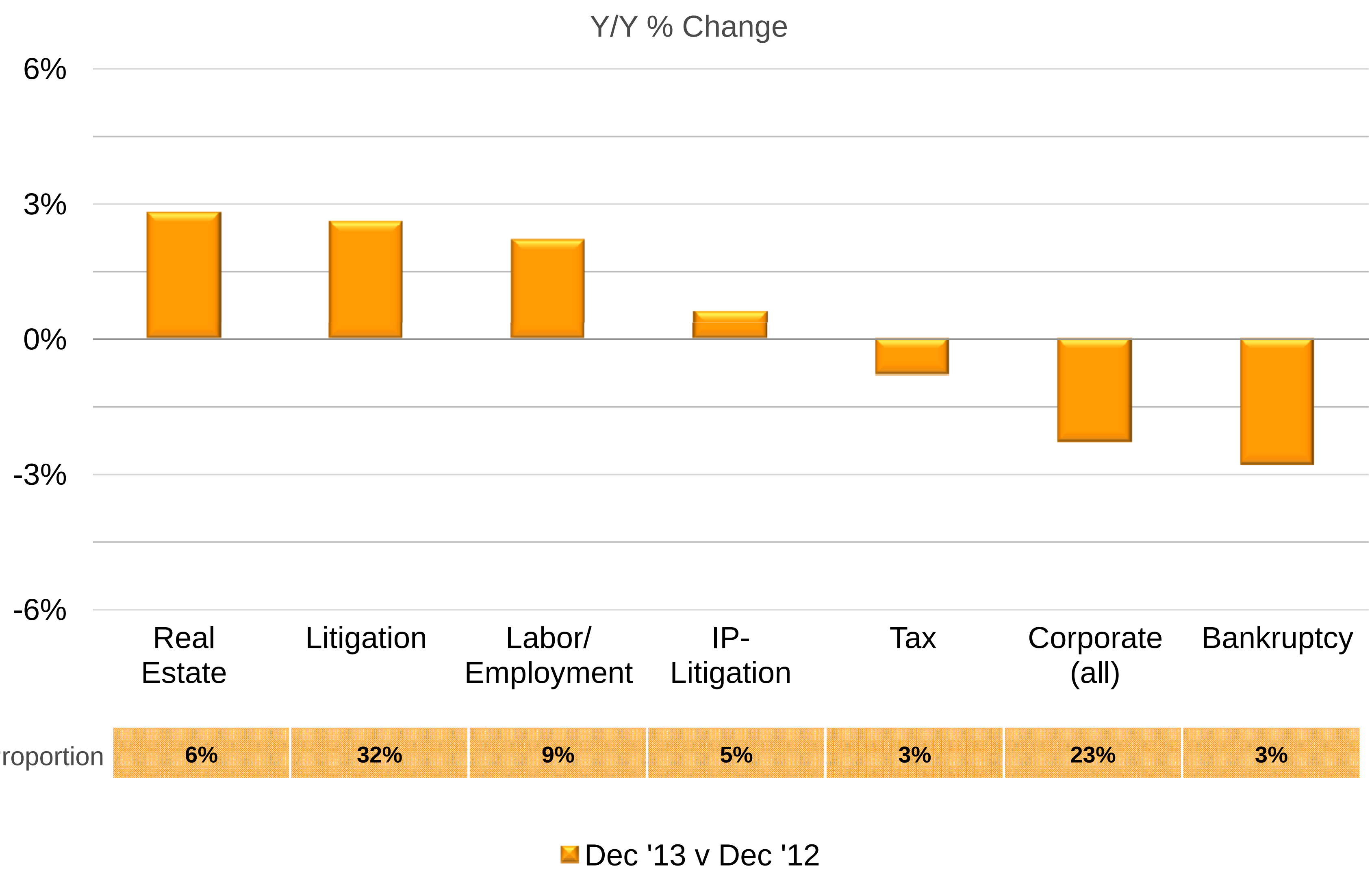
2012 Std Dev: 6.6% 2013 Std Dev: 6.7% All timekeepers

PRACTICE DEMAND

December 2013



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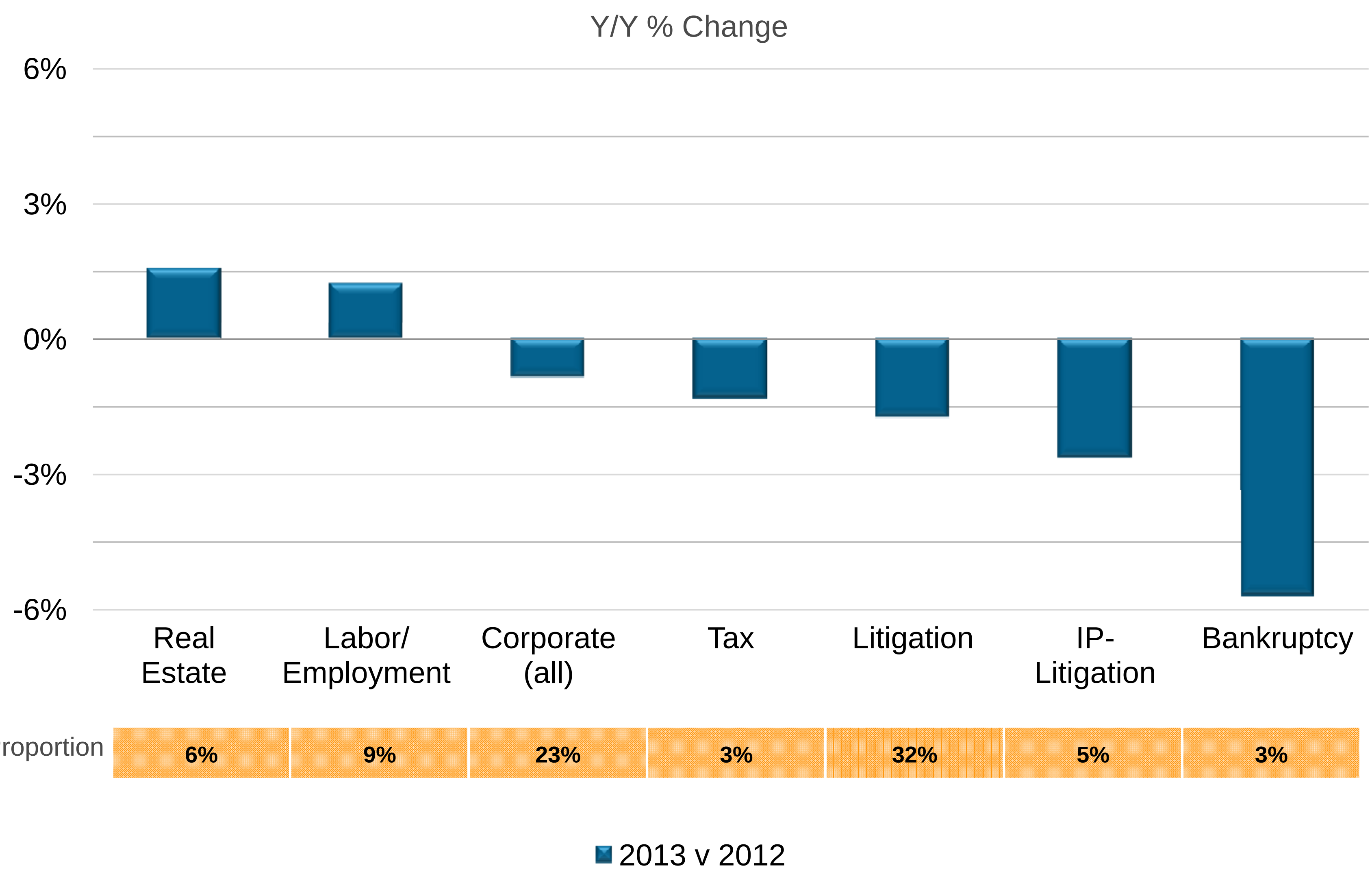
M&A Dec: -8.6% // Q4: -4.2% // YTD: -2.7% (prop: 3%)

All timekeepers
Dec ‘13 had 1 additional working day vs. Dec ‘12

Full Year 2013



Proportion	6%	9%	23%	3%	32%	5%	3%

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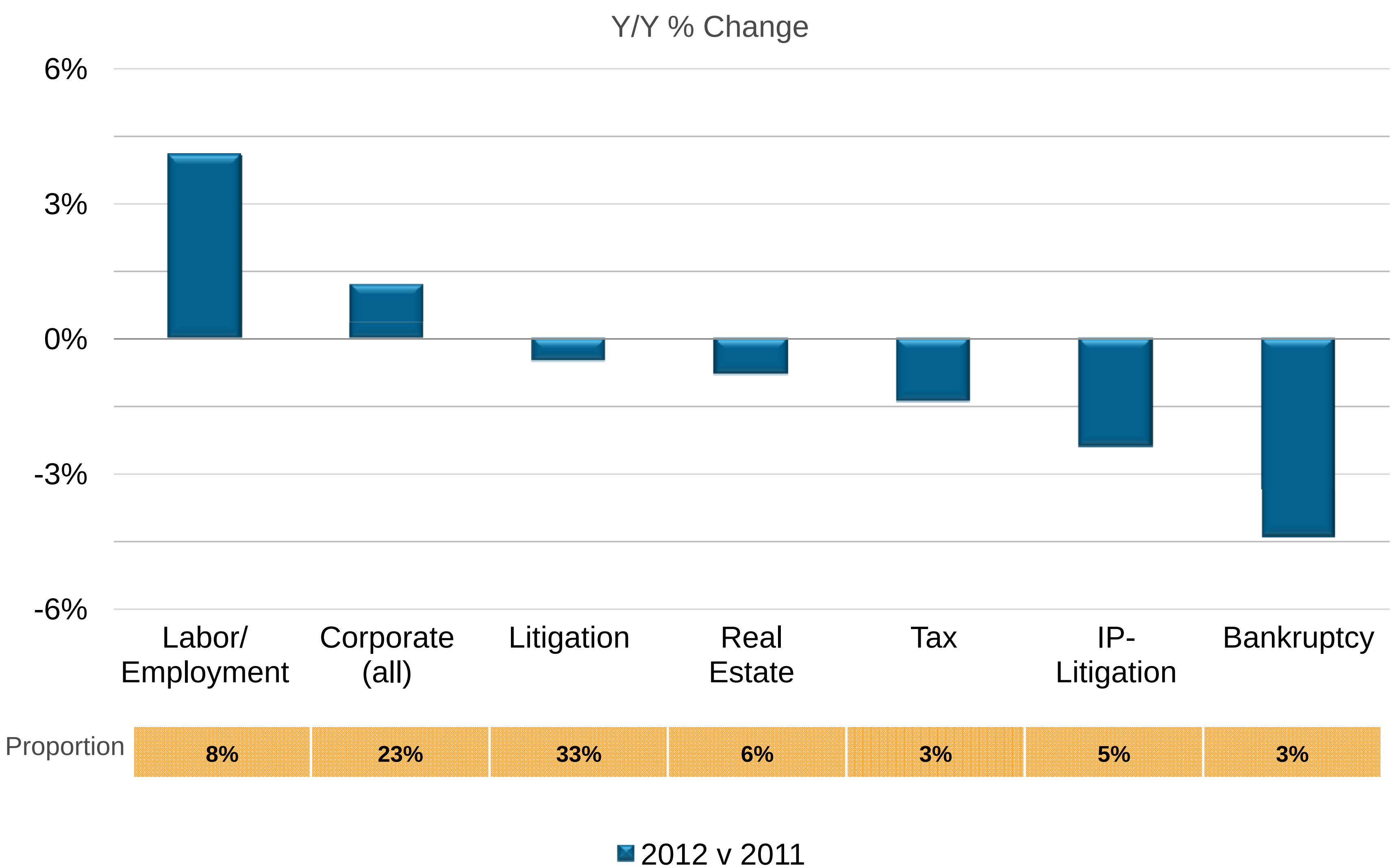
M&A Dec: -8.6% // Q4: -4.2% // YTD: -2.7% (prop: 3%)

All timekeepers

Full Year 2012



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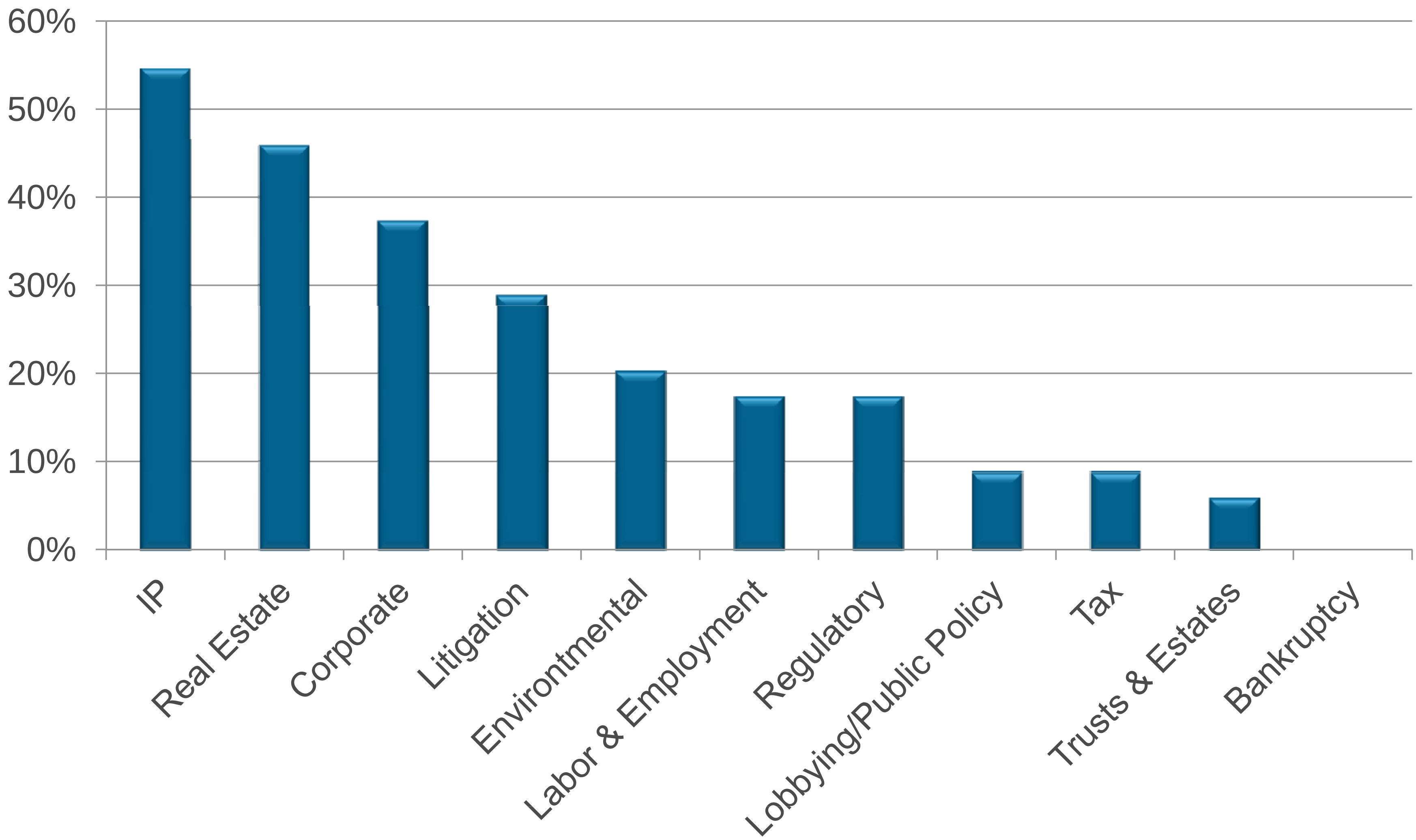
All timekeepers

PROJECTED 2014

2014 Practice Area Growth



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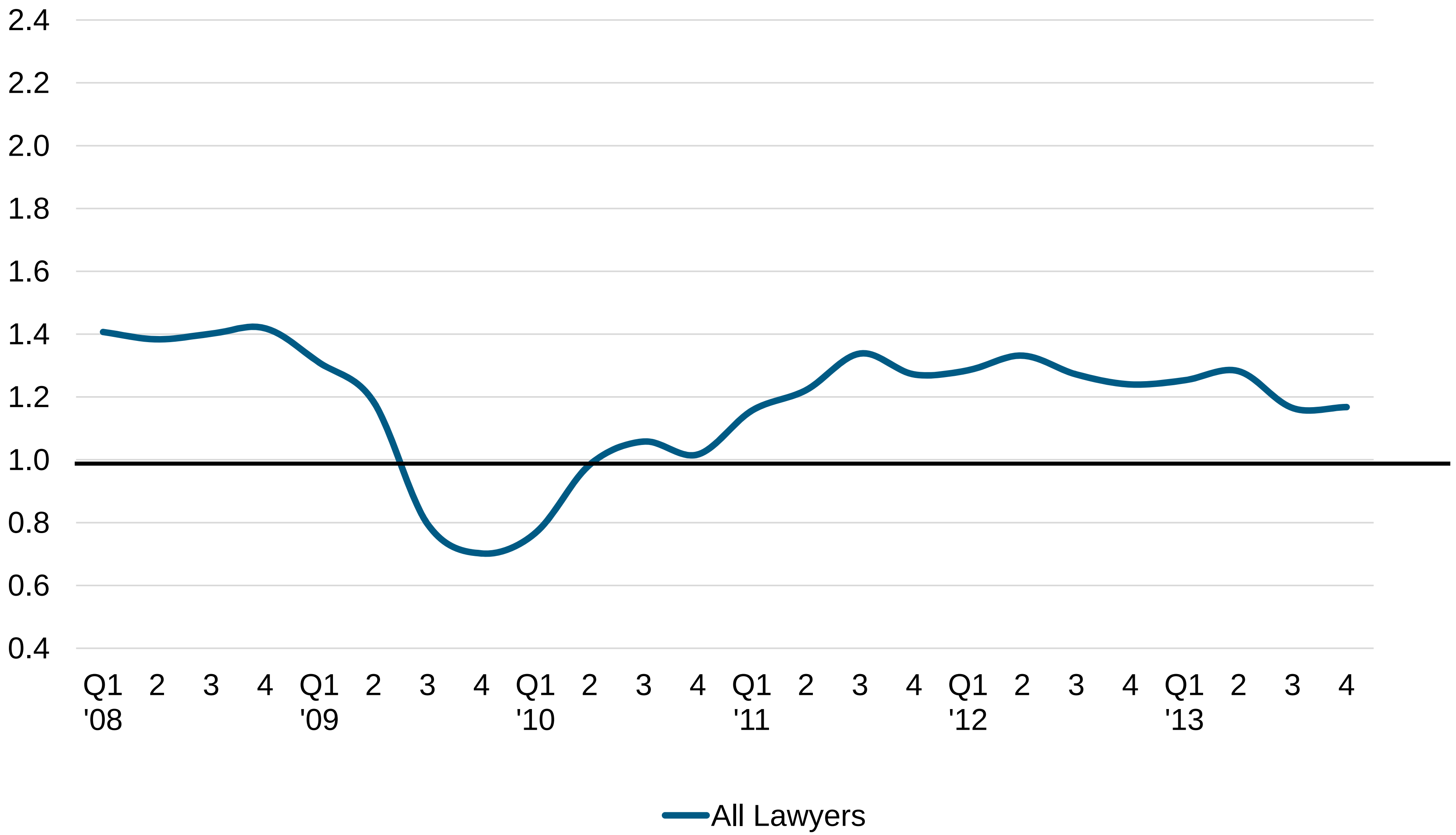
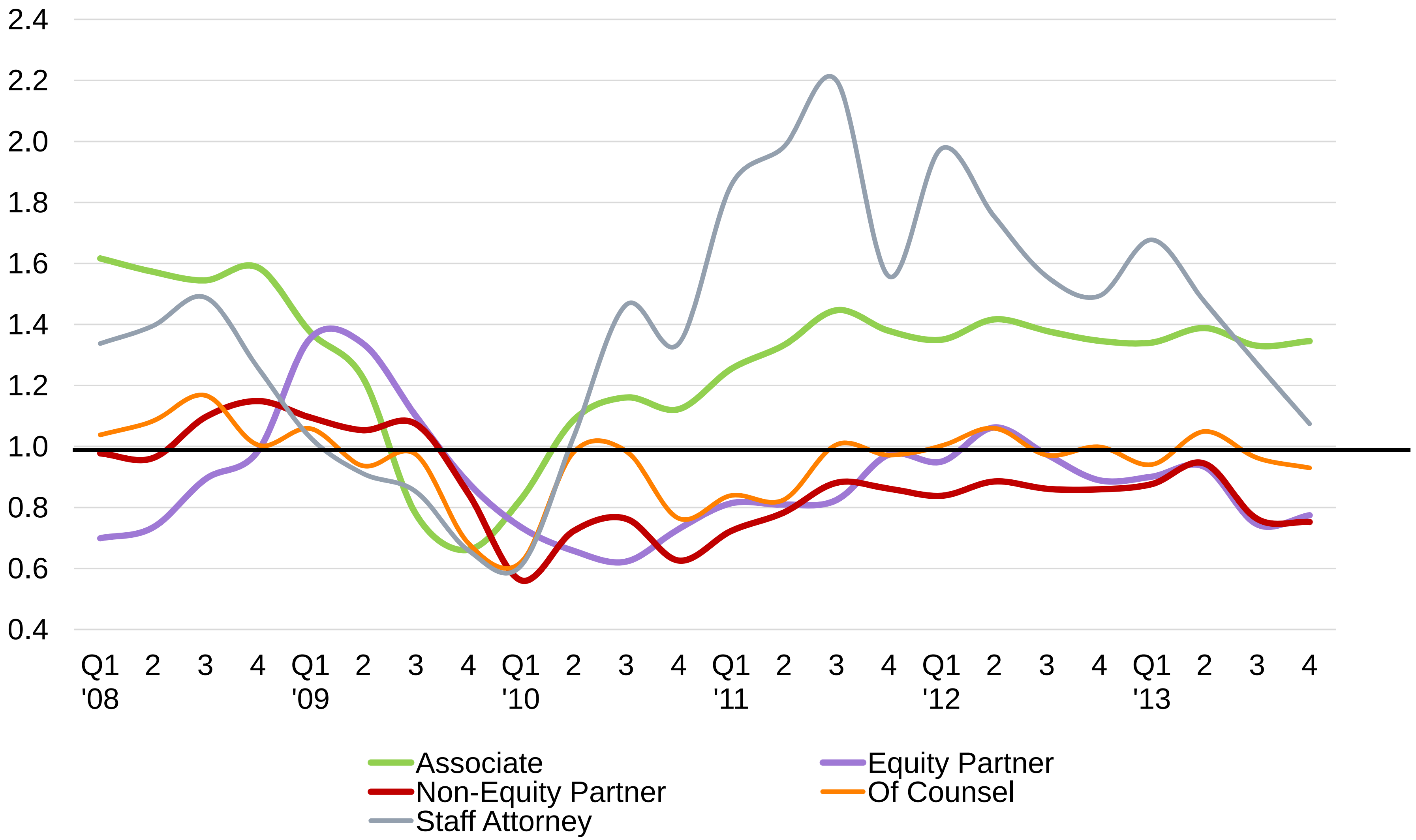
Question: In which area(s) at your firm do you expect to see the greatest GROWTH in revenue in 2014? (Check all that apply)? (please choose 3). n=35

REPLENISHMENT

Replenishment Ratio



Replenishment Ratio



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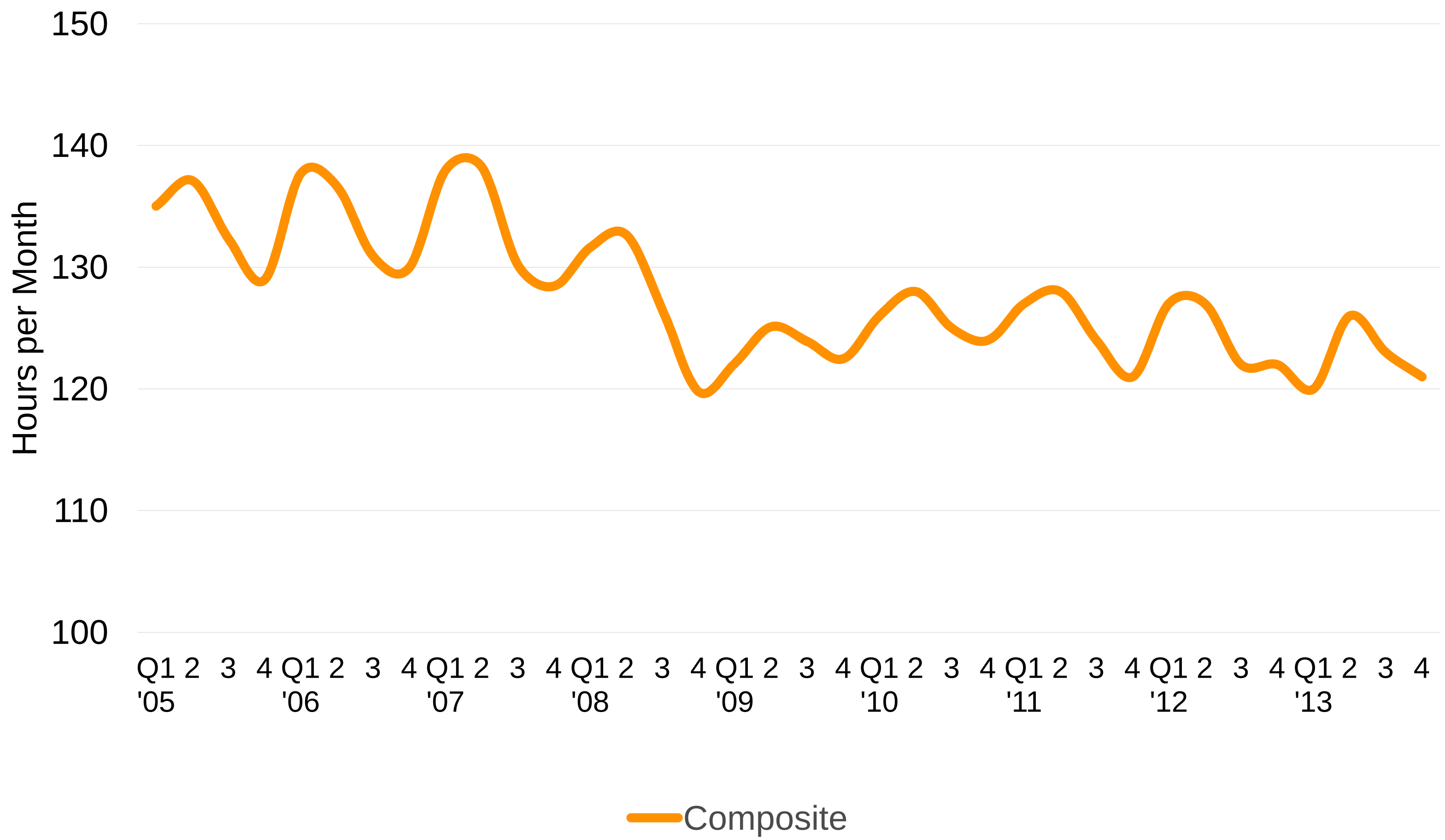
BALANCE

Hours per Lawyer



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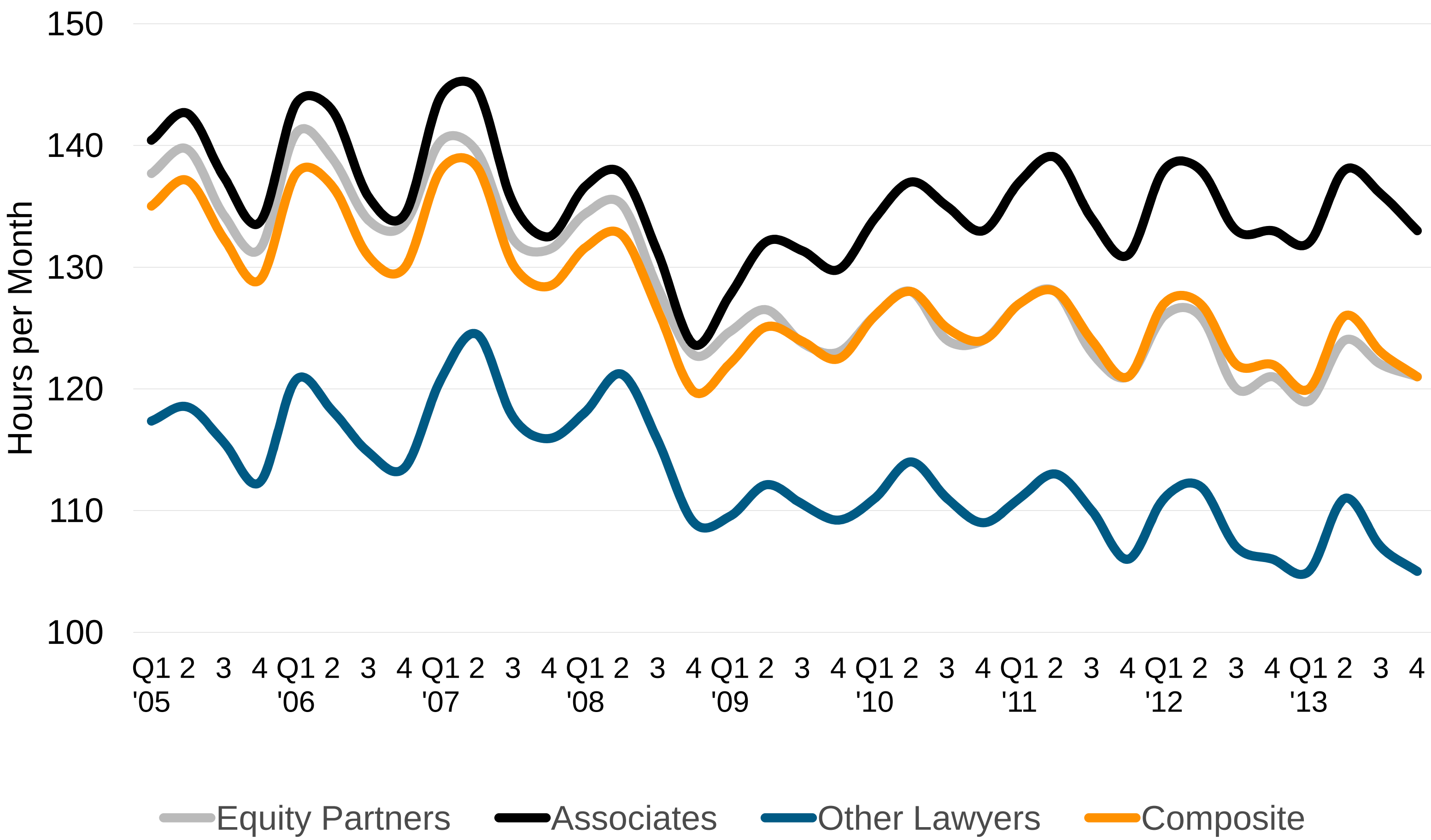
Lawyers only

Hours per Lawyer



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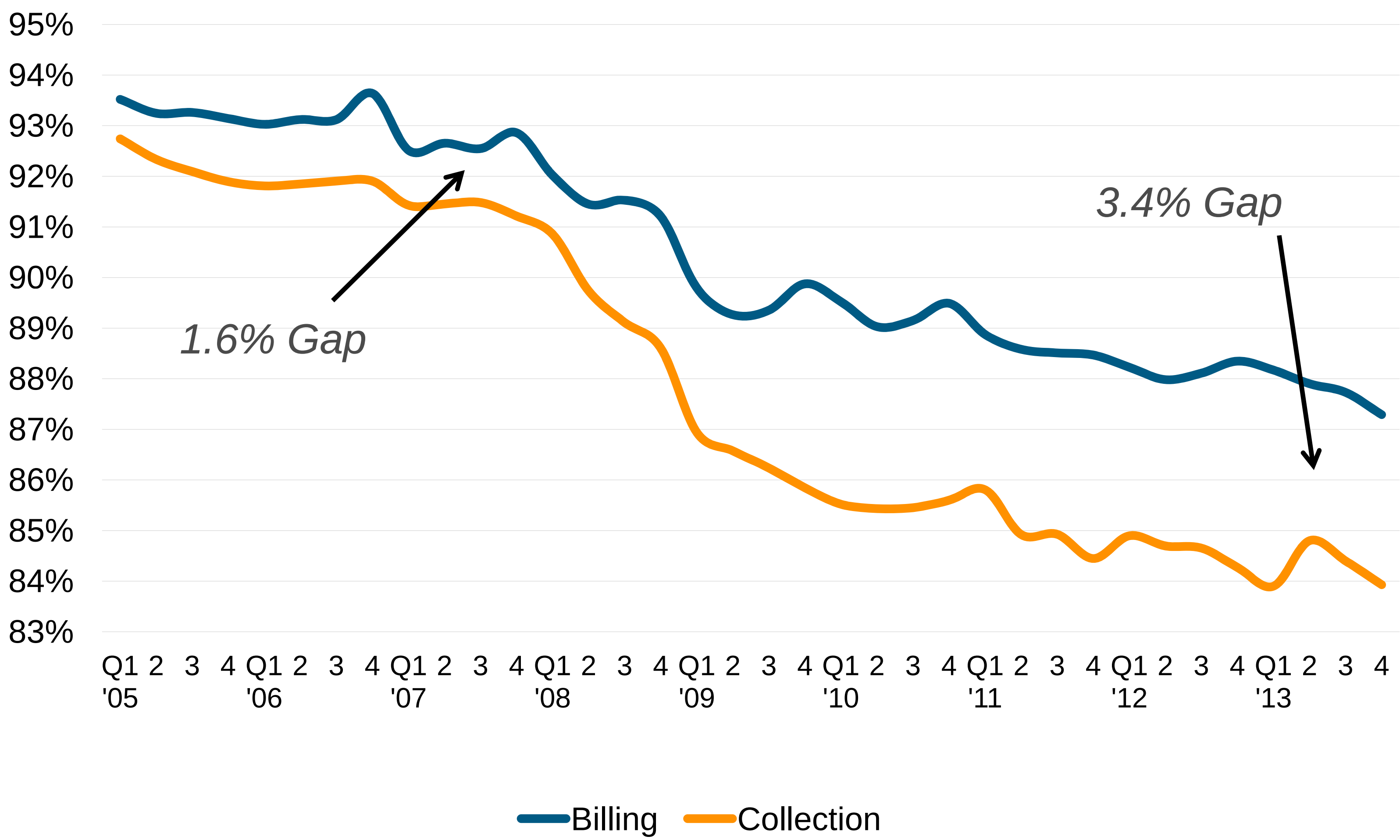
Lawyers only

RATES

Realization against Standard



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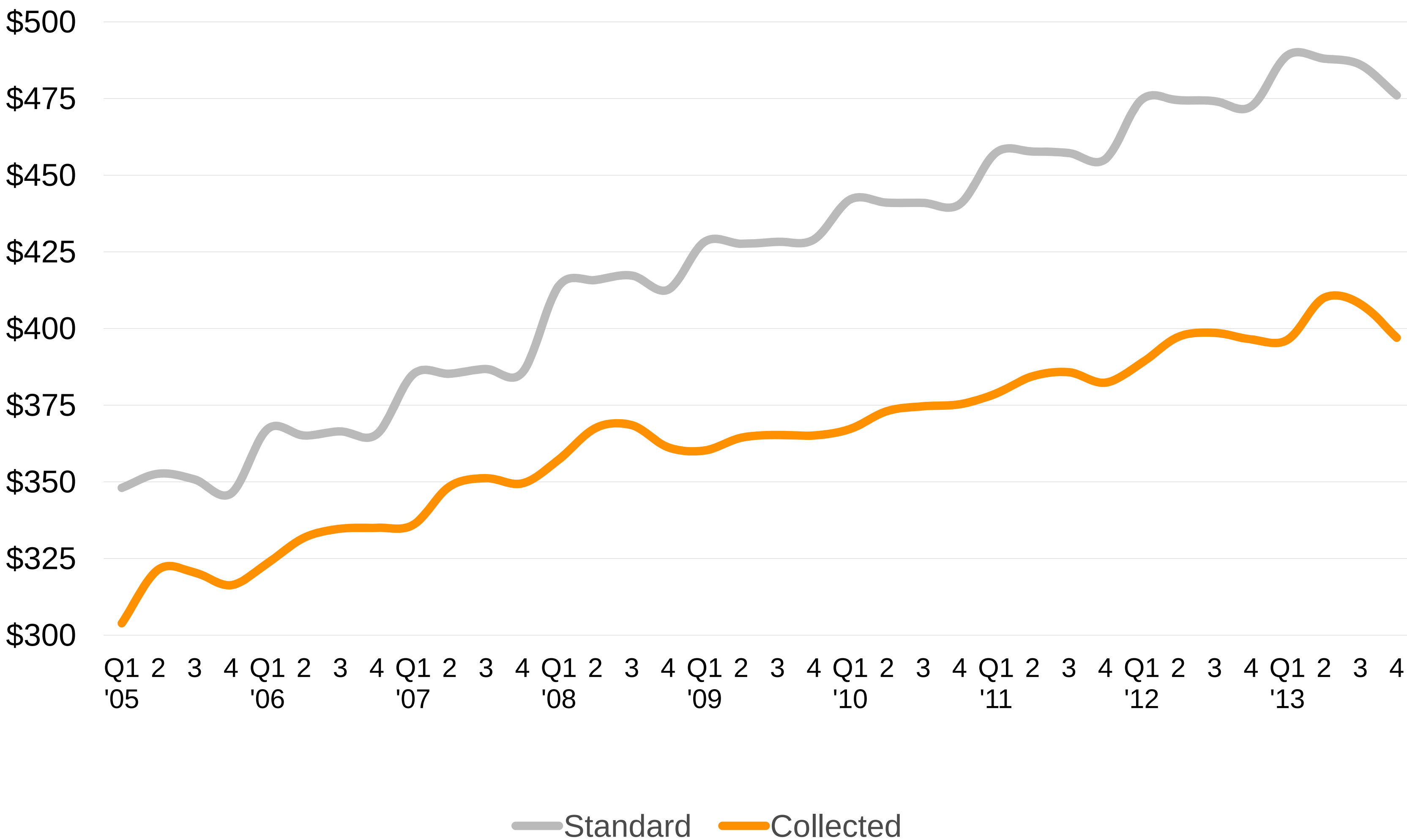
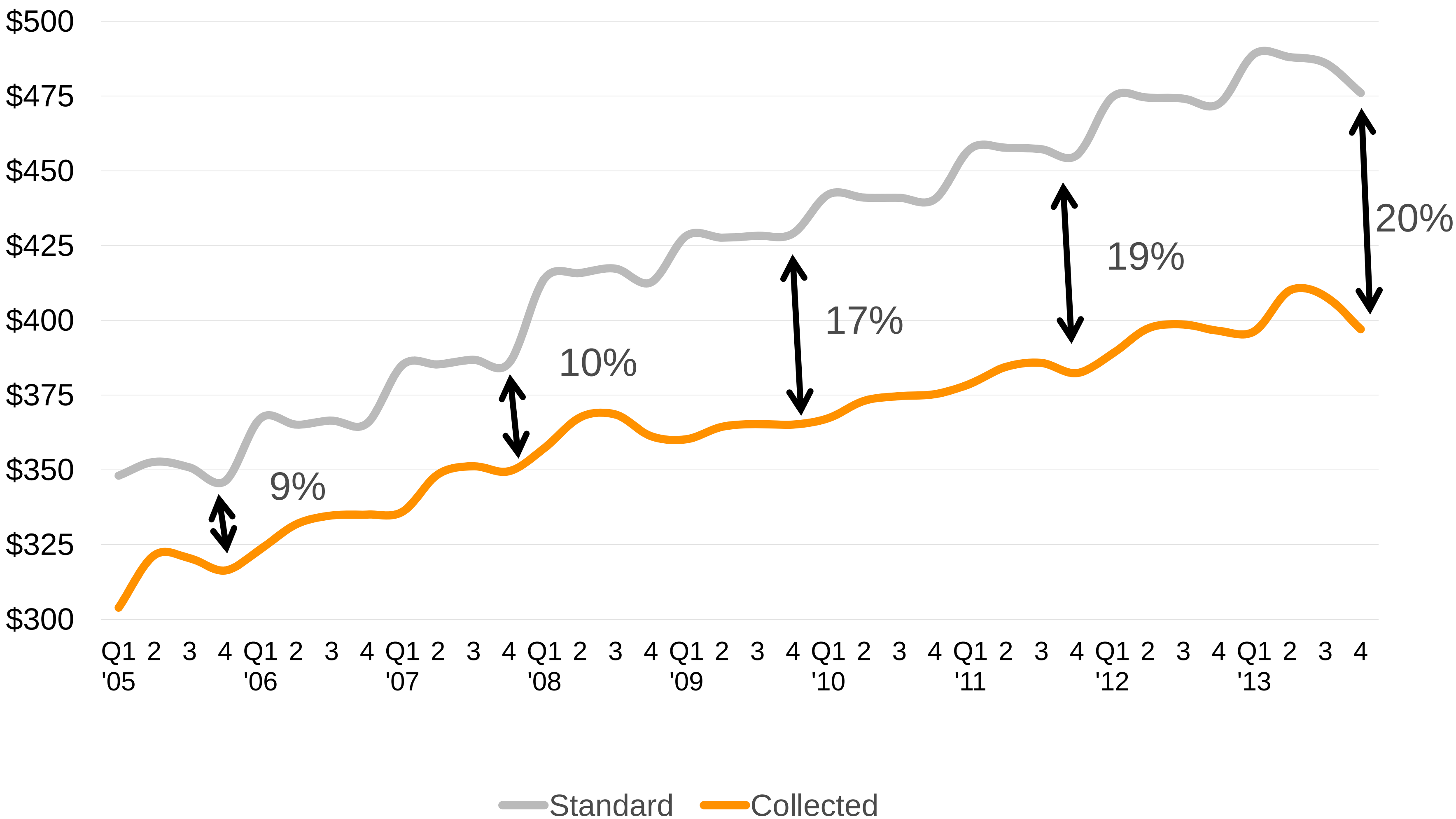
Rate Progression

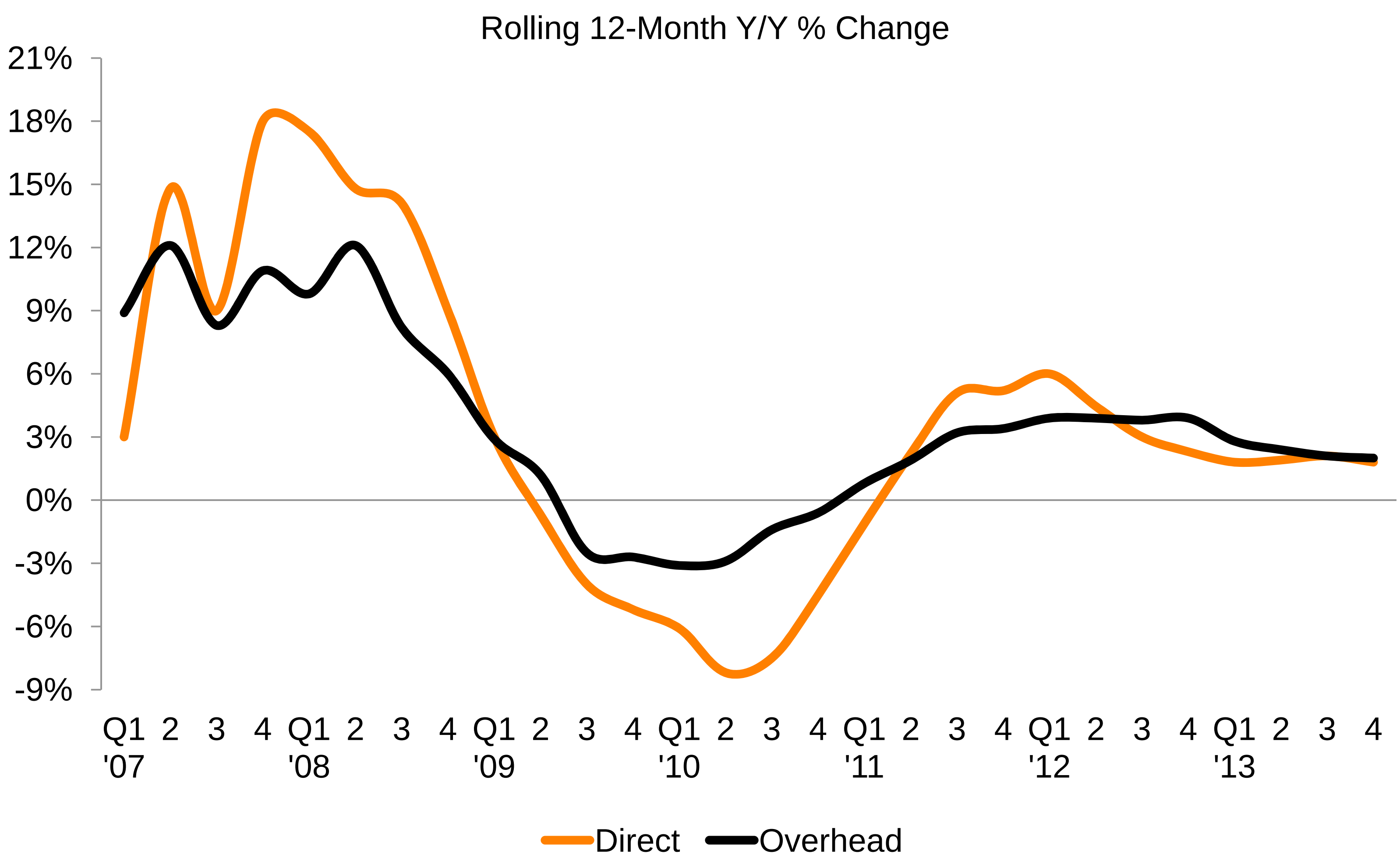


Rate Progression

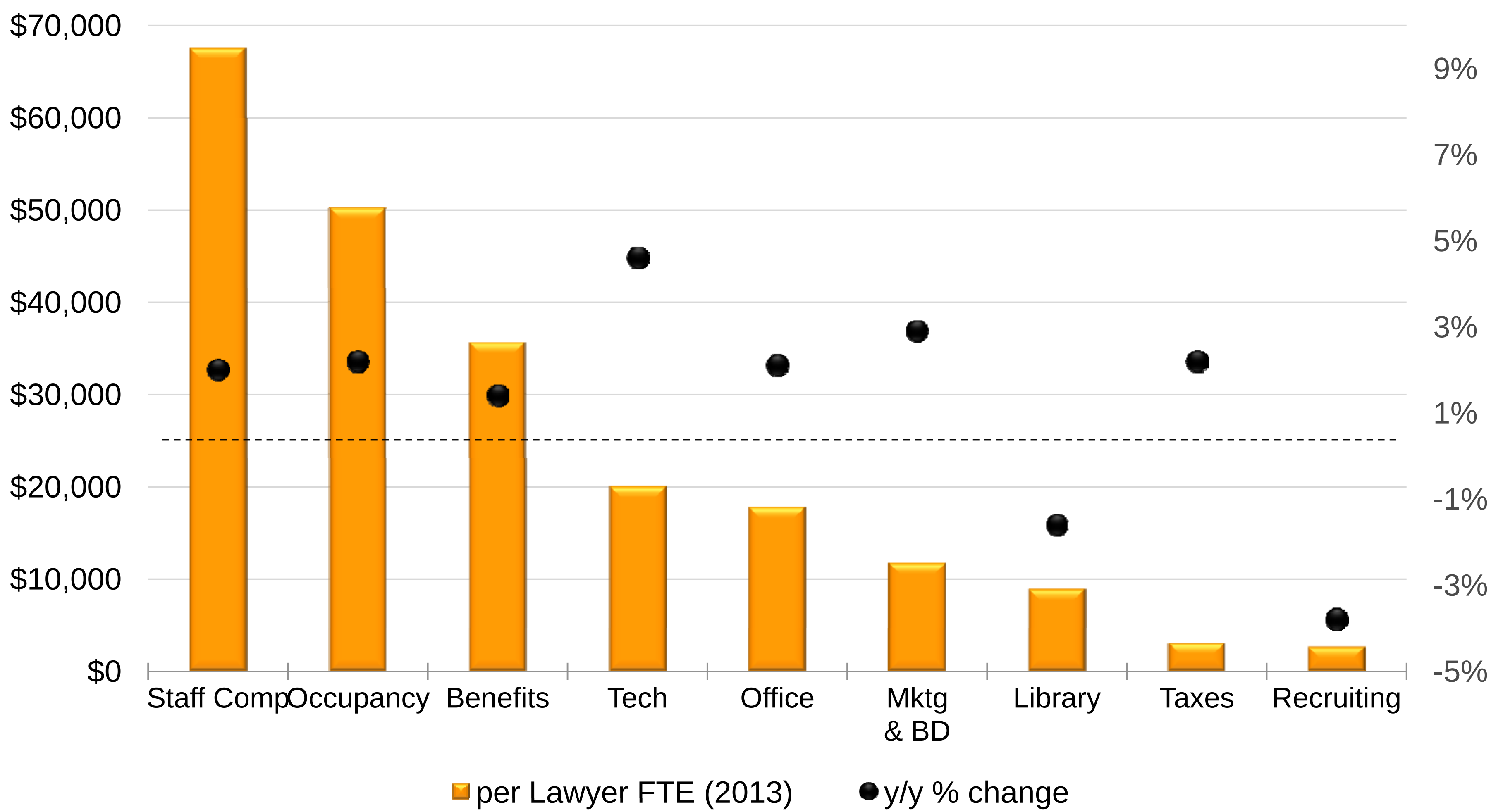


EXPENSES

Expense Growth (Total)



Overhead Detail



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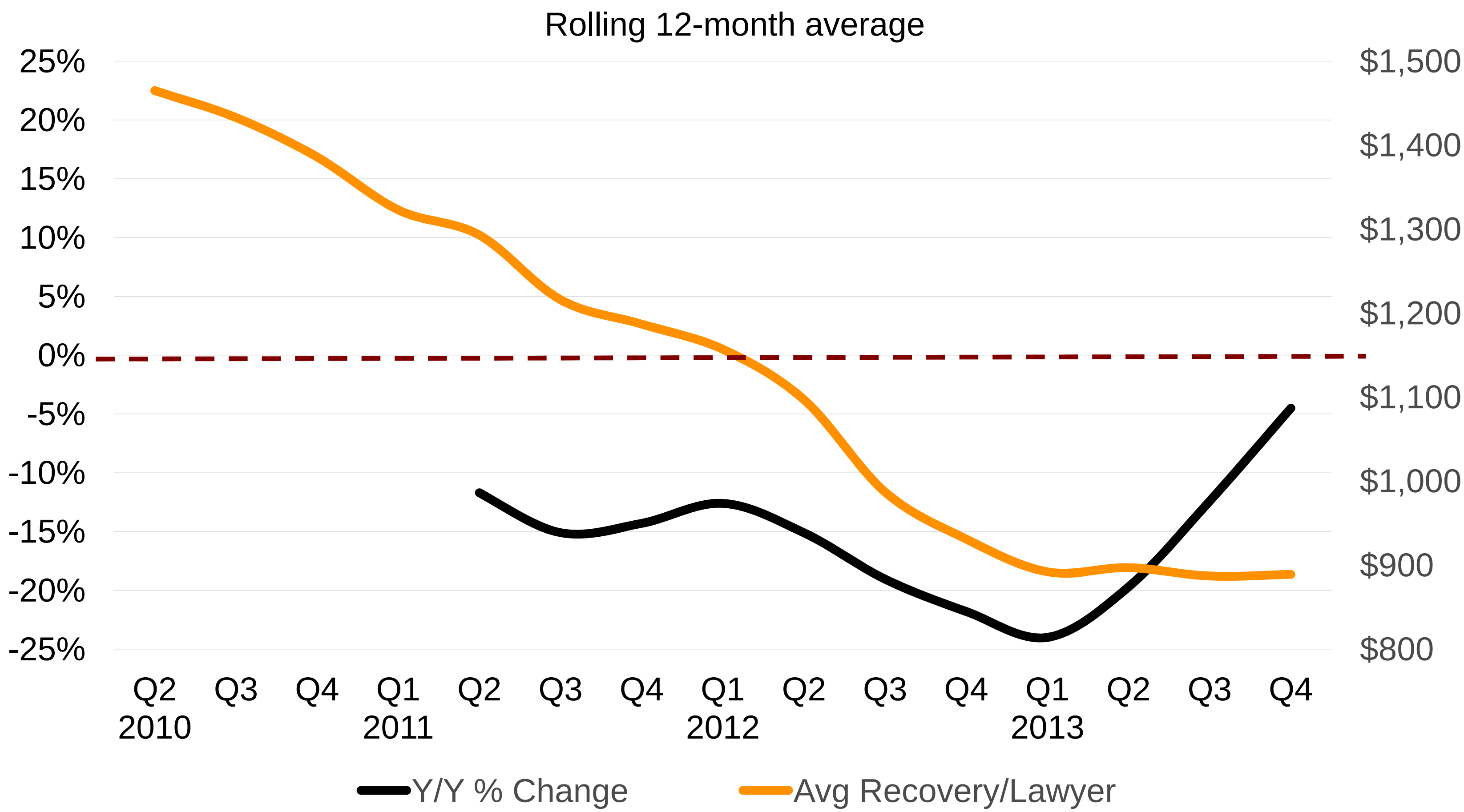
All Segments

Net Client Recoveries – Stabilizing?



Compared to Q2 2010, net recoveries are down $497/lawyer/quarter; this represents a 36% reduction in recoveries.

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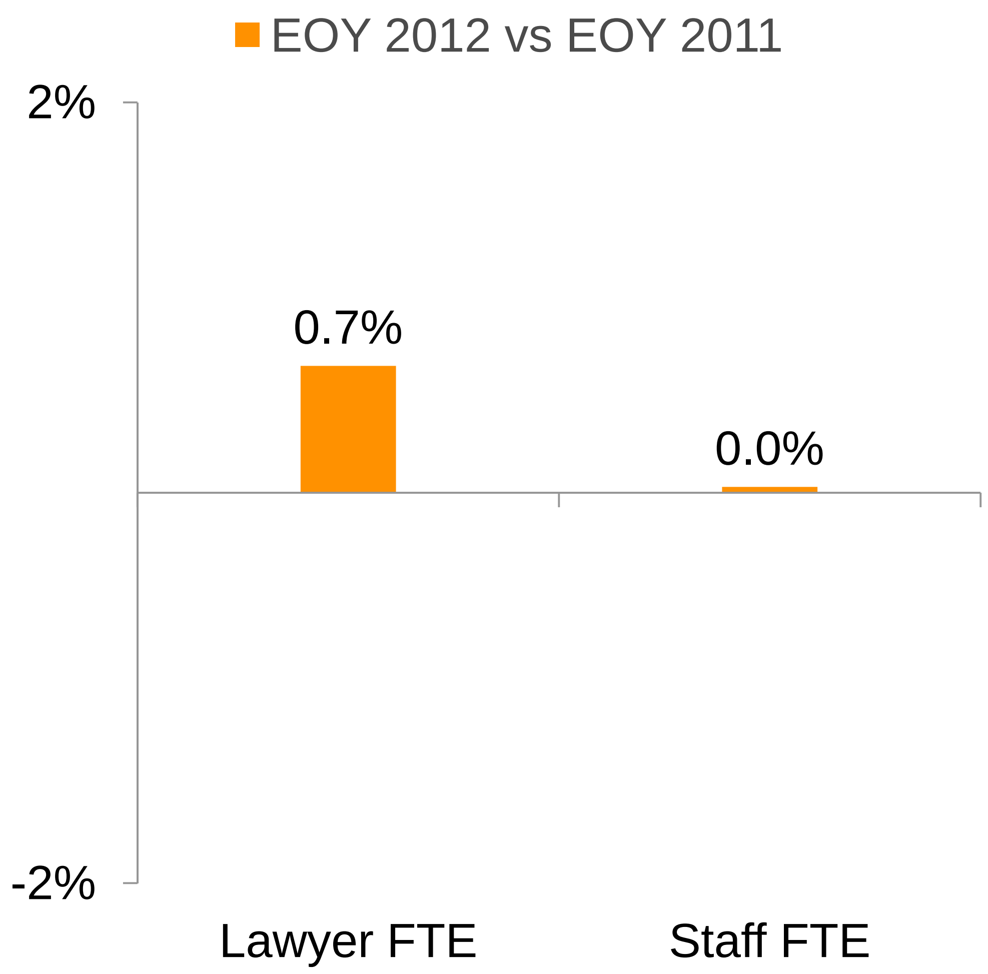
STAFFING RATIOS

FTE CHANGES



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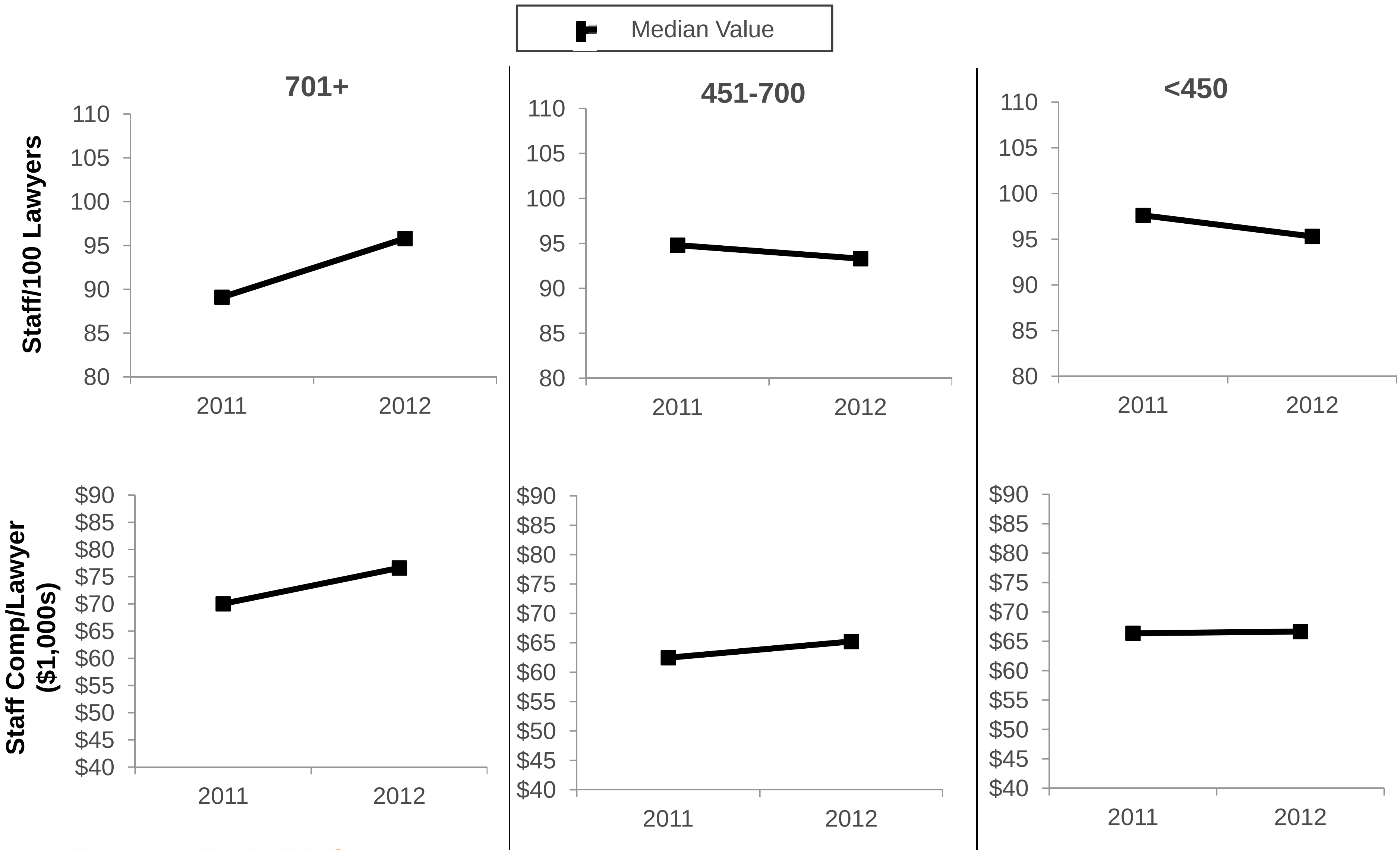
TOTAL SUPPORT STAFF BY LAWYER COUNT



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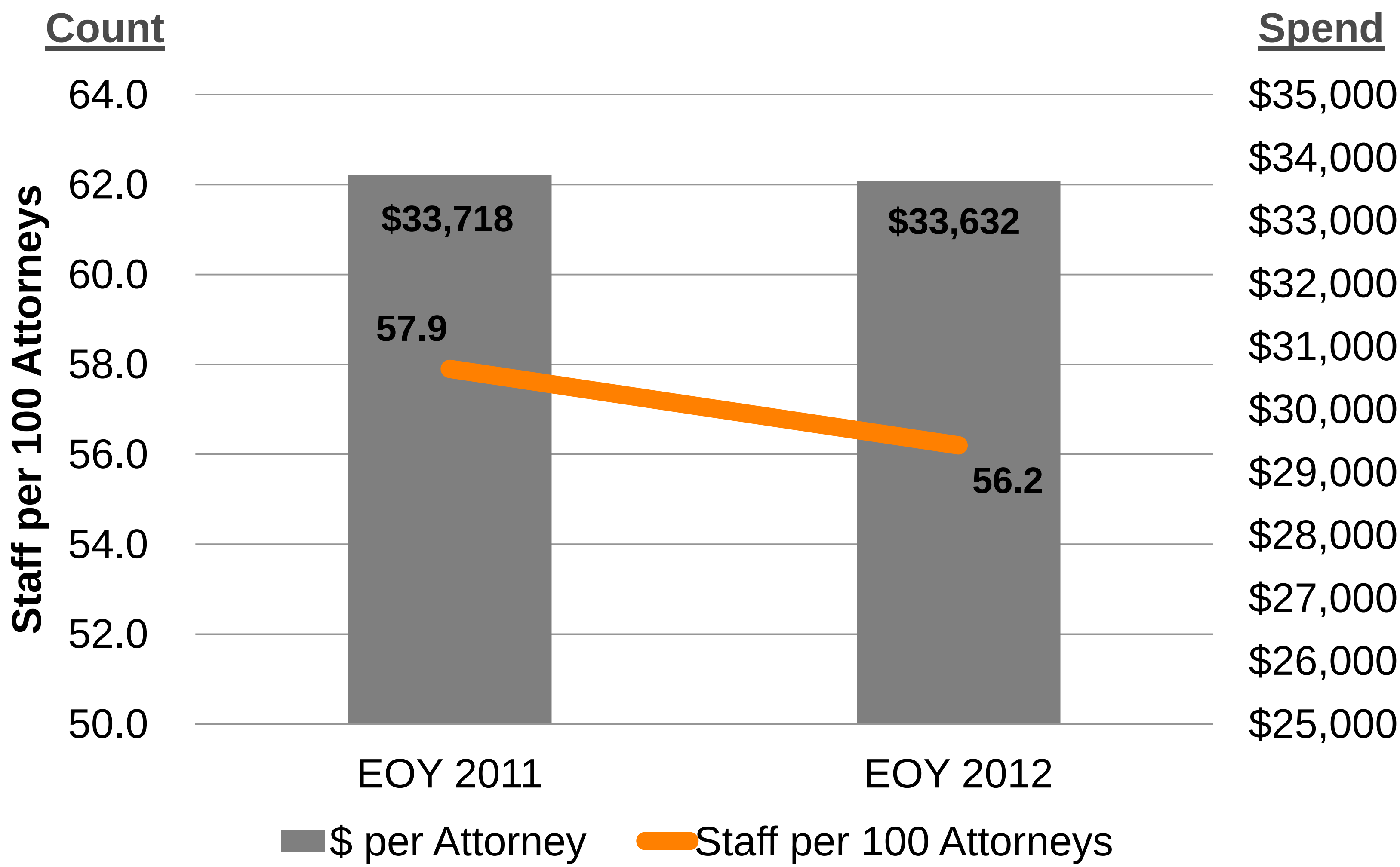
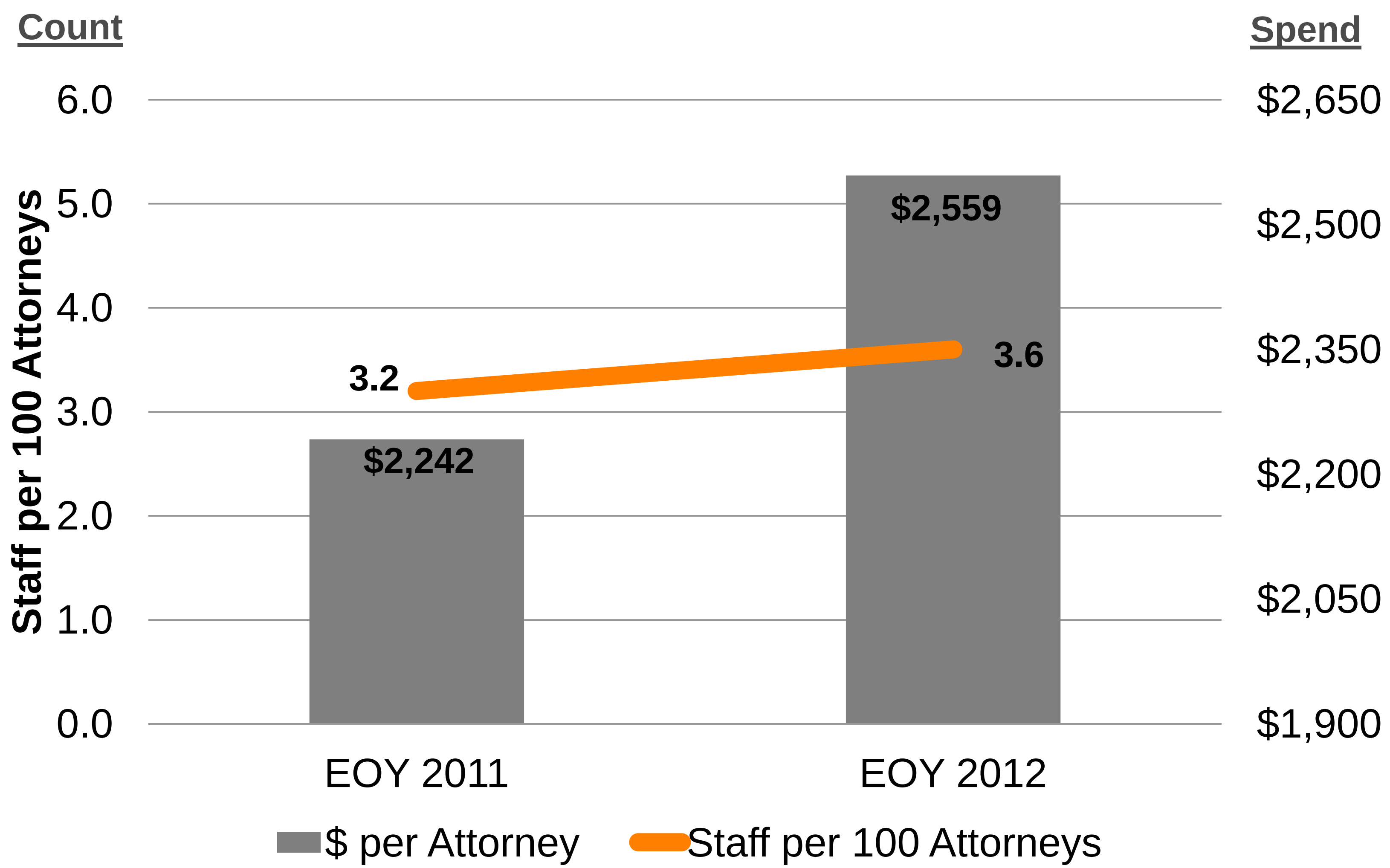
OPERATIONS – MEDIAN VALUE



PRACTICE GROUP OPS – ALL FIRMS MEDIANS



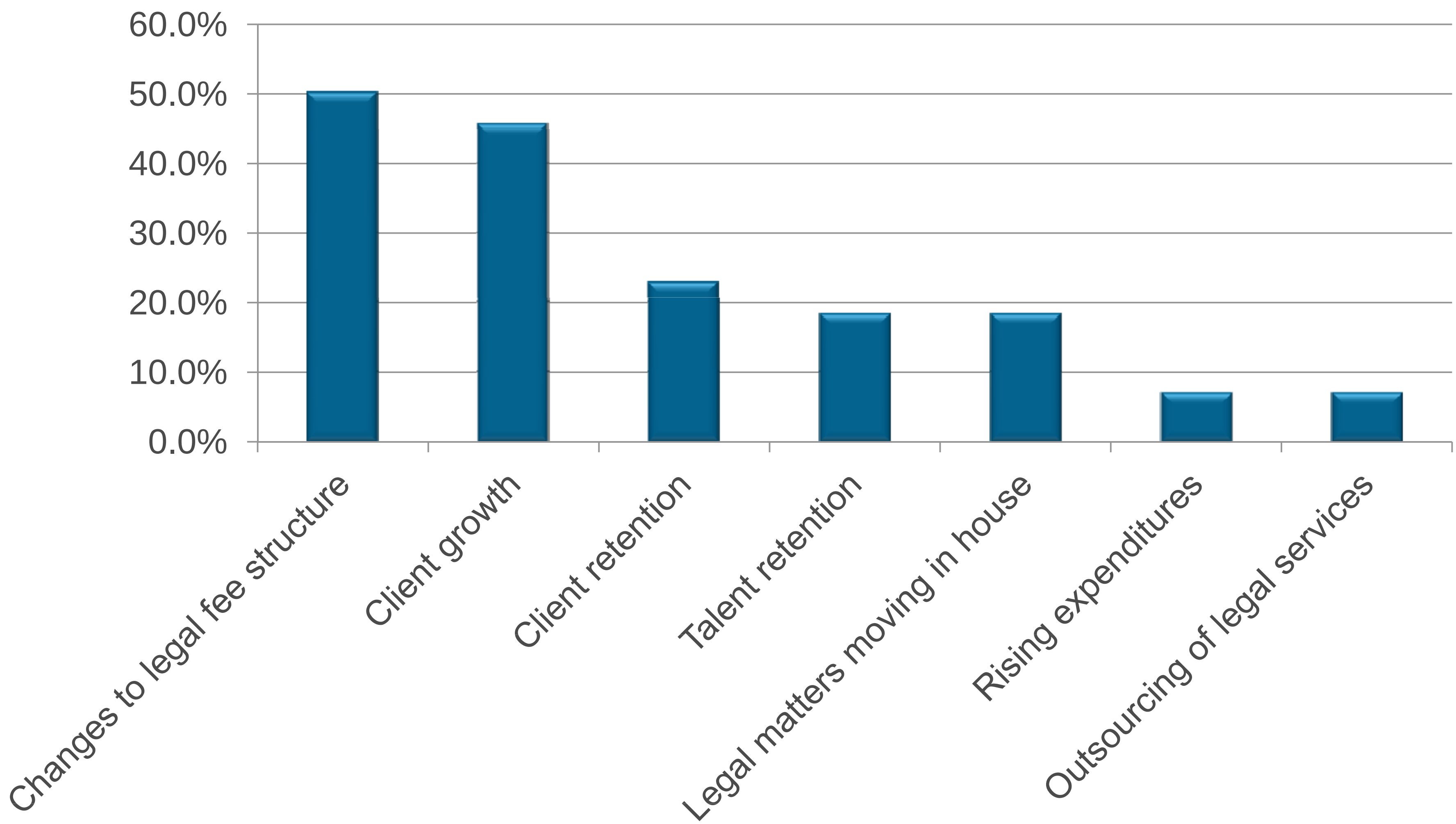
Overall Expense Category Change

	Rel % in $ 2012	2011 per 100 Lawyers	2012 per 100 Lawyers	Change	2011 $ per Lawyer	2012 $ per Lawyer	Change
Admin Mgmt	4.5%	4.6	4.4	-4.3%	7,113	7,350	3.3%
Operations	58.8%	57.9	56.2	-3.0%	33,718	33,632	-0.3%
Practice Group	4.4%	3.2	3.6	12.5%	2,242	2,559	14.1%
Technology	11.5%	9.9	9.7	-2.0%	8,397	8,867	5.6%
Finance	9.0%	8.6	8.5	-1.2%	5,611	5,694	1.5%
Library & Research	2.4%	2.1	2.1	0%	1,528	1,472	-3.7%
Marketing & Bus Dev	4.4%	3.8	4.0	5.3%	3,188	3,430	7.6%
Human Resources	2.9%	2.4	2.4	0%	1,881	2,019	7.3%
Recruiting & Talent	2.1%	1.6	1.6	0%	1,521	1,639	7.8%

Values based on medians

SNAPSHOT SURVEY

Market Confidence
Challenges Facing the Legal Market



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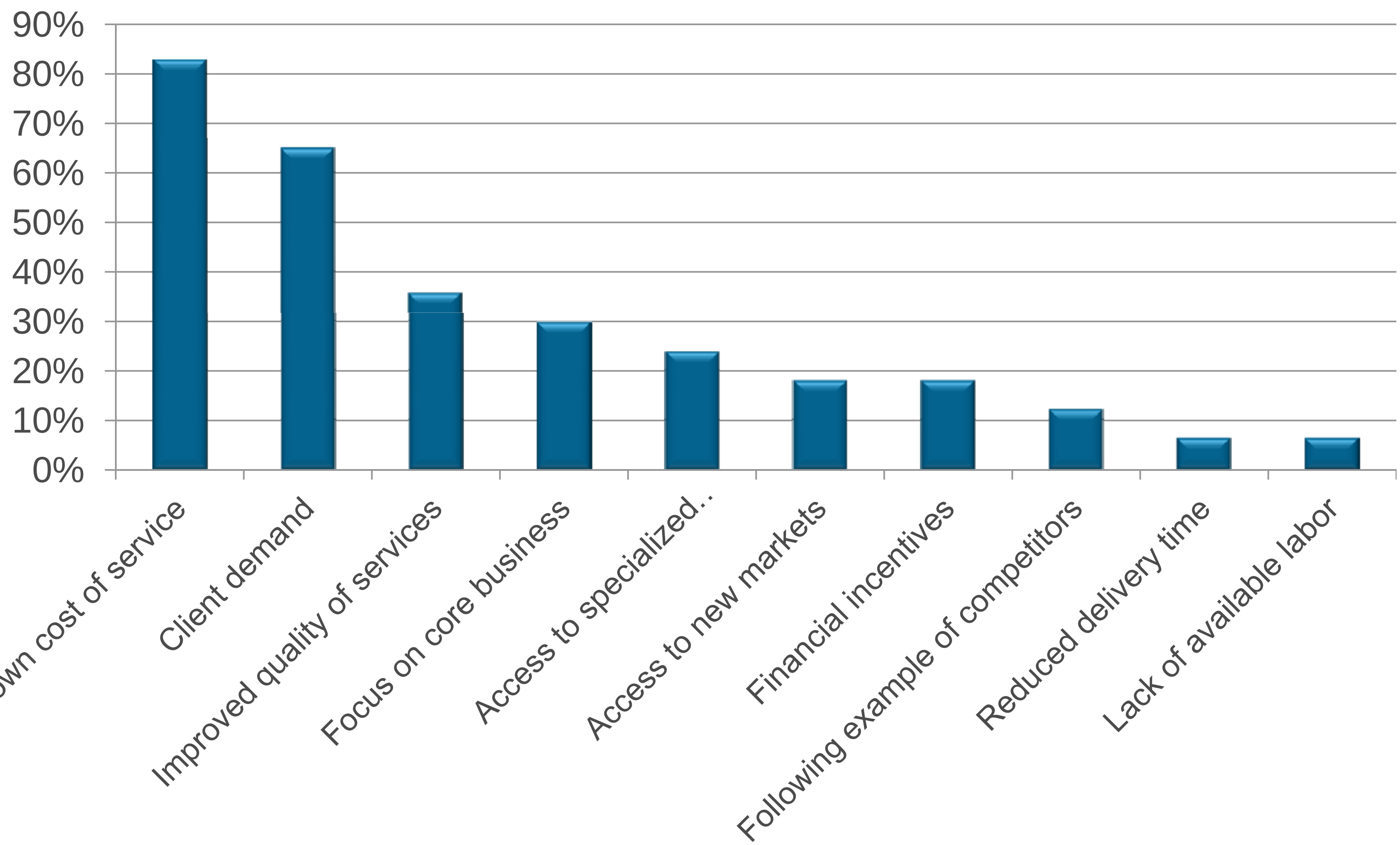
Question: What do you feel is the greatest challenge facing your firm in today's legal market? (Check your top two answers) .n=44

Legal Services Delivery Strategy - Why?



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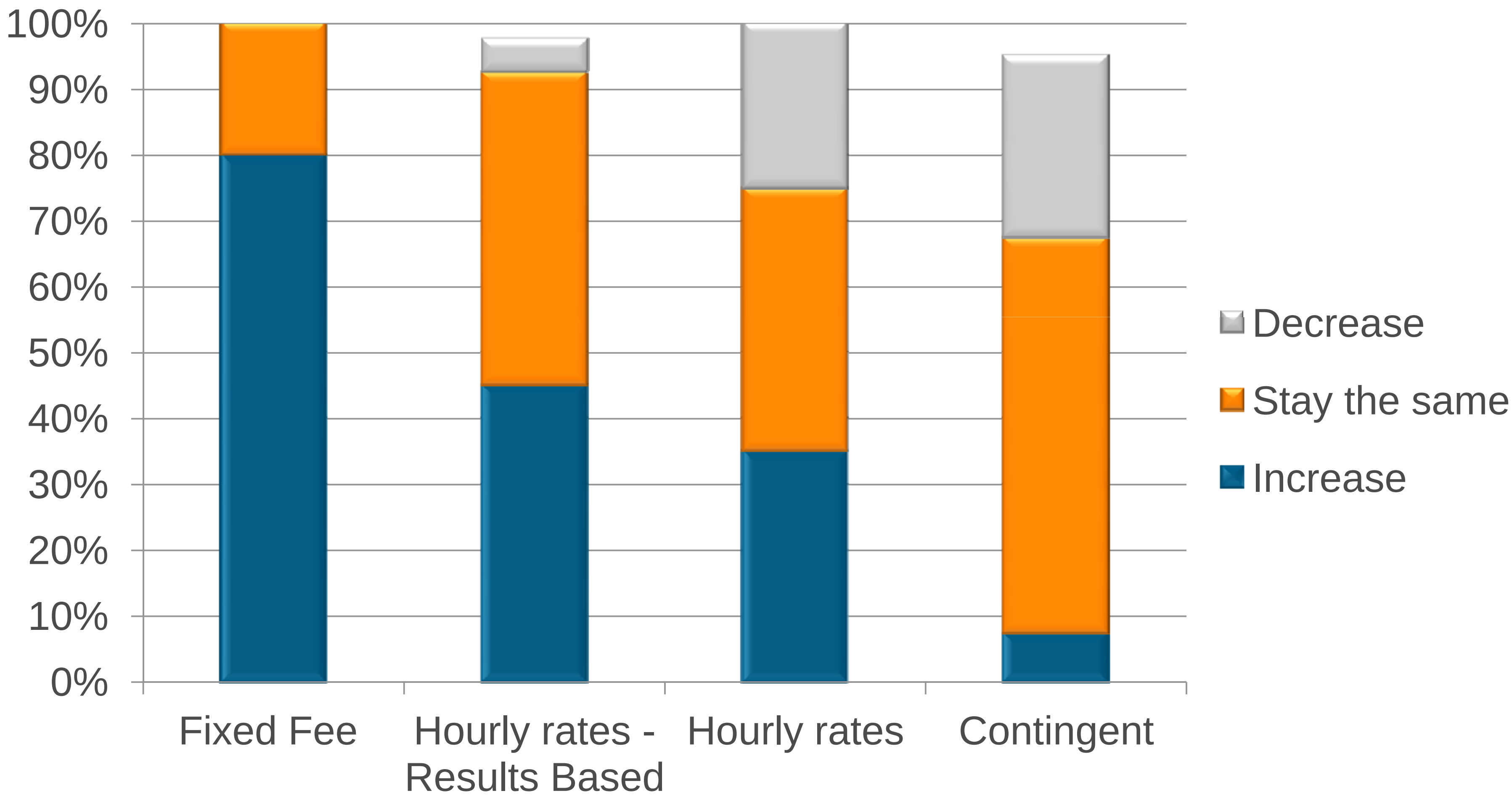
Question:: What are the reasons you are likely to continue to use or incorporate alternative legal delivery services in your firm over the next year? (Check all that apply)Check all that apply. n=17.

Fee Structure Changes



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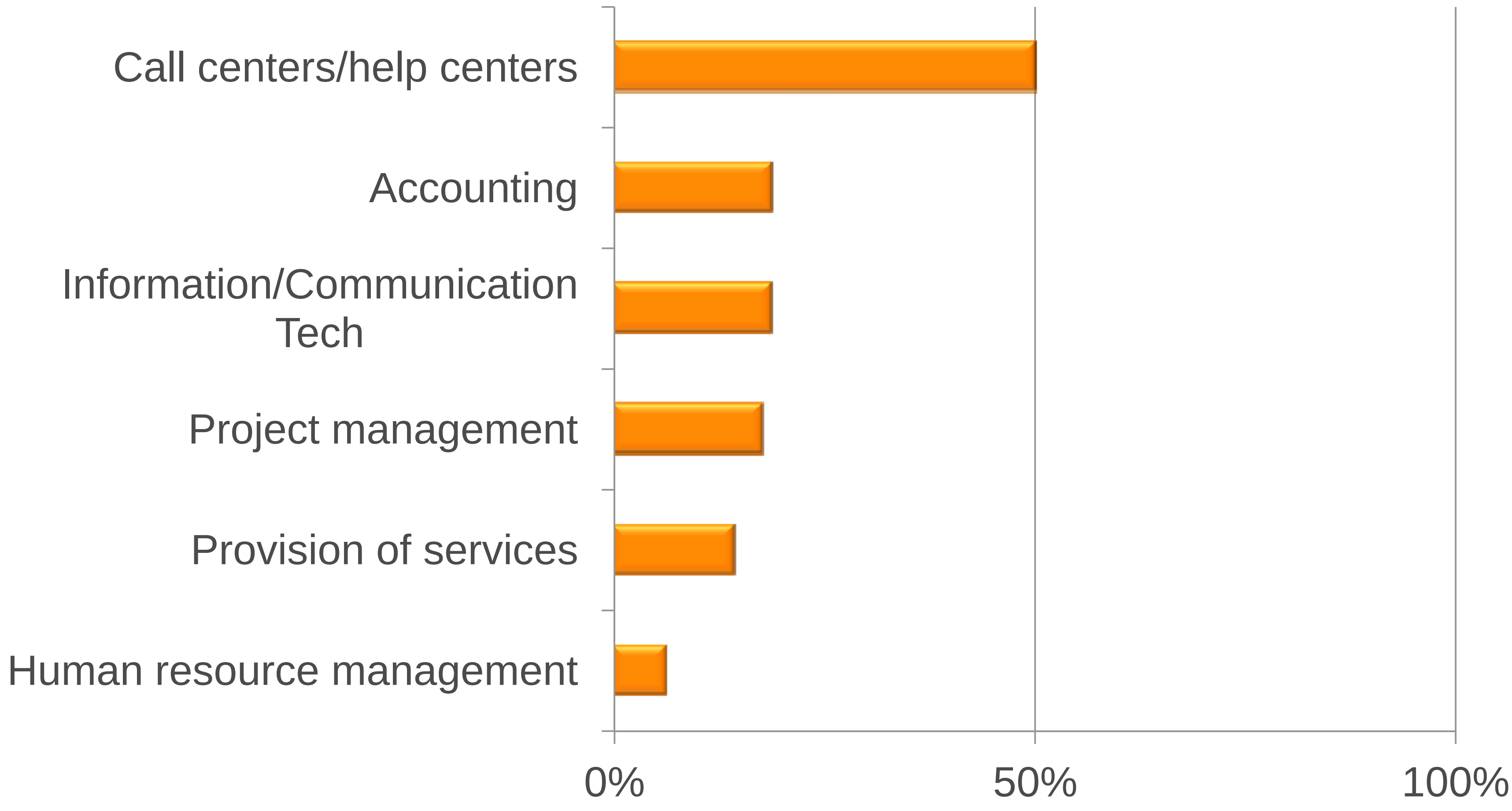
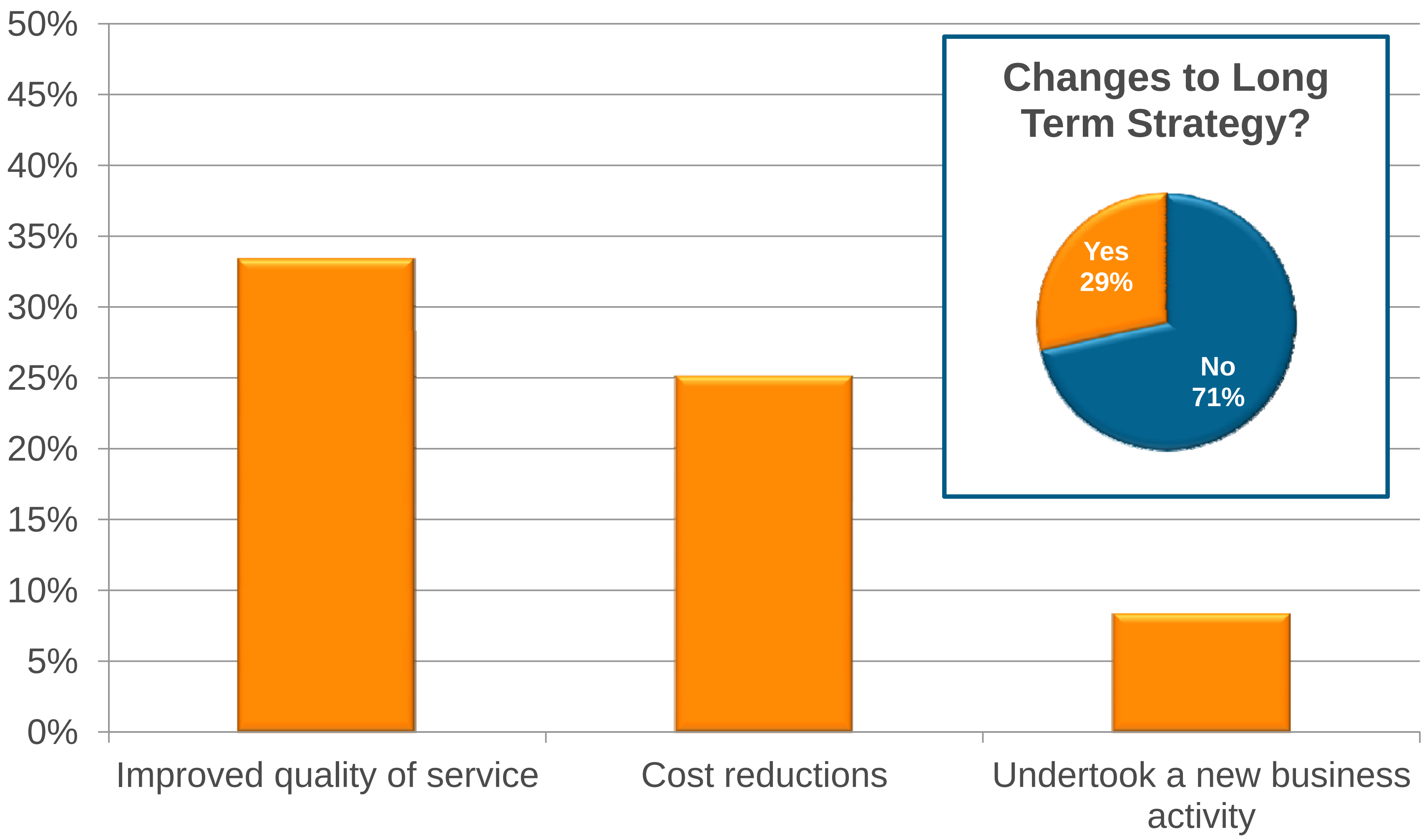
Question: What do you expect to happen for each of the listed billing methods in 2014? n=40. Hourly rate including discount variants Hourly rates with premium or discount based on result Project, fixed fee or flat rate and subscription; includes menu pricing, portfolio pricing and retainers Full contingent pricing (i.e. fixed percentage of result or deal)

Process Re-engineering / Outsourcing



Question: Please indicate if the following business activities have been relocated by your firm:. n=28.

Law Firm Strategy



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Question: Does your firm plan to make major changes to your current long term strategy? n=42
Question: Please indicate the driving reasons your firm plans on making major changes to your current long term strategy? n=12

Opportunities

- Top Rated Growth Opportunities
  - Focus on & grow select practices
  - Win new business based on firms values
  - More effective partnering with clients on matter management
  - Focus on becoming more efficient
- Lowest Rated Growth Opportunities
  - Expense management
  - Invest in infrastructure
  - Find emerging markets
  - Create an ancillary business

Question: Of the options below, what do you see as the top opportunities to improve your firm's performance in 2014? (please choose 3). n=40

2014 Forecast

- Prognosis more pessimistic if going JUST by the numbers but sentiment more positive:
  - Expectations of transactional improvement
- Sentiment survey anticipates growth in IP, real estate, corporate and litigation.
- Top Performing Firms (TPFs) are more optimistic
  - With better performance hygiene (e.g., rates and productivity)

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice, and discipline.”

- Source: Jim Collins

Questions / Discussion