

Law Firm Financial Index

Q2 2024 Executive Report | Issued 8.5.2024

Back at record heights, law firms look healthier than ever

On the backs of resurgent transactional practices and solid fundamentals, law firms look stronger than ever at the end of the second quarter of 2024. The Thomson Reuters® Institute Law Firm Financial Index¹ (LFFI) rose 8 points to a score of 67, among the top four scores of all time.

Firms achieved the third-highest LFFI score since the Global Financial Crisis, after six consecutive quarters of progress — the result of improvements in all areas. All five elements of the LFFI score improved from the previous quarter, and notably, productivity became positive for the first time since the transactional boom of 2021 and early-2022. This is especially noteworthy because this was the last time firms were at a similar level on the Index.

From a legal demand perspective, most major practice areas experienced growth as the counter-cyclical² practices of litigation, bankruptcy, and labor & employment led the pace of growth. This is not a new development, as the recovery of litigation from the pandemic has provided firms with a key source of growth that persisted since 2022 even as transactional demand waned. Since then, litigation has become even more of a performance driver, achieving immense growth for the average firm, except for those in the Am Law 50.

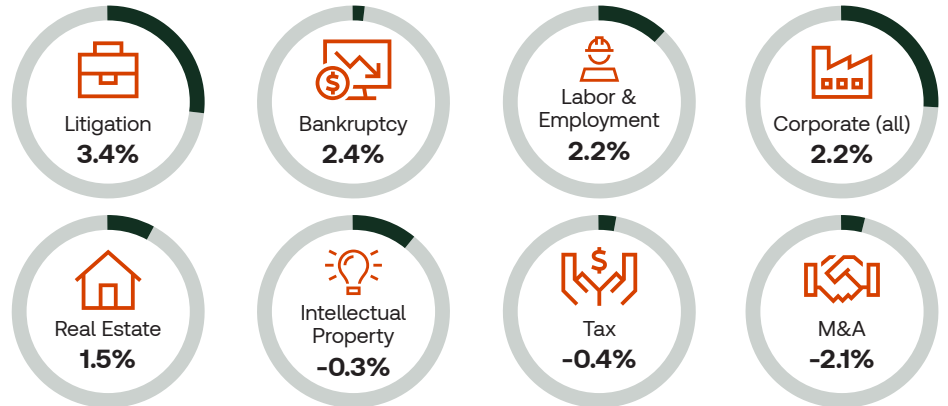
Another important development is that counter-cyclical demand is no longer the sole driver of overall growth. After nearly three years of

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Practice demand growth

Y/Y Change | Q2 '24 vs. Q2 '23

Circular band surrounding practice is equal to proportion of hours worked in 2023.

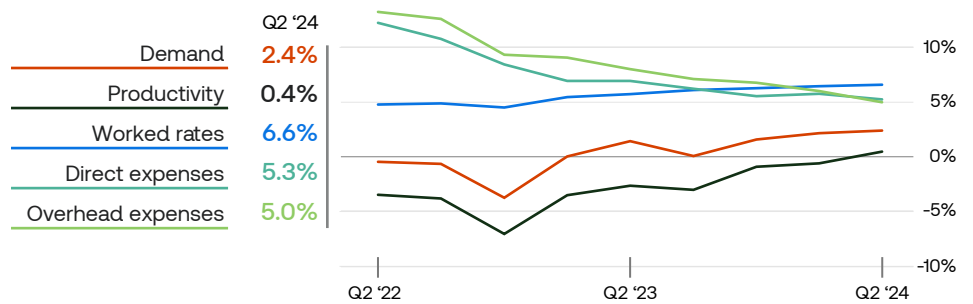


Source: Thomson Reuters 2024

LFFI key factors

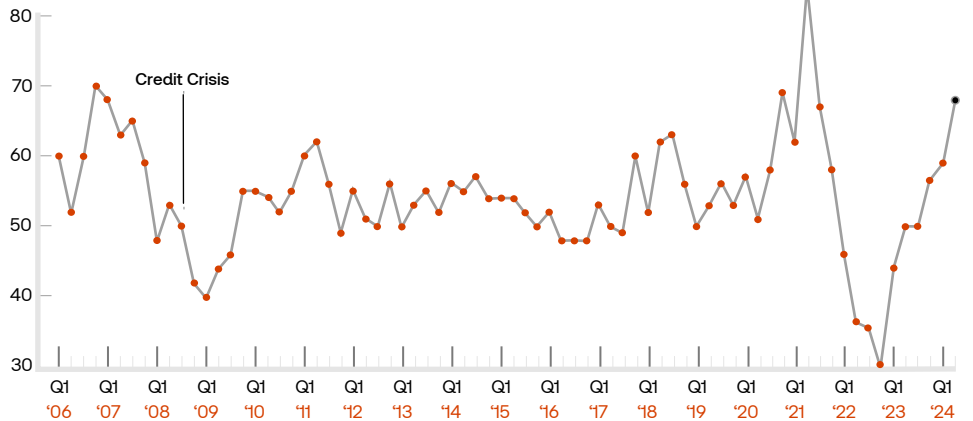
LFFI SCORE: 67 ↑ 8

Y/Y Change | Q2 '24 vs. Q2 '23



Source: Thomson Reuters 2024

Law Firm Financial Index (LFFI)



Source: Thomson Reuters 2024

poor performance, transactional demand has returned to growth mode, with both counter-cyclical and transactional demand now boosting firm performance. This trend is not universal, however. Am Law 100 firms continue to see most of their growth in transactional practice areas, while Midsize law firms remain reliant on counter-cyclical practices (especially litigation) for their growth. The Am Law Second Hundred has found a Goldilocks zone, benefiting from significant growth in both areas.

Thanks to the record-breaking growth in rates achieved in the first quarter, and which continue to hold in Q2, fees worked³ growth surged to all-time highs, with the best organic growth in fees worked of any quarter. While much of this growth is seen in counter-cyclical practices, transactional fees are no longer lagging substantially. In fact, transactional fees have seen the greatest resurgence in Q2 of any cyclical practice group, a fact that's driven by increased billing rates.

Law firms may be in a more sustainable position now

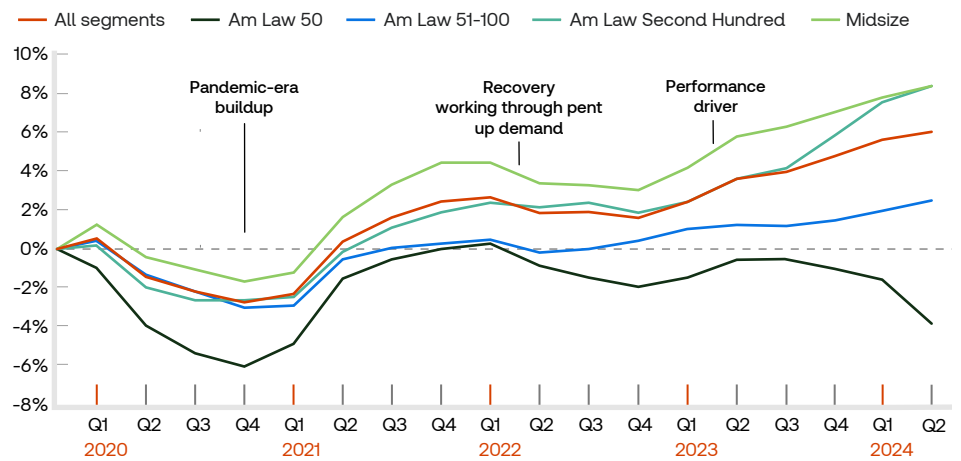
Given law firms return to record territory, it's important to compare their performance to the last time things looked this good, particularly because the previous resurgence was both relatively short-lived and ended on a relatively sour note.

The transactional boom came on the tail-end of the pandemic as many lockdowns were ending, fiscal stimulus was abundant, and the US economy began running especially hot. Demand growth was intense, but it was mostly made up of transactional practice work. When that transactional demand collapsed, law firms had nothing to fall back upon. The result was a long plummet to the Index's all-time low in Q4 2022.

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Litigation growth since 2019

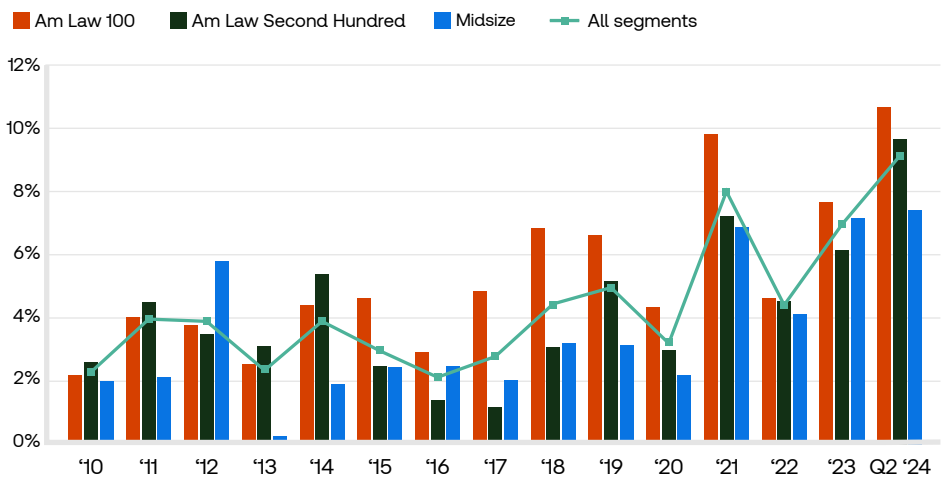
Rolling 12-month % change since 2019 | By segment



Source: Thomson Reuters 2024

Fees worked growth

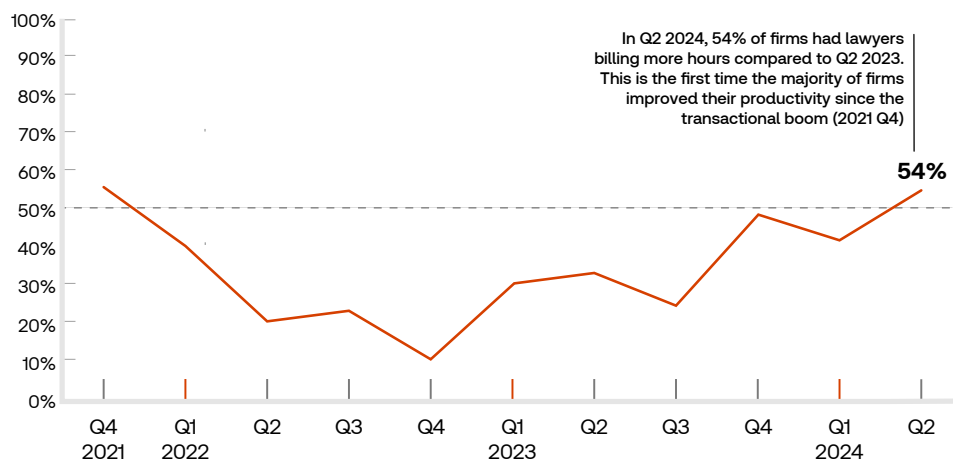
Y/Y Change | By segment



Source: Thomson Reuters 2024

Recovering productivity prevalence

% of firms with Y/Y productivity growth



In Q2 2024, 54% of firms had lawyers billing more hours compared to Q2 2023. This is the first time the majority of firms improved their productivity since the transactional boom (2021 Q4)

Source: Thomson Reuters 2024

Law firms today are not growing as fast as they did in that period, but their growth is still significant. Yet, that growth is arguably more stable because it comes from diverse sources and builds on last year’s expansion in the counter-cyclical area. Along with noticeably higher worked rate growth and the fact that law firms are not measuring from the pandemic lows as they were in 2021, the current level of revenue growth is much more robust and multifaceted.

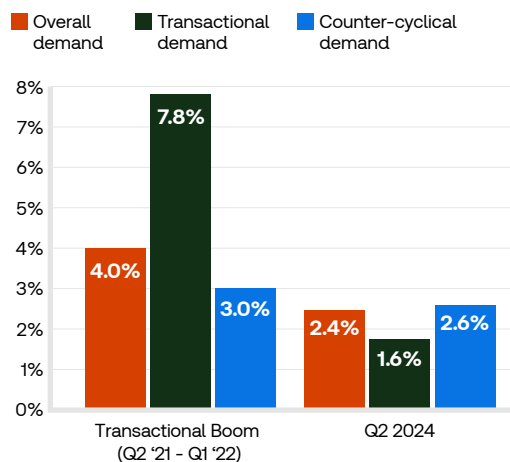
Finally, there is expense growth. While late-2021 was an incredible time for demand, it was also one of intense expense inflation, partially because of macroeconomic pressure but also because of a bidding war for highly sought-after associates. When demand dissolved, firms were left still having to pay those rapidly increasing salaries. In the current legal landscape, firms don’t have that same expense pressure and are indeed seeing their expense growth already slowing.

While firms aren’t enjoying the same level of profit growth they achieved during the transactional boom, they aren’t as overly dependent on one practice group as they were then. When the rug was pulled out from firms in 2022, they had little to fall back on. This time, however, law firms are operating on more stable foundations which could allow them to sustain success far longer.

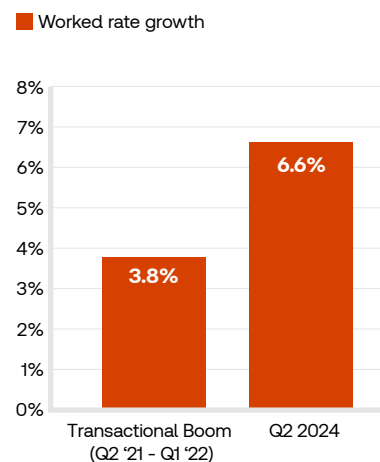
This report utilizes information from the Thomson Reuters Financial Insights competitive intelligence platform. For additional details on the data which underpins these reports, please contact Isaac Brooks at 612-270-5728. To uncover the latest granular and narrowly tailored information on the large law firm industry, visit the customer support website or email isaac.brooks@thomsonreuters.com.

How strong was Q2? – Demand and rates

Demand growth | Y/Y Change



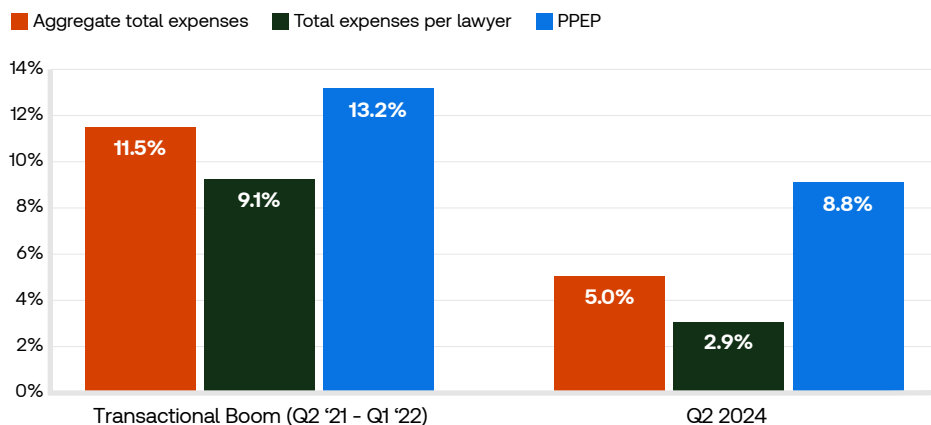
Worked rate growth | Y/Y Change



Source: Thomson Reuters 2024

How strong was Q2? – Expenses and profit

Expenses and PPEP growth | Rolling 12-month growth



Source: Thomson Reuters 2024

- 1 The LFFI is a composite score, representing the quarter-over-quarter change in drivers of law firm profitability, including rates, demand, productivity, and expenses. Positive factors driving firm profitability will produce a higher score.
- 2 Counter-cyclical practices are those that succeed during periods of economic hardship and struggle in periods of economic upswing, moving counter to the business cycle.
- 3 Fees worked is a pre-realization revenue proxy, combining worked rate and demand growth.

