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A Talk with Andrew Grech, **Managing Partner of the World's First Publicly Traded Law Firm**

I've [written previously](#) about "The World's First Publicly Traded Law Firm"—[Slater & Gordon](#) of Australia—and also about "Seven Perspectives on Law Firms' Going Public". For those in the audience who are securities lawyers, as am I, you might find the [prospectus](#) fascinating; I know I did. For the rest of you, please take our word for it.

This evening I had a chance to talk with [Andrew Grech](#), Managing Director of the firm, who's based in Melbourne. (Well, it was this evening for me in New York, but for Andrew it was tomorrow morning.) Here's what I learned.

The IPO Itself, and the Immediate Aftermath

I started by asking what the IPO had done to the firm, and he replied that he'd anticipated much more disruption, "but there's been less." Most of what it adds to the firm has been a greater degree of focus, which is good for the business. And all in all, it has "not been too onerous."

More focus? Well, yes, for example, Slater & Gordon has had an active mergers and acquisitions program; during the past six or seven years, they've done 10 deals. As a private company, you try to be rigorous, but there is nothing comparable to the due diligence you undertake with public investors—"it has truly gone up a notch." This is surely beneficial because you're paying attention to a new class of stakeholders with more business-like expectations. But that said, "it's been evolution, not revolution; the cultural changes are subtle."

Still, he's found himself reassured that there's no fundamental conflict between the values of the organization and the responsibilities of being a public company. (This was one of the key issues I intended to ask him about, and he volunteered it unprompted before I could get to it: This I took as a good sign.)

Obligations to Clients vs. Obligations to Investors

I note that one of the obstacles people here in the US express towards public ownership of law firms is that it would somehow compromise client confidentiality and attorney-client privilege. I ask if that was envisioned as a potential problem, and how they protect client confidentiality while at the same time needing to provide financial and operational transparency to investors.

He responds immediately that it was potentially a problem, and one that Slater & Gordon addressed starting about two years before the IPO with the Australian Stock Exchange and with the Australian equivalent of our SEC (the regulatory body for public companies). They raised it explicitly in their first rounds of meetings with regulators: How to balance duties to the court and to clients with obligations to investors.

Ultimately, they negotiated an arrangement with the regulatory authorities which permitted them to state unequivocally in the prospectus that client interests would come first. According to Andrew, two years before the IPO, they started thinking deeply about these issues. Interestingly, he says the regulators of legal practices viewed their role not as approving or disapproving the concept of a law firm going public, but rather as educating the firm on its obligations and understanding what the implications would be for investors.

As Andrew puts it, "There was no seal of approval, but the consultative process gave us a good understanding of the areas of concern and what would need to be addressed."

From the firm's perspective, "there was no uncertainty for us as lawyers which came first [clients or investors], but we needed to convince institutional investors that their best long-run interest would be served if we continued to put clients first."

And who are those investors? "About 80% of our shares are owned by fund managers. We've been gratified by the support we've received from the best of Australia's institutional investors."

I note that the prospectus discloses that the partners in the firm can sell out their entire ownership on a 20%/year formula until, after 5 years, they are free to own no interest in the firm. There appear to be no limits on non-partner ownership after that. Am I reading this right?

"We expect that employee shareholders will retain a majority and if not a controlling interest for the foreseeable future however we have had to accept that being a public company raised the potential for external shareholders to have a controlling interest".

The Purposes of the Listing

"That said, the important thing I have to emphasize is that the listing was not an end in itself. The point of the listing was to give the firm a platform for growth, so that we could provide professional staff a ramp for the development of their careers and their total remuneration."

Explain? Our professional staff, says Andrew, is looking for a long-term commitment, reciprocally, from and to the firm. With a public listing, he says, we were able to obtain access to the capital we need for long-term growth, which provides a credible and rewarding future for professional staff, especially the younger ones. Without access to a long-term equity asset, there was tremendous tension between senior partners with ownership interests and associates with no immediate ownership prospects.

It was not, he insists, growth for growth's sake. "We're not megalomaniacs," he jokes.

He goes on to explain with a bit more detail the difference between the market for "private client" law in Australia (individuals, particularly individuals with tort claims) vs. the market for corporate law. He believes the private law market is in for a long-run secular trend of consolidation among

law firms. (Parenthetically, he notes that Australia has 11,000 law firms for a population of 23-million; this alone tells you that many are solo or duo shops.)

How was the capital structure determined before the IPO? I ask whether the model was essentially that partners owned equity proportionate to their capital contributions. Andrew doesn't say whether that's exactly the approach that was taken (and here, a firm like Slater & Gordon may be the exception). But he makes it clear that in a firm with a business model such as theirs, where conditional fees are (or are not) collected after the investment of potentially large amounts in uncertain matters; senior partners had quite substantial amounts of personal capital contributed.

He adds that, in effect, the firm had re-invested profits year after year into working capital; to accomplish this, partners had to agree to withdraw less than they possibly could at year-end. This obviously contrasts markedly to the standard model where partners "strip-mine" the firm of cash at the end of every fiscal year.

But, Andrew avers, Slater & Gordon's personal representation business model does not make its need for capital unique: "All large practices have substantial capital requirements, for investments in IT, in growth, in lateral recruitment, etc." For his partners at Slater & Gordon, their view of the world is very much that "I'm committed to the best interests of all, not just what I can extract at year-end. We're trying to create a legacy."

The IPO Process: Harder than Expected or Easier?

I ask what about the IPO process was easier, and what was harder, than he expected.

Easier: As it unfolded, it went smoothly. An IPO essentially takes a six-month window, during which everything went smoothly. He expected more bumps in the road: "More problems, more cost overruns," but there were very few. He credits this to the firm's "excellent" underwriters, Austock Corporate Finance, a firm that specializes in small to mid-size companies.

Harder: He underestimated the amount of time that would be required to deal with staff internally. Although he and his partners thought they had prepared the staff well, all the media publicity spotlighting the wealth creation opportunities for the selling partners threatened to create a misperception about what had gone into creating that opportunity. It turned out to be important to put the amounts the selling partners would realize into context, and to explain how it reflected the results of their years of contributing funds they could have otherwise drawn from the firm into its retained earnings, its reinvested capital, and its expansion.

What are the benefits?

"Well, start with a much higher level of financial literacy among the professionals and staff —this was an unanticipated but highly beneficial consequence of the IPO."

How was the IPO priced?

"Well, there were no comparables; not really. We and our underwriters did look at other professional service firms, and there was much scuttlebutt in the media beforehand about how it might be overpriced or underpriced, but in the event, of course, we floated at a fair discount to what the market perceived as fair value."

Are you sorry you "left money on the table?"

"Oh, no, not at all; I'm very glad we left money on the table; that's important for investors and staff and professionals to have faith in the value of the offering."

The Post-IPO Firm Culture

Has there been any change in the culture of the firm post-IPO?

"It's too early to say. But I think there are some perceivable benefits."

For example?

"Well, our commercial practices in Melbourne, Brisbane, and Sydney are at different stages of evolution and maturity; some are stronger than others. So, before the IPO, there was an incentive for the stronger areas to concentrate their efforts on their own practices; but after the IPO, we were able to create collective performance rights across the commercial practice so that now it's all for one and one for all."

Similarly, Andrew explains, the firm can create "key performance indicators" in non-dollars-and-cents areas such as HR, marketing, knowledge management, and professional development, and anticipate that those KPI's will be tied to long-term equity price appreciation: Efforts that, overall, contribute to the intellectual and professional capability of the firm can be rewarded in a way that 's not possible what everything is distributed at the end of each fiscal year.

Any last thoughts?

The Benefits of Non-Lawyer Regulators

"In terms of conflicts, lawyers have proven they're very good at dealing with conflicts—there is nothing about being public that changes that at all. What's important is that we recognize the potential for conflicts and make sure we have policy and processes in place to manage risk in this area".

"One reason the standing of the legal profession has diminished in the public's eyes is that conflicts have not been dealt with openly. Where lawyers regulate themselves, it's an environment that invites suspicion.

"What has changed is that we now have independent outside regulators (sure, some are lawyers by training, but they're not operating as the bar council), and where outside regulators demand and operate with transparency, I believe we will benefit as a profession".

"This has been a substantial contributor to the improvement in client satisfaction levels in the past 20 years.

"Now, understand, my views are probably not the views of the majority of the profession. In particular, smaller firms may lack the resources we have to deal with regulatory authorities. But all in all, independent regulation of the profession has been a success in Australia – what's needed now is to complete the process of harmonizing laws in each of our jurisdictions."

Andrew will be at the Georgetown University Law School conference next April discussing "The Future of the Global Law Firm" that you should have read about before here in the pages of "Adam Smith, Esq.," and I look forward to meeting him then.

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