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Law firm mergers and team poaching set to increase

By Nikki Tait

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Merger activity between law firms is expected to increase next year and poaching of specialist legal teams by top practices could also feature prominently, according to a survey of legal professionals.

The annual law firm survey by Smith & Williamson, the financial services group, found that **respondents were unanimous in believing that mergers between firms would either increase or at least remain at current levels in 2006.**

The survey, based on responses from managing partners or financial directors at 85 of the country's 125 largest firms, revealed that **almost four out of every five respondents - 79 per cent - had either approached or been approached by another firm with a view to a potential deal in the past two years.** A similar percentage said that they would currently consider a merger, up from about 68 per cent 12 months earlier.

The desire for deals was particularly marked among the larger firms, with almost a third of those employing more than 50 partners reporting that they were actively seeking an acquisition. The equivalent figure for the entire group surveyed was 21 per cent.

The findings come after a year that has seen a number of deals between both top and regional firms.

On the transatlantic front, DLA secured a US partner in Piper Rudnick Gray Cary, in spite of the acknowledged difficulties that UK-US mergers can face.

On the domestic front, Pinsents and Masons combined in late-2004, while Halliwells finalised a deal with Liverpool's Cuff Roberts in early-2005.

The first alliance between Irish and British firms - Dublin's O'Donnell Sweeney and Eversheds - was announced in November, although it was stressed that this was not a formal merger.

The past 12 months have also been marked by a flurry of team moves, with firms poaching specialist groups of lawyers from their competitors. One of the largest defections occurred in April, when a 45-strong team from Denton Wilde Sapte's media and intellectual property practice switched to DLA Piper Rudnick.

More broadly, the Smith & Williamson survey found that about a third - 32 per cent - of the respondents' firms had acquired a team of individuals from another firm during the past 12 months.

About three-quarters also said that they would consider making such a move in the months ahead.

"Legal services is a marketplace which is changing quite dramatically at present," said Colin Ives, S&W's head of professional practices tax. He pointed, for example, to the impact of Sir David Clementi's review of the legal profession, which reported last year and recommended breaking down some of the barriers that have traditionally

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constrained law firms.

"This has led to mergers - but a merger is harder work than taking on a team of specialists," Mr Ives said. "Integrating a profitable practice area into the culture of a firm is far easier than merging two large organisations and the positive results usually feed to the bottom line more quickly."

He added that the survey results showed that poaching was focused mainly on "niche" legal markets. The most popular areas for staff raids by rivals were on private client teams, followed by litigation specialists. Property and tax teams tied for third place. In part, the consolidation and poaching trends were attributed to the growing presence of US law firms in the UK.

"They have been coming in with big chequebooks . . . and buying very good people," said Mr Ives. About 71 per cent of the survey's respondents also thought that the influence of US firms - notably through mergers and acquisitions - would increase. This compares with a finding of 50 per cent a year ago.

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