



IN REVIEW 2018

Challenging ourselves to stay ahead

A determination to build a business with diverse revenues across different sectors, practice groups and regions, and to lead the legal industry in embracing new technology and delivery models continues to pay dividends for Allen & Overy. But despite another year of strong growth, senior partner Wim Dejonghe and managing partner Andrew Ballheimer are far from complacent.

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At a time of unprecedented uncertainty in world affairs, it would not be surprising to hear business leaders admitting to a dip in confidence and ambition. Yet talk to Wim Dejonghe and Andrew Ballheimer, now into their third year as Allen & Overy's senior and managing partners, and you notice a cautious optimism about the opportunities they see arising out of these turbulent times.

That confidence is based on a clear strategy to build a business that is well placed to ride the economic and political shocks that might hit in the years to come.

That means achieving a balance between sector and practice groups and exploiting the advantage the global network gives the firm in handling cross-border transactions (A&O advised on 18% more international deals than any other law firm in 2017).

It also means maintaining a steely determination to be at the forefront of innovation in terms of delivering services to clients.

Consolidated growth

The strategy is paying off. In the 2018 financial year, A&O successfully built on a record-breaking year in 2017 to post a GBP54m increase in revenues to GBP1.57bn and a 3% increase in pre-tax profits (after adjusting for foreign currency gains and losses and exceptional property costs) to GBP690m.

Andrew puts that result into a two-year context. "Our top-line income has grown by 20% over the last two years after you strip out the effects of currency movements following the Brexit vote.

That's significant real growth and very encouraging."

The 2018 results reflect particularly strong income growth from A&O's offices in Western Europe and CEE. The firm's corporate, international capital markets and tax practices were also star performers, powered by a record-breaking global M&A market.

In addition, the combined revenues of A&O's Advanced Delivery businesses – aosphere, the Legal Services Centre (LSC) in Belfast, the Peerpoint consultant lawyer service and the Project Management Office (PMO) – have grown by more than a quarter, while delivering what Wim calls "a double bottom line" by helping the firm to win more traditional business through offering clients real choice in how legal services are delivered.



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These are already powerful businesses with significant potential for further growth, Andrew points out. aosphere has around 400 clients. Peerpoint, which has 300 consultant lawyers on its books, grew by 45% in the last financial year. The PMO and the LSC have been pivotal in A&O winning some of its biggest assignments including the recently concluded bank ring-fencing project for HSBC.

“Based on our performance over the last couple of years, we have every reason to be confident. We are well hedged and well placed to keep growing the way we have been,” says Wim.

Prudent planning

But Wim and Andrew are under no illusion that some significant challenges lie ahead.

“The first few months of the new financial year have been extremely good and the pipeline is strong,” says Andrew. “But if you are looking out over the next 18 months or so, the environment is going to be choppy.”

Growing nationalism around the globe, the threat of trade wars and the effects of Brexit

on the UK and the EU are prime concerns. The global economy looks ripe for an adjustment in the coming years, he says.

Wim agrees, adding that the extraordinarily long period of low interest rates and cheap money is likely to come to an end fairly soon. When it does, it will have a “huge impact” on the markets. The key is to make sure that all of A&O’s practice groups remain agile and ready to work in partnership with clients to overcome challenges as they arise, turning risk into opportunity.

As Andrew puts it: “If we carry on investing, then growth is there, because I think clients are increasingly looking for advisers who can provide answers to their needs under one roof.”

In practice, that means looking for new ways to meet clients’ changing needs – and not always just by providing traditional legal advice.

In recent months, for instance, the firm has launched a new group to provide non-legal regulatory and consulting advice in direct response to a need identified by clients.



Evolving priorities

While the strategy that has served the firm well in recent years will continue to set the direction of the firm, there have been changes of emphasis and priority as the market has evolved.

The speed at which new technology is disrupting the legal sector is a case in point. It is an area where A&O has moved fast to grab the initiative, not least by opening the Fuse tech innovation centre in 2017 and in setting up a new legal technology group to work with clients to find more efficient ways to deliver services.

“It’s about being proactive on opportunities and moving from what we used to do by delegation to a few partners to now having a wider partnership engaged in innovation with clients – that’s been the big change in the last year,” says Wim.

Two other strategic priorities are also front of mind. The first is to grasp growth opportunities in Asia, where A&O has an unrivalled network among global law firms. The second is to build a stronger presence in the U.S. market.

Legal advice is mostly a domestic product, says Wim, with two exceptions. English and U.S. law are both exportable and relevant across the world and no law firm has a complete offering in both. A&O is determined to be among the first to

achieve this, investing heavily in organic growth, hiring U.S. qualified lawyers not only in the U.S. but in many other markets too. But the firm also remains open-minded about combining with an established U.S. player, amid recent press speculation that a merger is imminent. “We’ve said it many times before – we

are open to the idea of a merger as one way of achieving greater presence in the U.S. In the meantime, we carry on with our build strategy.”

Diversity

Building an even more diverse and inclusive partnership is another crucial part of the strategy and is now being tackled with growing urgency. Wim and Andrew acknowledge that at A&O, as in other parts of the professional services sector, progress on this issue has been frustratingly slow.

A new gender strategy has been put in place. As well as building on a full menu of sponsorship and mentoring schemes and flexible working opportunities, steps are being taken to monitor the pipeline of talented women at all levels of the firm more carefully and to hold partners accountable for progress in embedding a culture of true equal opportunity.

“It’s very important to both of us that our community is as inclusive and diverse as possible because, if it is not, you are not picking the brightest and the best,” says Andrew. “We are really moving up a few gears on this because it is crucial.”

And it’s an issue which is increasingly on the minds of clients, says Wim. “One said to me recently: ‘If I don’t see a diverse team in front of me then I’m not sure you are tapping into the best available talent.’ And that’s it in one line – spot on!”





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Clients driving change

As the legal sector undergoes significant disruption, clients are at the heart of A&O's response.

"It starts with the client," says Wim. "The pressure on General Counsel to deliver more – more compliance for less money – is just going up and up."

GCs are increasingly looking for a different and deeper relationship with law firms – one that is about providing solutions "that go well beyond just giving legal advice whenever the phone rings".

It is this changing relationship that has been behind the development of A&O's Advanced Delivery offering.

Fuse is a prime example of the new dynamic at work and it has proved to be a huge success. There have so far been more than 7,500 visitors since launch, half internal, half external, and many follow-up meetings to begin testing practical ideas in the fields of legal, regulatory and deal tech.

The banking practice has, for example, adopted a new technology – an end-to-

end deal platform designed for use on large-scale transactions – developed by Legatics, one of the first tech companies to join Fuse.

Fuse also hosted the world's first fully-automated cryptocurrency bond issuance masterminded by Nivaura, a Fuse company in which A&O made an equity investment last year.

As the industry changes, new competitors are entering the legal services market including the Big Four accountancy firms, legal and financial publishers, dedicated alternative delivery businesses and, increasingly, private equity houses that see alternative delivery as a viable stand-alone business.

An industry that has been used to a settled order for decades must be ready for these challenges. A&O is clearly determined to remain in the vanguard.

Both Wim and Andrew believe the firm will look "pretty different" in ten years' time. The wider adoption of new technologies will lead to a need for a "different type of lawyer", particularly those with a grounding in science and technology.

There will also be a need for leaders who can manage the profession through this period of profound change.

"That's why we've invested in our leadership centre and partnered with INSEAD, the business school, to prepare the future leadership of the firm," says Wim. "We need to excel in leadership as in anything else we do."

But clients will remain centre stage and Wim and Andrew recognise that staying ahead means constantly asking the question: what more can we do to anticipate, understand and answer clients' needs?

"It's a dynamic opportunity and a dynamic market. But we have the scale and breadth of offering, an ambition and, most importantly, the client orientation. If anyone is going to succeed, then A&O is pretty well placed," Andrew says.

"It's really about creating a culture where we are constantly challenging ourselves about the way we deliver services to clients," adds Wim. "As long as we cherish that and keep that mind-set going, I think we are in a very good place."



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