

McDermott Sees 9% Revenue, PEP Growth, With 'Recession-Resistant' Practices

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By Patrick Smith

What You Need to Know

- McDermott saw 9% revenue growth in 2022, citing its power alley practices as well as some recession-proof work the firm has developed.

- The firm also opened an office in Austin, Texas, and saw strong growth in its overseas operations.

- The firm saw its equity partnership decline by 4.6% to 206 attorneys, while it brought on 57 lateral partners.

While McDermott Will & Emery didn't hit double-digit growth in revenue for the first time since 2017, the firm did come as close as one can, with 9% revenue growth in a year where its peers saw declines.

That revenue growth put McDermott at just a hair under the \$2 billion mark, sitting at \$1.82 billion, up from \$1.67 billion in 2021. McDermott also saw 9.2% growth in its average profits per equity partner, hitting a record high of \$3.32 million, up from \$3.05 million in 2021, as its equity partner tier declined by nearly 5%.

McDermott chair Ira Coleman attributed the firm's financial success to continuing to lean into its "power alley" practices as well as some recession-proof work the firm has developed.

"We are not just capital markets and M&A. We have other practices that are recession resistant, like health care and renewable energy. We are diversified," Coleman said in an interview.

The firm's revenue per lawyer was up slightly, growing 0.4% to \$1.42 million as the firm added over 100 total attorneys to its head count in 2022, bringing its full-time-equivalent lawyer count up to 1,278 lawyers.

Within that growth, the firm saw its equity partnership decline by 4.6% to 206 attorneys, which Coleman attributed to normal attrition and retirements. "There is certainly always a curation, but we didn't have a formal program to de-equitize partners," he said.

Meanwhile, the firm's non-equity partner head count was up almost 9% to 425. Coleman said the firm doesn't allow its laterals to become equity partners out of the gate, and the firm did have 57 lateral partner hires in 2022.

The firm's net income was up 4.1%, but it could have been much more.

Coleman said the firm prepaid close to \$100 million in expenses for 2023 to help navigate what Coleman said was an unsure environment.

"We have a lot of reserves," he said. "It's money for a rainy day. You don't want to be in panic mode if 2023 turns out to be a lousy year."



Ira J. Coleman, chair of McDermott Will & Emery.

The firm's profitability margin was down 2 percentage points to 38%, which Coleman attributed to the prepayments.

Coleman, not one to mince words, said that 2023 was a bit of an unknown at this point.

"I'm not sure anyone really knows what is going to happen in 2023," he said. "So we want to be smart about it. We prepaid on things like technology, just in case. But it is easy to succeed in a good year. We are outperforming in the difficult ones. We love our strategy."

Overseas and Austin

McDermott saw over \$164 million in revenue from its European member states offices in 2022 as well as 33% growth in its London office, bringing the U.K.'s revenue to just under \$70 million in 2022.

When asked about the London office's success, Coleman said some "great lateral hires" started to hit

their stride and were hitting on “all cylinders.”

He cited another reason for the office’s growth. “It’s the accents,” Coleman quipped. “People pay more for the accents.”

Coleman also said that the firm’s offices in Germany outperformed and that the international haul in total was up 12%, besting the firm’s overall performance.

McDermott opened one new office in 2022, in Austin, Texas. Coleman said he’s excited for the potential of that office.

“We brought in eight IP partners from Baker Botts to open the office, and now we have grown it to 17 attorneys,” he said. “We also added health care, which makes sense for us, as well as additional people in IP, energy and life sciences. It’s all the areas of growth for us.”

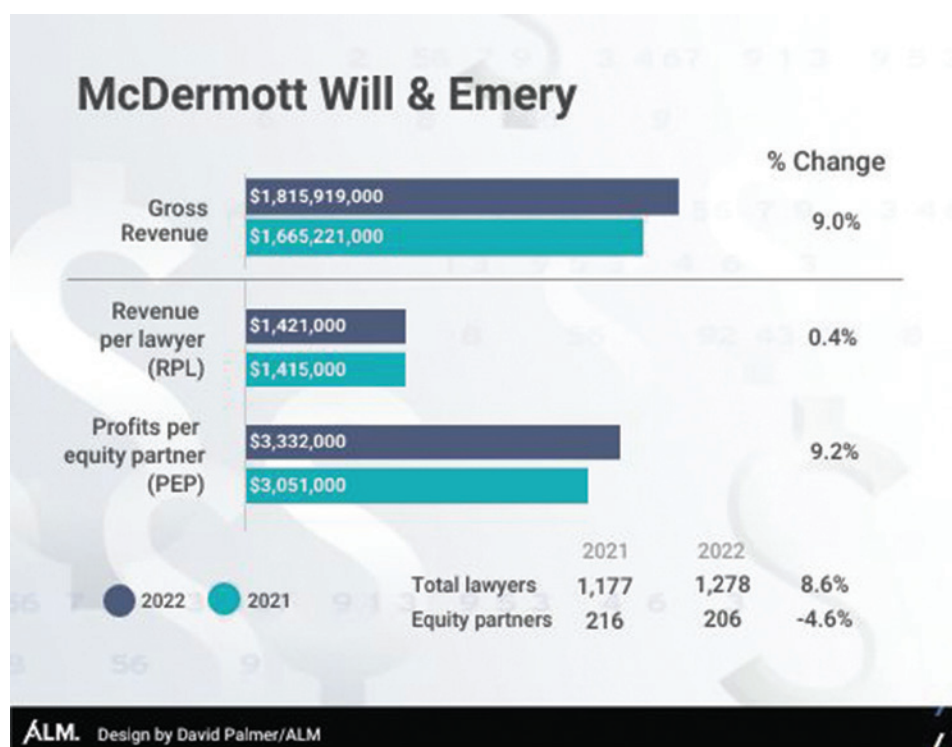
Real Estate, Matters and Laterals

Coleman said the firm’s real estate footprint was about where it needed to be, as he said the firm had turned over or refurbished the majority of its 22 offices in the previous several years. It did not anticipate opening another new office in 2023.

Among the 57 lateral partners the firm landed in 2022 was the group from Baker Botts, which Am Law ranked at No. 9 on its Top 25 Big Law Hires in 2022.

The firm said that between 2017 and last year, it had seen \$1.7 billion in revenue directly related to the laterals it brought on during that time period. The firm also said that within two year of being hired, lateral hire revenue derived from existing McDermott clients and new business exceeded the lateral’s original portable business.

Coleman said the firm has continually done studies to find out which sort of lateral partner hires would make the most sense given



the firm’s culture and values, and that at this point the cycle is self-perpetuating: The firm leans into a sense of community, which attracts attorneys looking for the same, who then succeed and push the cycle forward.

And it has been working. The firm’s compounded annual growth rate, impacted heavily by lateral hires, stands at 14% for revenue and 10% on RPL, the firm said.

The firm highlighted several matters it worked on during the year as particularly impactful.

Among them was its representation of CVS Health in its \$7.6 billion buy of Signify Health and its representation of Cigna in three large class action suits over the company’s handling of reimbursements for COVID tests.

In leaning into clean energy, the firm represented Clear Path New York in its agreement with the New York State Energy Research and Development Authority (NYSERDA) for delivery of renewable energy to New York City, as

well as Beam Suntory in a renewable energy services agreement with 3Rivers Energy Partners for the delivery of \$400 million in renewable energy expansion.

On the pro bono front, the firm secured the first murder sentence commutation in the state of Massachusetts in several decades. The firm helped William Allen, who spent 28 years in prison for a crime he didn’t commit, receive clemency, and he was released last year.

The firm also said it provided legal support to refugees via United for Ukraine and helped establish a language school (German-Ukrainian School Munchen-Odessa) offering free language lessons.

Looking at firm diversity, McDermott said it had 46.2% of its firm leadership (inclusive of the management committee, C-suite, practice group leaders, etc.) recognized as diverse, including 67% of its C-suite leadership.

The firm also said about 70% of its U.S. associate hires in 2022 were diverse.