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Kirkland & Ellis reaches the top as it focuses on corporate work

The law firm is now the country's biggest by revenue as it focuses on corporate work

BY CLAIRE BUSHEY

Kirkland & Ellis made its name on fearsome litigation. But now, after years of transformation, the firm has become the largest in the country, powered by the billings of its corporate and bankruptcy lawyers.

Litigators who have left the Chicago-based firm say its power center has shifted toward lawyers in private equity and public company mergers and acquisitions. Litigation partners have seen their compensation cut, and their share of the firm's headcount has declined over the past decade. When Jeffrey Hammes ends his third three-year term as chairman in February, many expect another lawyer from the corporate side to succeed him. "From the outside, it looks like Kirkland is more interested in deal work, specifically, than they are in anything else," says Nicholas Bruch, a senior analyst at ALM Intelligence.

Kirkland now sits atop the legal world. The firm reported $3.17 billion in 2017 revenue—more than double what it was bringing in a decade ago and an eye-popping 19.4 percent increase over 2016. It "added a half-billion dollars in one year, and it's not like they had some big merger," says Chicago law firm consultant Kent Zimmermann. "That is unprecedented and just shows the power of the machine that they built."

Moreover, Kirkland grew profitably: Last year it reported $4.7 million in profits per partner, making it the nation's third most profitable law firm.

Kirkland stands out from other law firms because "they have a clarity," says Chicago legal recruiter Kay Hoppe. "They're like the best sports team ever."

It got there by prioritizing transactional practices like private equity, M&A and bankruptcy. In 2007, half the firm's revenue came from litigation; in 2016 that practice brought in 43 percent of the haul. There's a similar pattern in headcount: A decade ago, half the firm's lawyers were litigators. Now they make up 39 percent.

That firmwide trend was mirrored in Kirkland's Chicago office between 2008 and 2017. During the same period, the percentage of litigation partners at competitors Winston & Strawn and Sidley Austin stayed the same or increased. In 2008, 37 percent of the partners in Kirkland's Chicago office were corporate; as of last summer, it was 40 percent. In New York, office composition went from 30 percent corporate lawyers to 52 percent.

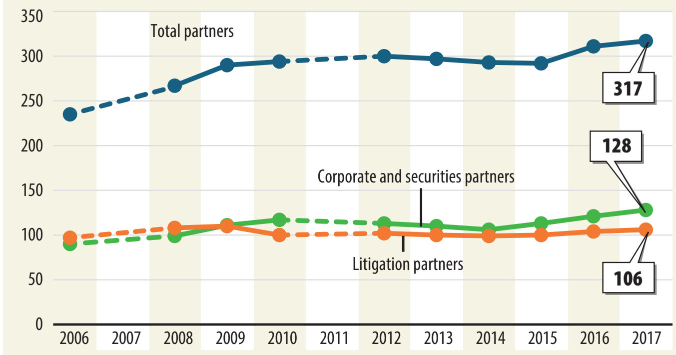
To be sure, Kirkland remains a litigation powerhouse. It also has invested in some high-profile litigators, hiring partner Sandra Goldstein last month from Cravath Swaine & Moore in New York. Goldstein works on M&A, securities and commercial disputes.

But since 2009, more than three-quarters of Kirkland's new hires came in four cities, three of which—New York, London and Hong Kong—are major financial centers, ALM's Bruch writes in a February report. (The fourth is Houston.) The Chicago office remains larger than New York's: 594 lawyers compared to 542. But New York headcount has risen faster, with the office growing by 51 percent.

LITIGATION VS. CORPORATE

Here's how headcount for Kirkland & Ellis partners in Chicago has shifted since 2006.

LOCAL PARTNER HEADCOUNT



Source: Crain's data

* Data for 2007 and 2011 was unavailable.

UP AGAINST ROPES

The Boston office the firm opened in May 2017 plays into the same strategy, as Kirkland tries to win private-equity business away from city stalwart Ropes & Gray.

"Is this a concerted effort by Kirkland to grow where the rates are highest? Maybe," Bruch says. "It could also be the natural evolution of a business cycle. . . .It is hard to disaggregate what is a strategy and what is a natural extension of the business cycle. What I would say is that most things with Kirkland are a strategy."

In 2016, Kirkland's billing rate for litigation partners was $825 to $1,030 an hour. For corporate partners it was $895 to $1,325.

The firm has a reputation for throwing money at lawyers until they agree to join, but Jon Lindsey, a managing partner in New York at recruiter Major Lindsey & Africa, says the reality is more complicated. They aren't bound by the lockstep compensation structure that prevails at Wall Street firms, and unlike many others they are willing to risk that a high-profile hire might not pan out. "They have a willingness to invest," Lindsey says. Most firms among the country's 100 largest "could pay someone $10 million, but not everyone is willing to do that."

With corporate lawyers bringing in the lion's share of the work, the firm's culture has changed, say some former Kirkland litigators. There's opposition when litigators want to offer clients discounted rates, an important tactic for keeping business in more competitive areas like litigation. Sometimes corporate lawyers don't want litigators to take particular clients, fearing a conflict of interest might prevent them from representing those clients in a deal.

In 2016, firm management reallocated equity shares from a number of litigators to corporate attorneys. Because compensation is determined by the shares held, it was a pay cut. The firm reallocates shares every two years. "It used to be litigation first, and now it's more corporate and restructuring, because that's what brings in the money," says one former litigator.

Jon Ballis, a corporate attorney in the Chicago office who sits on Kirkland's 15-lawyer management committee, is talked about as a successor to Hammes, who steps down in nine months. Ballis' private-equity practice focuses on leveraged buyouts and M&A.

Hammes declined an interview request. Ballis did not return a message seeking comment.