

In The News

Firm Finance: Texas Firms Powering Through Energy Slump

05.02.16

Texas Lawyer

DESPITE THE DROP IN OIL PRICES, BIG LAW IN TEXAS HAD A GOOD 2015

Despite the slump in oil prices that persisted nightmarishly throughout 2015, the group of 25 highest-grossing firms in Texas did better overall in 2015 than the year before.

Gross revenue for the 25 firms totaled \$5.5 billion in 2015, up 4 percent when compared with \$5.3 billion for the 25 highest-grossing firms in 2014. That's nothing short of remarkable, considering that 2014 results were boosted by energy work and a strong Texas economy. The price of a barrel of West Texas Intermediate Crude averaged \$48.66 in 2015, compared with \$93.25 in 2014.

Even though energy is big business in Texas, the financial results suggest that large Texas firms have diverse client lists and were also able to shift resources from less busy areas of work in the energy sector such as capital markets and initial public offerings, and move them to newly busy areas such as bankruptcy and restructuring.

A number of Texas firms posted double-digit increases in gross revenue in 2015, including Locke Lord, up 40 percent; Susman Godfrey, up 24.1 percent; Gray, Reed & McGraw, up 16.1 percent; and Carrington, Coleman, Sloman & Blumenthal, up 17.6 percent.

The group of firms on the 25 highest-grossing in Texas list in 2015 includes a few different firms from the previous year's list. New firms are Coats Rose of Houston; Martin, Disiere, Jefferson & Wisdom of Houston; and Austin-based Graves Dougherty Hearon & Moody. Firms not on this year's list are Burleson, the Houston energy firm that dissolved in late 2015, Cox Smith Matthews, which merged with Dykema, and Dallas-based Godwin.

Like total gross revenue, total net income also improved in 2015. The total net income of \$2.2 billion for the 25 firms on the list is 4.8 percent higher than the total of \$2.1 billion for the 25 highest-grossing Texas firms in 2014. Several firms improved their net income in 2015 with a double-digit increase including Susman Godfrey, up 28.8 percent, Gray Reed up 17.5 percent, Carrington Coleman up 11.1 percent and Munsch Hardt Kopf & Harr, up 15.8 percent.

Phil Appenzeller, chief executive officer of Dallas-based Munsch Hardt, said 2015 was a very good year for the firm, which marked its 30th anniversary in 2015. He attributed the increase in net income to a "blowout" year in real estate and other practice areas including corporate transactions and bankruptcy and restructuring.

"Really, all four cylinders of the firm began firing at once," Appenzeller said in reference to real estate, corporate transactions, bankruptcy and restructuring, and litigation.

All four key financial measurements—gross revenue, net income, revenue per lawyer and profits per partner—were up when compared with 2014.

Unlike many Texas firms, which do a lot of work for energy companies, Munsch Hardt's energy practice is concentrated in litigation instead of transactions, Appenzeller said, "so the deals that dried up really didn't affect us."

Like gross revenue and net income, revenue per lawyer and profits per partner were also up for the year when considering the group of 25 firms. Revenue per lawyer for the 25 firms averaged \$718,000 in 2015, up 2.3 percent when compared with \$702,000 in 2014. Profits per partner averaged \$1,028,000, up 3.7 percent from an average profits per partner of \$991,000 the year before.

Those four measures in the *Texas Lawyer* Annual Report on Firm Finance—gross revenue, net income, revenue per lawyer and profits per partner—help describe each firm's financial performance and provide a means to compare them. The gross revenue chart is the master list for the report.

Akin Gump Strauss Hauer & Feld of Dallas is again the highest-grossing firm, with \$930 million in 2015, up 7.1 percent when compared with \$868 million in 2014. Gross revenue at sixteen of the firms increased in 2015 compared with the previous year, and it declined at seven firms. Comparisons were not available for Coats Rose and Martin Disiere because they are new to the list. The largest increase among the 25 firms was 40 percent at Locke Lord, where the lawyer count grew by 46.5 percent due to a big merger in January 2015. Bracewell, of Houston, had the largest decrease in gross revenue, a 12.1 percent decline.

Akin Gump also topped the net income chart, with \$401.5 million for the year, up 12.8 percent from \$356 million the previous year. Among the 23 firms where comparisons were available, 14 improved on their net income in 2015 compared with 2014, seven saw a decline and two had no change. Litigation firm Susman Godfrey of Houston posted the largest net income increase of 28.8 percent. Bracewell posted the largest decrease in net income of 18.1 percent.

Susman Godfrey had the highest revenue per lawyer among the firm, with \$1.885 million in 2015, compared with \$1.545 million in 2014, a 22 percent increase. Revenue per lawyer increased at 14 of the 23 firms, declined at six of them and was unchanged at three firms. Susman Godfrey was the only firm with a double-digit increase in revenue per lawyer, with most of the firms posting a small increase or small decrease when compared with 2014.

Susman Godfrey also leads the profits per partner list, with \$2.715 million in 2015, up 35.8 percent compared with \$2 million the previous year. At 15 of the 23 firms, profits per partner improved in 2015, while it declined at eight of the firms. Susman Godfrey posted the largest increase in profits per partner for 2015, but three other firms also posted double-digit increases in profits per partner—Thompson & Knight of Dallas, up 11.1 percent; Gray Reed, up 22.3 percent; and Carrington Coleman, up 16.3 percent.

The Annual Report on Firm Finance also includes a Profitability Index, which shows whether equity partners in a firm are taking home more or less than average revenue per lawyer.

The report also includes a firm-by-firm analysis that helps to explain financial results from each of the 25 firms.

The fact that lawyers from the firms are quoted in these articles is no indication of the firm's cooperation with the preparation of the Annual Report on Firm Finance. Lawyers simply responded to questions about work and developments at their firms in 2015. *Texas Lawyer* does not identify the firms that cooperate with *Texas Lawyer* reporting by providing financial information and those that do not.

The individual firm reports also include graphs that illustrate the trend line for each firm's revenue over the past several years. The gross revenue numbers were collected from previous *Texas Lawyer* Firm Finance reports. For a few firms, numbers go back to the first Firm Finance report in 1987, with other firms that are newer to the charts. Because of that, the graphs are not on the same scale, so they should not be compared side-by-side.

All the revenue figures in the charts are for the calendar year 2015, except for Gardere Wynne Sewell, whose most recent fiscal year ended March 31. All lawyer counts are full-time equivalent for the firm's fiscal year.

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