Legal bald eagles

US firms in London may be swooping for the best private equity talent, but large salaries alone do not guarantee success

With London the hub of European private equity activity, it is little wonder US law firms are anxious to establish a private equity practice in the City. Once prime floor space has been acquired, the hard part of establishing a presence and building a team begins. A number of US law firms have been bolstering their London teams with new corporate and M&A hires in recent months and firms continue to migrate to the City. US players to have opened offices in London in 2007 include Nixon Peabody and Proskauer Rose, the latter poaching experienced private equity practitioner Matthew Hudson from rival O'Melveny & Myers to head its Mayfair office.

It is a time-honoured tradition for UK law firms to perpetuate horror stories about their trans-Atlantic competitors, stories that often have little basis in fact. Gossip and half-truths are the inevitable consequence of the bed-hopping that takes place among legal professionals. That said, US firms face real challenges setting up shop in a market that is one of the most costly in the world. (A designer conference room chair can push £400 and without an engineering qualification you will probably struggle to adjust it.) Office furniture aside, the costs associated with the initial move and the maintenance of a City presence have led an increasing number of US firms to look at ways to reduce overheads. One of the options being seriously considered by a number of US firms is a merger with an established UK outfit. Others have introduced schemes to hold back partner pay, created a new tier of lower-paid associates or simply restructured and shed jobs. (See box, page 9)

An oft-cited consequence of US firms opening a UK office is the effect it has on pay structures and recruiting practices. "At associate and partner level it is no secret that US firms pay more than UK firms," says one lawyer at a magic circle firm. In the past year, UK private equity practices have felt this effect more keenly than most, having lost a number of experienced professionals and rising stars to ambitious US groups. However, a few have also made tracks in the opposite direction after sampling the hallowed ground at a US firm. (See tables).

One partner at a UK firm with experience of US practices believes that it is not always the firm itself, but the perception of a US firm among potential clients, that can be a barrier to generating business. "Quite honestly, a lot of people don't like Americans. Their general perception of Americans informs their belief that US firms are aggressive and expensive and best avoided," he says.

Perception may be part of the issue, but the culture at some US firms is also to blame when business is not as strong as expected, adds the partner. He says that a recurring difficulty is the response of the US office to a UK sourced deal that requires an element of input from the US side. "If the deal has a US angle, the US office will want to run it. Some US partners take an adverse view of the capability of the London office. This can result in UK work being handled in the US." Another City-based partner agrees. "At my previous firm, US partners rarely passed over contacts and communication between the New York and the London office was infrequent at best."

The partner levels further criticism at US firms that provide a full service, but do not invest the required resource. "Some do what they do and do it very well. Some try to be all things to all men and as a result you get a thin veneer. They see London as a trophy location good for shopping."

Keith Black at Morgan Lewis, which has just established a private equity practice in the UK, says that "the most successful firms are prepared to make the investment, have the focus and link them to existing strengths in the US". This linkage can often be missing.

However, few would deny that a select group of US-based firms have not only established a strong and lasting presence but have developed a private equity practice to rival the best UK offerings. Weil Gotshal & Manges, Kirkland & Ellis, Latham & Watkins and Debevoise & Plimpton have muscled in on a number of private equity deals in the UK over the past year, with Weil particularly visible over this period.

In addition, Skadden Arps Slate Meagher & Flom and Shearman & Sterling both won mandates for Delta Two in its ultimately unsuccessful pursuit of supermarket giant J Sainsbury and also worked on a number of more successful deals in 2007. These firms have shown bullish progress in the past few years and, if they can build on this momentum, will snatch an increasing share of the private equity pound in years to come.