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As Sheppard Mullin Breaks $2M PEP, Leadership Discusses Firm Growth, Shifting Staff Resources

Firm leaders said 2020 "confirmed" their theory that a diverse suite of practices braces the firm and clients for financial uncertainty.

By Justin Henry

Despite the economic tribulation of the pandemic, Sheppard, Mullin, Richter & Hampton continued a three decade-long streak of upward trajectory in gross revenue and profits in 2020 while growing head count in all lawyer classes. Firm leaders say that's due to a diverse mix of practice areas that "each had a chance to shine" at different parts of the year.

"We have a wide variety of practices so we can serve our clients in a variety of ways," the Los Angeles-based firm's executive committee chairman, Guy Halgren, said. "If anything, the last year validated that strategy because at different times during the year we needed everything we had."

Gross revenue increased by 8.5% last year to reach $867 million. With a 3% increase in total lawyer head count, to 802, revenue per lawyer landed at $1.08 million, a 5.5% increase from 2019.

Meanwhile, net income increased by 13% to $305 million, in line with previous years' growth. It was bolstered by a substantial decrease in travel and meal-related spending, allowing firm leaders to get a head start on paying "a significant amount" of 2021's expenses, Halgren said.

Profits per equity partner surpassed the $2 million mark in 2020, growing 11% from 2019's $1.81 million. That came as the equity tier grew by two lawyers, to 152 equity partners.

A nearly 10% increase in the firm's nonequity partner tier, from 198 to 217, outpaced the rate of increase in equity partners, as a result of the largest class of associates promoted to nonequity partner status in the firm's history, Halgren said. Total nonequity compensation also saw an increase of more than 20% over 2019, from $131 million to $158 million.

"We budget for growth every year," Halgren said. "We don't believe in driving profitability today by sacrificing prosperity tomorrow. So, when markets are choppy we keep investing. We don't believe in cutting head count this year just so we can have better numbers because we know we're going to need them next year."

Partner draws were smaller than normal in the opening weeks of the pandemic on a partner-by-partner basis as the firm sought to preserve cash, Halgren said, adding that draws were recovered by the end of the year.

Looking at equity and nonequity partners together, the average partner saw an 8.7% increase in compensation in 2020 compared to 2019—$1.25 million up from $1.15 million.

In January it paid 110% above market for associates who billed 2,200 hours and 120% above market for

Diego M. Radzinschi/ALM

those who hit 2,400 hours. Those who bill between 1,900 to 1,999 hours received a below-market bonus, and discretionary bonuses worth $1,000 to over $100,000 were distributed to 168 associates—more than the usual amount, a firm spokesperson confirmed. In addition, firm leaders said Sheppard Mullin paid a special associate appreciation bonus to associates according to the same guidelines as the firm's standard bonus program.

Sheppard Mullin's four offices located outside the U.S., in London, Brussels, Seoul and Shanghai, saw an increase in billable hours from 2019, Halgren said. With one foot in the U.K. and the other at the other in the headquarters city of the European Union, the firm has been closely advising international clients in their navigation of Brexit from both sides, Halgren said.

In addition to the halt in costs related to travel, meals, entertainment and events, expense reductions came in the form of a 5% decrease in staff in 2020. Firm leaders said a mix of people working in reception, support services and hospitality "could not effectively work from home," some of whom were laid off or found work elsewhere. Of the 51 employees who were furloughed, Halgren said nine have since returned to work.

Halgren said the firm is undergoing a multiyear realignment of its professional staff, reallocating cost savings from traditional receptionist and support staff roles to year-over-year investment increases to its data privacy and digital marketing teams, Halgren said.

The firm saw a collection cycle that was consistent with prior years, while inventory grew by 9.5%, officials with the firm said, adding that it was supported by a diverse set of practice areas that each had significant amount of work during different parts of the year.

"Every practice at some point in the year had its time to shine," Halgren said. He pointed to the labor and employment group, which was "crazy" with work when the pandemic first struck in the U.S. Then, he said, the bankruptcy practice picked up and continues to be strong as companies grapple with the latent economic impacts of the pandemic.

The fourth quarter was a "transaction story" across industry groups, Halgren said, as businesses reinitiated deals that had been put on hold.

"Corporate, health care, real estate and finance just crescendoed from October through December," Halgren said.

The litigation practice, especially in labor and employment and intellectual property, is slated for a surge in work this year, according to Halgren, as attorneys move forward with work that was backed up last year because of shuttered courts.

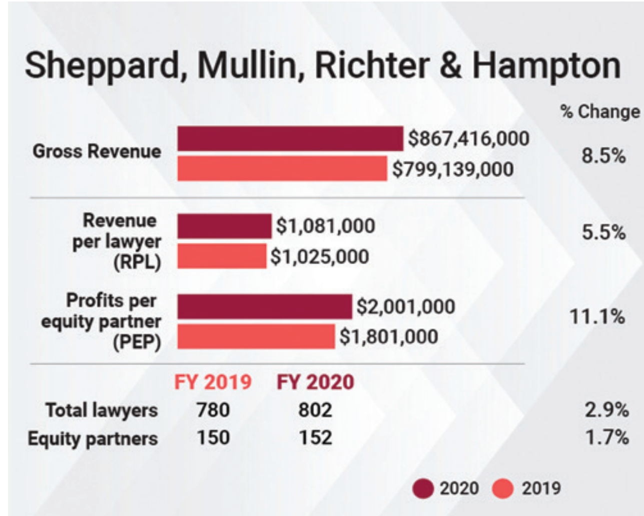
In 2021, Sheppard Mullin seeks to reenforce practice areas and industry groups across the board, maintaining its average 5%-10% head count growth rate across practice areas that it has maintained for the last 20 years, according to Halgren.

The firm's newest offices in Palo Alto, Chicago and Dallas are "high-priority" areas of growth, Halgren said.

As the firm seeks to control costs in the coming years, Halgren said he anticipates a reduction in travel expenses and an increase in remote work, allowing employees to utilize flexible office scheduling and office hoteling. He said the firm seeks to renegotiate its real estate footprint with landlords in the coming years as it "experiments" with different office models.

"I think on average, when folks return to the office later this year, they will be spending less time in the office than they were pre-pandemic," Halgren said, "But I don't think it's going to be a huge difference on average."

However, in the short term, Halgren said costs related to travel, meals, entertainment and virtual retreats—all of which saw limited spend in 2020—are probably slated to ramp up this year because attorneys and clients are anxious to get together in person again. Halgren said the firm has scheduled an in-person partner retreat in October, at which point everyone in the country could have access to COVID-19 vaccinations.



Likewise, he said the firm is planning to have an in-person summer associates program this year. Although Halgren said the firm's experience running a virtual summer associates program in 2020 taught leaders at the firm it's possible to hold it again virtually for some portion if necessary, he said they "much prefer" holding it in person.

He said the desire among attorneys to operate in a more "flexible" working environment hinges on their ability to obtain care for family members. But as soon as they do, he said, they generally want to return to the office, where they are "more effective." Some employees will want to work from home because of the appeal of avoiding traffic and public transit, especially at the firm's more metropolitan office locations.

"We don't have folks regularly as the norm working from home; we still think people should normally be in the office," Halgren said. "At the same time, we have conversations with people to make sure we have a flexible schedule for them. And when we do that, that will probably lead to a hybrid space going forward."

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