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SPECIAL REPORT

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IN THIS WEEK'S ISSUE...

Tom Phillips, special reports editor

Regional: Italy

Italian law firms spent the end of last year scrapping to get deals closed and 2009 has brought more uncomfortable news for M&A lawyers. Many deals have stalled as financing is nearly impossible to find and banks are playing hard ball by requesting debt leverage ratios of above 50 per cent.

This article uncovers what firms, ranging in

size from regional to national, are planning to do to survive the drought, and reveals plans by the larger firms to strengthen their international offices.

Practice area: HR & Training

The first of these articles on HR and Training outlines 10 steps that learning and development teams at law firms can use to maintain standards

during the recession, such as cutting deals with suppliers and achieving realistic and measurable results.

The second article focuses on the legal secretary role, explaining how – with the right support and training – the job can evolve to allow more exposure to clients, greater responsibility and more job satisfaction, benefiting the law firm and the employee in the process.

ITALY

Latin down the hatches

Despite a history of high-value deals, Italian law firms have unsurprisingly failed to avoid the crunch and are now reacting defensively in a volatile market.

By Kelly Parsons

The legendary hefty pay packets of Italy's top rainmakers could be left significantly lighter this year as M&A activity in the country plunges to a record low and highly profitable private equity transactions are nowhere to be seen. Deal statistics confirm, predictably, that 2007-08 was the worst year in recent memory for M&A in Europe, and Italian firms suffered more than most.

Figures from Thompson Reuters show that Italian M&A plummeted from a 2007 value and volume of €96bn (£84.75bn) across 754 deals to a 2008 low of €51bn (£45.02bn) across 816 deals. According to KPMG figures, in 2008 the value of transactions in Italy went down to €55bn (£48.55bn) from €148bn (£130.65bn) in 2007, while Dealogic reports a total value of transactions for last year as low as €45bn (£39.72bn) compared with the previous year's €147bn (£129.77bn).

Talking about the drop-off in deals, Italian partners are quick to point out that 2007 was a record year with an incredible number of high-value transactions, adding that today there is still a handful of those premium mandates to be had, plus plenty of smaller and medium-sized deals. It is true that, although the value of

deals has decreased dramatically, the actual number has remained steady. However, a decrease in values equals a decrease in fees, and in reality the drought in private equity and big-ticket M&A work is clearly taking its toll on the legal market, prompting a flurry of consolidation, restructuring, repositioning, partner moves and even closures.

The past 12 months did see a handful of flagship deals that made it to completion despite the backdrop of a worsening financial crisis. Aside from the Alitalia rescue, on which Chiomenti and Bonelli Erede Pappalardo took leading roles, one of the most significant, and one of the few leveraged buyouts (LBOs), was Bain Capital's and

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Clessidra's €500m (£441.38m) acquisition of Italian business information company Cerved from a consortium of banks. Several firms won places at the table, with the managing partner of Dewey & LeBoeuf's Italian office Bruno Gattai acting as sole M&A legal adviser to the consortium, Grimaldi and Clifford Chance advising the vendor's banks, US firm Kirkland & Ellis taking the lead financing role for the acquirers, and Chiomenti advising Clessidra on the co-investment agreements.

Dewey's 24-partner Italian office maintains a relatively thriving private equity practice, according to Gattai. "We were involved in five of the seven largest private equity deals of 2008, including representing special purpose vehicle Weather Investments in the £876m assignment of its share capital to Apax Partners, TA Associates and Madison Dearborn [advised by Bonelli]," he states.

Topping even the Bain Capital LBO was Investcorp's and Barclays Private Equity's €800m (£706.22m) acquisition of pan-European snack vending machine manufacturer N&W Global Vending from Merrill Lynch Global Private Equity and Argan Capital. NCTM Studio Legale Associato acted as counsel to the buyers, with Gianni Ortoni Grippo & Partners, alongside US firm Debevoise & Plimpton, acting for the sellers. Linklaters advised the lending banks.

But everyone agrees that these deals were the exceptions. The latter part of 2008 was littered with deals that fell through and every lawyer has a war story about 'the one that got away'.

While the national banking sector is reasonably robust, an absence of foreign bank financing and wildly differing expectations over prices is seriously jeopardising the impressive record of M&A, private equity and banking departments in even the best firms.

"The Italian banking sector may have suffered a little less because sophisticated financial instruments haven't played a big role here," says Olaf Schmidt, head of the Europe, Middle East and Africa real estate group at DLA Piper in Italy. "But the strong and aggressive banks were always foreign players such as Germany's Hypo Real Estate Group and Eurohypo, and they aren't doing anything in Italy these days. It's all about the Italian banks now."

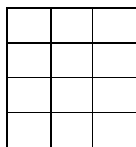
As a result, even potentially solid prospects are struggling to gain bank support. "In my experience, particularly for the transactions conducted by financial investors, only two or three deals in 10 are completing," says Maurizio Bernardi, founding partner of Pirola Pennuto Zei & Associati, a tax and legal firm with 500 professionals, including 150 lawyers, following its September 2008 merger with Agnoli Bernardi e Associati.

"In June and July of last year, we saw deals begin life under assumptions which two to three months later had changed dramatically," says Gattai. "If a deal hadn't closed by early September it was near impossible to get it done because of changing prices and financing being withdrawn."

"There continues to be medium and small deals cooking," says Alessandro Varrenti, a partner at CBA Studio Legale e Tributario. "But everyone's having a terrible time getting even small deals financed. Until very recently a major source of financing for domestic companies used to be the lease-back, but banks will no longer sanction these transactions. Likewise, in real estate finance the debt leverage ratio with equity was

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ITALY



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always 70-80 per cent debt, but today even though the banks claim that with 50 per cent equity they'll look at deals, in reality you need to put in far more than 50 per cent, and that's not the way Italian companies like to do business."

Home front

Italy's abundance of small and medium-sized domestic companies means firms focusing solely on the local market have been able to thrive quite happily alongside the big three powerhouses – Chiomenti, Bonelli and Gianni Origoni Grippo – at the top of the legal market (see box). But the current climate means even the largest firms are redoubling their focus on the Italian market, capitalising on the fact that these small but often highly profitable companies have, for the most part, escaped the financial crisis and continue to evolve.

"Consolidation is taking place across many domestic Italian sectors because of generational change within companies and families," says Wolf Michael Kühne, a partner at DLA Piper.

"The takeover by foreign investors of Italian privately owned companies suffering from insufficient critical mass, or having outgrown the managing and financial capabilities of their owners, is likely to provide the only reliable stream of M&A work in the present market," agrees Stefano Sutti, managing partner at Studio Legale Sutti.

Firms with strong regional focuses are, naturally, in a good position to capitalise on the increased importance of domestic Italian clients. "The northeast is the richest region in Italy," says Varrenti, whose firm Camozzi Bonissoni Varrenti & Associati merged with Padua-based Studio Associato LCA to create CBA in January this year. "Because of the downturn in cross-border M&A and private equity, it's even more important to access domestic Italian business."

In the early part of this year several large firms have also demonstrated that they are adapting to changes in the business market by refocusing on Italian clients and fortifying anticyclical practice areas. In January Dewey launched an Italian labour law practice with

the acquisition of the founding partner of Studio Lablaw Angelo Zambelli, along with his team, which recently advised on the labour law issues of the Alitalia restructuring. "Our aim is to be ready to provide our clients with 360° advice in a crisis, and labour is a vital addition to that strategy," says Gattai.

Another example of renewed local focus is DLA Piper's merger with well-respected real estate boutique Apollo & Associati, which also came in January. "Real estate's always been a very important practice for DLA in Italy," explains partner Olaf Schmidt, "but we've always had a problem getting Italian clients because they simply wouldn't come to a German lawyer, even one qualified here and with a good reputation. Apollo fills that gap perfectly because the team has a strong national practice."

January was also the month US player Orrick Herrington & Sutcliffe announced that it had absorbed a team of lawyers, including five corporate partners, from local 11-partner Italian firm Vita Samory Fabbri e Associati. More dramatic still was the news late last October that US firm White & Case would be exiting Italy following its seven-year battle to hire a local capability and conquer the Italian market. Given its difficulties bed-ding-in, lawyers here were not surprised the US firm decided to throw in the towel.

"White & Case's departure proves once again that the Italian market is a tough one to crack for foreign firms unless you can attract and retain the right local talent with the right connections, because this market's so much more relationship-driven," explains one partner at an Italian firm.

The world view

Perhaps surprisingly given their new emphasis on the local market, several Italian firms have continued to strengthen their own international capabilities. In early February Bonelli launched a China desk, to be coordinated by Renzo Cavaleri, a professor of East Asian Law at the Ca' Foscari University in Venice, who joins the firm as counsel. China is also a continuing priority for Chiomenti, whose April 2008 merger with Birindelli added offices in Shanghai and Hong Kong to its Beijing operation.

London is also a focus, with NCTM having opened an office in June last year, and with Bonelli bolstering its already established City presence with the transfer of a partner and several lawyers spanning various departments.

"We recently decided to move a corporate partner to London, which is an important move for us because, so far, London's only

meant banking and finance," says Bonelli managing partner Alberto Saravalle. "We also have a senior restructuring lawyer and a tax associate relocating to London, and a tax partner who'll commute there. Many firms are daunted by the economic turmoil we're currently experiencing, whereas, despite this prevailing pessimism, we still see London as providing greater opportunities." ■

TOP 12 ITALIAN FIRMS

▶ BONELLI EREDE PAPPALARDO

Lawyers: 278
Partners: 23
Offices: Milan, Rome, Genova, Bruxelles, London
Managing partner: Alberto Saravalle

▶ CBA STUDIO LEGALE E TRIBUTARIO

Lawyers: 76
Partners: 45
Offices: Venice, Milan, Rome, Padua
Managing partner: NIA

▶ CHIOMENTI STUDIO LEGALE

Lawyers: 300
Partners: 54
Offices: Rome, Milan, Turin, Bruxelles, London, New York, Beijing, Hong Kong
Managing partner: Michele Carpinelli

▶ DE BERTI JACCHIA FRANCHINI FORLANI

Lawyers: 80
Partners: 18
Offices: Milan, Rome, Brussels, Moscow
Founding partners: Giovanni De Berti, Roberto Jacchia, Gianni Forlani, Maria Christina Franchini

▶ DEWEY & LEBEUF

Lawyers: 97
Partners: 24
Offices: Milan, Rome
Managing partner: Bruno Gattai

▶ DLA PIPER

Professionals (includes lawyers and chartered accountants): 84 plus four of counsel
Partners: 24
Offices: Milan, Rome
Managing partner: Federico Sutti

▶ GIANNI ORIGONI GRIPPO & PARTNERS

Lawyers: 230
Partners: 46
Offices: Rome, Milan, Bologna, Padova, Torino, Brussels, London, New York
Managing partner: Tomaso Cenci

▶ LEGANCE STUDIO LEGALE

Lawyers: 123
Partners: 25
Offices: Milan, Rome
Managing partner: Giovanni Narulli

▶ LOMBARDI MOLINARI E ASSOCIATI

Lawyers: 65
Partners: 18

Offices: Milan
Managing partners: Giuseppe Lombardi, Ugo Molinari

▶ NCTM STUDIO LEGALE

Lawyers: 230
Partners: 30
Offices: Milan, Rome, Verona, London and Brussels
Managing partners: Vittorio Nosedà, Alberto Toffoletto

▶ PIROLA PENNUTO ZEI & ASSOCIATI

Lawyers: 150
Partners: 75 non-equity, 36 equity
Offices: Milan, Rome, Turin, Padua, Bologna, Brescia, Naples, Verona, Parma, Barchinari, Zabrè, with representative offices in London and Tokyo
Founding partner: Maurizio Bernardi

▶ STUDIO LEGALE SUTTI

Lawyers: 176
Partners: 54
Offices: Milan, Rome, Genoa, Monza, Abbiategrasso, Trescore Balneario, Sofia, Belgrade, Bucharest, Zabrè, with representative offices in London and Tokyo
Managing partner: Stefano Sutti