

Davis Polk's Neil Barr Sees 'Choppy Waters' Ahead—and He's Ready for Whatever Comes

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BY BEN SEAL

At The American Lawyer Industry Awards last December, Davis Polk & Wardwell was named Law Firm of the Year, owing in part to an incredible run of success in 2020 that saw revenue and profits skyrocket. In 2021, the firm took another significant step forward, growing the top and bottom lines by double digits.

For Neil Barr, the firm’s chair and managing partner, the financial results are less important than the process that led to them. In this interview, he discusses the strategy that has pushed the firm forward in recent years, the growing concern that “choppy waters” could challenge law firms in 2022, and what he’s learned as a leader over the course of the pandemic. This conversation has been lightly edited.

Ben Seal: In 2020, Davis Polk took huge steps forward across the board in the key financial metrics. Last year was a little more muted, relatively speaking, but the firm still had double-digit

gains in revenue and profits per partner. How do you consider that progress and how the firm is positioned right now?

Neil Barr: Stepping back from the financial results, what’s driving them? That question and the positioning around that is what’s most pleasing to me. If you look at our performance in that two-year period and even dating back before that, we’re really being driven by powerful practices in key strategic areas—that would be capital markets, finance, restructuring, M&A, litigation and our high-impact practices as well. Those have been firing on all cylinders in a very focused and strategic way.

We think that you have to start answering the question you asked by looking at the drivers. Any fair observer of the legal industry would have to acknowledge that the last couple years have been an extremely accommodating and supportive time in the industry, given the macro environment. We’re certainly among the firms that have benefited from that



Courtesy photo

Neil Barr of Davis Polk & Wardwell.

supportive environment. When I step back and look at where we are, we have a very clear strategy that we’re executing on and the underlying fundamentals and growth characteristics of the business are sound.

BS: What have you learned over the past two years as a leader?

NB: This is an inherently unpredictable business. It goes in cycles; it has ups and downs. Having a long-term, through-cycle perspective on the business is important. But in terms of the overall lesson to my mind of the last two years, it is understanding the institution’s core values. For us that’s a focus on teamwork,

on excellence and on our people. If we keep our eye on the ball of our core values, we're going to be focused in the right direction, whether the cycle is a good or bad economic cycle. That was brought to bear in different ways through the course of 2020 and 2021. I continue to be humbled by how impactful the core values of our institution can be and how bought-in our firm is around the core values.

BS: Your firm has among the highest profits per equity partner in the country. What does that say about where the firm is situated right now in the competitive landscape? Does it give you any advantages in terms of hiring and retaining talent?

NB: A one- or two-year blip in financial performance doesn't really move the needle. What I would hope my partners and our colleagues within the firm and people outside of the firm would consider when they're thinking about our financial performance is why it's happening. What's driving it? We think the story there and the competitive advantage we're seeking to capture is that we have a business model around high-impact transactions and high-impact litigation. We have excellent lawyers across the board, and that is a model for institutional health. When our most junior lawyers are considering joining us or when lateral talent may be considering joining us, the underlying characteristics

of who we are will tell a story for us that is aligned with who we are, which is one of the exceptional law firms in the world.

BS: After the past couple years really pushed the firm forward on the financial front, does it become harder to keep delivering meaningful growth year after year to keep partners satisfied?

NB: I think our partnership understands that year-over-year growth characteristics tell an imperfect story and what we really can, should and do look at is a long-term growth trajectory. What are we doing over a five-year period and what does that imply for the next five years?

We've been around for a long time at the upper ends of the legal services market and we intend to stay there. Folks at the firm understand what we're trying to accomplish here is a long-term trend line that is exceptional. That is the more narrow perspective on it, but more broadly, our lawyers and business services people understand the institution is a lot more than just the financial results. When we think about keeping people happy, it's the culture of excellence, the team orientation, the professional challenges that operating at the highest end of the legal services presents, the progress we can make on diversity, equity and inclusion. The whole totality of what our firm does every day and what it stands for is really what keeps people happy.

People understand that markets move up and down. When I think about all the things that make up Davis Polk, financial or otherwise, are we moving in the right direction? I feel very pleased that when you take into account the balance of it, we're there.

BS: Are there any particular areas where the firm is focused on growing and adding to its strength?

NB: We are very focused on progressing a strategically driven growth strategy. That's not just growth for growth's sake, but in the practice areas where we believe we are exceptional. That would include our core transactional areas, our capital markets, finance, restructuring and M&A practices, and certain parts of our litigation practice. We expect to continue to add—primarily by way of promotions, but to some extent in the lateral market—more exceptional lawyers to our team.

We're very focused on continuing to make progress beyond what we've already done in the private equity arena. We grew our private equity business more than 50% year over year last year. That's an initiative we want to continue. We're an exceptional capital markets firm. It makes all the sense in the world for us to continue to grow our core competence there. And those are just two examples.

We want to maintain focus. We don't want to be all things to all

clients. When we're growing the firm and we have areas of concentration, we want those areas to align with where we want to grow.

BS: We've started to hear a little more conversation lately about some headwinds facing the legal industry and the overall economy, concerns about a dip in dealmaking and other issues that might tamp down firms' growth after a pretty unbelievable year. Are there challenges you're anticipating over the next several months?

NB: This is a business that has ups and downs. At some level a law firm leader always needs to be thinking about the portfolio of practices in a balanced way and anticipating the possibility that, looking three months out, the market could turn in a different direction, be it up or down.

Sitting where I sit today, given what's happening around monetary policy, given the geopolitical uncertainty not just in Ukraine but also some of the issues with regulatory alignment in China and national security issues, there's inherently more uncertainty at the moment and transactional participants are much more discerning than they had been over the last couple years. That does suggest that business may slow down a little bit, but big picture, we're a firm that we believe is constructed for good and bad cycles.

When things turn south, we have a very successful and thriving liti-

gation practice and restructuring practice. Our focus on private equity tends to hedge against the cyclicity of the strategic M&A business. We're well hedged for down cycles. We saw that in the financial crisis of 2008 and we've seen that in other down cycles prior to that.

Do I think that the outlook for the next three months, which is about as far as one can look out, is portending choppy waters? I do, but I also think our law firm is positioned to do OK in that type of environment as well.

BS: Are there steps you think firms can and should be taking to use this surge in demand to invest in the future? Is there anything Davis Polk is doing to that effect in the midst of this wave of success?

NB: We take a long-term perspective on this business. We will be continuing to invest in the growth of the business. We have a high degree of confidence that the business model makes a lot of sense for the current economy in normal economic cycles both good and bad. The mistake, from my end, would be to be overly short-termist and react to the next three months rather than the next five years. A disciplined, continued execution of our strategy is what you're going to see from us.

BS: What keeps you up at night?

NB: Probably the biggest challenge I see is managing

through—in a successful and healthy way—two objectives that are critical to our success. The first is, at some level, the easier part, which is making sure we're energetic, that our client service is exceptional, that our outcomes are exceptional and all that comes with being a premier law firm in 2022. But to do that in the context of a firm that is deeply protective of its culture and deeply anchored in core values is something one can never assume.

So I spend probably more time on this question than anything else, making sure that while we always want to be modern and forward-leaning, that we're doing so in a way that is consistent with who we want to be as an institution—that we practice in a team-oriented, principled way that focuses on the client first. Managing both the market demands for excellence and the speed with which the market moves—alongside a culture that is deeply important to the overall health and success of our law firm—is really complicated. That probably is the thing that keeps me up at night more than anything else: making sure we're always in touch with our core values and as we try to navigate this increasingly competitive market, that those core values are always our touchstone along the way. It's a differentiator in my mind about our law firm and we're really proud of it.