2026 CITI HILDEBRANDT CLIENT ADVISORY

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Gretta Rusanow
Managing Director and Head of Law Firm
Advisory Services, Law Firm Group
Citi Global Wealth at Work

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Part I.
The law firm market in 2025

For law firms, 2025 was a year of many unanticipated challenges[1]. The year started with optimism about the new administration, with expectations of a business-friendly environment fueling transactional activity. However, market volatility, driven by tariff announcements, trade wars and uncertainty around the timing of interest rate cuts, delayed the much-anticipated rebound in transactional activity. In addition, the presence and threat of executive orders targeting law firms, alongside EEOC focus on the industry, contributed to a challenging environment in the early part of the year.

Despite these challenges, the industry performed well through the first nine months of 2025. Revenue grew 11.3% – driven by the collection of high inventory levels entering the year, 1.9% demand growth, and a 9.6% increase in rates.

Demand growth gained momentum throughout the year. This was driven by litigation, large cap M&A, funds/investment management, private equity secondaries activity, private credit, bankruptcy and restructuring, infrastructure and real estate. Meanwhile, broad-based transactional activity was muted at the start of the year, particularly in the middle-market. However, this accelerated in the third quarter, as market volatility abated to some degree.

The collection cycle lengthened by 1.2%, reversing the shortening we saw in 2024. There were three factors driving this lengthening. First, clients have been taking longer to pay as they manage their working capital in the high-interest rate environment. We have also heard that clients are taking longer to pay in instances where fixed-fee arrangements are in place. Second, while litigation is strong, the industry has moved to a greater dependence on transactional work, which has comparatively longer collection cycles. Third, and perhaps most significantly, market volatility resulted in many deals to be placed on hold.

The unbilled time associated with those deals most likely won't be billed until those deals close.

That said, inventory at the end of September was strong, up 12.7% – fueled by 9.6% growth in accounts receivable and 15.7% growth in unbilled time. These high inventory levels are a positive signal for strong fourth quarter collections.

We also saw growth in headcount, up by 2.9%. With a 0.5% decline in equity partner headcount, all of that headcount growth came from salaried lawyers. Leverage was up 4.3% and, significantly, we saw income partner growth of 6%. Total headcount investment outpaced demand growth, resulting in a productivity decline of 0.6%.

This investment in more salaried lawyers was a major factor in the 9.1% expense growth firms saw through the first nine months of the year. Compensation expenses grew 9.8%, driven partly by the growth in total salaried lawyer headcount. Another important factor was the continued shift to a more senior and expensive leverage model, as firms invested in more income partners.

There was also operating expense pressure through the first nine months, up 8.4%. Firms continued to invest in technology, particularly cloud computing and cyber security. And we saw a greater focus on investment in Generative AI ("Gen AI") this year.

Another major driver of operating expense growth was the continued upskilling of the professional staff leverage model. As firms added more technology, business development, and billing and collections expertise to remain competitive, their professional staff salaries continued to rise. In addition, as firms both grew and increased in-office attendance, we have seen an uptick in real estate spending in 2025.

Looking ahead to the full year results, continued momentum in the fourth quarter and double-digit inventory growth lead us to expect strong full year 2025 revenue growth. Despite continued expense pressure, we also expect to see strong average PPEP growth.

[1]Our analyses and projections are based on data collected from a sampling of primarily US-headquartered law firms by Citi Global Wealth at Work, as well as conversations with law firm leaders. Sources include the "Citi Annual Survey Database" of 195 US- and UK-headquartered firms, including 43 Am Law 1-50 firms, 37 Am Law 51-100 firms, 51 Am Law Second Hundred firms, and 64 additional firms; 185 firms from the "Citi 9mo'25 Flash Survey," including 42 Am Law 1-50 firms, 38 Am Law 51-100 firms, 51 Am Law Second Hundred firms, and 54 additional firms; and the "Citi Law Firm Leaders Survey" of 55 large firms headquartered in the US, UK, China and India.

Percentages used in the Figures may not add exactly to 100% due to rounding.

Performance by revenue segment

Looking at these nine-month results by law firm revenue size, all segments experienced demand growth, strong revenue growth and healthy inventory levels going into the fourth quarter.

Am Law 1-50 firms saw demand growth of 1.8% on average. While there was a delay in the return of broad transactional activity, demand growth came from large cap M&A, litigation and a range of other practices. This segment also grew headcount by 3.1%. All of this growth came from salaried lawyers, as equity partner headcount stayed flat, adding further expense pressure for these firms. Meanwhile, average lawyer productivity fell by 0.9%. Am Law 1-50 firms also saw a 2.3% lengthening of the collection cycle, driven in part by the stops and starts of deal activity in a volatile environment. Despite these challenges, the combination of demand growth, rate increases and early year collections coming from last year's high inventory levels drove 12.1% revenue growth through the first nine months. Meanwhile, inventory at the end of September was up 14.6%, signaling a strong end to the year.

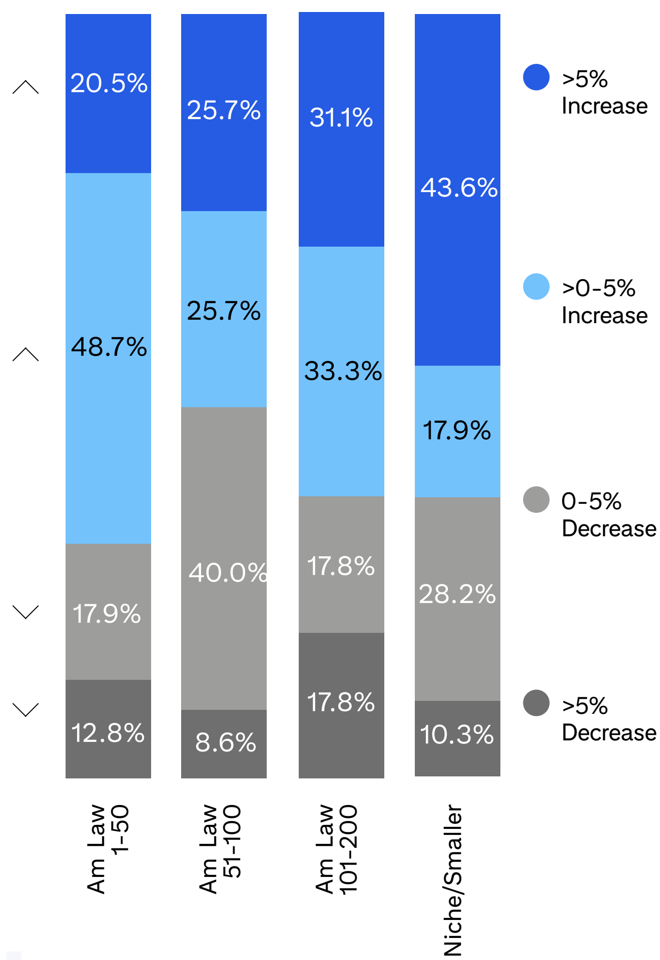
Am Law 51-100 and Second Hundred firms also saw strong demand growth through the first nine months, up 2% and 1.6% respectively. Both segments increased salaried lawyer headcount while contracting their equity partner headcount. As a result, they increased leverage by 4.4% and 5.1% respectively. Meanwhile, productivity dipped by only 0.2%. Both segments shortened their collection cycles, helping drive revenue growth of 10.4% and 8.7% respectively. Both segments entered the fourth quarter with strong inventory levels, up 8.9% for Am Law 51-100 firms and 8% for Second Hundred firms.

For firms outside of the Am Law 200, demand increased by 2.3% during the first nine months of 2025. These firms also shortened the collection cycle by 2.6%. Revenue grew by 11.6%, far outpacing 6.3% expense growth. This segment is well positioned for a strong year end, with 8.7% inventory growth.

Industry demand dispersion: 9mo'25 v 9mo'24

Behind the averages, there was dispersion in the performance of individual law firms across all segments of the industry – as illustrated in **Figure 1.** The Am Law 50 segment saw the highest proportion of firms reporting demand growth, at 69.2%. Am Law 51-100 firms saw more dispersion, with only 51.4% reporting demand growth. Meanwhile, Am Law Second Hundred firms and firms outside of the Am Law 200 saw similar levels of demand dispersion, with 64.4% and 61.5% reporting demand growth in each of these segments respectively.

FIGURE 1: DEMAND DISPERSION BY REVENUE SEGMENT: 9MO'25 VS. 9MO'24



Source: Citi Flash Survey © Citibank, N.A. November, 2025

Part II. Looking ahead to 2026 and beyond

A. Growth opportunities and challenges
B. Growth trends to watch
C. Operational efficiency trends to watch
D. Gen AI trends to watch
E. Funding growth

A. Growth opportunities and challenges

Looking ahead to 2026 – and beyond – firms will face three major challenges. First, we expect an uncertain and volatile environment to continue in the coming year. Second, firms will be focused on Gen AI – what to implement, how it will affect the size and composition of their leverage models and what it will mean for the law firm billing model. Third, the war for talent and continued lateral movement is likely to continue, as firms look to take market share in an industry that sees only around 1.9% demand growth each year. In addition, firms will face continued challenges around the rising cost of running a law firm and pricing pressure. And the challenges of modest demand growth and rising costs will likely drive continued consolidation.

Despite these challenges, there are many opportunities. We expect to see a rebound in broad M&A, together with continued strength in the practice areas that drove growth in 2025. Firms tell us that they plan to broaden their practice mix, no doubt in response to the pain felt by many in a slow transactional market. As a result, we can expect to see continued growth through lateral acquisition. As firms broaden their practice mix, they will look to do more with existing clients. And while Gen AI presents many challenges, it will also present digital transformation opportunities.

Growth opportunities and challenges by region

In terms of the biggest growth opportunities over the next two years, as the Citi Law Firm Leaders Survey reveals, the US will remain the main target of law firm investment, while we expect overseas investment to become even more focused on a couple of specific regions. Indeed, London is firmly positioned as the number two market for growth, as illustrated in **Figure 2.**

New York will continue to be the most important market for law firm expansion. However, elsewhere in the US, we expect to see a shifting landscape. While California and Washington DC will remain growth opportunities generally, large firms see less opportunity coming out of those markets than in recent years.

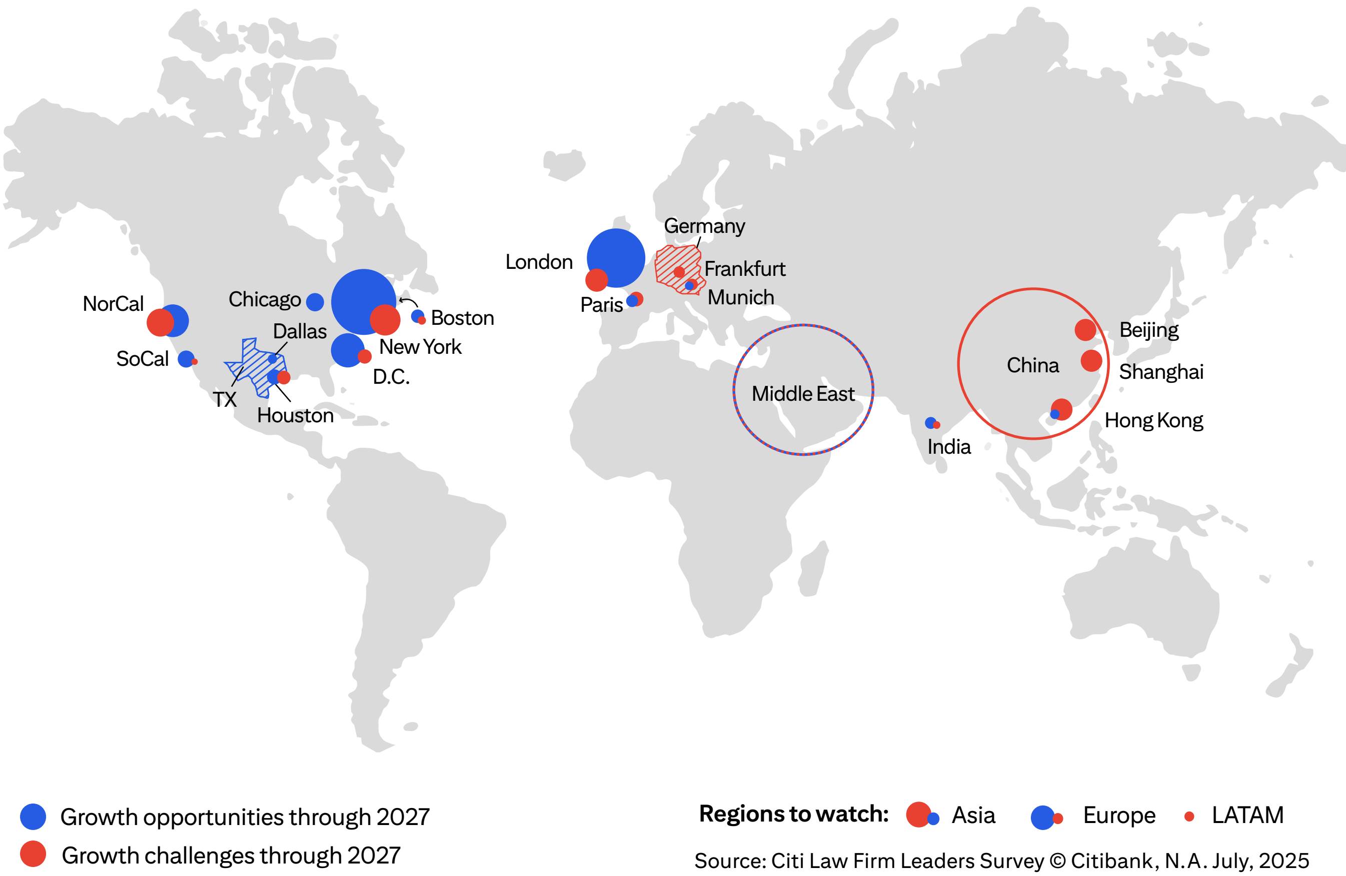
Texas will likely continue to be an important growth market for firms, though the outlook for Houston is mixed. And we expect to see continued expansion in Boston and Chicago.

Outside the US, while London will continue to be an important growth market, firms see few growth opportunities in other markets. We expect to see continued challenges around investing in China (and Asia generally), as a result of the ongoing tariff wars and a decrease in cross-border activity.

While there is some positive sentiment about Europe, Germany is likely to remain a challenge.

The biggest shift in sentiment is in how firms are viewing the Middle East, particularly Dubai and Riyadh. A number of large law firms are pursuing growth in this region – more than we have seen in the past. However, firms recognize the challenges associated with entering a new and untested market, including uncertainty about the size of the opportunity.

FIGURE 2: GROWTH OPPORTUNITIES AND CHALLENGES BY REGION THROUGH 2027



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

Growth opportunities and challenges by practice

Large firms are more optimistic about the growth prospects for M&A/corporate/transactional practices in 2026 and beyond than they were a year ago, as illustrated in **Figure 3**. This is likely being driven by a delay in the resurgence of M&A activity we expected to see at the start of 2025.

Firms also remain largely optimistic about the growth outlook for litigation, though some doubt has crept in compared with last year. Doubt is even more prominent in the tempered outlook for regulatory/compliance/investigations practices – an important driver of demand for firms over the past several years. The current administration's actions around the Consumer Finance Protection Bureau and enforcement of the Foreign Corrupt Practices Act are having a direct impact on regulatory practices, as is the scaling back of DOJ investigations. While some state Attorney General activity is expected, it is unlikely to fully replace the decline in Federal agency-driven activity.

As for litigation practices, we have seen increasing activity in mass torts and expect this to continue. We also expect to see growth in complex commercial litigation and intellectual property litigation, particularly as the use of Gen AI grows.

Despite optimism about intellectual property litigation, large firms have mixed views on the growth opportunities for their intellectual property practices in general.

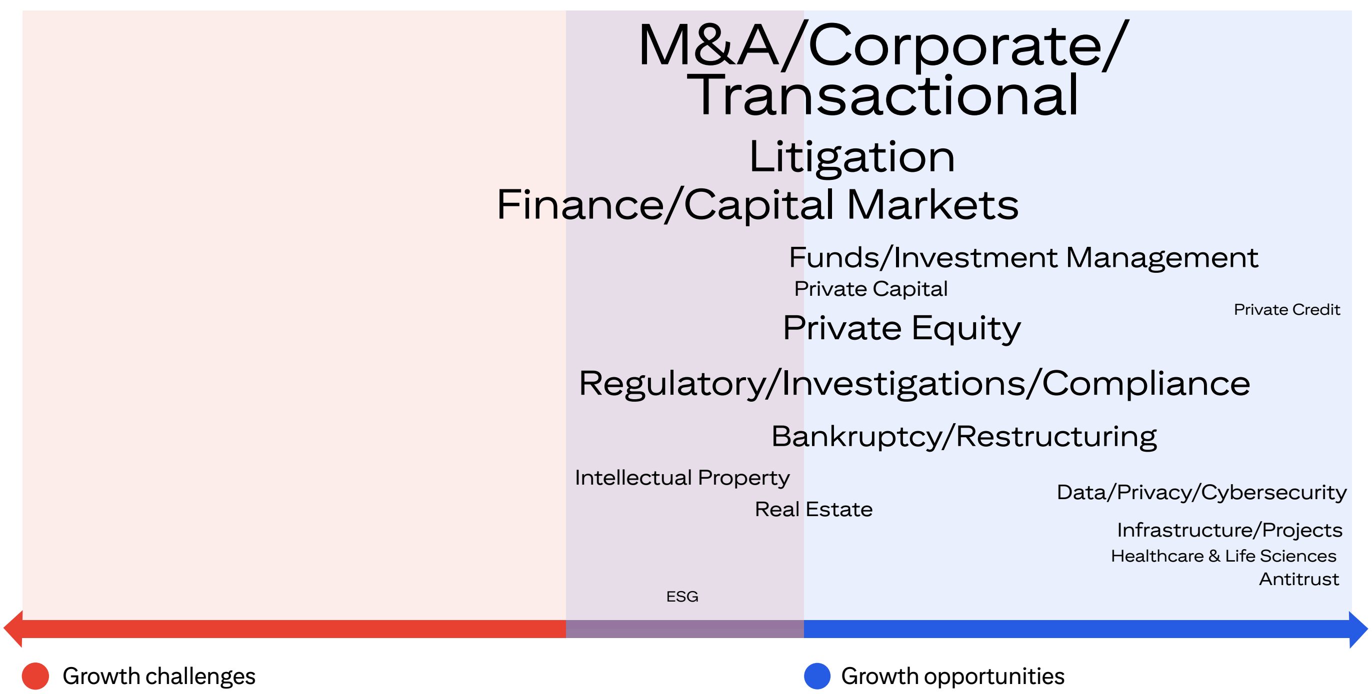
We expect to see further growth in funds and private equity practices, as large firms remain bullish about these two important drivers of growth. Firms are increasingly focused on private capital generally, and specifically private credit. And while the outlook for finance/capital markets remains mixed, we see more optimism ahead than a year ago.

Bankruptcy and financial restructuring will also likely continue to be a major driver of growth. And we expect to see growth coming from data/privacy/cybersecurity, infrastructure/projects, antitrust and healthcare and life sciences practices.

While some firms still view real estate as a challenging practice, we see more positive sentiment about its likely growth than we have in recent years. The return to office and the boom in building AI data centers will be key drivers for more real estate activity.

It remains to be seen how much international trade advisory work will be driven by government trade policies in the coming year.

FIGURE 3: GROWTH OPPORTUNITIES AND CHALLENGES BY PRACTICE THROUGH 2027



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

Growth opportunities and challenges by industry

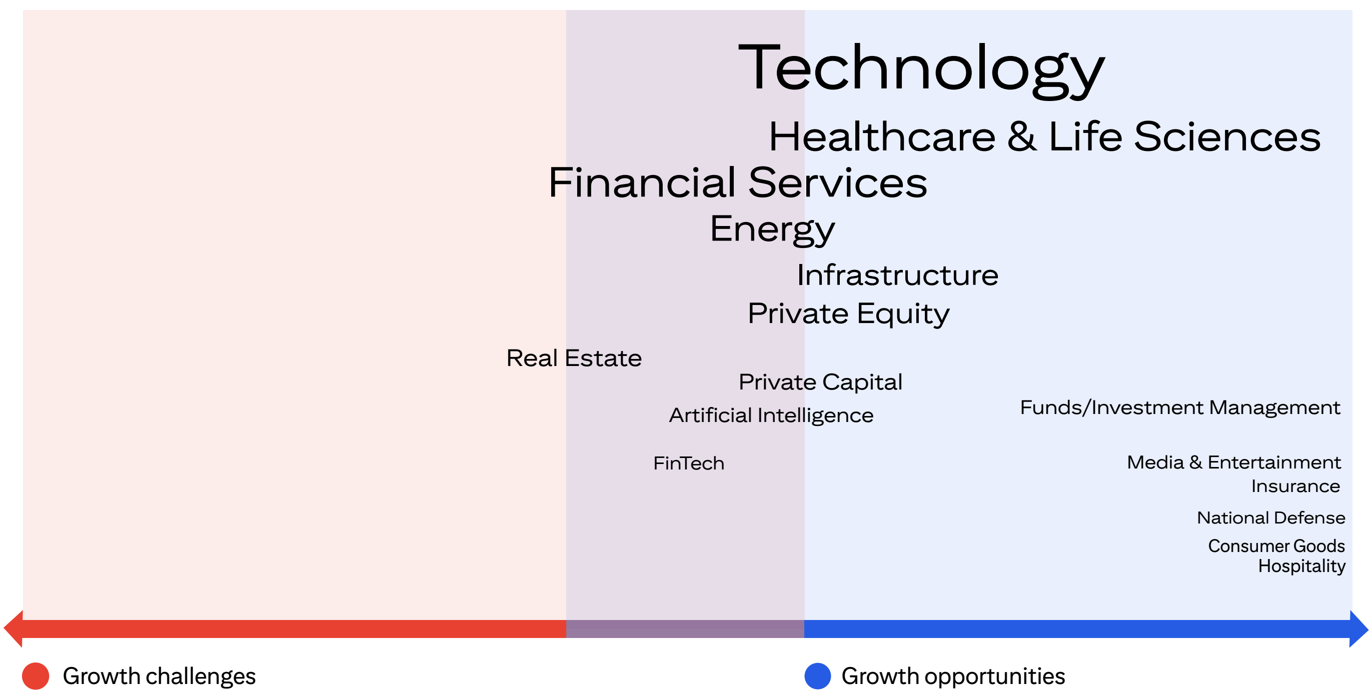
The technology sector is expected to continue as the biggest driver of growth for law firms over the next two years, followed by healthcare and life sciences, as illustrated in **Figure 4**. Firms are also largely optimistic about growth in work coming from infrastructure, private equity and funds/investment management clients.

On the other hand, financial services will likely remain a challenging client sector. Pricing pressure from this industry has been a longstanding issue. Looking ahead, an expected continued shift to private capital will likely have an impact on the size of this client sector for law firms.

There is also mixed sentiment about growth opportunities in the energy sector. The current US administration's policies on alternative energy have caused concern among some firms about the future of alternative energy. At a minimum, they are concerned about which parts of the energy sector to focus on.

Other growth industries are likely to include media and entertainment, insurance, national defense, consumer goods and hospitality.

FIGURE 4: GROWTH OPPORTUNITIES AND CHALLENGES BY INDUSTRY THROUGH 2027



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

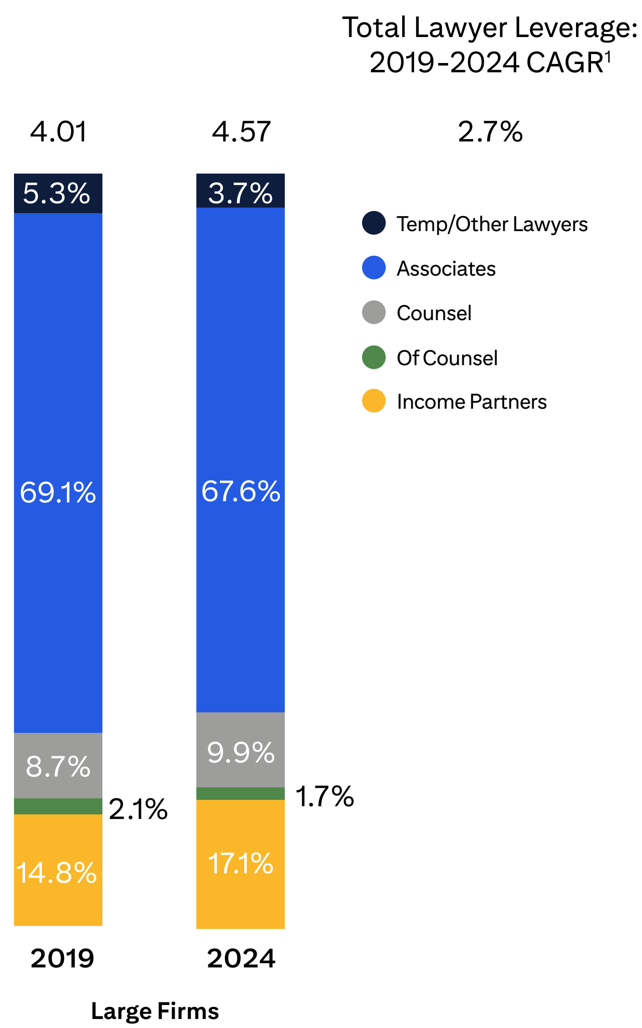
B. Growth trends to watch

1. The continued growth and reshaping of leverage

We have seen continued growth in lawyer leverage over the past several years, and we expect this to continue. During 2019-24, large law firms increased lawyer leverage at an average annual rate of 2.7%, reaching an average of 4.57 salaried lawyers per equity partner in 2024.

Looking at the composition of lawyer leverage during this period, as illustrated in **Figure 5**, we saw a shift away from associates and temp/other lawyers to a greater reliance on counsel and income partners. The net effect has been the adoption of a more senior, more expensive leverage model, particularly among large law firms.

FIGURE 5: COMPOSITION OF LAWYER LEVERAGE: 2019-24

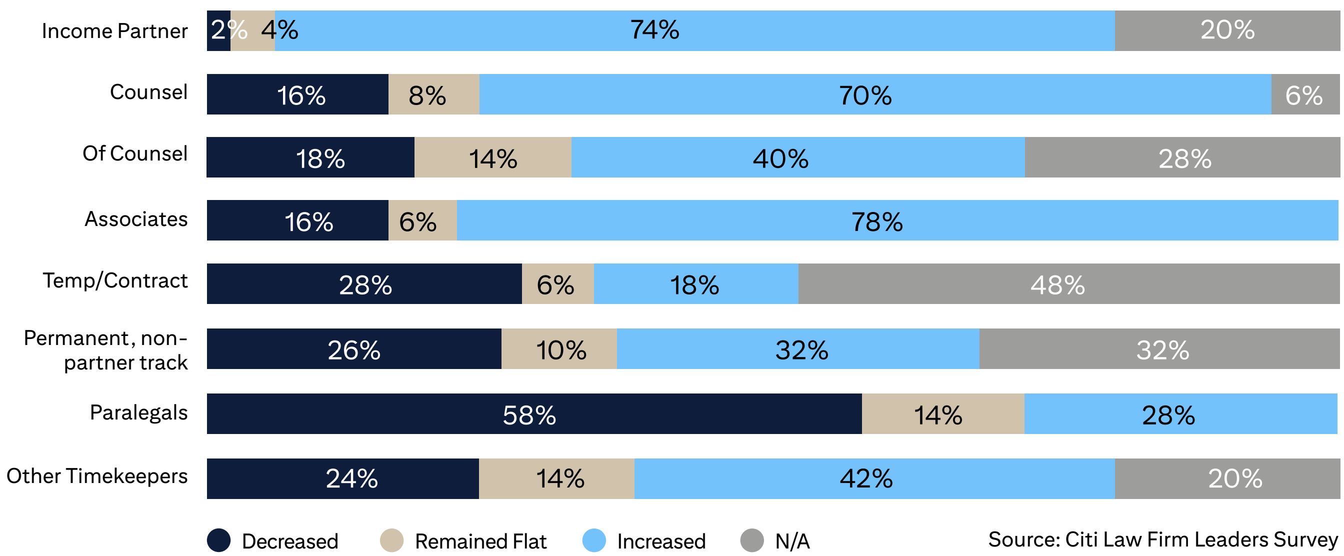


Source: Citi Annual Survey of Law Firm Performance

[1] CAGR: compound annual growth rate

Behind these averages, as **Figure 6** illustrates, the vast majority of firms added to their income partner, counsel and associate ranks during 2019-24. Some 78% of large firms increased their associate ranks, while almost three quarters of those added income partners. In addition, 70% of large firms added more counsel to their leverage models.

FIGURE 6: LAWYER LEVERAGE GROWTH BY CATEGORY: 2024 VS. 2019



Source: Citi Law Firm Leaders Survey
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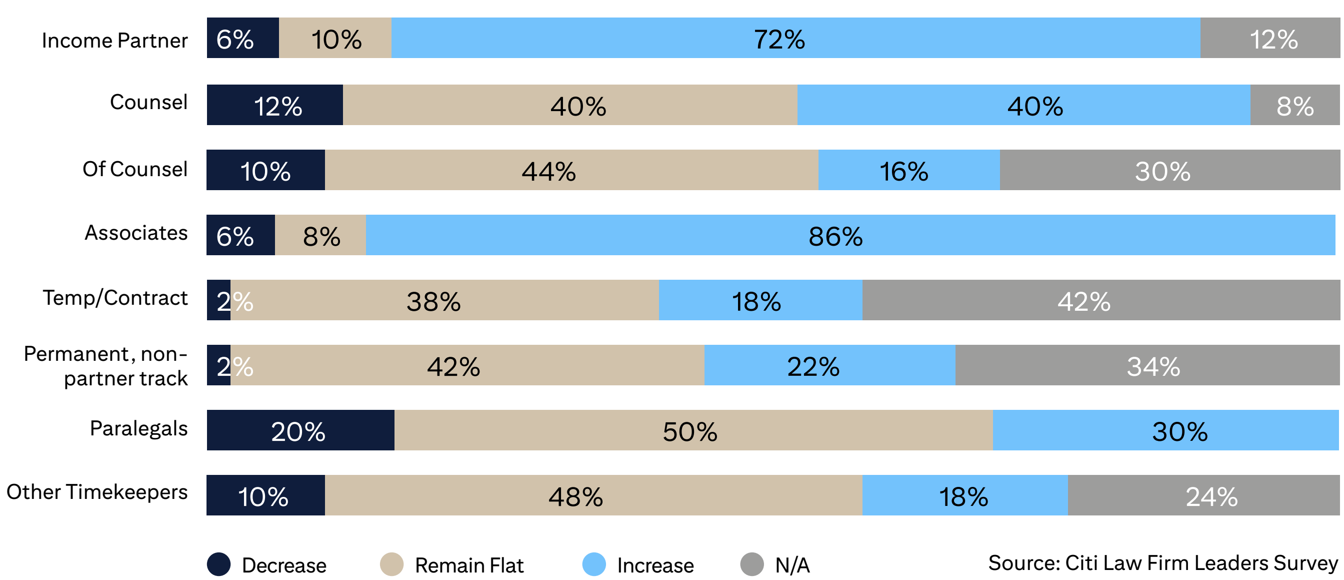
Meanwhile, we saw greater dispersion in the use of lower-cost lawyers and other timekeepers. 76% of large firms reported not using temp/contract lawyers or reducing their use of them during 2019-24. The majority of firms also reported either not using permanent, non-partner track lawyers, or using fewer of them than before.

Looking ahead, we expect firms to continue increasing lawyer leverage and shifting to a more senior leverage model through 2027 – as **Figure 7** illustrates.

FIGURE 7: PROJECTED LAWYER LEVERAGE GROWTH BY CATEGORY: 2027 VS. 2024



Source: Citi Law Firm Leaders Survey
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Among large firms, 67% expect to increase their lawyer leverage through 2027. It's unlikely that we will see much growth in lower cost and other timekeepers. The focus will be on adding associates and income partners.

72% of large firms plan to invest in more income partners over the next two years. We can also expect to see more firms introduce an income partner title, demonstrated by the proportion of large firms reporting NA dropping from 20% during 2019-24 to just 12% during 2024-27.

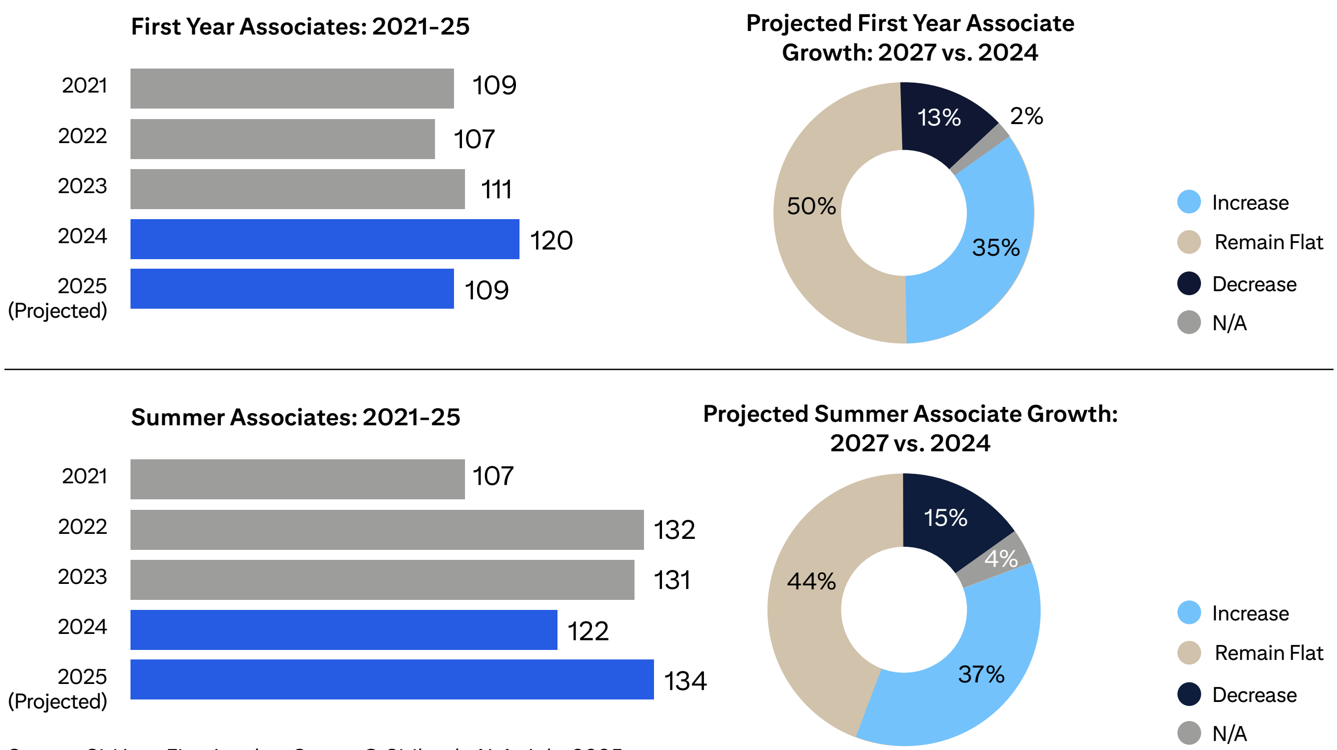
We also expect to see varied approaches to investment in counsel. While 40% of large firms plan to add more counsel, another 40% expect to stay at their 2024 levels. This mix in approaches has been evident in our meetings with clients during 2025. Some firms have focused more on income partner promotions in place of counsel promotions.

On the other hand, some have drawn a distinction between those who should be promoted to income partner vs. counsel, and have continued to invest in both.

The biggest area of focus for large firms over the next two years will be on increasing their associate populations, with 86% planning to do so.

This may seem surprising, given the commonly held belief that Gen AI will reduce the need for junior associates. Certainly, it appears that large firms are following recent historical levels of summer and first-year associate hiring during 2025 – as illustrated in **Figure 8**. While it's true that we saw a decline in average first year associate class sizes during 2025, the actual size of the class, at 109, follows the hiring patterns of 2021-23. Meanwhile, we saw a jump in summer associate class sizes during 2025, to match the class sizes seen during 2022 and 2023.

FIGURE 8: SUMMER AND FIRST YEAR ASSOCIATES: 2021-27 GROWTH



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

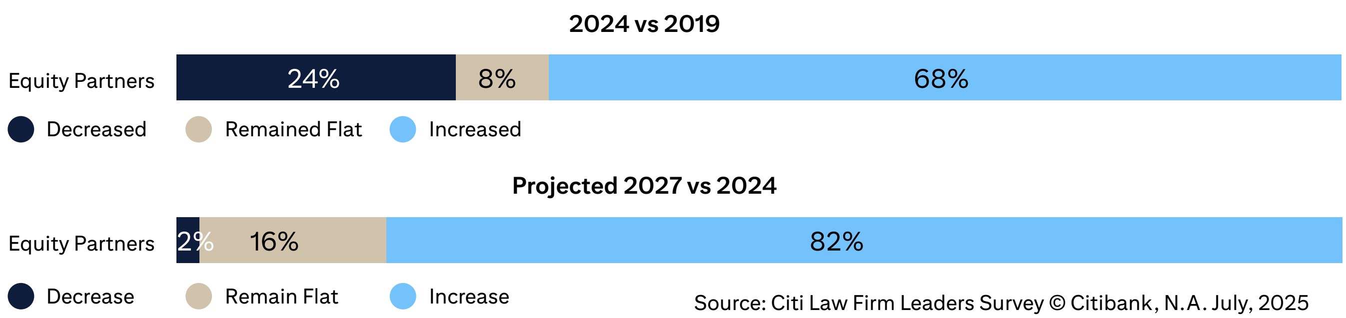
Looking ahead, we see further interesting trends emerging. While 86% of large law firms plan to increase the size of their overall associate ranks through 2027, only 35% plan to increase the size of their first-year associate classes. Similarly, only 37% of large firms plan to increase the size of their summer associate classes through 2027. This gap suggests that firms will adjust their associate populations to a more senior demographic over the next two years, likely driven by the adoption of Gen AI. We address this in more detail later in this document.

This begs the question: 'How will firms have enough senior associates in the longer term if they have trained fewer first year associates?'

2. Equity partner growth

We expect to see an acceleration in equity partner growth over the next two years. During 2019-24, equity partner growth was at a modest average annual rate of 0.7% across large firms. And during that time, only around two thirds of firms reported increasing their equity partner ranks, while almost a quarter saw a reduction – as illustrated in **Figure 9**.

FIGURE 9: EQUITY PARTNER GROWTH: 2019-27



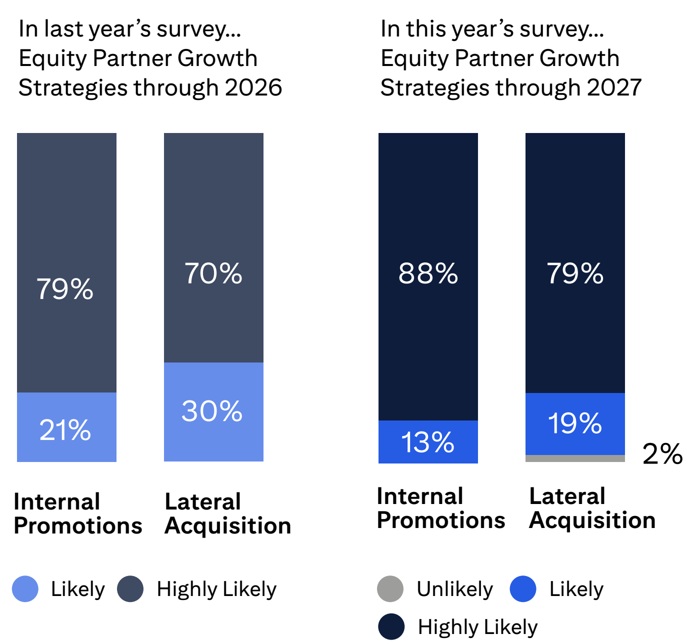
Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

Looking ahead, 82% of large firms plan to grow their equity partnerships through 2027, while just 2% expect a contraction.

We also expect to see a shift in how firms will grow their equity partnerships, as seen in the Citi Law Firm Leaders Survey. Looking out to 2027 – illustrated in **Figure 10** – 88% of large firms are *highly* likely to grow through more internal promotions, up from 79% a year ago. Meanwhile, 79% of firms are *highly* likely to grow through lateral acquisitions, up from 70% in last year's survey. In an industry that has historically seen modest average demand growth from one year to the next, we expect to see the continuation of an active lateral equity partner market as firms look to take market share from others.

While firms are more likely to favor promotions over laterals, the number of firms that are *highly* likely vs. likely to grow through either promotions or laterals underscores the strong growth mindset of some of the largest firms in this industry.

FIGURE 10: EQUITY PARTNER GROWTH STRATEGIES THROUGH 2027



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

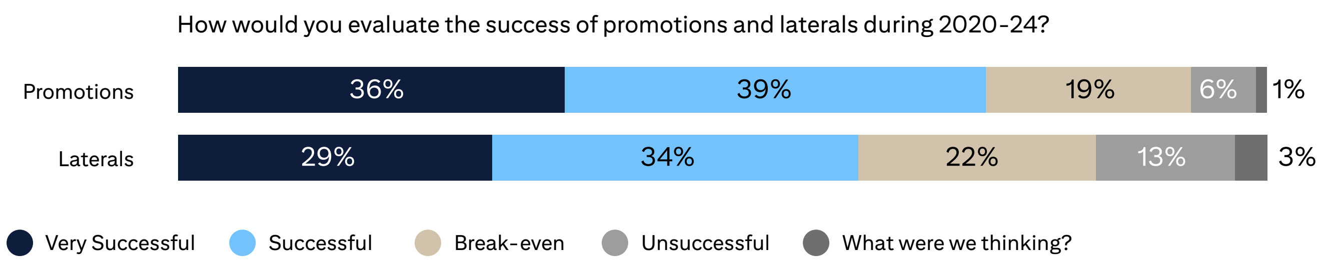
We also expect to see acquisitions in the coming year, with 21% of large firms considering some acquisitions likely. Modest demand growth and the higher cost pressure on firms, particularly in the wake of Gen AI adoption, will drive the need for greater scale. While mergers of equals are less likely, we expect to see firms achieve that scale through promotions, laterals and the acquisition of smaller and mid-size firms by larger firms.

And we expect to see more UK firms seeking a major US presence, possibly resulting in more transatlantic merger activity.

As firms continue to invest in new equity partners, it is worth considering the success rate of the different growth strategies firms have implemented in the past – as illustrated in **Figure 11**. During 2020-24, large firms reported a 75% success rate for promoted equity partners, up from 74% in last year's report. Meanwhile, the success rate of laterals was just 63% – the same rate as in last year's report. In our experience, laterals often over-promise on their ability to move clients to their new firm. While this is not the lowest success rate we've seen in recent years, it has not improved.

Historically, we have seen a consistently higher success rate for promoted equity partners vs. laterals. This is not a criticism of the lateral growth strategy – in a modest demand growth environment, it makes sense for firms to buy market share from others. However, it remains a challenging strategy in an industry so heavily reliant on growth through laterals.

FIGURE 11: EQUITY PARTNER ADDITIONS: 2020-24: LATERALS VS. PROMOTIONS SUCCESS RATE



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

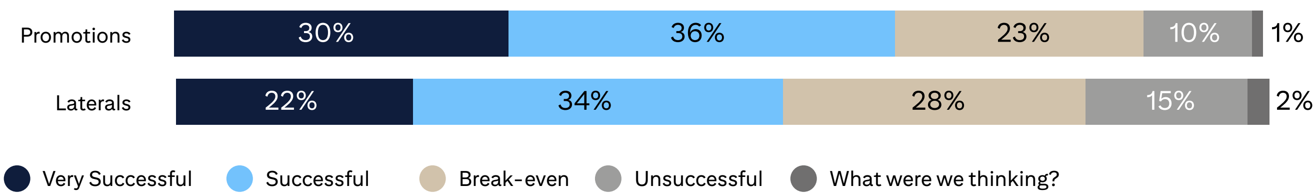
3. Managing income partner growth

We expect to see more income partners. Firms may have added modestly to their equity partner ranks historically, but we have seen comparatively stronger investment in income partners in recent years and expect this to continue. Starting from a relatively low base, we saw large firms add an average of 6.4% income partners each year during 2019-24. Combined with 0.7% average annual equity partner growth, we saw an all-partner average growth rate of 3.0% each year during that period.

However, creating and investing in income partners has been a challenging growth strategy. With the growing investment, we studied the success rate of income partners added during 2020-24. As we saw in the success rate for new equity partners, promoted income partners have a higher rate of success vs. laterals – as illustrated in **Figure 12**. However, the overall income partner success rate is much lower for both promoted (66% above break-even) and lateral income partners (56% above break-even). This demonstrates just how challenging this growth strategy is.

FIGURE 12: INCOME PARTNER ADDITIONS: 2020-24: LATERALS VS. PROMOTIONS SUCCESS RATE

How would you evaluate the success of promotions and laterals during 2020-24?



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

We know from our conversations with law firm leaders that there are many issues to address. This is especially true for firms that have recently introduced an income partner title.

We also see challenges in the financial performance of income partners. Looking at the contribution per lawyer across large law firms in 2024 – illustrated in **Figure 13** – income partners were the least-productive lawyers and the lowest contributors to overall firm profitability.

In comparing income partners to counsel alone, while income partner realized rates were slightly higher than counsel realized rates, they were less productive and were paid considerably more. As a result, the average counsel contributed almost twice as much to overall firm profitability as the average income partner.

FIGURE 13: 2024 CONTRIBUTION PER LAWYER

Per Equity Partner	Large Firms
REVENUE GENERATED	
Productivity (hours)	1,529
Realized Billing Rate (RBR)	$1,327
Productivity x RBR (000s)	**$2,029**
EXPENSE	
Overhead per Lawyer	$371
Average Salary & Bonus	N/A
Benefits per Lawyer	N/A
Total Expense (000s)	**$371**
CONTRIBUTION (000s)	**$1,658**

Per Income Partner	Large Firms
REVENUE GENERATED	
Productivity (hours)	1,526
Realized Billing Rate (RBR)	$1,052
Productivity x RBR (000s)	**$1,606**
EXPENSE	
Overhead per Lawyer	$371
Average Salary & Bonus	$850
Benefits per Lawyer	$35
Total Expense (000s)	**$1,256**
CONTRIBUTION (000s)	**$351**

Per Counsel	Large Firms
REVENUE GENERATED	
Productivity (hours)	1,574
Realized Billing Rate (RBR)	$1,036
Productivity x RBR (000s)	**$1,631**
EXPENSE	
Overhead per Lawyer	$371
Average Salary & Bonus	$529
Benefits per Lawyer	$35
Total Expense (000s)	**$935**
CONTRIBUTION (000s)	**$696**

Per Associate	Large Firms
REVENUE GENERATED	
Productivity (hours)	1,652
Realized Billing Rate (RBR)	$789
Productivity x RBR (000s)	**$1,304**
EXPENSE	
Overhead per Lawyer	$371
Average Salary & Bonus	$346
Benefits per Lawyer	$35
Total Expense (000s)	**$752**
CONTRIBUTION (000s)	**$552**

Source: Citi Annual Survey of Law Firm Performance © Citibank, N.A. May, 2025

There are good reasons for firms to introduce and invest in this group. Talent retention is a major driver of the decision by a number of firms to introduce the income partner title. Many also acknowledge that some clients prefer to work with partners rather than counsel and that having a partner title gives those lawyers a better chance of building an equity-worthy practice. However, their contribution to overall profitability raises some interesting questions, particularly as more firms back away from the more profitable counsel title.

With the anticipated growth of income partners, we fear there will be a ballooning across the industry of income partners who expect to make equity in the coming years. This will force firms to make some hard decisions on who to promote and who to move out. It also raises questions about the potential glut of income partners flooding the market when they aren't promoted to equity partners at their firms.

C. Operational efficiency trends to watch

We expect to see six major operational efficiency priorities for law firms in 2026 and beyond. Some of these priorities will relate to expense management, while others will drive stronger revenue growth.

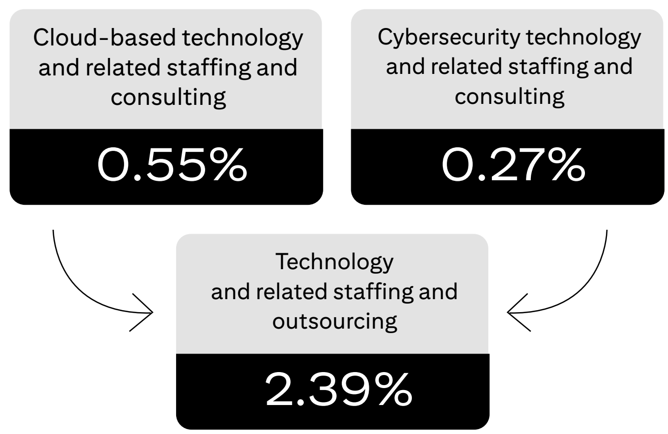
Reengineering the delivery of legal services and business operations through greater use of technology. In just one year, Gen AI has become the number one technology priority for large law firms, swapping places with investment in cloud computing – now the second most significant priority, ahead of cybersecurity in third. We expect that this investment in technology will become an even greater expense for firms in the coming years.

The Citi Annual Survey shows that technology and related staffing, outsourcing and consulting expenses accounted for 2.39% of revenue in 2024 – as illustrated in **Figure 14**. Around one third of that total technology spend was investment in cloud computing (0.55% of total 2024 revenue) and cybersecurity (0.27% of total 2024 revenue). It is perhaps unsurprising that 84% of large firms expect to spend a greater slice of their revenue on cybersecurity by 2027, while 91% of those firms will invest a greater proportion in cloud computing in the same period. And we have only begun to scratch the surface of investment in Gen AI – which is discussed in greater detail later in this report.

In addition to these three major priorities, we expect to see firms invest in data warehousing and upgrading their infrastructure. They will also be investing more in knowledge management and business analytics. We will continue to see firms upgrade or install new financial management systems. And we expect to see more additions to technology staff, as discussed below.

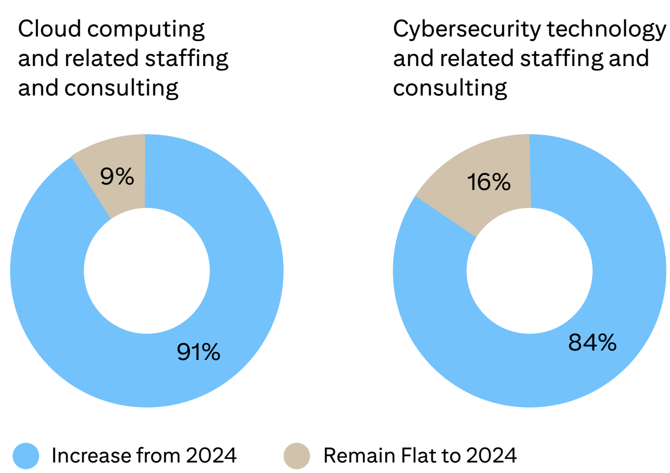
FIGURE 14: 2024 TECHNOLOGY INVESTMENT

% of 2024 firm revenue spent on:



Source: Citi Annual Survey of Law Firm Performance © Citibank, N.A. May, 2025; Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

What do you expect will happen to the % of total firm revenue spent by 2027?



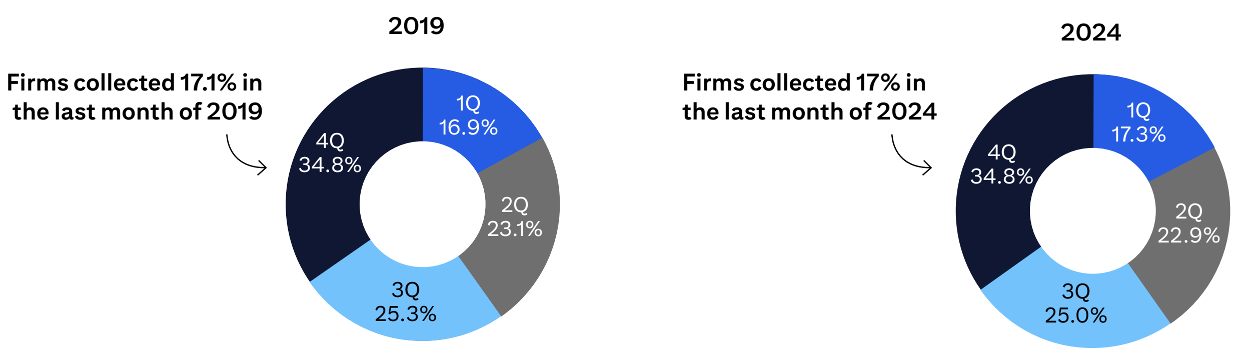
Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

Improving the cash collection cycle. One of the biggest challenges for firms across the industry in recent years has been the considerable lengthening of the collection cycle. Based on the Citi Annual Survey, during 2019-24, the collection cycle lengthened by an average of 3% each year – from an average of 115 days in 2019 to 134 days in 2024. That's an increase of almost three weeks to the average cycle.

We have also seen little change in the uneven nature of collections throughout the year – as illustrated in **Figure 15**. In 2019, while roughly one quarter of annual revenue came in each of the second and third quarters for large firms, more than one third of annual revenue was collected in Q4. In fact, more revenue was collected in the last month of the year than in the whole of the first quarter.

By 2024, we saw some improvement in first quarter collections, coming largely from what used to be collected in Q2 and Q3. However, Q4 still accounted for more than twice the amount collected in Q1. And the revenue collected in the last month of 2024 was almost as much as the amount collected throughout the whole of Q1.

FIGURE 15: CASH COLLECTION BY QUARTER: 2019-24



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

There are a number of factors causing the lengthening, some of which are beyond the control of firms. We have heard that in a high-interest-rate environment, clients have taken longer to pay bills. We have also heard that where fixed fee-related work is involved, there can be a delay in client payment.

In the Citi Law Firm Leaders Survey, firms describe the shift in practice mix from litigation work (typically billed on a monthly basis) to more transactional work (which is typically billed at the end of the transaction) as the number one driver.

Client e-billing systems are the second biggest factor. Firms highlight the increasing complexity of each client's unique e-billing systems and guidelines, requiring additional staff to ensure that bills comply.

Firms also describe partners not being focused enough on billing and collections. Unlike the challenges described above, how partners approach billing and collections is largely within their control. And a greater focus by partners can not only shorten the collection cycle but also smooth out the uneven nature of collections throughout the year.

We expect that firms will continue to focus on what is within their control to improve the cycle, and highlight five best practices shared with us in the Citi Law Firm Leaders Survey:

1. We expect further growth in dedicated billing and collections teams, empowered to deal directly with the client.
2. There will be increasing emphasis on "first time billing accuracy" to ensure that electronic bills comply with each client's unique outside counsel billing guidelines and are not rejected.
3. The frequency of billing could increase to smooth out the lumpiness of collections throughout the year. This may mean adopting more monthly billing or interim billing on long-dated matters.

4. Firms could introduce more rigor around the monthly billing process. Some firms describe sending bills in the first ten days of a month and following up with the client mid-month for payment ideally by month-end where possible.
5. Partners could be given dashboards to track billing and collections, while also following up regularly with partners on their billing and collections activity.

These best practices are essentially about empowering the billing and collections team, ensuring greater billing accuracy and introducing more rigor to the process.

Using data analytics to capture market share. In recent years, as reported in the Citi Law Firm Leaders Survey, 84% of large law firms have relied on data analytics tools to measure and analyze profitability. As firms seek to capture market share from existing and new clients, we expect to see greater use of data analytics tools to also help identify growth opportunities. As just one example, we expect that firms will make even greater use of data analytics to understand their existing clients' total legal spend and identify opportunities to win a greater share of their business.

A continuing shift in the size and composition of professional staff leverage. One of the most pronounced trends we have seen in recent years has been the reshaping of the professional staff leverage model. Reducing secretarial staffing ratios was already a trend before Covid, which then accelerated further reductions. Meanwhile, as firms have become larger and more complex, we have witnessed the increased investment in other professionals needed to drive revenue and profit growth.

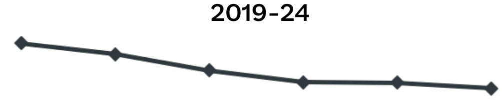
These new roles are necessary to operate effectively, but they come at a cost. As illustrated in **Figure 16**, during 2019-24, large law firms reduced their total professional staffing ratios from 0.89 to 0.8 professional staff per lawyer. A large driver of this was the reduction in the number of secretaries per lawyer from 0.22 in 2019 to 0.16 by 2024. With this reduction came a $4,000 saving on secretarial salary cost per lawyer during that five-year period. However, the overall cost per lawyer for all professional staff salaries actually increased by $20,000 during the same period. In fact, in 2024 alone, the cost per lawyer of professional staff salaries jumped by $9,000, reaching $134,000 per lawyer in 2024.

FIGURE 16: PROFESSIONAL STAFF TRENDS: 2019-24

Non-Legal Staff per Lawyer: 2019-24

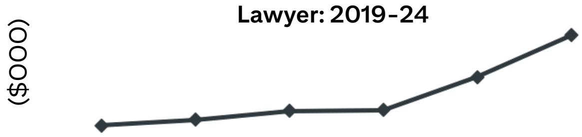
	2019	2020	2021	2022	2023	2024
Large Firms	0.89	0.86	0.82	0.79	0.80	0.80

Legal Secretary per Lawyer: 2019-24



	2019	2020	2021	2022	2023	2024
Large Firms	0.22	0.21	0.19	0.17	0.17	0.16

Non-Legal Staff Costs per Lawyer: 2019-24



	2019	2020	2021	2022	2023	2024
Large Firms	114	115	117	117	125	134

Legal Secretary Salary per Lawyer: 2019-24

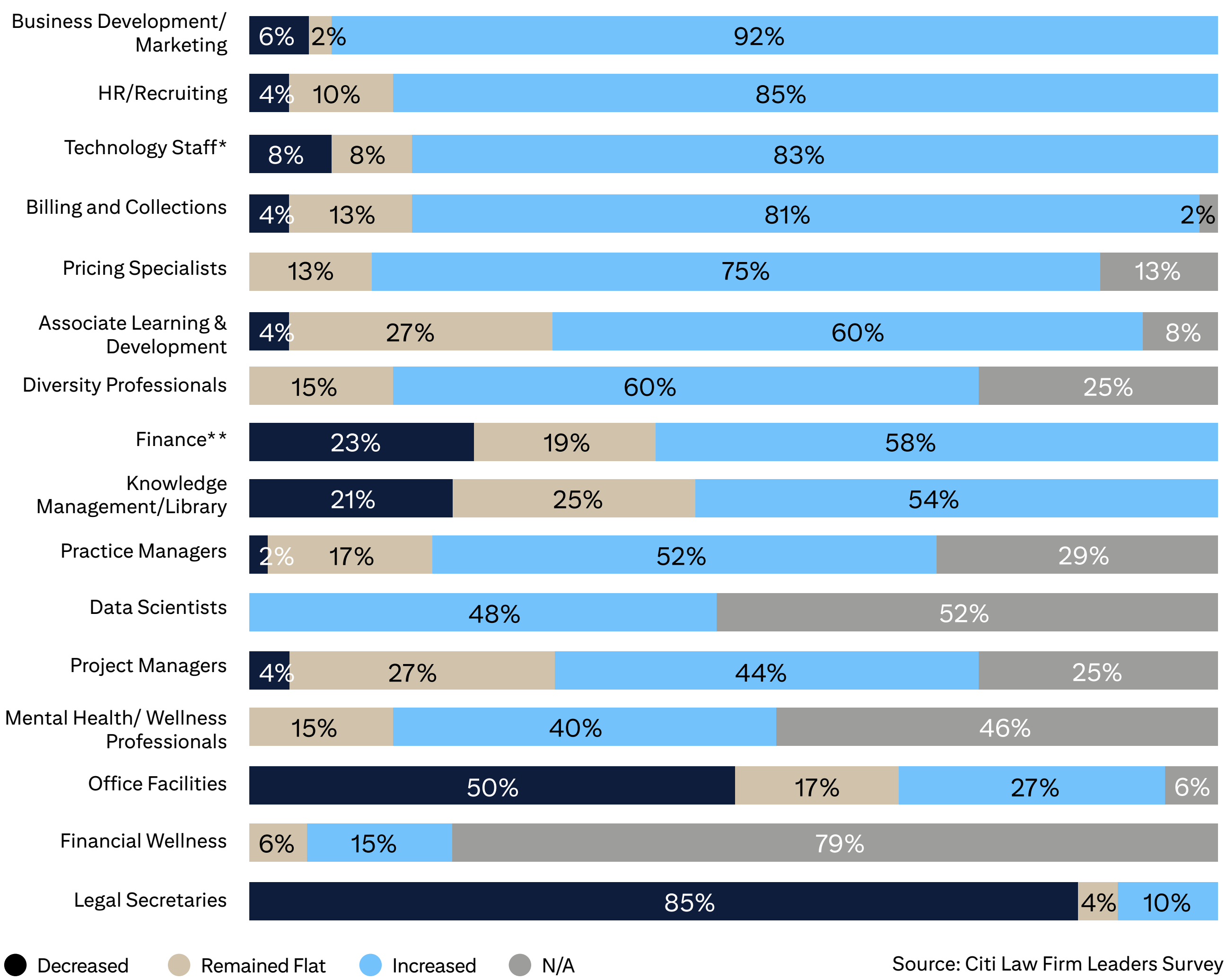
	2019	2020	2021	2022	2023	2024
Large Firms	19	18	16	15	15	15

Source: Citi Annual Survey of Law Firm Performance © Citibank, N.A. May, 2025

The shifting composition of professional staff leverage – illustrated in **Figure 17** – demonstrates why the cost has increased so significantly. As 85% of large firms have reduced their secretarial headcount, the vast majority have increased the number of business development and marketing and HR/recruiting professionals, in line with their growing businesses. They have also added to their technology teams, with almost half of these firms already bringing on data scientists. And they have increased the size of their billing and collections teams, their pricing specialist teams and their finance teams, in an effort to improve revenue and profit growth.

Citi data shows that large firms added an average of 5.3% more business development staff each year during 2019-24. They also added an average of 3.6% more finance professionals and 2.5% more technology professionals each year over the same period. These are much needed roles, but they are more expensive than the secretaries who are no longer with their firms. Indeed, the shift in the composition of professional staff leverage and its associated cost pressure has been one of the major drivers of expense growth for firms in recent years.

FIGURE 17: PROFESSIONAL STAFF LEVERAGE GROWTH BY CATEGORY: 2024 VS. 2019



Source: Citi Law Firm Leaders Survey

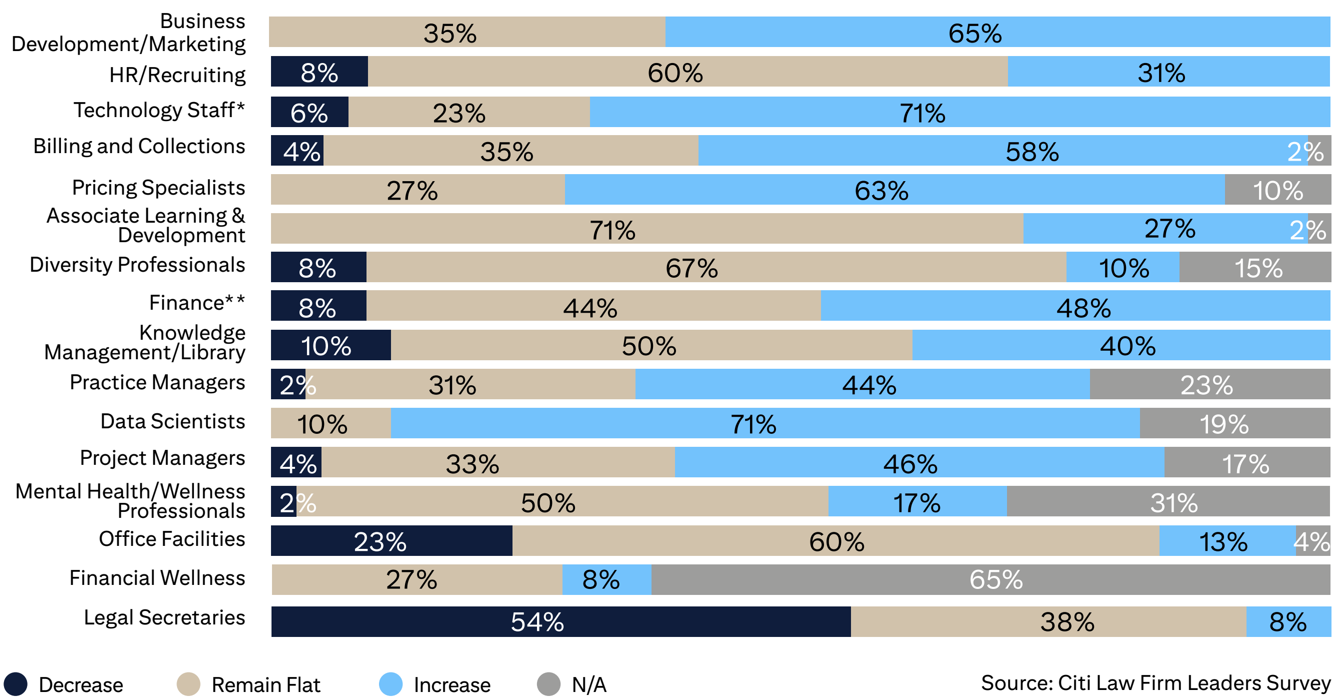
*excluding data scientists
**excluding pricing specialists and billing and collections

Looking ahead, there is wide dispersion in the likely approaches firms will take to their professional staffing models. Only 30% of large firms expect to see any growth in their professional staff leverage. Meanwhile, 40% plan to stay at 2024 levels while a further 30% plan to reduce professional staff leverage – no doubt influenced by the increased cost pressure incurred in recent years.

Firms feel they are at the right level for a number of roles – as illustrated in **Figure 18** – such as HR/recruiting, office facilities, associate learning and development, diversity and mental health and wellness.

We expect continued growth primarily in roles associated with technology and revenue generation. Firms will likely invest more in data scientists, and technology professionals in general, as we continue to see growing use of Gen AI in the delivery of legal services. As law firms continue to look for ways to realize the benefits of their expansion, we expect to see further growth in business development roles. And given the ongoing challenges of improving realization and the collection cycle, we anticipate further growth in pricing specialists and billing and collections teams.

FIGURE 18: PROJECTED PROFESSIONAL STAFF LEVERAGE GROWTH BY CATEGORY: 2027 VS. 2024



Source: Citi Law Firm Leaders Survey
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*excluding data scientists
**excluding pricing specialists and billing and collections

More focus on improving realization and offering different pricing models. We expect that firms will continue to focus on improving their realization, given the realization erosion we have seen in recent years. For example, Citi data shows that accrual realization declined by an average of 0.4% per year for large firms during 2019-24 – from 82.3% to 80.8%.

During that five-year period, 70% of large firms experienced an erosion in their accrual realization. In the Citi Law Firm Leaders Survey, firms told us that greater discounting pressure from clients was the number one reason, no doubt related to strong rate increases – the second biggest factor. They told us that more write-offs associated with busted deals or alternative fee arrangements (AFAs) also had an impact. And, more recently, there has been less premium work in this soft transactional market.

That said, there are lessons we can draw from the 30% of firms that have managed to improve their accrual realization over the past five years.

Firms point to three main factors that have helped. The number one factor is a deliberate shift in the mix of work toward higher realization practices. Firms also describe the positive impact of improvements in how they price their services, along with greater discipline around billing and collections. The third major factor has been improvements made to the client intake process.

We also expect to see further growth in AFAs and a comparatively higher proportion of pre-negotiated discounts in the next two years. As illustrated in **Figure 19**, the proportion of revenue derived from any form of AFA (fixed, capped or blended rate fees) increased from 19.9% in 2019 to 23.5% in 2024 – and was higher than the 22.3% anticipated for last year. Large firms expect that AFAs will account for a similar 23.6% of full year 2025 revenue. Indeed, 48% of large firms expect to see more than 20% of their 2025 revenue come from AFAs, up from 44% of those firms a year ago. With recent actuals beating projections and a higher proportion of firms anticipating more than 20% AFA-related revenue, this is a clear trend.

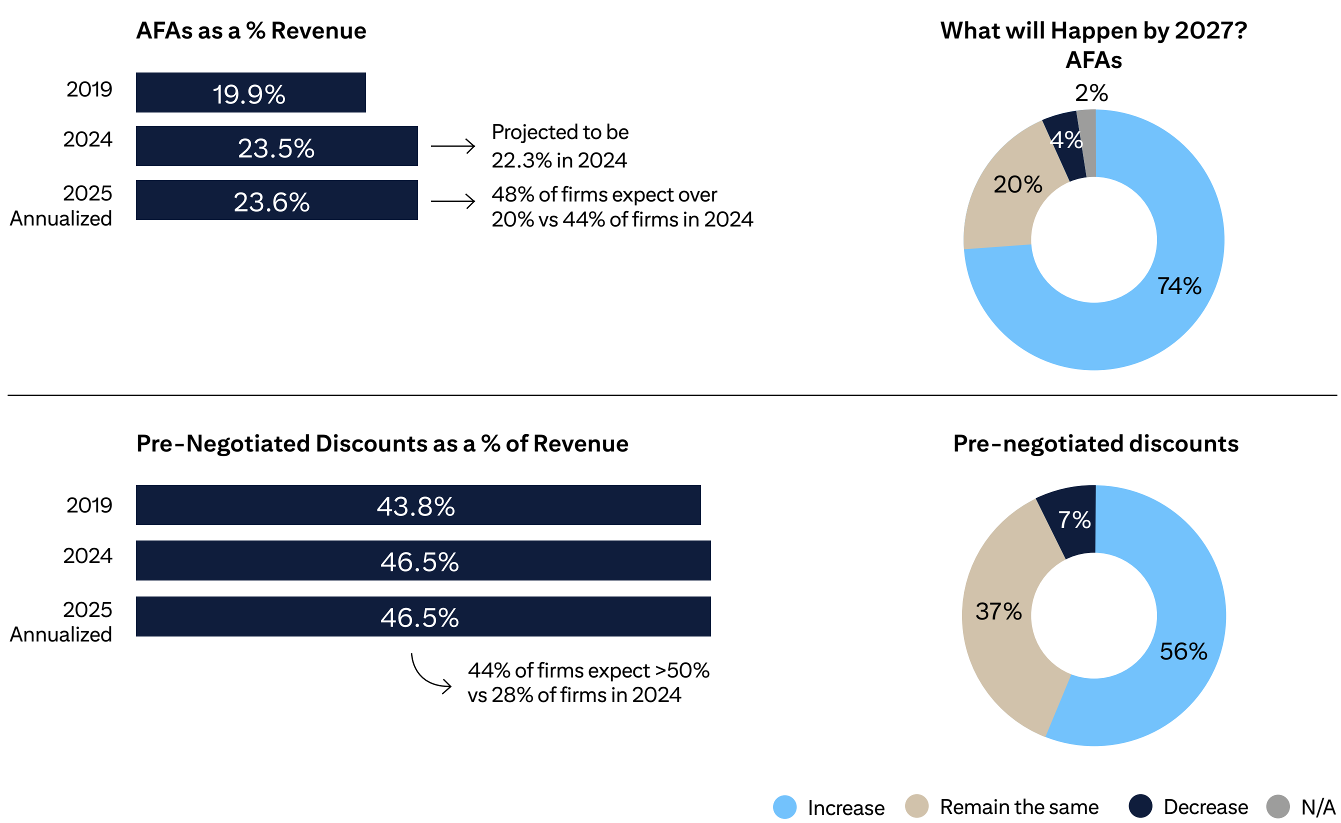
We have also seen an upward trend in the proportion of revenue coming from pre-negotiated discounts – growing from 43.8% in 2019 to 46.5% in 2024 and projected to be at the same level in 2025.

Looking behind the averages, we have seen a growing number of firms estimating that more than half their revenue will come from pre-negotiated discounts. 44% of large firms expect more than half their revenue to come from these in 2025, up from just 28% in 2024.

If these projections are accurate, we expect that, on average, 70% of firm revenue in 2025 will be subject to some form of a discount or AFA – up from less than 64% in 2019.

Over the next two years, while more than one third of large firms expect to see similar levels of pre-negotiated discounts as in 2024 and 2025, 56% expect to see an increase. Meanwhile, 74% expect a growing proportion of revenue coming from AFAs.

FIGURE 19: ALTERNATIVE FEE ARRANGEMENTS (AFAS) AND PRE-NEGOTIATED DISCOUNTS: 2019-25



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

Shifting trends in office space. We expect an increasing number of firms to add office space in the coming year – a dramatic shift from how law firms viewed office space only four years ago.

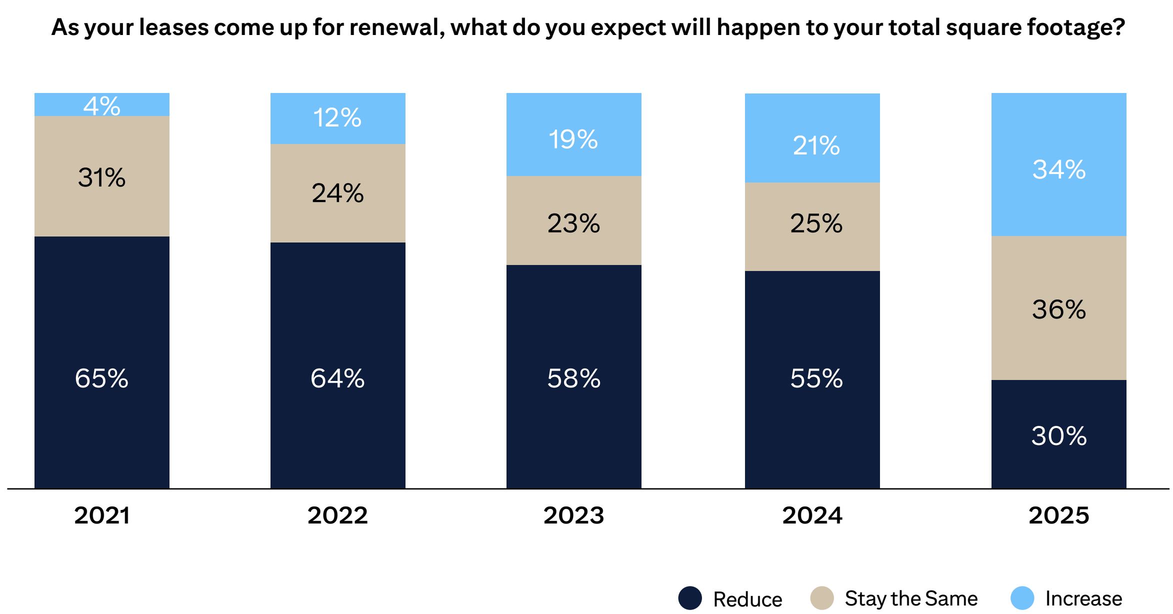
In the 2021 Citi Law Firm Leaders Survey – as illustrated in **Figure 20** – roughly two thirds of large law firms told us that they planned to reduce space when their leases came up for renewal. That was in the wake of Covid and what was then a predominantly remote working environment. Meanwhile, only 4% expected to add space.

Since 2021, we have seen consistent growth in the proportion of firms planning to add more space as their leases come up for renewal, reaching a high point of 34% of large firms in 2025. And after seeing roughly one quarter of firms planning to keep their square footage steady for a number of years, we saw a jump in 2025 to 36% of firms. Meanwhile, the proportion of firms planning to give up space has declined to the point where, in 2025, only one third told us that they plan to reduce space when the opportunity arises.

With high levels of headcount growth and the adoption of a four-days-a-week in-office policy by many in 2025, it is unsurprising that 70% of large firms are expecting to add space or maintain their current square footage as their leases come up for renewal. In fact, we have heard of firms that have recently renewed or entered into new leases regretting not taking more space.

Indeed, law firm leasing is at an all-time high.

FIGURE 20: LAW FIRM OFFICE SPACE TRENDS: 2021-25



Source: Citi Law Firm Leaders Survey
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D. Gen AI trends to watch

We have witnessed a significant shift in thinking around Gen AI during 2025 and believe it will continue to be top of mind for law firms in the coming years. Gen AI will enable lawyers to deliver legal services more efficiently and will have a significant impact on several aspects of the practice and business of law. We expect to see its effect on the size and composition of lawyer leverage and the professional staffing model; the expense base; and the billing model of firms. We believe that the next decade will see seismic change in how law firms operate and are confident that law firms will adapt as they have done throughout every other major technological change.

Anticipated impact on lawyer leverage

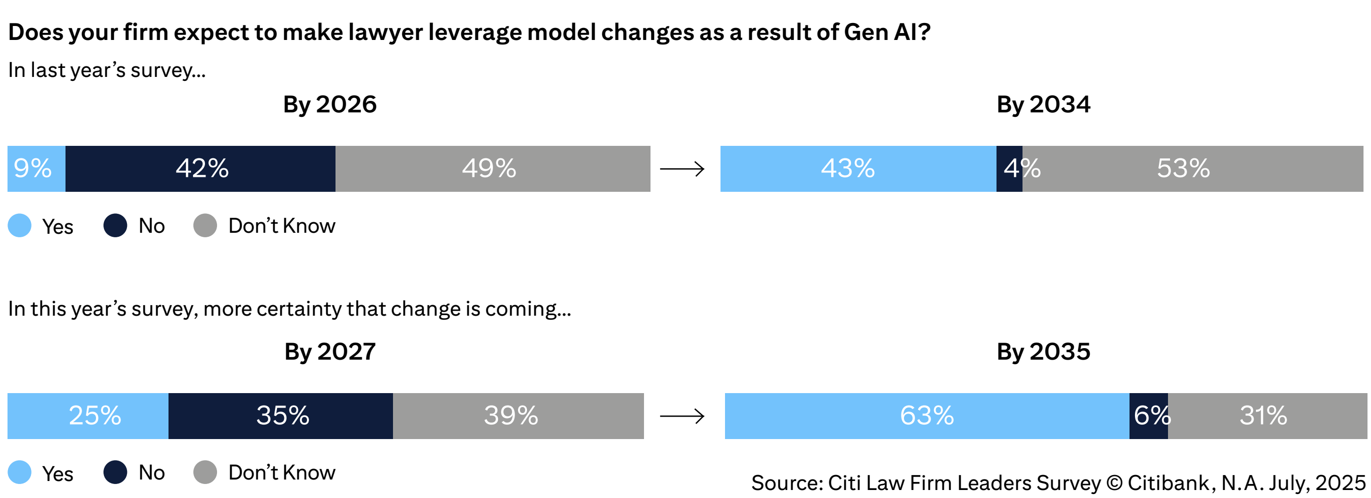
In just one year, we have already seen firms change their thinking on whether Gen AI will affect their lawyer leverage model sooner rather than later.

In the 2025 Citi Law Firm Leaders Survey, illustrated in **Figure 21**, 25% of large firms believe that Gen AI will affect their leverage models over the next two years. This is a significant jump from the modest 9% we saw in last year's survey.

Within a decade, 63% of large law firms expect to see an effect on their lawyer leverage models, up from just 43% in last year's survey. There is clearly far more certainty among law firm leaders that Gen AI will change the way firms compose their leverage models.

We don't expect that firms will necessarily reduce leverage. However, the shape of leverage is likely to change from a pyramid to a cylinder. We expect to see fewer junior associates and more senior lawyers doing more strategic work. As the repetitive, low value work is replaced by Gen AI tools, the demand will be for advisory services that rely on experience and human judgment.

FIGURE 21: THE IMPACT OF GEN AI ON LAWYER LEVERAGE MODEL



Source: Citi Law Firm Leaders Survey © Citibank, N.A. July, 2025

Anticipated impact on professional staff leverage

We also anticipate accelerated change to the professional staffing model at firms in the near and longer term. Within the next two years, 36% of large firms expect Gen AI to affect their professional staffing models, almost double the proportion of firms who expected near-term change in last year's survey. And by 2035, more than two thirds of large firms expect to make changes – most likely the reduction or elimination of junior roles. Meanwhile, we can expect to see more investment in professionals supporting Gen AI, including data scientists, as well as technology and knowledge management professionals.

Likely investment in Gen AI technology

With all the effort large firms have put into testing Gen AI tools so far, the average investment in Gen AI technology – including related staff and consulting costs – accounted for 0.11% of 2024 revenue, according to Citi data, compared with 2.39% total technology spend. Unsurprisingly, 100% of that large firm sample expect to increase their investment in Gen AI over the next two years. The big question is how firms will recover the likely significant cost of this investment.

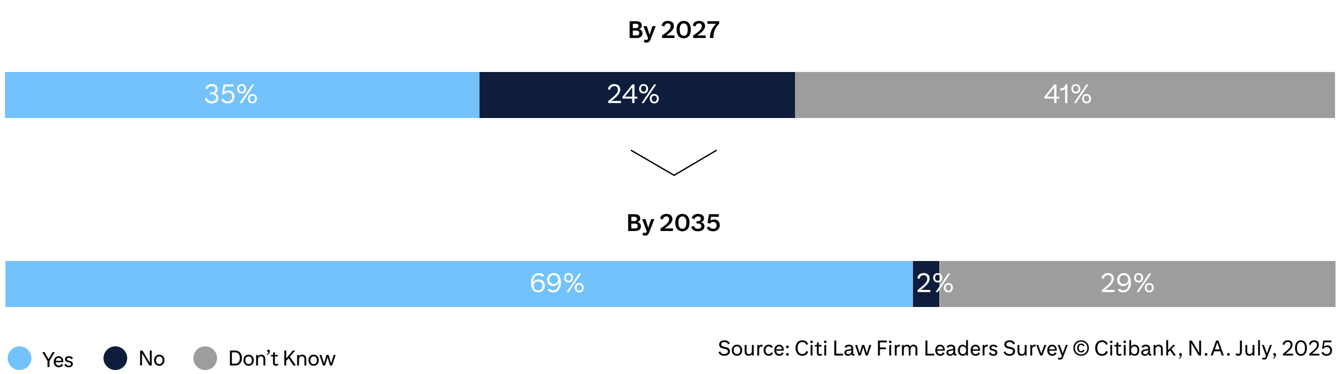
While it's true that Gen AI should enable lawyers to work more efficiently, leading to fewer write offs, many firms believe that this is a necessary and unavoidable investment, required to stay relevant in the industry. In order to absorb this investment cost, we believe that firms will need scale. While some will achieve this growth organically, we believe that the need to fund Gen AI investments will place pressure on the expense base of law firms and drive further industry consolidation.

Impact on the law firm billing model

Within two years, 35% of large firms expect to make changes to their billable hour models as a result of Gen AI, as illustrated in **Figure 22**. That said, the majority don't know if they will make changes or don't plan to. But change is coming within the next decade. By 2035, the majority of large firms expect to make changes to their billable hour models as a result of Gen AI. We can expect to see more fixed fees, subscription services and value-based billing – and more of a mix of fee structures based on the type of work done.

FIGURE 22: THE IMPACT OF GEN AI ON THE BILLABLE HOUR MODEL

Does your firm expect to make billable hour model changes as a result of Gen AI?



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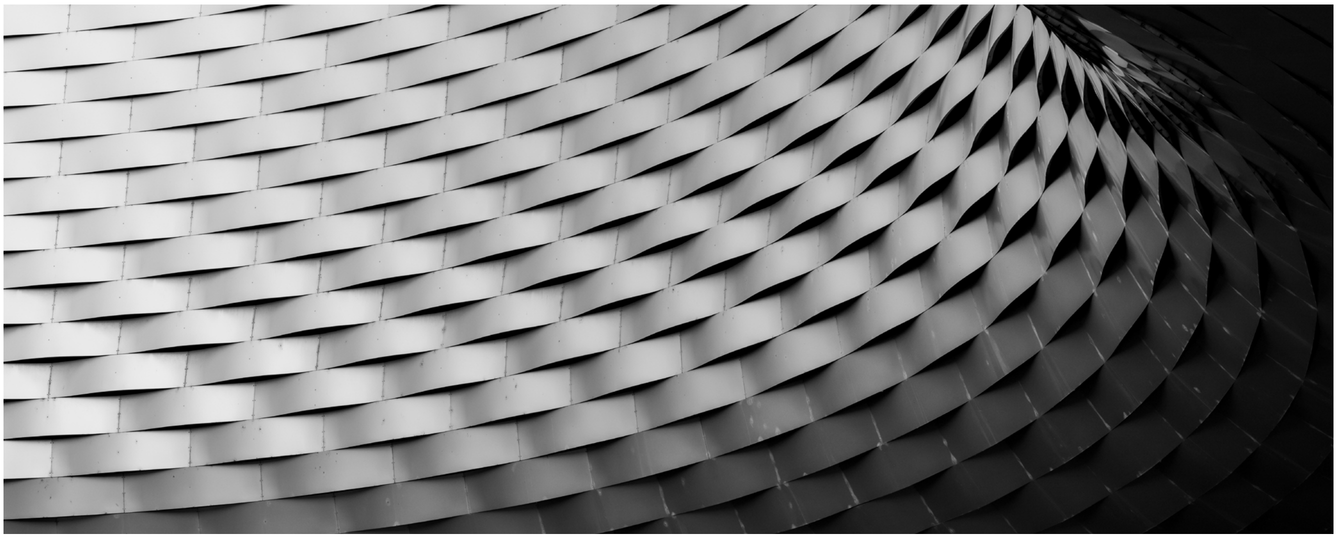
Conclusion



We are optimistic about 2026, with growth most likely coming from M&A/corporate/transactional, litigation, private capital, and bankruptcy and restructuring work.

We also expect to see further market consolidation. The most profitable firms will continue to pursue a strong growth mindset, capturing a greater share of market. More broadly, we expect to see market consolidation as rising cost pressures will require scale to absorb them.

At the time of writing, there are a number of unknowns – the impact of the US Federal Government shutdown, trade wars and international conflicts – that may affect industry performance. It is also hard to know what the impact of Gen AI will be on clients' businesses, and how this will affect demand for legal services in the long run.

Amid these unknowns, we are confident that the law firm industry will continue to demonstrate how resilient and adaptable it is.

Credits

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