CZECH REPUBLIC

A SPACE IN THE CROWD

An over-lawyered market with a shrunken economy and a proliferation of boutiques has made competition even stiffer for incumbent practices. But leading players remain upbeat

WHILE the Czech Republic's economy was more resilient than those of some other regional players, it was still clearly affected by the global economic crisis. Its export-dependent economy suffered from a drop in demand and many international investors are still cautious about financing major new projects. After the economy shrunk by 4% in 2009, forecasts from the Czech finance ministry indicate the economy grew 2.5% in 2010 and should expand another 2.2% this year. The economy has been helped by the strength of the German economy, whose performance is key to this country of 10 million. The Czech National Bank is more cautious, expecting economic growth to slow down to 1.2% in 2011 on the back of austerity measures approved by the new centre-right government elected in May 2010.

The picture is also mixed when it comes to legal work. Lawyers in the Czech Republic report a decline in big M&A transactions, although the news in December that Central and Eastern European (CEE) private equity fund Mid Europa Partners sold Czech radio and television transmission company Ceske Radiokomunikace to funds managed by Australian investment bank Macquarie for €574m might be one encouraging sign.

There has also been a broadening of the workload to include more restructurings, litigation, arbitration and even new areas of work like white collar crime. Some bright spots emerged even for those law firms that faced a tougher 2010, namely a boom in work involving solar photovoltaic projects, which helped sustain many firms last year and should provide some follow-up work in 2011.

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But while most firms in Prague have seen at least a modest increase in the workload in the last several months, the Prague legal services market remains highly competitive for a country of its size. "Over-lawyered" is a common adjective. Gide Loyrette Nouel last year closed its Prague office and rumours persist that other firms could also be eyeing an exit.

"More work started coming in last year but it's still not gangbusters," says **Peter Valert**, managing partner of DLA Piper's Prague office. "I think people expected a bit more of a recovery not only in the Czech Republic but in the entire region." One effect of this, says Mr Valert, is that competition on fees continues to be keen. "There is less work and more people chasing it." Nonetheless, DLA Piper expects to grow in the Czech Republic in the next few months, as some of its clients in the country also have expansion plans.

"It's hard to say what 2011 will look like," says **Ivo Barta**, a partner with White & Case, which has been present in the Czech Republic since 1991 and is the largest international firm there with 70 lawyers and tax advisers. "Industry's growing but there have been severe cost-cutting measures. Unemployment went up and the government cut spending," he notes. "Those companies that are active are doing fine, but there is a lot of caution. I would see the market as generally relatively flat with perhaps an increase of work in some areas."

U.S. rival Weil Gotshal & Manges, which has 60 lawyers in the Czech capital, played an active role in country's privatisation process after opening in Prague in 1992, advising the government on a number of state sales. Managing partner **Karel Muzikar** says the firm's staying power in the Czech Republic is partially due to the fact that it was able to win over clients purchasing privatized assets, such as Spanish telecoms giant Telefonica, which were originally represented by other law firms. "By now privatisations are almost over, although you still have CEZ."

Weil Gotshal already does extensive work for CEZ, the Czech state-controlled utility, advising on M&A transactions not only in the Czech Republic but also in Germany, Hungary, Poland, Turkey and Romania along with litigation and supply contracts. Other Weil Gotshal clients include downstream oil group Unipetrol and General Electric.

Mr Muzikar agrees that competition in the Czech legal services market has increased. "Cli-

ents really started to look for quality over the last three or four years. They have still been willing to pay the rates but now want 24-hour service. They are no longer hesitating to call on Friday nights or weekends."

Jaroslav Havel, managing partner of Havel Holasek & Partners, which with its 115 lawyers in the Czech Republic (and 15 in Slovakia) is the country's largest firm, says revenues rose 20% last year. "We're focusing on areas like energy and utilities. We also see opportunities for companies and lawyers in the state reorganisation of pensions and healthcare and in areas like public transport and infrastructure."

Martin Kriz, a partner with PRK Partners which absorbed Gide's Prague team, says the firm is quite positive on prospects for 2011. "Even in January, which is normally slow, we were busy and I see a lot of things in the pipeline. There are new inquiries in M&A in a range of sectors."

Dagmar Dubecka, a partner with Kocian Solc Balastik (KSB) agrees with him. M&A work has picked up as investor confidence in Europe improves although the real estate sector continues to stagnate due to difficulties faced by some traditional investors. "We had a lot of Irish investors but we know what happened to Irish banks," notes KSB partner **Sasha Stepanova**. "Sources of financing have dried up." Ms Dubecka and Ms Stepanova say the firm did well in both 2009 and 2010, sustained by smaller domestic M&A transactions along with a thriving competition practice, litigation, aviation and pharmaceutical law and work in the renewable energy sector.

"Most transactions we are seeing are smaller or medium-sized deals, and business-to-business rather than those involving investment funds or institutional investors," says **Vladimira Glatzova**, managing partner of Glatzova & Co. Aside from traditionally strong German investors, Ms Glatzova points to interest in Czech investments on the part of Russian and Indian investors. And Chinese investors are also increasingly expected to have the Czech Republic on their radar following a series of bilateral economic agreements between the two countries.

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Besides solar and other energy work, Glatzova also points to some smaller deals taking place in the Czech healthcare sector. "Czech doctors are very good," notes Ms Glatzova, "but the healthcare system is not in such good shape, so there are investors who see an opportunity to develop private practices, dental practices, homecare, haemodialysis and these sorts of things for people who would be willing to spend for them." Clients have included French pharmaceuticals group Sanofi-Aventis, which Glatzova advised on its successful 2009 acquisition of Czech pharmaceutical group Zentiva.

One trend seen over the last year, lawyers say, has been an increase in niche practices, such as white collar crime work. One possible explanation for growth here could lie in both the economic crisis and growing awareness on the part of companies of the importance of good corporate governance.

Czech companies are also increasingly going abroad. **Ondrej Peterka**, name partner of Peterka & Partners says that the firm has been involved in lots of financing projects for Czech firms for projects in Ukraine and Russia. And Peterka & Partners itself has been increasingly expanding outside of Czech borders. After initially setting up shop in Slovakia—a natural extension for many Czech law firms—the firm also set up offices in Ukraine, Bulgaria, Russia, and, most re-

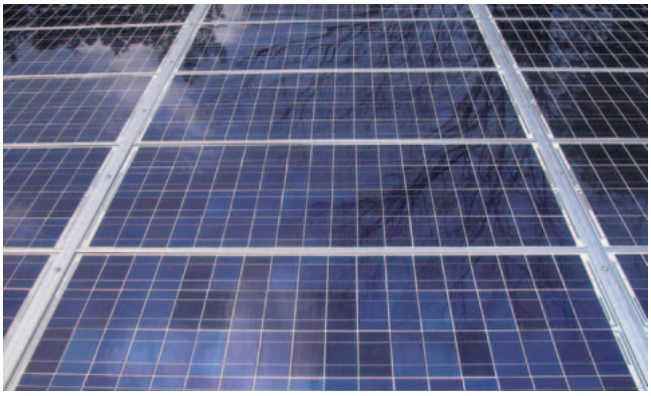
cently, in Romania and Poland. "We have the ambition to cover all the big and medium-sized countries in the region so we have three or four countries left to cover and we would expect to do that in the next three years."

"We continue to see an interest on the part of foreign investors in coming here," says **Erwin Hanslik**, a partner with the Prague office of Vienna-based firm ENWC. ENWC opened its office in Prague, its second CEE branch after Budapest, in 1998. "The Czech Republic is one of the most developed Eastern European countries. There's not so much of a difference in the security of investments here than in a place like Austria. So on one hand, it is very developed but in real estate, for example, there are better margins than in Austria and Germany. The workforce is well educated and wages are cheaper than in Western Europe."

While lawyers and their clients may hope to be involved in the eventual privatization of giant state utility CEZ, there are plenty of other Czech companies that may prove to be attractive acquisition targets in the meantime. Peter Valert of DLA Piper says medium-sized companies in a range of sectors still owned by Czech investors could lead to some acquisition opportunities.

KBS' Dubecka and Stepanova point to recent and expected business-friendly legislative developments, some on which the law firm has been involved in drafting, which could facilitate investments in the Czech Republic. A new tax procedure

RAYS OF LIGHT



A boom in the Czech solar photovoltaic market, which began in 2009 and continued throughout last year, has proven a boon for many law firms active in the country. An attractive feed-in tariff for photovoltaic facilities helped installed capacity soar to more than 1.4 GW at the end of 2010 from little more than nothing in 2008.

"Last year there was a huge boom of state-supported solar energy in the Czech Republic," says Jaroslav Havel of Havel Holasek & Partners, "which still continues with refinancing and the secondary sale of projects." Last year, the firm represented Czech solar developer 21 Energy on its sale to CEE private equity group Mid Europa Partners.

The government brought the incentive price down in 2011 and also introduced a retroactive tax on solar energy production. "If you look at the predictions for solar work, you see that the performance of 2010 shouldn't be repeated this year," notes Martin Kriz, a partner with PRK Partners, "although surprisingly the assumption is that the work will continue. The way the government brought the subsidies down created a lot of tension and unhappiness and it sounds like a lot of lawyers will try to work on that." Litigators are 'bullish', adds Mr Kriz.

In the neighbouring Slovak Republic, private equity groups and investment funds have been lining up to acquire fully authorised solar photovoltaic projects, which must be connected to the grid by June in order to receive the current incentive prices. "Incentives for new projects after that deadline will not be so attractive," explains **Michaela Stessl**, country manager of DLA Piper in the Slovak Republic.

Other firms in the Slovak Republic are also getting a piece of the action. "For us, the talking point moving forward is renewable energy," says **Ladislav Poloma**, partner with of the Bratislava office of CHSH. "Presently renewable energy is taking up a significant part of our workload."

code in effect since January 1 reduces administrative barriers for mergers, spin-offs and other corporate transformations. One effect of an amendment on mergers expected to come into effect this July, should simplify mergers between Czech and Slovak companies. And Ms Dubecka points to a likely "revolution in private commercial law" in the next few years as legislation for a new civil code covering commercial agreements is worked out. "It will simplify the lives of lawyers and entrepreneurs," she says.

In terms of the market for legal services, Peterka & Partners says that one important trend has been the creation of Czech boutique firms from lawyers leaving international firms. After Gide and other international players left the Czech Republic, domestic law firms are also looking increasingly attractive to Czech lawyers. Mr Peterka notes that his and other Czech firms have been taking on lawyers from the international competition. "This is totally new because lawyers have understood with the crisis that our commitment to the region is a long-term one."

Some of the newer law firms on the block in Prague have created difficulty for incumbents in what was already a highly competitive market. "Given the smaller size of law firms, a new spin-off can really compete," says Ms Glatzova. "These new firms are young and hungry and are based on a low-cost idea. If you have a firm that's been around for 15 years or more, you have to spend money for lawyers' education, for employee benefits and for management. But if you have a start-up, there's enthusiasm and you don't have to spend a lot. This allows these firms to go down on prices." TL

"The revolution in private commercial law will simplify the lives of lawyers and entrepreneurs"

Dagmar Dubecka, Kocian Solc Balastik