



**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**





**W**HILE 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

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

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-

**"There is less work and more people chasing it"**

**Peter Valert, DLA Piper**



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

provide some follow-up work in 2011.

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

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 in-



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**Karel Muzikar, Weil Gotschal & Manges**

vestment 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.

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

mercial 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

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.” ■

**“The revolution in private commercial law will simplify the lives of lawyers and entrepreneurs”**

**Dagmar Dubecka, Kocian Solc Balastik**



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 com-

mercial 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 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.”

SLOVAKIA

# AIR OF CHANGE BLOWS THROUGH BRATISLAVA



Slovakian PM Iveta Radicova leads a new government elected in June 2010

**A NEW ADMINISTRATION HAS CREATED UNCERTAINTY FOR THE FORMERLY THRIVING PPP MARKET BUT RAISED HOPES FOR PRIVATISATIONS. NEW REFORMS ELSEWHERE ARE EXPECTED TO COURT INVESTORS BACK**

**S**LOVAKIA's gross domestic product grew by 4.1% in 2011, according to estimates from the finance ministry, while a further 3.4% rise is predicted this year. Many lawyers in Bratislava are also happy to report that 2010 stacked up better than expectations.

The country's strategic auto sector has been given a boost from a vibrant German economy. With about one million cars produced annually and a population of around five million the

Slovak Republic is the EU's biggest per capita auto producer. German car group Volkswagen announced in February that it would invest €1bn in Slovakia in the next five years to boost car production.

A new centre-right government formed in June 2010 has largely been welcomed by investors, and 2010 concluded with some signs of an improvement in M&A work. That could get a further boost if the new government proceeds with a number of expected privatisations. Several lawyers say they are monitoring these potential privatisation deals for their clients.

"There has been a certain return of investors," says **Radovan Pala**, a partner with ENWC in Bratislava, "probably because of the change of government and expectations that there will be some reforms which were neglected in the previous four years." Among these are expected changes to the Slovak labour law. "The law still bears the mark of the Communist code of the '80s, so there is an effort by the government to change it to make it more business- and employer-friendly. For our larger clients, this is very important."

**Tomas Rybar**, a partner with



Lubos Frolkovic

Slovak independent firm Cechova & Partners, says the crisis reshaped the structure of work. "There is definitely more insolvency, restructuring, litigation and white-collar crime work now." One important recent mandate was to represent the Slovak subsidiary of Dutch mail operator TNT Post in its intervention before the General Court of EU in Luxembourg. The case involved state-imposed restrictions of competition in the Slovak postal market.

"A lot of our work last year was debt refinancing transactions," says **Stanislav Kovar**, a partner with the Bratislava office of Schoenherr which opened in 2009. "We also saw some M&A although I wouldn't call it a wave. There were deals related to the restructuring of big entities, spin-offs and subsequent deals."

While big M&A transactions are scarce, Mr Rybar says deals involving mid-sized enterprises have also picked up recently, as investors regain confidence after a period of cautiousness. Cechova & Partners advised Swedish construction company Skanska on its acquisition of Slovak construction company SkyBau, completed in December 2010, and has advised a U.S. investor on the recent acquisition of a Slovak cinema chain.

"From how business is doing in these first few months of the year, we are very positive on 2011," says **Michaela Stessel**, country manager for DLA Piper in Slovakia. "The Slovak



Radovan Pala

economy and the Slovak tax regime are still interesting for foreign investors." Indeed, the firm is involved with one cross-border merger between a German company and a Slovak counterpart which will see the resulting entity be headquartered in the Slovakia.

One sector that has been particularly active for DLA Piper and other law firms in the country is energy. In particular, Ms Stessel notes that a number of financial institutions have decided to set up branches to become involved in energy trading. While the market is currently focused on the physical trading of energy, new legislation is expected to be finalised shortly to allow for derivatives trading in the energy sector. The alternative energy sector has also been in the spotlight.

### Re-evaluating PPPs

While public private partnerships (PPP) were thriving under Slovakia's previous government, the new administration

has re-evaluated that strategy. Some lawyers point to concerns that PPP contracts would end up costing the government too much. Amid uncertainty about how PPP projects will proceed, some lawyers stress that they are not forecasting major PPP work this year.

Not all law firms are negative on PPP prospects, however. “The government seems to have come to the conclusion that the overall efficiency and benefits of PPP prevail, as they are contemplating other possible PPP projects,” notes **Lubos Frolkovic**, partner and head of the Bratislava office of Wolf Theiss. “Despite initial doubts, self-governing regional authorities are now also considering PPP projects more and more.” Wolf Theiss has been involved extensively with PPP deals, and has been advising an international consortium of major European construction companies in relation to three different PPP tenders for the concession to design, build, operate and maintain three motorways in Slovakia.

Restructuring and insolvency work has increased, although lawyers see some problems with how some insolvency cases have proceeded in the country. “Non-reliable appraisals of insolvency trustees recommending restruc-

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turing rather than bankruptcy allow debtors to gain a lot of time, often prolonging an end that is inevitable,” says Mr Rybar of Cechova & Partners. A case in point was the Bratislava-based low-cost air carrier SkyEurope, which was restructured last year before being declared bankrupt a few months later. “It emerged subsequently that there was no money to pay back the creditors,” says Mr Rybar.

After the departure of magic circle firms Linklaters and Freshfields a few years ago, Slovakia’s legal market has been relatively static. There are also rumours that other international players for whom business in Bratislava is less important could decide to leave. While business is improv-

ing, the Slovak Republic and its population of just five million may not be crucial for the international strategy of some bigger firms.

And unlike the Czech Republic, where the marketing of legal services is in line with Anglo-Saxon practices, the Bar association of Slovakia has continued to pursue a more conservative approach. “Marketing and advertising of legal services is very limited and the Bar has been very strict in pursuing this,” says Mr Kovar of Schoenherr. “There was recently an earthquake in the Bar and those who have run it since the end of the Iron Curtain were removed and new, younger people were elected. So we imagine that there could be some changes.” ■