Issuer Profile – Jefferies Group LLC

Markets Strategy & Floor Research

11 November 2021

Investment strategy recommendation and marketing communication
(see disclaimer on the last pages)

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Author: Dr Frederik Kunze

Credit Ratings

	LT	Outlook
Fitch	BBB	Stable
Moody's	Baa2	Stable
S&P	BBB	Stable

As at: 11 November 2021
Source: Bloomberg

Key Facts

Homepage:
www.jefferies.com

Bloomberg-Ticker:
JEF US

5Y-Mid-CDS in bp:
NA

As at 05 November 2021
Source: Bloomberg, Jefferies

Jefferies represents the Group's most important unit

Jefferies Group LLC (Jefferies; headquarters in New York) operates as an intermediate holding company for the global investment banking operation of the Jefferies Financial Group (JFG). It offers investors, corporates and governmental institutions a broad portfolio of services related to the securities market. Founded in the USA in 1962, Jefferies opened its first international subsidiary in the UK in 1986. Alongside New York as the global headquarters, London and Hong Kong are regional headquarters. Since March 2013, Jefferies has been an indirect, wholly-owned subsidiary of Jefferies Financial Group Inc. (formerly Leucadia National Corporation). For its part, Jefferies Financial Group (Moody's long-term rating: Baa2 stable, Fitch LT issuer default rating: BBB stable and S&P LT foreign issuer credit: BBB stable) is a US holding company which holds equity interests in financial institutions and in companies operating across various sectors of the manufacturing industry. Jefferies Group LLC is the most significant equity interest of JFG. The Leucadia National Corporation's change of name to Jefferies Financial Group in May 2018 was additionally accompanied by a strategic realignment. In this regard, JFG has sold off equity interests in the nutrition and automotive sectors, among other measures. The transformation into a diversified financial services company was advanced in 2020. As part of the restructuring, Asset Management activities were hived off and established as an operating segment that combines asset management activities that had been previously allocated to the Investment Banking, Capital Markets and Merchant Banking segments. Therefore, Jefferies Group LLC reports in the segments "Investment Banking and Capital Markets" and "Asset Management".

Jefferies offers broad product portfolio

Jefferies employs 4,444 staff (data as at October 2021), equating to an increase of 511 full-time employees in comparison with the same period of the previous year. These are spread across the three main offices in addition to more than 30 national and international locations. Jefferies divides its business into the segments of "Capital Markets and Investment Banking" and "Asset Management", which was established as a separate business unit at the start of 2020. The "Capital Markets and Investment Banking" segment comprises the sub-segments of Investment Banking, Equities and Fixed Income in addition to connected services. "Asset Management", which comes under the umbrella of Leucadia Asset Management (LAM), covers activities related to Investment Management Services via Jefferies Investment Advisors and Partnerships. Customers are offered a broad product portfolio, ranging from shares to pensions plans and currency products. The portfolio is rounded off by research services. More than 1,000 investment bankers in the USA, Europe and Asia serve customers with profound industry expertise across all major sectors. In the equity business, the coverage focuses on more than 2,500 companies globally.

Balance Sheet

(USDm)	2018Y	2019Y	2020Y	2021 Q3
Cash and Cash Equivalents	7,932	9,868	12,209	15,197
Investments	2,234	2,790	2,933	5,060
Total Assets	41,169	43,516	47,752	52,047
Total Debt*	16,458	17,524	19,309	19,319
Capital: Equity	6,182	6,130	6,366	6,901
Net Leverage Ratio	6.21	6.40	6.70	6.38

Income Statement

(USDm)	2018Y	2019Y	2020Y	2021 Q3
Total Revenue	3,183	3,113	5,197	5,397
Total Expenses	2,774	2,788	4,020	3,737
Operating Revenue	3,110	3,027	5,183	5,397
Operating Income	336	240	1,172	1,668
Pre-tax Profit	410	325	1,177	1,660
Net Profit	159	244	875	1,231

* total debt includes repurchase agreements and stock loans

Balance sheet date for financial year 30 November; 2021 Q3 ended 31 August 2021; as at 28 October.2021; Source: S&P Global Markets, NORD/LB Markets Strategy & Floor Research

Positive development continues, Moody’s upgrade to Baa2

Back in July 2021, Moody's confirmed the rating of "Baa3" (outlook: positive) for Jefferies Group LLC, after the outlook was already raised from "stable" to "positive" in March 2021. The agency has now upgraded the rating to "Baa2" with a stable outlook on 10 November 2021. The agency justifies this, among other factors, with the consistent expansion and diversification in investment banking as well as the management of leverage and liquidity positions. In this context, the agency also referred to the reduction of concentrations in business activities and again mentioned the closing of an alliance with the Sumitomo Mitsui Financial Group (SMFG) in July 2021. The cooperation is intended to generate synergies in the business area of mergers and acquisitions and to expand the product range with regard to the capital market business. In addition, the leveraged finance business in the home market is to be strengthened. Furthermore, SMFG provides financing for Jefferies in the expansion of its origination business. According to Moody's, bond investors will also benefit from the bank's uncomplicated business model. In addition, the rating experts point to the transparent balance sheet and see the maintenance of these two characteristics on the current growth course as an important factor for maintaining the improved credit worthiness. According to Moody's, consistency was most recently also indicated by the earnings or net profit in the first nine months in 2021. Moody's now also rates Jefferies Financial Group at "Baa2" with a stable outlook, while S&P Global assigns the company a "BBB"; with an upgrade of the outlook from "negative" to "stable" at the end of October 2020.

Regulatory capital requirements in the USA

Jefferies is registered both as a broker-dealer and as a Futures Commission Merchant (FCM) and is therefore subject to various capital requirements. For its role as a broker-dealer, Jefferies is obliged to fulfil the SEC’s net capital rule. As part of the Net Capital Rule, Jefferies had the option of being able to decide in favor of a calculation in accordance with the “alternative net capital” requirement. This stipulates that net capital must not total less than 2% of the aggregated debit balance (primarily receivables attributable to customers) or USD 250,000 (USD 1.5m for prime brokers). Potential loans, dividends and other types of payments to be made are also limited. As a FCM without clearing function, Jefferies is required to maintain adjusted minimum net capital of USD 1.0m. Jefferies Group LLC is not subject to any regulatory capital requirements.

Regulatory capital requirements for international subsidiaries

In every country in which Jefferies conducts business via subsidiaries, these subsidiaries are subject to the respective national laws and regulations. These include capital adequacy requirements, consumer protection, anti-money laundering and anti-corruption laws as well as adhering to regulations that govern trading and investment banking. Relevant international authorities include, among others, the European Commission, the European Banking Authority and European Securities and Market Authority, the UK Financial Conduct Authority, the Hong Kong Securities and Futures Commission, the Japan Financial Services Agency and the Monetary Authority of Singapore. Jefferies has also been subject to MiFID II requirements since the start of 2018. With regard to Brexit, since the UK’s withdrawal from the EU was finalized, Jefferies has been servicing European clients from Jefferies GmbH, a BaFin regulated German broker/dealer.

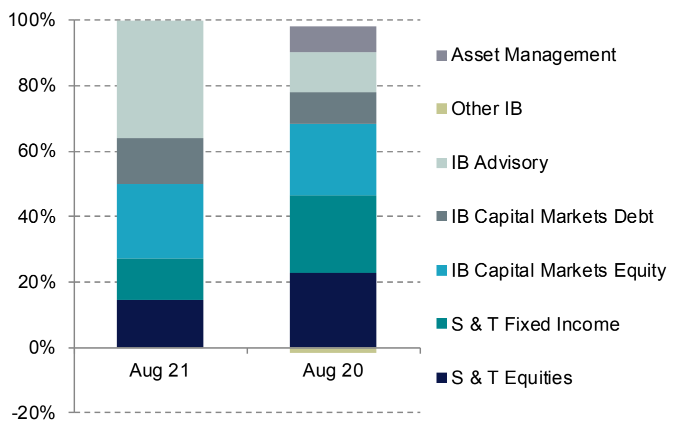
Business focus

The majority of Jefferies income is generated in the institutional client business, something which serves to underline the institute's heavily client-oriented approach. Jefferies Investment Banking covers a number of different industries. These include: consumer and retail, energy, financial institutions, healthcare, industrials, media, communications and information services, real estate, gaming and lodging, technology, financial sponsors and public finance. In terms of products, Jefferies offers services in the field of equity capital markets, debt capital markets and advisory (incl. M&A transactions, restructuring and recapitalisation).

Strong earnings performance in challenging market environment

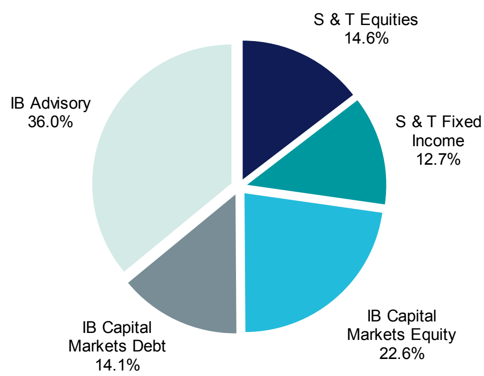
Jefferies Group's record net revenue, based on the nine-month period ending 31 August 2021, was USD 5,397 million, up around 50% year-on-year. The record net revenue based on the three-month period ending 31 August 2021 amounts to USD 1,650 million with a pre-tax profit of around USD 560 million, which will be settled with the results in the fourth quarter. In terms of segments, the capital markets business is the dominant area. This combines the units "Investment Banking and Capital Markets" and "Asset Management". The "Investment Banking and Capital Markets" unit contributed USD 5,183 million (9M 2021; +50%) to net revenues. Compared on a quarterly basis, net revenue in Q3 posted USD 1,651 million (Q3 2021; +30%), representing a significant year-on-year increase. Asset Management matched the strong results related to the nine-month period (USD 214m [9M 2021; +55%], but fell short of the prior-year figure for Q3. The results reflect a strong earnings performance in the past quarter and nine-month period and include one-off charges of USD 56 million connected to refinancing measures incurred by Jefferies Finance.

Income sources Q3 2021 vs Q3 2020



S & T (Sales & Trading); IB (Investment Banking)
Source: Jefferies, NORD/LB Markets Strategy & Floor Research

Income sources Q3 2021



Source: Jefferies, NORD/LB Markets Strategy & Floor Research

Non-interest expenses

During the third quarter of 2021, non-interest expenses of USD 1,090 million were recognized. Compared with the same period of the previous year, the figure thus increased slightly (+7%). While personnel expenses (compensation and benefits) increased by around 6%, non-personnel expenses recorded an increase of 10%. In the nine-month period, general and administrative expenses (non-compensation expenses) amounted to USD 1,059 million. The increase was mainly due to higher business development and consulting costs as a result of increased business activity in the investment banking area. The number of employees (Q3 2020 to Q3 2021) increased by 551 (+14%).

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Regulatory requirements have been fulfilled

In contrast to other investment banks, Jefferies is neither obliged to uphold strictly regulated risk-based capital requirements nor to meet liquidity ratios. Jefferies is only obliged to calculate its net capital in line with SEC requirements. As at 31 August 2021, net capital stood at USD 2,058m, with surplus net capital totaling USD 1,942m. Total equity capital amounted to USD 6,366m as at the end of November 2020 and USD 6,901m at the end of August 2021. The leverage ratio was 7.5% at the end of fiscal 2020 and remains at the same level as at 31 August 2021. The financial data provider S&P Global MI last published a net leverage ratio of 6.7% as of the 2020 reporting date (2019: 6.4%).

Average Value at Risk model

To measure the risk in the trading portfolio, Jefferies uses a value-at-risk (VaR) model to calculate potential profits and losses. A one-day VaR for a historic period of one year is calculated with a confidence level of 95%.

Value-at-risk in the trading portfolio* (USD m)

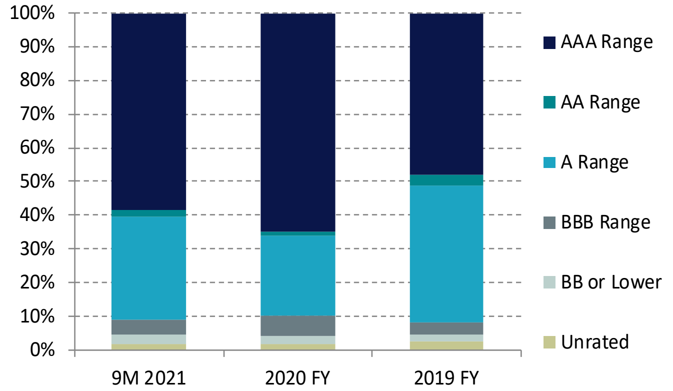
Risk categories	31.08.2021	30.11.2020	30.11.19	Daily VaR for the Three Months Ended August 31		
				Average	High	Low
Interest Rates	3.74	7.66	4.81	4.11	5.63	3.28
Equity Prices	8.91	12.54	5.07	11.59	18.51	7.04
Currency Rates	0.04	0.16	0.32	0.09	0.22	0.04
Commodity Prices	0.20	0.44	0.64	0.35	0.56	0.17
Diversification Effect	(2.35)	(2.04)	(6.14)	(3.45)	N/A	N/A
Firmwide	**10.54**	**18.76**	**4.70**	**12.69**	**19.45**	**8.36**

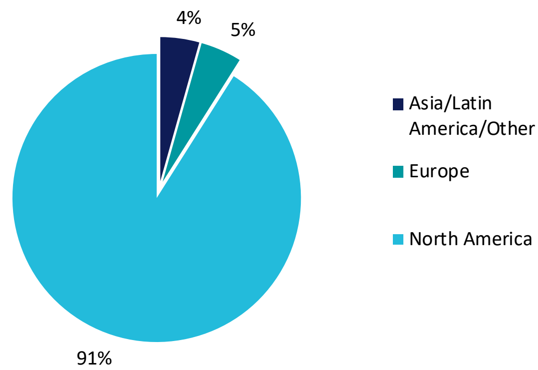
*Average daily VaR for the past three months
Source: Jefferies, NORD/LB Markets Strategy & Floor Research

Average Value-at-Risk in Q3 2021 totals USD 10.54m

The average daily VaR of USD 12.69 million at the end of August 2021 has decreased compared to the value in the previous quarter (USD 15.77 million). The decrease is primarily due to lower equity prices and lower VaR for interest rates and credit spreads as a result of position reductions. In addition, a number of volatile values in 2020 dropped out of the VaR time series, which reduced the overall VaR. The decrease was partially offset by a lower diversification benefit across asset classes and business lines. VaR as a risk measure should also be interpreted in the light of the crisis in 2020 and 2021. VaR increases are in many cases due to market volatility in response to the impact of the COVID-19 pandemic. Since the VaR observation period covers the last twelve months in each case, high values during the COVID-19 crisis fall out in later calculations and need to be evaluated accordingly against this background. As the Value-at-risk model does not take into account certain positions of financial instruments, it is supplemented by various other methods such as stress tests (including scenario analyses), the observation of concentration risks and the tracking of price targets/stop loss levels.

Counterparty Credit Exposure by Credit Rating and by Region





Source: Jefferies, NORD/LB Markets Strategy & Floor Research

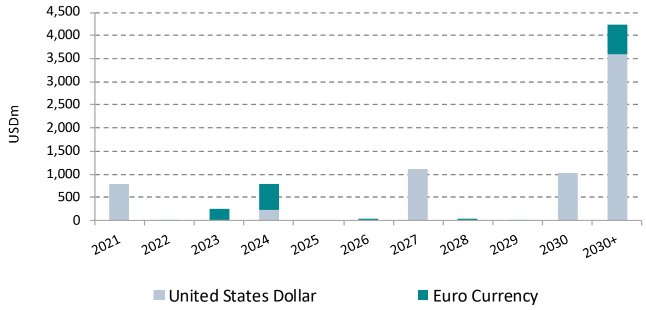
North America accounts for 91% of the counterparty credit exposure

In the third quarter of 2021, the counterparty credit exposure (with cash and cash equivalents) stood at USD 8,845m. At around 62%, the share of exposure with an "AAA" rating – a metric reflecting very high credit quality – was at a roughly similar level in the third quarter as at the end of the 2020 financial year (69%). A series of lower values in Q1 (60%) and Q2 (52%) in 2021 therefore came to an end. The increase of 10 percentage points (pp) in the share of "AAA" exposure was accompanied by a constant exposure of "AA" (+0pp) and a decrease in "A" exposure (-2pp) compared with year-end 2020. "BBB" exposure increased by 1pp, while "BB or Lower" decreased slightly (-1pp). Overall, only a marginal share of roughly 3% is categorised in the non-investment grade area/not rated at all. Broken down by region, at 91% of exposure, North America represents by the far the most important region. Europe accounts for a share of 5% (Q3 2021), which is unchanged compared with fiscal year-end 2020. Newly added to credit exposure, the countries China (USD 107.5m), Singapore (USD 51.8m) and Ireland (USD 64.0m) are noteworthy.

High liquidity pool

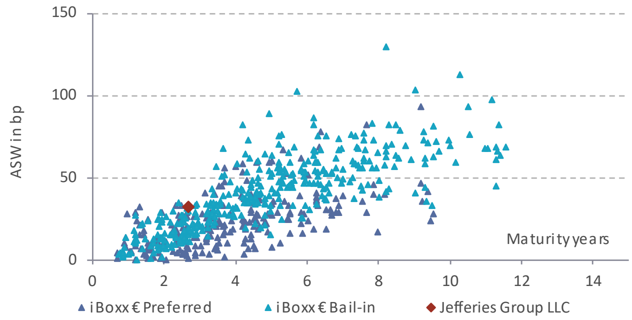
Jefferies' business model is based on trust to a large extent. An above-average client orientation together with prudent risk management ensures that Jefferies has carved out an impressive competitive position in the fiercely contested investment banking sector and has successfully increased its market share. The institute's basic principles include, among others, maintaining a solid liquidity buffer (liquidity pool as at 31 August 2021: USD 9,201m; as at 30 November 2020: USD 8,605m; this equates to 17.7% and 18% of total assets respectively) in tandem with a balance sheet structure which, overall, can be described as risk-off. In this regard, 71% of Jefferies' proprietary financial instruments are financed with haircuts of 10% and below, while the asset portfolio is composed almost exclusively of level 1 and 2 assets.

Debt distribution – by currency



As at 05 November 2021 14:10h (CET);
Source: Bloomberg (DDIS), NORD/LB Markets Strategy & Floor Research

€-Senior Bonds vs. iBoxx EUR Financials Senior



As at 05 November 2021 14:10h (CET)
Source: Bloomberg, Markit, NORD/LB Markets Strategy & Floor Research

Funding predominantly via senior unsecured bonds

The capital market represents the primary source of funding for Jefferies, making significant use of unsecured bonds in the process. As at 31 August 2021, the book values of bonds grouped together under unsecured long-term debt positions totaled the equivalent of USD 6,680m (30 November 2020: USD 6,656m). According to Bloomberg, the outstanding volume of senior unsecured bonds as at 15 October 2021 amounted to the equivalent of EUR 7,084m. Of this outstanding volume, a total of EUR 5,762m (81%) is denominated in USD, with the remaining 19% (EUR 1,322m) having been issued in EUR. The average weighted residual maturity stands at 8.8 years for EUR-denominated deals and 9.8 years for USD bonds. Of the EUR-denominated bonds, one deal was issued in benchmark format (EUR >500m). The last benchmark deal placed by Jefferies dates back to July 2019 (EUR 500m; JEF 1 07/19/24). Overall, the funding structure is conservative, with the funding plan providing for regular private placements and a periodic benchmark bond issuance. In doing so, Jefferies actively pursues a policy of broadening its investor basis.

Strengths / Opportunities

+ Group integration
+ Business model and “client first” focus
+ Market position in leveraged finance field
+ Leverage ratio, liquidity profile and capitalisation
+ Risk management across many markets

Weaknesses / Risks

– Competitive market
– Business based on trust
– Measured against total business activity, moderate credit risks in the area of leveraged loans
– Risk of earnings volatility in IB business
– Reliance on short-term secured funding

Appendix
Contacts at NORD/LB

Markets Strategy & Floor Research

Melanie Kiene
Banks
+49 511 361-4108
+49 172 169 2633
melanie.kiene@nordlb.de

Dr Norman Rudschuck
SSA/Public Issuers
+49 511 361-6627
+49 152 090 24094
norman.rudschuck@nordlb.de

Dr Frederik Kunze
Covered Bonds/Banks
+49 511 361-5380
+49 172 354 8977
frederik.kunze@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

Sales Wholesale Customers

Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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Additional information
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None

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For the preparation of investment recommendations, we use issuer-specific financial data providers, our own estimates, company information and publicly available media. Unless otherwise stated in the information, price information refers to the closing price of the previous day. Fees and commissions are incurred in connection with securities (purchase, sale, custody), which reduce the return on the investment.

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Breakdown of recommendations (12 months)

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Neutral:	55%
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Issuer / security	Date	Recommendation	Bond type	Cause