Issuer Profile – Jefferies Financial Group

Floor Research

14 December 2023

Marketing communication (see disclaimer on the last pages)

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Credit Ratings

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

At as: 14.12.2023
Source: Bloomberg

Key Facts

Homepage:
www.jefferies.com

Bloomberg-Ticker:
JEF US

As at: 14.12.2023
Source: Bloomberg, Jefferies

Transformation der Jefferies Financial Group, Merchant Banking im Abbau

Jefferies Financial Group (JFG, Jefferies; headquarters New York) is an international investment bank and securities company. The bank offers its customers a broad portfolio of products and services from the areas of investment banking, equity, fixed income and asset management. Founded in the USA in 1962, Jefferies opened its first international subsidiary in the UK in 1986. Alongside New York as the global headquarters, regional headquarters are operated out of London and Hong Kong. In order to simplify and streamline its corporate structure, Jefferies Group LLC (previously the largest subsidiary) was merged with JFG effective from 1 November 2022. As a result, the Group has reduced its costs and, as a whole, has become more flexible in its management and financial resources. JFG is pursuing the corporate goal of gaining further market shares, increasing its competitiveness and developing into the best full-service investment bank in the world. The long-term strategy is centred on strengthening the investment banking business as well as further reducing the merchant banking portfolio. Expansion into new markets has increased the investment banking customer base in the last five years and also allowed Jefferies to develop new areas of business offering higher margins. The merchant banking portfolio has been significantly reduced over the past decade. Following two corporate transactions, in particular, the merchant banking portfolio was decreased by around USD 550m. These included the sale of Idaho Timber (a timber industry company) and the spin-off of Vitesse Energy (an oil and gas industry company). As a result of this development, income from merchant banking fell by USD 455.2m compared with Q3 2022. The Group's merchant banking activities had already been transferred to its asset management segment in 2022 and are no longer reported as a separate segment. The reduction in income from this segment has been partially offset by higher income from investment banking.

Jefferies offers a broad product portfolio

At the end of August 2023, the number of staff employed by Jefferies Financial Group throughout the world stood at 5,505, which is 158 fewer than in Q3 2022. The growth in staff numbers in investment banking, technology and other corporate services was a decisive factor in this development. The employees are split between the global and regional headquarters in addition to more than 44 national and international locations. In the "Investment Banking and Capital Markets" segment JFG focuses on the sub-segments Investment Banking (incl. Advisory), Equities and Fixed Income. Asset Management, which operates as Leucadia Asset Management (LAM), covers activities related to Investment Management Services via Jefferies Investment Advisors and Partnerships. The previous segmentation into the "Merchant Banking" and "Corporate" segments has not taken place since the end of 2022. Merchant Banking is being gradually liquidated (see above) and the general expenses from the Corporate segment are now allocated directly to the existing segments. Customers are offered a broad product portfolio, ranging from shares to pension plans and currency products. The portfolio is rounded off by research services. The strategic alliance with Japan's Sumitomo Mitsui Financial Group (Sumitomo) established in 2021 is also to be further expanded, further details of which can be found in a press release. To this end, Sumitomo will increase its stake in Jefferies from 4.5% to 15%. The collaboration focuses on M&A Advisory as well as equity and debt capital markets. As at 31 August 2023, 9.4% of all JFG shares were owned by Sumitomo.

Stable development continues

Jefferies is rated by all three leading rating agencies (Fitch: BBB, Moody's: Baa2, S&P: BBB). Following upgrades in 2021, its ratings were recently confirmed with a stable or positive (Fitch) outlook. The agencies' assessments highlighted the fact that Jefferies is eager to diversify and expand its investment banking activities. However, they also mention its liquidity and leverage management and the reduction in the merchant banking portfolio as positive factors. Implementation of its corporate strategy (restructuring), strong capitalisation and effective risk management practices to reduce dependence on the capital market cycle are highlighted as strengths. Moody's has scrutinised the recently expanded strategic alliance with Sumitomo and rates the closer relationship positively. The agency believes that it will give Jefferies more financial flexibility and better access to Sumitomo's customers.

Balance Sheet

(USDm)

	2021Y	2022Y	2022Q3	2023Q3
Cash and Cash Equivalents	18,398	14,250	13,585	14,149
Investments	5,195	4,756	5,619	5,147
Total Assets	56,107	51,058	55,230	56,045
Total Debt*	22,829	19,326	19,461	23,715
Capital: Equity	10,580	10,295	10,360	9,765
Net Leverage Ratio	4.53	4.46	4.88	5.19

Income Statement

(USDm)

	2021Y	2022Y	2022Q3	2023Q3
Total Revenue	8,014	5,979	1,510	1,182
Total Expenses	5,760	4,923	1,208	1,091
Operating Revenue	8,014	5,660	1,366	1,182
Operating Income	2,267	752	158	91
Pre-tax Profit	2,254	1,056	302	91
Net Profit	1,677	782	196	54

* total debt includes repurchase agreements and stock loans

Balance sheet date for financial year 30 November; as at 13.12.2023; Source: S&P Global Markets, NORD/LB Floor Research

Regulatory requirements have been fulfilled

In contrast to other investment banks, Jefferies is not obliged to meet strict requirements for risk-based capital and liquidity ratios, although it does not benefit from access to central bank liquidity either. Jefferies LLC is only obliged to calculate its net capital in line with SEC requirements and Jefferies International with the Financial Conduct requirements. Following the successful merger of Jefferies Group LLC into JFG, key metrics for net capital and surplus net capital, which are relevant to the financial supervisory authorities, were reported for Jefferies LLC and Jefferies Financial Services (JFSI). As at the end of August 2023, the net capital of Jefferies LLC stood at USD 1,104.2m and the surplus net capital came in at USD 1,012.2m. Total equity stood at USD 9,765.1m at the end of Q3 2023. The leverage ratio increased by 70bp to 5.7% in comparison with November 2022 (Q3 2023; according to the quarterly report). In every country in which Jefferies operates via subsidiaries, these are each governed by the respective national laws and regulations.

Specialised offerings via subsidiaries and capital investments

JFG is active in a wide range of business segments via its capital investments. These include its 50/50 joint venture Jefferies Finance (JFIN) which, in cooperation with the Massachusetts Mutual Life Insurance Company, primarily underwrites and syndicates secured corporate loans. Furthermore, JFIN manages internal and external investments for syndicated and direct loans. The Berkadia Commercial Mortgage Holding LLC is another 50/50 joint venture, in which JFG hold a stake. Berkadia offers its customers capital solutions, investment consulting and mortgage services for apartment buildings and commercial properties. JFG is active in the purchase and management of car loans via its 100% subsidiary Foursight Capital LLC. This generates net interest and service income from transferring the car loans to a trust company. It also holds other capital investments. JFG sold Foursight on November 2023 with an expected closing date in early 2024.

Income development

In Q3 2023, net revenue came to USD 1,182bn, which equates to a fall on Q3 2022 of -21.7%. In particular, the fall in asset management income of -97.5% year on year contributed to this development. This was the result of the sale of Idaho Timber and the spin-off of Vietesse Energy. The fall in revenue was partially offset by higher results in investment banking. This therefore resulted in a pre-tax profit of USD 91.1m (-69.8% Y/Y) below the line.

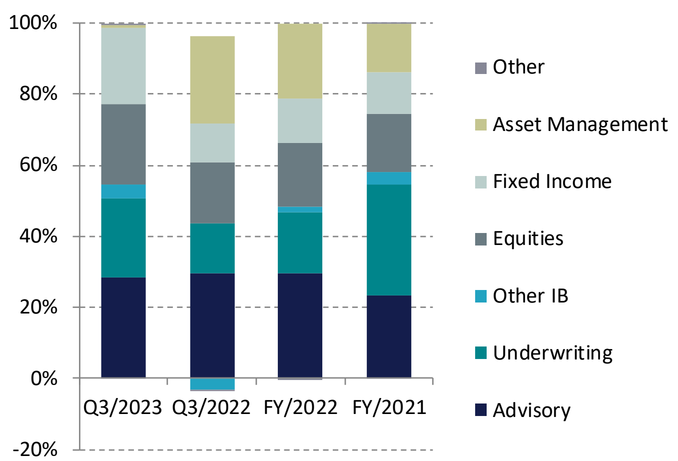
Market environment and sale of Idaho Timber have left their mark on the results

As at 31 August 2023, net revenue in Investment Banking and Capital Markets came to USD 1,168bn compared with USD 1,116bn (Y/Y). In the Advisory segment (advisory activities are part of Investment Banking), net revenue fell by 30.4% to USD 335.3m. Contrary to falling volumes and transactions on global markets for mergers and acquisitions, Jefferies believes it is well placed to acquire further market shares in this area. Thanks to an improvement in market conditions, income from underwriting (equity and debt capital) increased by 16.2% (Y/Y). While the result in the Equities segment was almost unchanged year on year, revenue in the Fixed Income segment rose by 39.3%. This primarily reflected better results in trading in non-performing loans, loans and investment grade corporate bonds. As a consequence of the corporate restructuring (sale of Idaho Timber and spin-off of Vietesse Energy) revenue from asset management decreased to USD 10.1m in Q3 2023 (Q3 2022: USD 398.3m). Investment returns, which benefited from an increase in revenue of USD 67.4m (Y/Y), must be highlighted as a positive in the Asset Management segment.

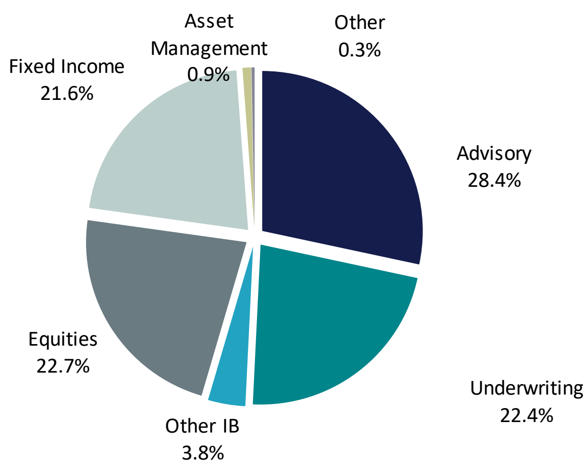
Decline in expenses supported by exceptional factors

Non-interest expenses came to USD 1,091bn in the third quarter of the current financial year (-9.7% Y/Y), having previously amounted to USD 1,208bn in Q3 2022. The decline was largely attributable to lower costs associated with the successful sale of Idaho Timber and the spin-off of Vietesse Energy. The provision of USD 80m recognised for possible penalty payments to the SEC in Q3 2023 also distorts any comparison with non-interest expenses in the previous year. The increase in personnel expenses, which was attributable to the rise in staff numbers in Investment Banking and Technology among other factors, also played a role in the overall development. A large part of compensation expenses varied significantly with net revenues.

Net Revenues Q3/2023



Net Revenues Q3/2023



Source: Jefferies, NORD/LB Floor Research

Value-at-Risk in the Firmwide Portfolio* (USDm)

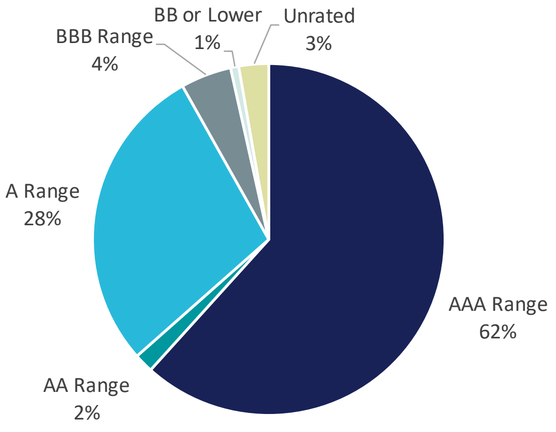
Risk categories	August 31th, 23	May 31th, 22	Daily VaR for the Three Months Ended August31th, 23		
			Average	High	Low
Interest Rates and Credit Spreads	7.06	9.99	8.99	12.02	5.98
Equity Prices	9.4	11.29	10.03	14.07	7.31
Currency Rates	0.74	0.27	0.48	0.74	0.27
Commodity Prices	0.17	0.19	0.31	0.81	0.1
Diversification Effect	-5.15	-7.09	-5.94	N/A	N/A
Firmwide	**12.22**	**14.65**	**13.87**	**17.57**	**12.1**

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

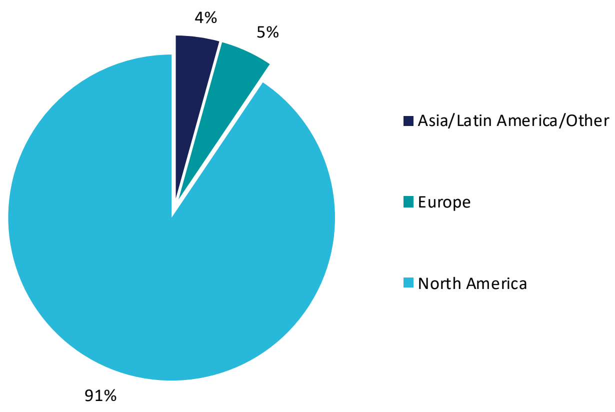
Average VaR shaped by market volatility

To measure company-wide risks in the market portfolio, Jefferies uses a value-at-risk (VaR) model. A one-day VaR for a historic period of one year is calculated with a confidence level of 95%. The daily VaR over the three-month period to the end of August 2023 averaged USD 13.87m, making it somewhat lower than the figure for the previous quarter (USD 14.65m). This decline was largely attributable to lower exposure from Jefferies' asset management activities. However, this effect was counteracted in part by residual risks from equities business. Since the VaR model does not take account of certain positions in financial instruments, it is supplemented by other processes – such as stress tests (including scenario analyses) and profit and loss analyses.

Counterparty Credit Exposure by Rating (in USDm)



Counterparty Credit Exposure by Region (in %)



Source: Jefferies, NORD/LB Floor Research

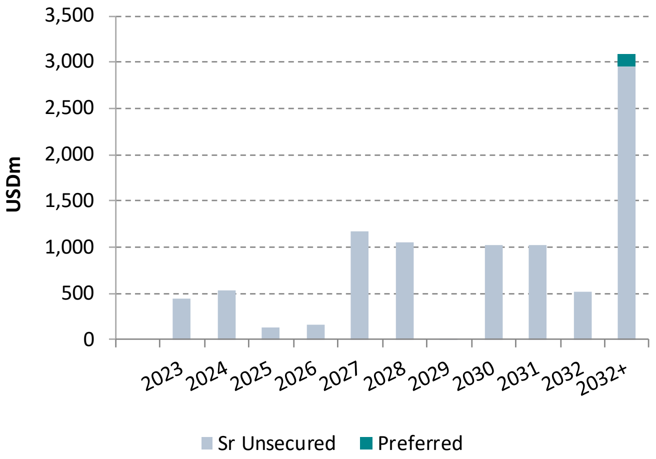
In total, 62% of the counterparty credit exposure with AAA rating

At the end of August 2023, the counterparty credit exposure (with cash and cash equivalents) stood at USD 10,850.8m (FY 2022: USD 11,617.,2m). The share of exposures with the extremely high credit rating of AAA increased by five percentage points compared with the end of November 2022. The increase in the share of AAA exposures was attributable, in particular, to a fall in the share of A exposures (now 28% instead of 31%), while exposure in other rating categories largely remained constant.

North America accounts for 91% of the counterparty credit exposure
As far as the geographical breakdown is concerned, North America is by far the most important region, accounting for 90.6% of total exposure. North America also dominates in terms of net income, accounting for 79.3% or USD 936.9m (Q3 2022: 76.2%; USD 1,150.8m). The regions Europe and the Middle East generated 14.7% (Q3 2022: 19.3%; USD 290.7m) of the net income, with 6.0% attributable to Asia (Q3 2022: 4.5%; USD 68.4m).

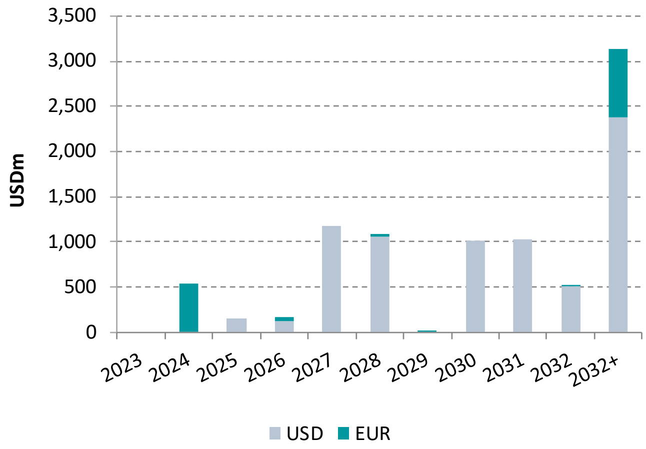
High liquidity pool
The business model of Jefferies is to a large extent based on trust. An above-average degree of customer orientation together with prudent risk management ensures that Jefferies has carved out an impressive competitive position in the fiercely contested investment banking sector. The institute's basic principles include, among others, maintaining a solid liquidity buffer (liquidity pool as at 31 August 2023: USD 10,837.6m, 30 November 2022: USD 11,641.0m; this equates to 19.3% and 20.0% of total assets respectively) in tandem with a balance sheet structure which, overall, can be described as risk-off. According to Jefferies, around 83.2% of the financial instruments held can be repo-financed with haircuts of 10% and below, which reflects the high level of liquidity.

Redemption profile: payment rank



As at: 13.12.2023 15:00 Uhr (CET);
Source: Bloomberg (DDIS), NORD/LB Floor Research

Redemption profile: currency



As at: 13.12.2023 15:00Uhr (CET);
Source: Bloomberg (DDIS), NORD/LB Floor Research

Funding predominantly via senior unsecured bonds
Jefferies Financial Group primarily conducts refinancing activities via the capital markets, making significant use of unsecured bonds in the process. According to Bloomberg, the outstanding nominal volume of senior unsecured bonds as at 18 October 2023 amounted to the equivalent of USD 9,159m, spread across 141 bonds. Of this outstanding volume, 85% is denominated in USD, with the remaining 15% denominated in EUR. The average weighted residual maturity amounts to 8.8 years. Overall, the funding structure is conservative, with the funding plan providing for regular private placements and periodic benchmark bond deals. In doing so, Jefferies actively pursues a policy of broadening its investor basis.

Strengths/opportunities

+ Expansion/diversification in investment banking
+ Established risk management
+ Leverage ratio, liquidity and capitalisation
+ Reduction of the merchant banking portfolio

Weaknesses/risks

– Fiercely competitive market
– Proportion of short-term funding transactions
– Risks in the area of leveraged loans
– Risk of earnings volatility in the investment banking

Appendix
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Sales MM/FX	+49 511 9818-9460
Fixed Income Relationship Management 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

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Origination Corporates	+49 511 361-2911

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Asset Finance	+49 511 361-8150

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Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

Relationship Management

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