Issuer Profile – Jefferies Financial Group

Floor Research

15 May 2024

Marketing communication (see disclaimer on the last pages)

NORD/LB

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Credit Ratings

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

As at: 15.05.2024
Source: Bloomberg

Key Facts

Homepage:
www.jefferies.com

Bloomberg-Ticker:
JEF US

As at: 15.05.2024
Source: Bloomberg, Jefferies

Jefferies Financial Group – an overview

Founded in Los Angeles in 1962, Jefferies Financial Group Inc. is a global financial services company headquartered in New York that specialises in the areas of Investment Banking, Capital Markets and Asset Management. In 1986, a first subsidiary was founded in London in the form of Jefferies International Limited, which alongside Jefferies LLC in the USA is one of the largest subsidiaries within the group. Both entities operate as broker-dealers. Moreover, the regional headquarter for the Asian market is located in Hong Kong. In total, the group operates 44 subsidiaries in 20 different countries. JFG reports across the areas of Investment Banking (Advisory/Underwriting), Capital Markets (Equities/Fixed Income) and Asset Management. The current focus at group level is on Investment Banking, where the aim is to gain new market shares and enhance the group's competitiveness. In this respect, entries into new markets over the past five years have already laid the foundations for expanding the client base. In 2023, the Investment Banking team was significantly expanded, with 68 new Managing Directors (MDs) brought on board, including many established players with more than 20 years of experience on average. Plans are also in place to further expand the Capital Markets business. In the area of Equities, Jefferies benefits from its equity and macro research capacities, in addition to differentiated global sales channels. Here, Jefferies is set to expand the product range in particular. The Fixed Income business has also been expanded and diversified significantly on a global level in recent years. In this area, the group focuses on credit-related products with close links to the Investment Banking business. Moving forward, Jefferies intends to focus increasingly on technology-led trading functions paired with alternative financing solutions. In this way, the aim is to unlock additional market shares. In terms of its Asset Management activities, JFG's alternative approach under the umbrella of Leucadia Asset Management (LAM) led to an increased overall fee base and extended reach, despite the fact that the environment for fundraising activities was incredibly challenging across 2022 and 2023, whereby many institutional investors were forced to contend with losses. Despite these challenges, Jefferies rates the performance of the associated managers as good, with private credit instruments and other niche products showing particular potential. Conversely, the Merchant Banking portfolio has been almost entirely liquidated. In fact, the volume here has already been reduced by USD 550m in the past decade following the sales of Idaho Timber and the spin-off of Vitesse Energy. The Jefferies Financial Group offers its customers a wide range of products, ranging from stocks, bonds and foreign exchange products all the way through to various research services.

Strategic partnership with Sumitomo Mitsui Financial Group

In July 2021, Jefferies Financial Group entered into a strategic partnership with the Sumitomo Financial Group (SMFG) in Japan, which provided Jefferies with long-term financing capital in the amount of USD 2.25bn in return for 4.5% of the share capital. Originally, the cooperation focused on M&A consulting, in addition to equity and debt capital markets. In April 2023, JFG and SMFG announced plans to significantly expand the scope of their partnership. To this end, SMFG is gradually increasing its stake in JFG to 15% overall. As soon as it exceeds the 10% threshold, SMFG will be entitled to nominate a candidate for a seat on the board of JFG. As at the reporting date of 30 November 2023, Sumitomo's stake in JFG amounted to 9.1% of the share capital. A new aim of the partnership has also been outlined, namely to better coordinate the industry and capital market expertise of Jefferies with the Sumitomo Financial Group's primary capital market expertise in the investment grade area.

Rating upgrade from Fitch

In an update from 11 December 2023, the rating agency Fitch upgraded the long-term issuer default rating of Jefferies Financial Group by one notch to BBB+ (outlook: stable). In their report, the rating experts highlight as positive factors in particular the group's solid growth, comprehensive Investment Banking and Capital Markets services, increased income in the Asset Management business and the conservative approach to debt and liquidity management. Fitch also mentions the ongoing process of scaling back the involvement in Merchant Banking activities, as this reduces earnings volatility for Jefferies. The expanded partnership with Sumitomo Mitsui Banking Corporation (see section above) is also discussed positively. This has already led to various deals and mandates around the world and will continue to attract other major customers in the future. Fitch considers aspects such as earnings variability, dependency on short-term financing options and increased operational risk, which are commonplace in the area of investment banking, to be somewhat of a drag on the rating. In addition to Fitch, JFG is also rated by Moody's (Baa2) and S&P (BBB), with both rating agencies offering a stable outlook for the group.

Balance Sheet

(USDm)	2023Q1	2024Q1	2022Y	2023Y
Cash and Cash Equivalents	10,256	14,026	14,250	14,477
Investments	4,616	5,181	4,756	4,378
Total Assets	49,015	56,369	51,058	57,905
Total Debt*	19,397	22,879	19,326	23,584
Capital: Equity	9,242	9,128	10,295	9,802
Net Leverage Ratio	4.96	5.41	4.46	5.30

Income Statement

(USDm)	2023Q1	2024Q1	2022Y	2023Y
Total Revenue	1,201	1,598	5,979	4,700
Total Expenses	1,053	1,396	4,923	4,346
Operating Revenue	1,201	1,598	5,660	4,700
Operating Income	147	202	752	372
Pre-tax Profit	147	202	1,056	354
Net Profit	121	143	782	262

* total debt includes repurchase agreements and stock loans

Reference date: 30 November; as at: 15 May 2024; Source: S&P Global Markets, NORD/LB Floor Research

Regulatory requirements have been fulfilled

In contrast to other investment banks, Jefferies does not benefit from access to central bank liquidity. At the same time, however, it is not obliged to comply with requirements on liquidity ratios and risk-based capital at the consolidated group level. 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). At the end of the first quarter of 2024, the net capital of Jefferies LLC stood at USD 633.0m and the excess net capital was USD 522.2m. Total equity amounted to USD 9,867m as at 29 February 2024. The leverage ratio increased by 30 basis points to 6.2% in comparison with the previous quarter (29 February 2024; see quarterly report). International subsidiaries are subject to national laws and regulations.

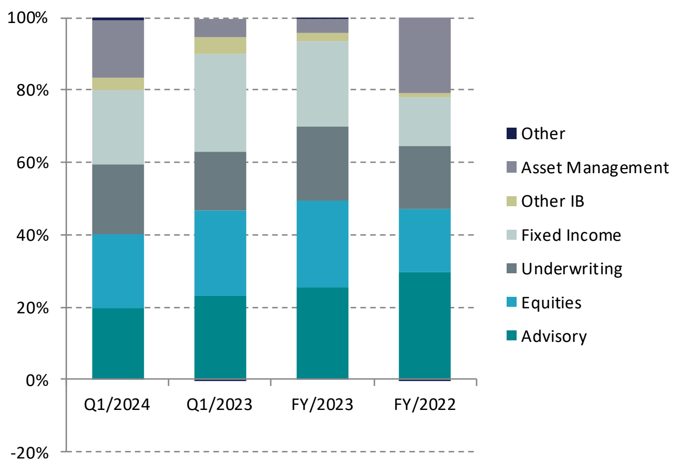
Subsidiaries and capital investments

Jefferies Financial Group is also in a position to serve other business areas thanks to a range of partnerships and capital investments. The 50/50 joint venture Jefferies Finance (JFIN) / Massachusetts Mutual Life Insurance, which primarily serves the leveraged loan market, managed to generate a balanced income mix with considerable net interest income in 2023 despite the challenging market environment. JFIN is also well positioned for the future, with increased market shares expected in both the syndicated and private credit markets. The Berkadia Commercial Mortgage Holding LLC is another 50/50 joint venture. The focus here is on offering capital solutions, investment consulting and mortgage services for apartment buildings and commercial properties.

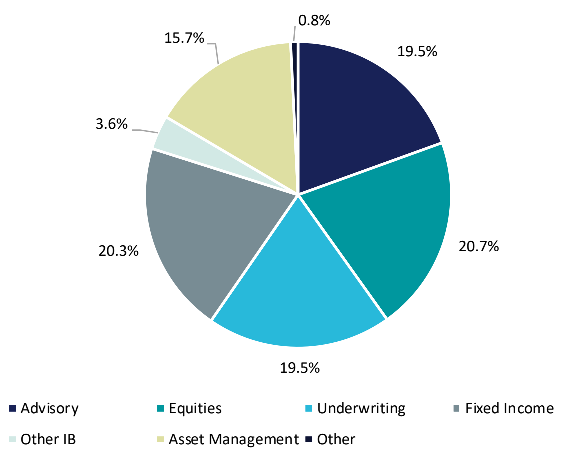
Decline in revenues
As at year-end 2023, net revenues amounted to USD 4.7bn, which equates to a decline of -21.4% in comparison with 2022. This can be attributed in particular to the reduction in sales in the Merchant Banking segment (together with the financial result in the area of Asset Management), as significant divestments have been realised here in line with the long-term plan to liquidate this business area (e.g. sale of Idaho Timber and spin-off of Vitesse Energy). Investment Banking revenues were also down in the prior year. However, there was a counter movement in the Capital Markets segment, with higher revenues reported in both the areas of Equities and Fixed Income. All in all, a pre-tax profit of USD354.3m was recorded, which does however reflect a decline of -66.4% in comparison with the previous year. At the end of the first quarter of 2024, net income rose by 35.4% year-on-year to USD 1.7bn, while pre-tax profit increased by 39.4% to USD 220.2m

Development of the individual business segments
As previously mentioned, the Investment Banking result suffered a decline to stand at USD 2.29bn as at year-end (FY 2022: USD 2.89bn). Sales in the sub-areas of Advisory and Underwriting were likewise on the slide, with only marginal gains recorded in the area of Equity Underwriting. The main reason for this development is an industry-wide decline in M&A transactions, while the average volume per transaction was also down. Nevertheless, the market position developed over recent years was ultimately consolidated. There was more positive news in the capital business, with the fixed income segment in particular reporting net income of USD 1.09bn, an increase of 36.5% compared to the previous year. This growth was driven by stable market conditions in tandem with a significant reduction in losses from transactions in the area of commercial mortgage-backed securities. The result in the Equities segment remained relatively stable. As mentioned before, the Asset Management result (USD 188.3m) was severely impaired by a decline in Merchant Banking revenues, which last year had still amounted to USD 1.24bn. However, a positive highlight was the development of the Investment Returns sub-area, where numerous investment strategies and funds registered an improved performance in comparison with 2022. As already mentioned, the results for the first quarter of 2024 developed more positively compared to the same quarter of the previous year. The divisions Investment Banking (USD 793.7m; +31.4% Q/Q), Capital Markets (USD 711.6m; +8.8% Q/Q) and Asset Management (USD 273.3m; +299.3% Q/Q) all posted gains.

Net Revenues



Net Revenues Q1/2024



Source: Jefferies, NORD/LB Floor Research

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

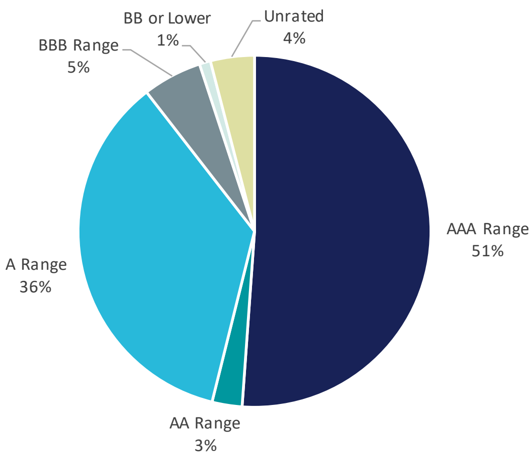
Risk categories	November 30th, 23	November 30th, 22	Daily Firmwide VaR for 2023		
			Average	High	Low
Interest Rates and Credit Spreads	7.60	5.35	6.10	7.92	4.17
Equity Prices	13.42	8.76	13.34	16.04	7.76
Currency Rates	0.84	1.29	0.67	1.20	0.46
Commodity Prices	0.71	1.02	0.45	1.38	0.21
Diversification Effect	-5.72	-4.23	-5.43	N/A	N/A
Firmwide	**16.85**	**12.19**	**15.13**	**18.70**	**10.26**

*Average daily VaR for the last 365 days
Source: Jefferies, NORD/LB Floor Research

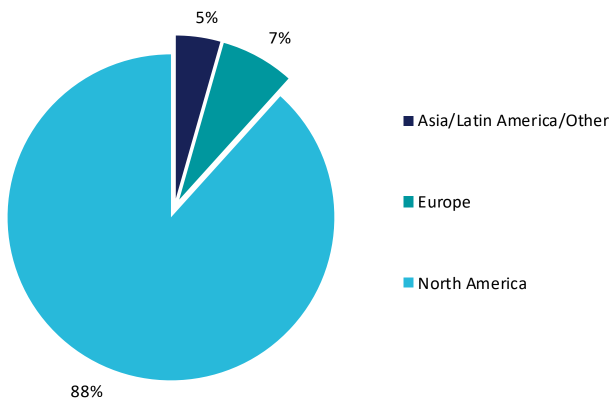
Average VaR shaped by market volatility

In order to better quantify the various market risks, Jefferies Financial Group uses a range of instruments including, for example, stress tests, scenario analytics and profit/loss analyses. A primary risk indicator is the value-at-risk (VaR) model, in which statistical estimates of potential losses arising from adverse market conditions are worked out over a specific time horizon. In this case, Jefferies calculates a one-day VaR for a historic period of 12 months with a confidence level of 95%. The daily VaR for the full year 2023 averaged USD 15.13m which reflects an increase on the previous year (USD 12.36m). According to the Group, this development is due to higher equity exposures from block trading in equities. This was slightly offset by lower risk in the area of interest rates and credit spreads.

Counterparty Credit Exposure nach Rating (in USDm)



Counterparty Credit Exposure nach Region (in %)



Source: Jefferies, NORD/LB Floor Research

51% of counterparty credit exposure rated AAA

The counterparty credit exposure (including cash and cash equivalents) totalled USD 10,094.2m at the end of the first quarter of 2024 (Q4/2023: USD 10,758.4m). The majority of the Group's exposures are rated AAA or A, even though the proportion here fell slightly compared to the previous quarter (-13% and -3% respectively). The shares of exposures with AA, BBB or lower ratings and unrated exposures are low and only recorded marginal changes.

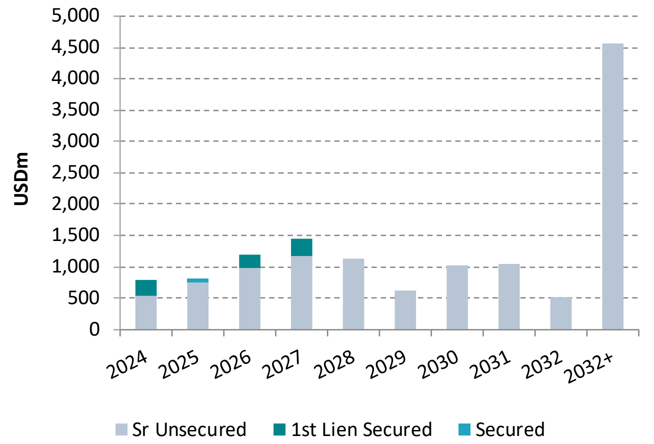
North America accounts for vast majority of the counterparty credit exposure

North America accounts for more than 88% of the counterparty credit exposure at JFG. Including cash and cash equivalents, the result here comes to USD 8,916.2m (Q4/2023: USD 9,685.4m). Europe and the Middle East accounted for USD 733m as at the reporting date, which represents an increase of around 19% compared to the previous quarter. The rest of the exposure is split between the combined regions of Asia-Pacific/Latin America/Other and amounts to USD 444m. Overall, the total result for the first quarter 2024 stands at USD 10,094.2m.

Jefferies Financial Group boasts solid liquidity buffer

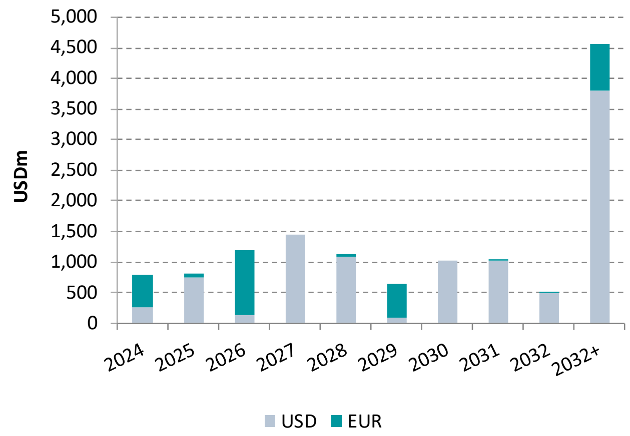
Despite a very competitive market environment in the investment banking business (with significantly larger competitors in some cases), Jefferies was able to secure its competitive position thanks to its strong client focus and solid risk management. This also includes a good liquidity buffer. The liquidity pool totalled USD 9,526.5m at the end of the first quarter of 2024, a slight decrease compared to the previous quarter (Q4/2023: USD 10,455.2m), which corresponds to 15.6% of total assets. In addition, JFG states that it has the option of entering into repo financing with haircuts of 10% or more for 80.9% of the financial instruments held.

Fälligkeitsprofil nach Zahlungsrang



As at: 15.05.2023 12:09 (CET);
Source: Bloomberg (DDIS), NORD/LB Floor Research

Fälligkeitsprofil nach Währung



As at: 15.05.2023 12:09 (CET);
Source: Bloomberg (DDIS), NORD/LB Floor Research

Senior unsecured bonds predominantly used for refinancing purposes

Jefferies Financial Group almost exclusively uses unsecured bonds for refinancing purposes. As at the reporting date of 15 May 2024, the outstanding nominal volume of senior unsecured bonds amounted to roughly USD 12,349m, which is spread across 177 bonds. Of this outstanding volume, 79% is denominated in USD, with the remaining 21% denominated in EUR. The average residual maturity stood at 8.7 years as at the end of the financial year. The group's funding plan provides for regular private placements and periodic issues in benchmark format. Overall, the funding structure can be described as conservative, whereby Jefferies actively seeks to diversify 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
– Share of short-term financing transactions
– Earnings volatility risks in Investment Banking
– Higher market risks compared to the competition

Appendix
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Fixed Income Relationship Management Europe	+352 452211-515

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

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Origination Corporates	+49 511 361-2911

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

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