



Issuer Profile – Jefferies Financial Group

Floor Research

13 November 2024

Marketing communication (see disclaimer on the last pages)

Issuer Profile – Jefferies Financial Group

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Credit Ratings

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

As at: 12 November 2024

Source: Bloomberg

Key Facts

Homepage:

www.jefferies.com

Bloomberg-Ticker:

JEF US

As at: 12 November 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 40 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 carve out new market shares and enhance the group's competitive standing. In this respect, Jefferies has entered a series of new markets over the past five years, which has already laid the foundations for an expansion of the client base. In the previous 12 months, the Investment Banking team was significantly expanded, with numerous new Managing Directors (MDs) brought on board, as well as associated staff and supporting technologies. The aim here is to optimise the group's growth opportunities and strategic priorities. In the area of Equities, Jefferies can benefit from its equity and macro research capacities, in addition to differentiated global sales channels. In recent years, the Fixed Income business has also been expanded and diversified on a global level. In this area, the group focuses on credit-related products closely linked to the Investment Banking business. In the future, Jefferies intends to focus more on technology-led trading functions paired with alternative financing solutions to unlock additional market shares. In terms of its Asset Management activities, the alternative approach of the Jefferies Financial Group under the umbrella of Leucadia Asset Management (LAM) has served to increase the overall fee base and extend its reach, despite the fact that the environment for fundraising activities was incredibly challenging across both 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 in this regard. Conversely, almost the entire Merchant Banking portfolio has already been scaled back following the sales of Idaho Timber, OpNet and the spin-off of Vitesse Energy. The Jefferies Financial Group offers its customers a wide range of products, ranging from stocks, bonds and investment banking products all the way through to various research services.

Strategic partnership with Sumitomo Mitsui Financial Group

Since July 2021, Jefferies Financial Group has been in a strategic partnership with the SMBC Group in Japan, which comprises Sumitomo Mitsui Financial Group Inc., Sumitomo Mitsui Banking Corporation and SMBC Nikko Securities Inc. The aim of this partnership is to ensure strengthened cooperation in areas such as Corporate and Investment Banking, Equity and Capital Markets. As at 31 August 2024, SMBC held 11.8% of the shares in Jefferies (10.9% fully diluted). Most recently, a total of USD 9.2m in common shares was acquired in September, while at the same time a representative of SMBC was appointed to the Jefferies Board of Directors.

Current rating developments

In a recent update, the rating agencies S&P (22 May) and Moody's (22 February) confirmed their respective rating assessments of the group. S&P highlighted the group's strong Investment Banking franchise and its merchant banking portfolio, which is currently being wound down, as credit positive. In addition, Jefferies is expected to continue registering strong risk-adjusted capitalisation, with an RAC ratio of around 11.5%. At the same time, S&P expects that Jefferies management will successfully find the right balance between capitalisation and increasing the share price, as the group has pursued a prudent approach to carrying out share buybacks on several occasions in the past (especially during the Covid-19 pandemic in 2020). In terms of primary risks, the risk experts identify cyclical risks pertaining to the Investment Banking business and the group's dependency on short-term secured financing. Moody's also attests to the fact that Jefferies has a disciplined and diversified risk profile. Moreover, they assess the group's strategic partnerships as a smart way of unlocking mutual benefits over the long term.

Balance Sheet

(USDm)

	2024Q3	2023Q3	2023Y	2022Y
Cash and cash equivalents	17,566	14,149	14,477	14,250
Investments	5,779	5,146	4,378	4,756
Total assets	63,275	56,044	57,905	51,058
Total Debt*	26,633	23,714	23,584	19,326
Capital: Equity	10,115	9,765	9,802	10,295
Net Leverage Ratio	5.56	5.19	5.30	4.46

Income Statement

(USDm)

	2024Q3	2023Q3	2023Y	2022Y
Total revenue	1,683	1,182	4,700	5,979
Total expenses	1,430	1,091	4,346	4,923
Operating revenue	1,683	1,182	4,700	5,660
Operating income	252	91	372	752
Pre-tax profit	252	91	354	1,056
Net profit	181	53	262	782

* total debt includes repurchase agreements and stock loans

Reference date: 31 August; as at: 12 November 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. 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 the third quarter of 2024, the net capital of Jefferies LLC stood at USD 1.8bn and the surplus net capital came in at USD 1.6bn. Total equity amounted to USD 10.1bn as at 31 August 2024. The leverage ratio increased by ten basis points to 6.3% in comparison with the first quarter of the year. International subsidiaries are subject to the respective 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 primarily serves the Leveraged Finance market and is active in the issuance of syndicated loans. In 2023, it managed to generate a balanced income mix with considerable net interest income despite the challenging market environment. In the future, increased market shares are expected in both the syndicated and private credit markets. Berkadia Commercial Mortgage Holding LLC is another joint venture (with Berkshire Hathaway Inc). The focus here is on offering capital solutions, investment consulting and mortgage services for apartment buildings and commercial properties. According to the agreement, Jefferies is entitled to 45% of the profits.

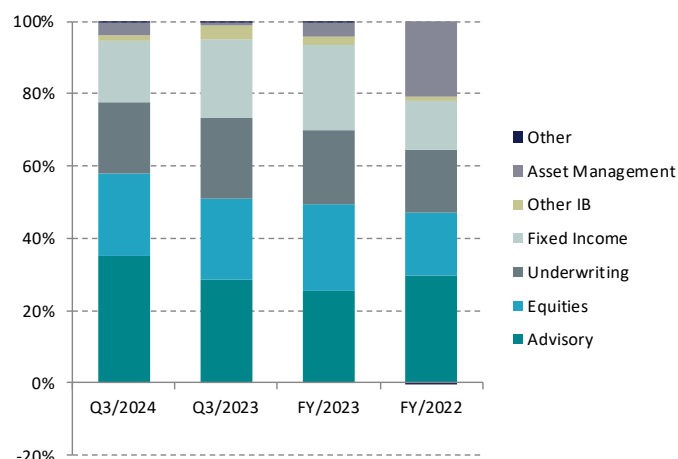
Positive earnings development

At the end of the third quarter of 2024, JFG reported a net revenue of USD 1.68bn. Compared with the same quarter of the previous year, this reflects growth of +42.4% (USD 1.18bn). This can be attributed in particular to the reported development in Investment Banking (+47.3% Q/Q), including a record quarterly result for Advisory (+76.7%). The Equities business also posted significant growth (+42.3%), while the Fixed Income business additionally reported growth of 13.2%. Overall, pre-tax profit in the third quarter of 2024 amounted to USD 252.7m. Compared with the result in the same quarter last year (USD 91.1m), this marks a significant increase of more than 177%. The year-on-year development of pre-tax profit as at the end of the nine-month period (1 December 2023 through to 31 August 2024) is also noteworthy. This now amounts to USD 700.7m for the current year, almost 162% higher than in the previous year.

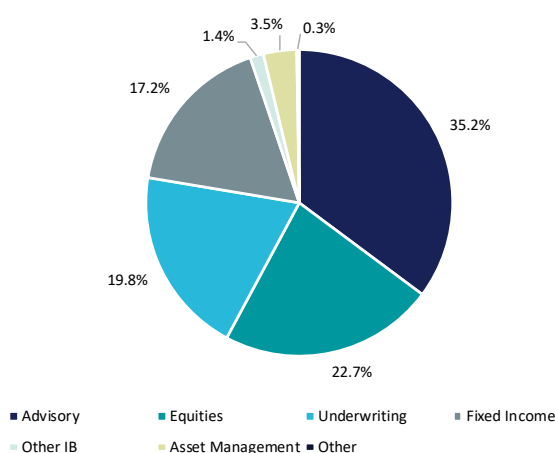
Development of the individual business segments

As previously mentioned, significant growth was recorded in the Investment Banking results, which now amount to USD 949.5m compared with USD 644.6m in the same quarter of the previous year. The record Advisory result of USD 592.5m can in large part be put down to gaining market shares in addition to the global growth in the M&A sector. The results in the Underwriting business also increased in a quarterly comparison by +25.8% to USD 333.2m, which is chiefly due to the strength of the Leveraged Finance segment. Results in the Equity Underwriting sub-segment remained constant. In the Equities business, higher trading volumes and improved trading conditions were responsible in particular for the reported revenue of USD 381.4m. In the Fixed Income business, the solid growth up to USD 289.2m was generated on the basis of stronger results in Jefferies’ Credit Trading business. The Asset Management business also recorded strong growth from USD 10.1m in the same quarter of the previous year to a current level of USD 59.0m. Net earnings from other capital contributions rose due to the inclusion of the results of Stratos and Tessellis. Stratos is a global provider of online foreign exchange transactions, while Tessellis is a telecommunications company listed on the Italian stock exchange that was originally 59.3% owned by OpNet, a provider of fixed wireless broadband services also based in Italy. Stratos and OpNet were both acquired by Jefferies in the fourth quarter of 2024 and were included in the group of consolidated subsidiaries. The sole quarterly decline was posted in the Investment Returns sub-segment, where challenging market conditions impacted results.

Net Revenues



Net Revenues Q1/2024



Source: Jefferies, NORD/LB Floor Research

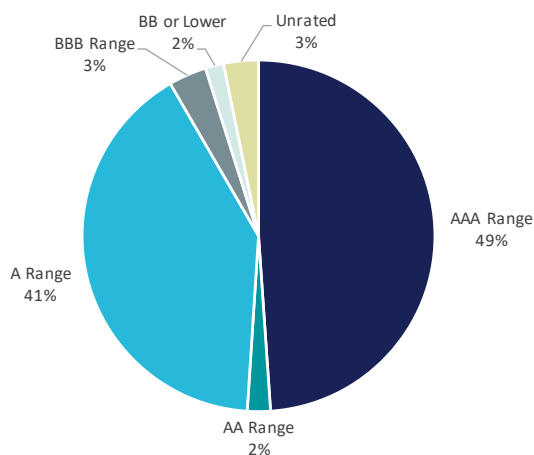
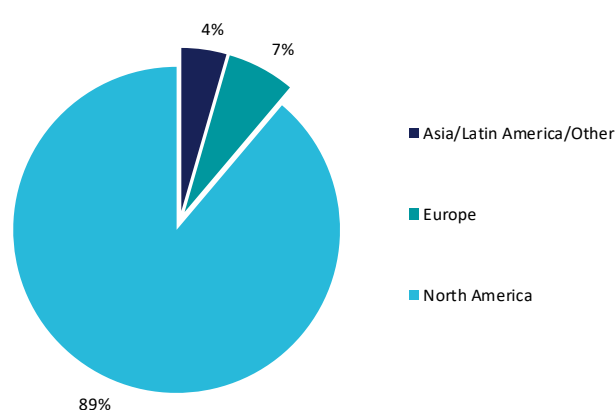
Value-at-Risk in the Firmwide Portfolio* (USDm)

Risk categories	31 August 2024	31 May 2024	Daily VaR for 3M period ended 31 August 2024		
			Average	High	Low
Interest Rates and Credit Spreads	4.47	6.32	5.33	8.25	4.18
Equity Prices	11.25	10.63	10.19	13.40	7.81
Currency Rates	0.71	0.65	0.65	0.97	0.27
Commodity Prices	0.84	0.31	0.37	0.84	0.15
Diversification Effect	-5.58	-4.98	-5.19	N/A	N/A
Firmwide	11.69	12.93	11.35	14.04	9.33

*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 third quarter of 2024 averaged USD 11.35m and was therefore down on the previous quarter (USD 13.36m). According to the group, this decline can be put down to lower interest and credit spread risks in connection with the Fixed Income business.

Counterparty Credit Exposure nach Rating (in USDm)**Counterparty Credit Exposure nach Region (in %)**

Source: Jefferies, NORD/LB Floor Research

49% of counterparty credit exposure rated AAA

As at the end of the third quarter of 2024, the counterparty credit exposure (including cash and cash equivalents) amounted to USD 13,361m (Q4 2023: USD 10,758m). The predominant share of group exposures is rated AAA or A, with relatively sharp growth recorded in each case (+10% and +48% respectively) in comparison with the reporting date of 30 November 2023. The proportion of exposures with ratings of AA, BBB or lower, as well as those with no rating, is low. Only marginal changes have been observed here.

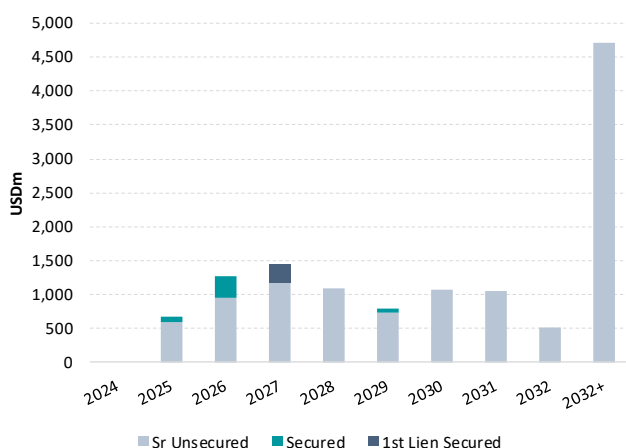
North America accounts for vast majority of the counterparty credit exposure

Just under 89% of the counterparty credit exposure at JFG is attributable to the region of North America. Including cash and cash equivalents, the result comes to USD 11,870.2m (Q4 2023: USD 9,685.4m). As at the reporting date, the regions of Europe and the Middle East account for a share of USD 895m, which represents growth of around 45% versus the fourth quarter of 2023. The rest of the exposure is split between the combined regions of Asia-Pacific/Latin America/Other and amounts to USD 596m. Overall, the total result in the quarter under review stands at USD 13,361m.

Jefferies Financial Group boasts solid liquidity buffer

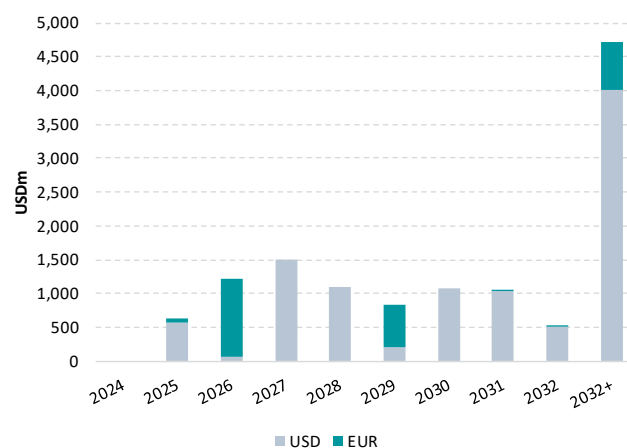
Despite a fiercely competitive market environment in the Investment Banking business (with some significantly larger competitors), Jefferies was able to secure its competitive position thanks to a pronounced customer focus and solid risk management. A sound liquidity buffer also plays its part in this regard. The liquidity pool amounts to USD 12,445.4m as at the end of the third quarter of 2024, which reflects growth in comparison with the fourth quarter of 2023 (USD 10,455.2m). This equates to a share of 19.7% of total assets. Moreover, according to information from Jefferies itself, 77.9% of the financial instruments can be repo-financed with haircuts of 10%.

Fälligkeitsprofil nach Zahlungsrang



As at: 12 November 2024 15:20 (CET);
Source: Bloomberg (DDIS), NORD/LB Floor Research

Fälligkeitsprofil nach Währung



As at: 12 November 2024 15:20 (CET);
Source: Bloomberg (DDIS), NORD/LB Floor Research

Senior unsecured bonds predominantly used for refinancing purposes

Jefferies Financial Group uses unsecured bonds almost exclusively for refinancing purposes. As at the reporting date of 26 September 2024, the outstanding nominal volume of senior unsecured bonds amounted to approximately USD 11.9m spread across 188 bonds. Of this outstanding volume, 79% is denominated in USD, with the remaining 21% denominated in EUR. The average residual maturity of the Jefferies bond portfolio amounted to 7.5 years as at the end of the third quarter of 2024. 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 secured financing transactions
- Earnings volatility risks in Investment Banking
- Higher market than the competition

Appendix

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Trading

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

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Firmenkunden	+49 511 361-4003
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Relationship Management

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Öffentliche Kunden	rm-oek@nordlb.de

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