Jefferies Financial Group
Investor Day
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Presenters
Rich Handler, CEO
Brian Friedman, President
Teri Gendron, CFO, Jefferies Financial
Peg Broadbent, CFO, Jefferies Group LLC
Ben Lorello, Global Head of Investment Banking
Pete Forlenza, Global Head of Equities
Fred Orlan, Global Head of Fixed Income
Nick Daraviras, Managing Director
Jimmy Hallac, Managing Director

Q&A Participants
Chris Kotowski – Oppenheimer Group
Burt Reese – Janney Montgomery Capital
Kevin O'Keefe - Stephens Capital
Mike Bronson - KBW
Steve Leonard - Pacifica

Operator
Greetings. Welcome to the Jefferies Financial Group investor meeting. For those participating telephonically or by webcast, a copy of today's presentation is available on Jefferies Financial Group's website, www.jefferies.com. If you wish to submit a question during today's conference, please email your questions at any time to the following email address: irquestions@jefferies.com. If anyone participating by telephone should require operator assistance, please press star, zero.

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It is now my pleasure to introduce Mr. Richard Handler, chief executive officer of Jefferies Financial Group. Mr. Handler, you may begin.

Rich Handler
Uh, thank you, and good morning. Uh, welcome to our 2019, uh, Jefferies Financial Group investment day. Uh, I am Rich Handler, CEO of the company. And we have, uh, a--a--a wide variety of our team here today to briefly give you a full picture of the current state of our company. Uh, I will just add that, um, all questions, uh, can be addressed to email. We will answer them all at the end of the meeting. Uh, and, uh, feel free to ask on any topic that's on your mind.

So, I'd like to start off just talking about a handful of strategic themes just to set the tone in terms of, um, where we are today. For the last 18 months, uh, we, uh, presented a philosophy and, uh, uh--and a strategy of really trying to return capital to shareholders. And, uh, for many people, uh, it's never enough, um, or soon enough, but I think, as this slide shows, um, we've been relatively aggressive. In 18 months, we've returned roughly a third of our tangible capital to shareholders in one form or another, um, whether it be cash dividends, uh, uh, uh, stock buybacks, or, in--uh, in kind distributions, like Spectrum Brands.

I will add the one-third number, uh, includes about $100 million that we purchased, uh, during this quarter already. Uh, the price was around 1785, I believe, and it's roughly 5.6 million shares, which leaves about $217.5 million worth of, um, value left on our current buyback program.

While it's important to, um, you know, return capital to shareholders as we talked about 18 months ago, it's--I think it's equally important to make sure that we protect, uh, the foundation of our company. And that means keeping a very strong liquidity profile, especially this time in the cycle. And so, uh, we're throwing off a lot of cash, which is the good news. We're throwing off cash from operations. We're throwing off cash from asset sales. Most of them have been at maturely higher prices than our carrying costs.

And we also--it's important to us as we, uh, elaborate to people to continue to work with the rating agencies to continue our upward momentum that we have with them. So, if you go through, look at this slide, you know, our overall liquidity, um, now, roughly about a billion three-ish of that is at the hold company. The rest is at, uh, the Jefferies investment bank. Um, we have maintained a lot of capital, a lot of equity, and a lot of buffer. Uh, it is, you know, to basically, uh, protect the company and be opportunistic as--as well as giving money back to the shareholders.

About 18 months ago, we also explained, uh, that we were going to be very focused on trying to simplify our story. And we are the first to recognize it was incredibly complicated on the merger. Uh, we made lots and lots of improvement, but there are still--it's--there's still quite a ways to go. Um, obviously, we--we--we told people we're going to focus on, uh--on getting rid of our non-financial, non-core assets. We've been very aggressive on that. We changed the name, aligned the year, aligned our--our boards.

Um, basically, we're migrating the company to more return on equity driven, uh, generating assets. And you can see, uh, roughly from 10--10 larger investments, that's roughly over $150 million. The piece is how we categorized it, uh, 18 months ago. We're now down to four over $150 million. It's very important for us not to just be selling assets for the sake of selling assets because we think each of them has some unique, uh, upside and opportunity. We want to make sure we optimize and maximize it. And since we are throwing off a lot of cash, we don't have an immediate sense of urgency, but we are clearly trying to keep the company focused and--and more lean and more simple. And that's a very important aspect of what we're doing.

The other part of our strategy, which we, uh, verbalized has--you know, is to continue to build Jefferies. Um, we have been prioritizing our investment bank. Uh, obviously, that's got the highest quality revenues. We've been diversifying it. We've been building out, uh, industry verticals, geographical, uh, considerations as well as products and services. Uh, we feel like the recurring nature of the revenues, uh, the less risk involved with the revenues, uh, creates a--a much firmer foundation for--for Jefferies.

As you'll hear later in the presentation, we are actually gaining market share across the board and it's both on the sales and trading side as well as on the banking side. We're also trying to do our best to take advantage of what we'll describe as a--a--a challenging environment. Um, particularly some of our European competitors have more challenges than perhaps in the U.S., but it is an environment where we can actually play some offense.

Um, it's important to us to continue to build our brand, which I believe has never been better, uh, keep our culture intact, and then--and then--and then improve upon it. Uh, and basically build, uh, uh, you know, an investment bank that is really rivaling the--the--the most capable players in the industry.

We're going to talk a little bit later also about the, uh--the asset management business. We made a, uh, uh--a lot of effort over the course of the last several years. We think we're finally in a very attractive spot to build upon the foundation of--of the business. We'll go into more detail as well. Um, clearly, um, our goal has to be to work towards a more acceptable and dependable return on equity in--at Jefferies. And we'll talk about that as well.

I'd like to talk about the current operating environment just for a second. Um, for the last year, it's been kind of--a little nuts. Um, basically, the--the--the fourth quarter of last year, uh, the leverage finance market just shut down cold. The first quarter, uh, effectively, uh, the government was shut down cold. Uh, then, you through the, you know, the--the course of the year between Brexit, the China tariffs, Hong Kong, extreme volatility one day, no volatility the next. Um, it's been a pretty challenging macro environment for what we do.

And then, I go on--to take it another level, uh, on the Jefferies side, unique to Jefferies, we've had some other headwinds. Namely, one of our biggest businesses is energy and obviously the energy markets have been beyond challenging. And the midsize leverage finance market has not been as--as vibrant as it has been historically. And then, you throw on top of it, you know, some of the challenges in the IPO world, it's been a bit of a headwind and a bit of a frustration over the course of the last 12 months. That's the bad news.

The good news is historically when we've had periods of time like that, um, it--it--the results were far more, you know, variable and a lot worse than we've had over the course of the last year. We're not thrilled with our numbers, but by and large across the board, the company's actually performing, you know, decently and we feel like we're in a solid position. Um, we haven't got the consistent ROE that we want and it's hard to convey to, uh, the audience of shareholders, unless you're on the inside looking at what we've been building. But, across the board, uh, if you asked us a couple of years ago without a strong leverage finance market and a strong energy market how vibrant our business would be, it would've been a much more difficult conversation. So, we really believe, um, that we've been making a lot of progress and we'll talk about that throughout the presentation.

This slide here tells me that the--the title should be no one seems to care what we're doing whatsoever. Um, it's basically, um, the discount, our stock price, a tangible book were to go one step further, you know, if--if you include, uh, uh, our NAV as well, the discrepancy between where our stock trades and what--you know, and--and what we believe the true value of the company is is enormous.

On the one hand, um, that is incredibly frustrating, particularly to people like Brian and myself who are large share--and Joe who are large shareholders. On the other hand, it creates an enormous opportunity. And the opportunity is that we understand what we have. The--you know, we're being transparent with everyone in terms of what the value is. The assets that we've been selling, we've been monetizing at very healthy prices.

We've been replacing--you know, we've been taking the cash and basically buying our stock at discounts. And I--I do believe--and this has always been the case of my career--eventually reality and perception will match. And my guess is by the time that happens, you know, we'll have shrunk the--the--uh, the--the equity base enough and the core business with long-term shareholders will be in a very good position. All that being said, we share the pain, the frustration. It drives us crazy. But, we're also being, as you can see by buying a third of our--uh, returning a third of our--our stock to shareholders in the course of 18 months, we're being pretty darn aggressive about it.

This brings me to, you know, really what we need to do going forward and--and--and in a--in a strange way, it's really, really very simple. Um, we have to continue to operate Jefferies and gain market share and establish and keep a strong ROE. That has got to be forefront foundation of what we need to do.

Um, we have to continue to monetize our non-core assets. Do it aggressively, but do it at a time where we can actually optimize and maximize value. We're going to continue to further simplify. We're going to maintain our liquidity and protect the company at all times. And we're going to, uh--and we're going to very strongly prioritize, uh, continue to return of capital shareholders because we basically have more capital than we need. And--and--and as--as shareholders ourselves, we want to return it to--to our fellow shareholders.

With that, um, I'm going to give it to my partner, Brian.

Brian Friedman
Rich started 18 months ago. I'm going to go back two years ago. So, when we stood here two years ago at our investor day, lots of different questions came our way and it's sort of interesting to look at it historically, but one of the big questions was, you know, what are you going to do about National Beef. And a few months later, we answered that question.

When I look at Jefferies on a day to day operating basis, when we talk about it internally, we often talk about two years. And what's been true in my view in the development of Jefferies for the last almost 20 years is that every two years we make immense progress. And that's something I hope you'll see as we go through the individual businesses, as we go through the underlying strategy.

What we've done in the last two years is really pivot from what Rich was showing on those slides a market that wasn't recognizing the inherent value that we saw here. We essentially have been taking the periphery and either pushing it into the core because it fits the strategy or finding an opportunity to realize the value. And that's the strategy that we're going to continue to follow. And, you know, we--we--we say on this slide that we continue to evaluate our holdings and, you know, I'll--I'll try to save one question.

The question we won't be able to answer is what's next and on what day. What we can tell you similar to where two years ago is that we're mindful, we're thoughtful. We're not the kind of folks who are going to put out in advance what we're doing because we're not going to compromise our opportunity or any negotiation or any, you know, expectation that we have. Look at the Spectrum Brands distribution as further confirmation that we have an intense commitment to driving the company to its core and then driving the return on equity of the capital in there to generate a consistent and meaningful return.

This is a little bit of a--a rehash, but I'll add one thought to what Rich said, which is we have returned in the last--again, I'm going to use the two year measure. We've actually returned $2.5 billion, including dividends going back to even before we went into the mode of asset sales and more aggressive share repurchases. In that period that we returned 2.5 billion, our remaining tangible capital--tangible equity went from about 8 billion to today about 7.6. And just to make it clear, the 7.6 is after the Spectrum Brands.

So, I'm taking the August 31 reported shareholders equity, taking out Spectrum Brands. And what's, to me, fascinating is that we not only returned the 2.5 billion, but we did that with only a modest degradation and the tangible book value, which hopefully is something we won't be talking about forever. But, when our share price is so meaningfully below tangible book, we'll use that as--as a benchmark.

And at the bottom of this slide with one little bump, you see the meaningful reduction that we've made and the number of shares outstanding. And this includes the--the 5.6 million shares that Rich mentioned that we've bought back since our earnings release over the last two weeks. And the bump in the next to last, uh, bar there in Q3 is the 9.3 million shares that we issued in connection with HomeFed. Again, we felt the nature and value of the transaction made it reasonable for us to issue those shares even though we are otherwise in a meaningful buyback mode. And we obviously added those shares to our buyback plan.

This slide is--is really just to remind folks--and--and, you know, the--the--the numbers, the good news is they're getting smaller in the aggregate because we're getting monetization. But, at the same time, you see here that even on a current basis before any further development of our assets, you know, our estimation is that we have, you know, approximately $650 million of effectively unbooked value. Uh, these are going to fluctuate. You know, the--the--no one of these is--is an absolutely precise guaranteed number, but it is the current best estimate.

This is what matters and this is where we are going. And if you said today versus two years, there is no doubt in our minds that we are better and stronger in many, many ways. When we go out today to speak to an investor, to speak to a company, to speak to a municipal issuer, whether we're talking about an IPO, whether we're talking about selling a company on behalf of its owners, whether we are talking about daily trading, long-term relationships, Jefferies is in a room where it is not one of a large number of truly competitive players.

We are in rooms where our focused expertise is leading. And you'll see this as we go through the investment banking business, the equities business, the fixed income business. You're going to see a story where we are generally in the top handful of alternatives for our clients in investment banking. We are increasingly that across the spectrum in equities. And we are finding ourselves even in the fixed income business taking leadership roles in niche aspects of the credit business, which is where our overriding focus today is in fixed income.

So, when you look at our business and we'll talk about the overall market and we'll talk about the addressable market. And the market that we get up in the morning to compete in, we're competing as a leader. And if you step back and look at the environment in which we compete, that's not surprising. Having defined the opportunity as a full service opportunity where both advice and the ability to execute, including executing in the capital markets, is the basis for decision making and the basis for competition. We're today among a handful that are really driving forward.

We've talked endlessly about what's happening with our competitors. That has not abated. There continues to be market share that becomes available. And history has said and we've proven it now for arguably two decades that that market share disproportionately comes our way. We will continue to do that.

On the right side of this slide, you see Leucadia Asset Management. As Rich indicated, we're moving from the early stages to a point where there is real opportunity to start to drive return. The changes in this business that Nick Daraviras will go into in a little while are very meaningful. We stood here again two years ago saying that it was early, it was seed. We see opportunity.

In the last two years, and Nick will get into the precise detail on this, the level of diversification that our capital is bearing risk on has changed by multiples. We have a meaningfully more diversified, more balanced portfolio. You've seen that for the last several quarters in the results that we've reported. And as you're going to hear, the next stage is meaningful addition of third party assets and that's something that we see playing out over the next several quarters.

So, as that happens, in Leucadia Asset Management, the return on equity will begin to grow if we're right on our assumptions by a reasonable amounts.

What I'll say hasn't changed in the two years is how we're driving the business. As Rich indicated, our number one priority is to grow our investment banking business, both in its own right and for the fact that it lifts our entire platform. The flow of activity and investment banking supports further growth in our trading businesses. The flow and the activity in our investment banking and trading businesses has spin opportunity into our asset management business.

So, we see these businesses as being integrated and integral and we see an opportunity to continue to grow. Each of them--I won't go further into it because you're going to get into shortly the detail on each one of these businesses. I'll also mention that Berkadia continues to be a very important business for us. The return there continues to be very strong. Results are better this year than last year. And the momentum in that company continues and gives us a further exposure and opportunity for integration with the Jefferies business.

Rich mentioned the last 12 months and to us the last 12 months is relatively brief period in building this company. And the market developments have not, in a way, affected us other than masking the progress that we believe we're making. The progress will be evident when we get into the detail on market share, but it's also evident in the fact that in the face of the headwinds of the last 12 months, our results have held up reasonably well. Rich mentioned that and I think it's a critical, critical point.

From here and subject only to market conditions, we see meaningful revenue growth opportunity. We see the revenue creating further operating leverage. Underneath it, we continue to make investments. We've made investments to develop the international platform where we see a lot of the same strategic repositioning taking place. We see the opportunity to be a leader in more than just the U.S. market, but in other markets. And that is starting to come home for us as those that have weakened in the U.S. are also weakening globally because without the U.S., it is much more difficult to be a true provider of service to our clients.

And as I said before, on the asset management side, you will see us continue to grow the number of strategies on our platform. They'll be a significant drive and we expect result over the next six to 12 months in assets under management and the bottom line comes with that.

With that, I'm going to turn it over to Teri Gendron, the CFO of Jefferies Financial and Peg Broadbent, CFO of Jefferies Group. Uh, I'll mention that this year, uh, we're not going to have--only because there's really no change, we're not going to have as detailed a presentation on risk and liquidity. Uh, we publish all of the information. So, we've tightened this section of the presentation, but everything is--is open in the Q&A. We're happy to address it. But, anything we're not saying, we can tell you is substantially the same as it has been the prior year on year. We didn't feel there was any need to repeat it.

Teri Gendron
As many of you already appreciate, the JFG income statement is complicated by the structure of the merchant banking portfolio. Although GAAP doesn't let us organize our operating revenues and our filings the way we have it here, it is easier this way to see that Jefferies Group is the core of our company.

The merchant banking results (unintelligible) income statement on a couple of different levels. The consolidated investments you see reflected here within net revenues. The results for the remainder of our merchant banking investments, which are primarily equity method, are reflected on the income from associated accompanying these lines.

Over time, we're obviously simplifying this. At the same time, there's going to be the lumpiness of gains from time to time as we make changes to the portfolio composition.

A final comment on operating results related to income taxes. Setting aside the unusual relate--uh, rates in some of the years, uh, due to tax reform in 2017, or our AOCI adjustment earlier this year recalled that we have an NOL from over 10 years ago that continues to shield roughly the next 1.2 billion of earnings from federal tax payments.

Looking at our consolidated balance sheet. Of the 49 billion in total assets, 43 billion represents our core Jefferies Group. Merchant banking is represented in several lines. Most notably, loans to investments to associated companies, which contains our equity method investments. And the majority of our consolidated investments are reflected in other assets with a smaller portion in receivables. On the liability side, we have very little debt within merchant banking and just $1 billion at the parent level.

Uh, couple of highlights related to liquidity at the parent level. Um, as you may know, we have very low debt in comparison to both our equity and our assets. And our liquidity balance we have maintained at 1.4 billion for some time now. Significantly in excess of our reserve level, which is based on two full years of cash requirements at the parent level.

So, with this, I'll turn it over to Peg to talk about Jefferies Group.

Peg Broadbent
Good morning. I'm, as Teri said, Peg Broadbent. I'm the CFO of Jefferies Group. Um, I'm going to start, uh, here with the Jefferies Group operating results. Uh, Teri laid out the results at a high level. So, I'm just going to window down on two or three of the revenue lines here. So, uh, starting with, um, sales and trade, you can see our sales and trading line, um, for the last few years up until this year we've been running at about sort of 1.2 to 1.3 billion of aggregate sales and trading revenues.

Uh, if you look at the nine months, uh, ended August, uh, close to 1.1 billion. We're actually sort of tracking on an annualized basis to sort of 1.4 to 1.5 billion. Um, while there's a bit of, uh, time to go in the quarter, I feel pretty confident that we can sort of get to that number. That's, uh--that--that--that improvement is--is very much a--a function of, um, successful market gains in--in our equity secondary business as well as, uh, our--our best, uh, fixed income performance in a number of years, which, um, both Pete and Fred will talk to, uh, uh, respectively.

Uh, banking, um, you know, huge, uh, uh, growth in banking, between 16 and 18, as you can see the doubling the--the revenue's a billion to close to 2 billion. Uh, as Rich and Brian both mentioned, you know, sort of some headwinds this year, particularly, uh, a very challenging first quarter in the new issues market. So, uh, uh, a bit of a stumble there from a result standpoint. But, uh, as--as--as--as Ben will window down on the sort of big improvements in market share and so forth, um, uh, as sort of masked by the challenging period, uh, particularly the new issues, uh, uh, uh, business.

Um, asset management. We've got a--a growing asset management business, which further diversifies our platform. Um, you know, sort of continue to invest in that and, uh, the recent improvements and--and results this year are a testament to--to--to--to recent investment in that business.

Um, moving on to the balance sheet, this is sort of windowing down into the 43 billion of Jefferies Group balance sheet which Teri was talking about earlier. Uh, um, a balance sheet both in--in size and mixes remain very consistent over the last, uh, few years. Total, 43 billion. It's been there or thereabouts for the last five years or so. Four or five years. Um, and every period end therein.

Uh, in terms of mix, uh, a very consistent mix as well. You can see the biggest asset we have there is the inventory we show our, uh, clients in the secondary markets, which is, uh, just over 16 billion. Um, 98 percent of that number, about 16 billion out of that 16., uh, 4 billion, uh, it's a level one, level two assets. Um, transparent, easy to price, and straightforward. So, it--this balance sheet also, in its straightforwardness, reflects the straightforwardness of our business.

Uh, the other item--biggest item--a big item on our--our asset side is our--is our 4.5 billion plus of, uh--of--of cash, which, uh, uh, makes up, uh, uh, 6 billion plus, um, uh, a liquidity buffer that we hold. Um, uh, uh, uh, to--to--to sort of basically be in a position where we can self fund ourselves in the event of a--a crisis. And I'll touch on that in a minute.

It's a straightforward balance sheet. You know, those two items alone make up 21 billion of assets out of the 43. And, uh, funded, if you look on the right hand side by the secured funding lines, securities loans, repo line, and the other secured financings, which are lines three through five on the liability part of the balance sheet as well as the, uh--the large capital lines, both, uh, long-term debt of more than 6 billion. And, um, the tangible equity, which is about 4.4 billion. So, it's--it's pretty easy to--to figure out what, uh, assets are being matched or funded with, uh--with which, uh, liabilities.

Um, moving on. I mean, Brian said we're not going to go through too much detail. And I'll sort of--in terms of risk and, uh, funding principles or liquidity risk, particularly. But--but, you know, honestly, as you've noticed, you've attended this meeting in the last few years or spoken to any one of us in--in the last 10 or 15 years, we are, uh, uh, completely obsessed with liquidity risk, particularly, uh, given the demise of some of our, uh, now late peers.

Um, uh, uh, so, we'll just sort of touch on some of the funding principles that we adopt and have adopted here. Um, as Brian said, they--they actually remain completely unchanged from a year ago. Um, and these are some sort of key metrics we can--you can look at and discuss with either myself or John Stacconi, our treasurer, at any point in time. Uh, uh, we--we sort of measure and--and--and manage risk very much by giving consideration to maintaining low, uh, uh, uh, levels of, uh, tangible leverage. Um, we've been operating about sort of nine, 10 times tangible leverage for the longest period. Just sort of a--a--a function of having large amounts of permanent capital funding our assets.

Um, I've already mentioned, uh, level three assets. They're very low. And we've been maintaining level three assets in a--in sort of around 2 to 3 percent for the longest time. Um, liquidity. I mentioned on the previous page, we've got more than 4.5 billion of cash and our total liquidity buffer is more than 6 billion. And we calculate our liquidity buffer by stressing our portfolio from a sort of liquidity, uh, outflow perspective. We call it our maximum liquidity outflow.

We could give consideration to all the different cash that could leave the--the--the--the house at any particular point in time and make sure that we have more than that amount of money in position to fund our own positions for at least 30 days so we don't have to sell any inventory in a fast sell conditions or otherwise. Um, typically that figure represents at least 10 percent of our assets.

Uh, we were hugely focused on--on--on repo. Um, not any is a large portion of our--our--our repo, uh, clearing corporation eligible, which we consider far less risky from the standpoint of--of--of going away in the event of a problem with our own name. But, we make sure that with the bilateral, uh, repo that we have in position that it's laddered out for significant periods of time that well exceed the expected turnover of the inventory that it's funding.

Um, and finally, as mentioned, we have a very large capital base. Not only permanent capital, but long-term debt as well, which is--has a pretty significant maturity date. So, again, uh, you know, we're--we're obsessed with managing liquidity risk. Nothing different here. Nothing different from 10, 15, 20 years ago. And, uh, we'll maintain our obsession and our focus on liquidity risk forever.

Ben Lorello
Hello, everybody. Uh, I'm Ben Lorello, uh, global head of investment banking, capital markets, and, uh, this is my 11th year at Jefferies. Uh, what I'd like to cover today, uh, is an overview of our business and our performance and some of the initiatives that we're pursuing to grow our business.

Over the last two decades, we have built a major full-service client-focused global investment bank. We deliver our capabilities through footprint comprised of over 925 investment bankers with on the ground senior banking presence in 13 countries around the world. We have significant depth in all seven major industry verticals and we actively cover over 4,000 companies across the world as well as 200 municipal clients.

We support our sector coverage with financial sponsor coverage teams that actively cover over 400 private equity firms. We believe our long-term success has been due to delivering to our clients deep sector expertise and content, strong distribution capability, and senior level execution of our client's transactions. While our company is rapidly adding new investment banking clients, over 70 percent of our revenue in the latest 12 months was from repeat clients.

Over the last decade, we have significantly expanded our investment banking footprint. However, we continue to identify major areas of additional revenue growth and have been successful in hiring bankers to address these growth opportunities. Specifically, over the last two years, we've expanded on managing director footprint in new sectors, new products, new geographies, as well as increasing the depth of our coverage in several areas.

Our sector expansion has primarily been targeted at the industrial sector, which has accounted for over 60 percent of our sector hires. The industrial vertical is the largest fee pool in investment banking. And our industrial team is now our largest team, with over 116 investment bankers and 30 coverage offices--30 coverage MDs. We see the industrial sector as an important contributor to our overall investment banking growth in 2020 and beyond.

In mergers and acquisitions, we significantly expanded our MD footprint by hiring several M&A specialists in selected sectors as well as in sponsor sell sides in an activist defense, which is one of the more rapidly growing areas in M&A.

In financial sponsor coverage, we expanded our business by completing the build out of a sizable team to pursue coverage of midmarket financial sponsors. Our midmarket sponsors team now actively covers over 200 additional private equity firms with fund sizes of $2 billion or less that we did not cover two years ago. Each of these private equity firms, on average, owns 15 companies or a total universe of over 3,000 companies, the majority of which will eventually be sold.

Finally, from a geographic standpoint, we recently expanded into Australia where we have put in place a team of 17 investment bankers, providing a full range of M&A, equity capital markets, and leverage finance capabilities for our Australian clients. Australia is a $1 billion investment banking fee pool and the third largest investment banking market in Asia Pacific. Our Australia business has exhibited strong momentum from its start 18 months ago, including acting as exclusive M&A advisor on two of the largest M&A transactions in Australia during this period.

We also significantly expanded our coverage of Germany, adding managing directors across industrials, equity capital markets, and sponsor coverage. Germany is a $2 billion fee pool and the third largest investment banking market in Europe.

Our historical results through 2018 reflect the growth of our revenue and market share resulting from the continued investment in our investment banking franchise. However, beginning in the fourth quarter of 2018 and continuing through our most recent quarter, the investment banking industry experienced the significant industry-wide slowdown in both leverage finance and equity issuance across U.S. and Europe that impacted our year to date results.

Our investment banking revenues decreased 19 percent compared to the same nine month period last year. Almost entirely the result of lower capital markets revenue. During the same timeframe, industry-wide revenues in ECM and leverage finance declined 19 percent and 28 percent respectively across U.S. and Europe. Our advisory business during the nine months of fiscal '19 exhibited solid performance. And while our advisory revenues declined by 4 percent, this was against a backdrop of a 10 percent decline in industry-wide M&A fees across U.S. and Europe.

Mergers and acquisitions is the highest margin business in investment banking. In addition, executing M&A transactions for clients often leads to leverage finance and equity capital markets transactions. Jefferies has one of the leading M&A franchises in our industry and we have made consistent progress in growing our M&A business over the last five years. This growth has been driven by increasing the breadth of sectors and geographies in which we now advise clients, as well as by the consistent and significant increase in the size of transactions we are advising on.

In the latest 12 months, Jefferies completed a record 49 M&A transactions greater than a billion dollars in size. And M&A transactions greater than a billion dollars in size now account for 50 percent of our M&A revenue. We've accomplished this while maintaining our leadership in middle market M&A where we continue to rank among the leading M&A advisors for transactions less than a billion dollars in size.

We also continue to be a leading M&A advisor to private equity firms. And for the fiscal 2019 year to date, we rank third in financial sponsor M&A fee market share among all investment banks across the U.S. and Europe. This leadership has been established in part through our reputation with both companies and sponsors as the leading sell side M&A advisor, which is the highest value added segment of the M&A market.

Sell side M&A now accounts for over 80 percent of our overall M&A revenue, a greater percentage of our M&A business than any other major investment bank. Looking ahead, we expect our M&A revenues to benefit from our significantly expanded sector and geographic footprint, uh, momentum in winning larger transactions, and the strength of our franchise in sell side M&A.

Technology investment banking is one of the largest investment banking fee pools among all major industry verticals. And it is also the most rapidly growing fee pool as technology's become an important part of strategic M&A across every industry. We've invested heavily in building a major technology investment banking business and I'd now like to discuss the performance of that business.

Over the last three years, we have significantly increased the size of our tech team, through a substantial build out of our West Coast technology practice, the subsequent expansion of our East Coast team, and our technology team in Asia. Our global technology team now consists of over 130 investment bankers dedicated to the technology sector, including 23 managing directors located in San Francisco, New York, Charlotte, London, Hong Kong, Tokyo, and Mumbai.

Over the last three years, our technology investment banking revenues have increased by approximately 100 percent, primarily driven by our growth and advising on technology mergers and acquisitions, which grew by over 55 percent during this period and by our growth in equity capital markets, which grew by over 150 percent. M&A now accounts for over half of our technology investment banking revenue and ECM for--for over 25 percent of our technology revenue.

Notable among the 66 technology transactions we've completed so far this year, we're sole advising Careem on its $3.1 billion sale to Uber, which in 2019 was the largest M&A deal globally in the mobility sector. Acting as one of three active book runners on the $2.5 billion IPO of Lyft, which in 2019 was the second largest technology IPO globally. And acting as a lead left underwriter on the $1.4 billion committed acquisition financing of Thoma Bravo's acquisition of Ellie Mae, which in 2019 was the third largest LBO financing globally in the technology sector.

Given the scale and momentum of our technology business and the size and growth of the global technology investment banking fee pool, we see technology as an area of continued revenue growth in investment banking.

As with our technology business, we've invested heavily over the last several years in expanding our European investment banking business. And this investment has occurred across sectors, products, and geographies. For the first nine months of fiscal '19, our European investment banking revenues increased by approximately 40 percent. And our nine months results approached our full year 2018 results. Our growth in European investment banking revenue has been driven by our mergers and acquisitions business, which grew by over 80 percent, and where we increased our European fee market share by over 80 percent in 2019.

An important part of our growth in European M&A has been our success in advising on billion dollar plus M&A transactions. And revenues from billion dollar M&A transactions accounted for 45 percent of our fiscal '19 European M&A revenue. In addition, 25 percent of all the largest

M&A transactions that Jefferies completed globally in the first nine months were transactions advising European companies.

Some of our notable European M&A transactions include sole advising Italy based Recordati family on the $4 billion sale of their 51 percent stake in Recordati Pharmaceuticals. Lead advising UK based British Car Auctions on their $2.9 billion sale. And sole advising Norwegian oil company on their $1.9 billion acquisition of Shell's Danish oil and gas business.

Looking ahead, we expect our growth in European M&A--M&A revenue to benefit from the significant managing director additions we've recently made in Europe in industrials, real estate, gaming, lodging, consumer energy, and in UK M&A. And also, from our recent expansion into Germany.

Our success in investment banking has been supported by our partnership with Jefferies Finance, which serves as our primary source of syndicated and direct lending to corporate and financial sponsor clients, both in the U.S. and in Europe. Over the last 15 years and across multiple market cycles, Jefferies Finance has built a leading franchise and arranging leverage loans for distribution to the institutional loan market. Since its inception, Jefferies Finance has successfully arranged over $210 billion of institutional loans. In addition, Jefferies Finance manages over $7 billion in assets primarily in CLOs, a large share of which are modestly retained proportions of transactions that Jefferies has arranged.

And finally, Jefferies Finance also is a growing player in the direct lending to middle market companies which provides an important source of growth to Jefferies Finance for its asset management business, while also being an important capability to grow Jefferies middle market financial sponsor business. In the last 12 months, Jefferies Finance made direct loans to 22 companies owned by midmarket financial sponsors. And each of these companies represents a potential investment banking client for Jefferies.

I'd like to wrap up by discussing some of the major initiatives that we have underway to drive our growth in market share. Our first two priorities relate to increasing the productivity of our sector MDs. We've hired 41 sector MDs over the last three years and these MDs cover industry sectors and geographies that have given us access to approximately $4 billion of addressable investment banking fee pool, which prior to their hire we did not address.

We believe our increase sector footprint will drive revenue growth in 2020 and beyond as these coverage offices continue to gain traction with their clients. One important indicator of this traction is that 10 of the 20 largest M&A transactions that Jefferies has most recently advised on had been originated by coverage officers who had been with Jefferies for less than three years.

Our next priority is to monetize the large number of M&A and ECM opportunities embedded in our incumbent new clients. Over the last three years, Jefferies, as the number two ranked underwriter of LBO financings on Wall Street during this period, has led or co-led the acquisition financing of over 150 companies. Each of these sponsor-owned companies represents a potential monetization opportunity as sponsors will likely either sell or IPO these companies. In aggregate, we believe there's over $1 billion of embedded M&A and ECM revenue for Jefferies to compete for over the next two to three years built into these incumbent relationships and we are actively pursuing these priority opportunities.

Our next priority is to significantly increase our penetration of the middle market sponsor universe through our expanded midmarket coverage footprint. We believe that our ability to offer midmarket clients the combination of dedicated sponsor coverage, deep sector expertise, industry leading sell side M&A expertise, and direct lending capabilities is unique among our competitors. As a result, we see midmarket sponsor clients becoming an important source of additional M&A revenue over the next three years. Our midmarket team is currently executing 20 sponsor sell sides M&A transactions.

Our last priority is to continue to selectively expand in industry subsectors where we currently are not present. Towards that end, our current focus centers around further expanding our U.S. financial services business in the fintech sector, building out our European industrials business in the chemicals and building product sectors, and building out our Asia business in the consumer sector. While these are our current hiring priorities, we see many additional opportunities for continued expansion across the U.S., Europe, and Asia, and to new sectors and sectors where we have limited presence.

In closing, we've put in place a large number of revenue growth drivers to grow revenue in 2020 and beyond. Today, we have the highest quality, most senior team of bankers with the greatest breadth of sector expertise in geographic reach in our firm's history to take advantage of these opportunities. If we are--if--if we adhere to the core tenants of our client strategy, which are built upon deep industry expertise, leading with content, and delivering best in class senior execution, we're confident that we can continue to capitalize on the significant revenue opportunities that we now have put in place. Thank you.

Pete Forlenza
Good morning, everyone. I'm Pete Forlenza and I run the equity division globally. So, naturally, I'm going to walk you through, uh, the performance of our equity division as well as where we're seeing opportunities in the current market environment.

The equity business at Jefferies is an institutional, full service, global business. We've been growing revenues consistently, taking advantage of opportunities that we see presenting themselves to us on a global basis. Brian mentioned earlier that many of our peers are stepping away from certain aspects of the business and I'll walk you through how we are filling, uh, some of that void and gaining share. And in fact, last year in this meeting, I said that we had an opportunity across the globe to gain share.

And if you look at this slide, there's a lot going on and it's a bit of a commercial. So, I'm not going to walk you through the entire commercial, but please feel free to read all of the--all of the metrics that are on there. But, what you'll see here is that we are at record market share in virtually every region and every product that we are competing in. So, we're gaining this share.

There's a couple that I will point out, though, because I think it surprises some folks. Um, in the last 12 months, we've been the number one market share gainer in the UK cash markets and in the European cash markets. And in fact, it's not up here, but in the most recent quarter, I believe we were ranked number four in UK high touch cash trading. Now, again, this opportunity presented itself and we're taking advantage of it. And we're doing this on a global basis. And as we go forward in this presentation, I'll speak to, you know, an opportunity that we're seeing in Asia at present.

I'd also highlight our convertible business, which is a business that other banks chose to step away from a few years ago. Um, and we have chosen to invest in that business and we've done it in a very capital efficient fashion. And as of today, I would argue we're top two or three globally in global convertible trading. So, it's--we're very important to his market and we think this is repeatable around the globe and across other products.

While we're gaining share, I think it's also important to highlight that we're diversifying our revenue mix and this is something we've been focused on for the last five or six years. And we're diversifying this revenue not just by region, but also by product. I use convertibles as an example. As we're filling, you know, this void, if you will, um, that others are exiting in the business, uh, we're growing these revenues in places that, uh, are--have higher margins.

So, the first thing I'll point out is you can see from where we were in 2013 to where we are now that now our international revenues are roughly a third of our equity revenues. And I would expect that will continue to grow. Again, market dependent. There's some challenges in the global markets.

But, importantly, we've taken our significant market share in the U.S. in the cash products and we've leveraged that into significant market share gains in some of the higher margin businesses, particularly electronic trading and our prime finance businesses. And we see this, again, something that is repeatable, um, in different fashions around the globe. It may look a different from in Europe than it does in the U.S. or in Asia than it does in the U.S. And again, this is something that we believe is repeatable.

Earlier, I talked about the momentum we have in Europe and we're excited about it and we know we have more share to gain. So, we're record market shares, but we know there's more to do. Within the last year, we've seen an opportunity in Asia. Again, due to market environment and some challenges that some of our peers, there are some that have been stepping away from it. There's market consolidation.

What we've done over the last year as we have seen this opportunity--and the way I would phrase it, clients are inviting us in. Clients that were providing significant value to across all of our products, whether it be convertibles or electronic trading or prime finance are asking us to be more relevant for them in Asia.
So, to that end, we've expanded our leadership team. We have gone and hired some of the market leading strategists on a macro basis, but also single stock analysts in Japan, in Hong Kong, in--and in Australia. We're very excited about this opportunity that is in front of us right now.

And to put this in perspective, for every one per share--1.5 percent market share gain in Asia, that equates to $50 million of revenue for us. And we've proven in Europe and the U.S. that we can do this. So, we think we have a significant opportunity for us right now in--in Asia. And I look forward to discussing that again next year when I come back.

As you can see, our growth strategy over the last few years has centered around our core U.S. equity business, diversifying what we're doing for those clients, having that success, taking that client market share and impact, and responding to that invite that we're getting, and doing it on a more global basis, you can see we're doing that. And we're continuing to invest in these businesses, whether it's electronic trading, whether it's international convertibles, we saw that opportunity and we took advantage of it. You're going to see more of that. So again, electronic trading, client services, convertibles, derivatives, and being more global.

In summary, the equity franchise at Jefferies is now in its 58th year. Today, we're competing with a smaller number of brokers, again, that's the industry consolidation we've been talking about. We've grown and diversified our business, and while we're excited about what we've achieved in those market share gains, we know that although we're at good market share, that there's more in front of us, and we look forward to growing that in the future. Thank you.

Fred Orlan
Good morning, everyone. Uh, my name is Fred Orlan, uh, I run the Global Fixed Income business here at Jefferies, and I've been with the firm for a little over five years now. We're very excited, um, very excited about the performance thus far in 2019 of our Jefferies Fixed Income team, which continues to produce more consistent and predictable revenues and returns over the past few years.

And it's nice to be able to say that our performance, through the first nine months of 2019, is our best performance in five years. And over the past five years, we have repositioned our franchise with an emphasis on our core strengths, our trade in credit-related products, and building long-term relationships with our clients, while being rigorously disciplined on risk management, costs, balance sheet, and capital.

And our performance is particularly noteworthy as the trading environment this year, as Rich mentioned, has been very inconsistent and challenging. And as a result, many of our competitors have seen their Fixed Income revenues decline in the first half of 2019. And while we're very encouraged by our performance, and the consistency over the past few years, we're even more excited about the way we've advanced our platform, and the potential we have to drive even better returns and results in the future.

So I want to focus our presentation on four key themes; our focus on our people and the culture that drives our business, the consistency and improvement in our results, the measurable advancement of our client franchise, and our strategic focus for 2020. So, those of you who have been, um, to the Investor Day in the past have seen this slide, and they use it just to kind of give a brief overview of our fixed income platform.

We have approximately 425 people in Fixed Income operating across seven client-facing businesses, all of which have global presence and global reach. And this provides us all the capabilities of a competitive, global Fixed Income franchise, and compliments the core components of our investment banking business and equities business that Pete and Ben have just mentioned.

Approximately 30% of our sales, trading, research, and capital markets professionals are based overseas, and our international businesses are focused not only on servicing local clients, but also those that operate globally. In 2019, we hired a new head of our European Fixed Income group, who are currently building out a credit trading team to capitalize on the investments that we've made across our investment banking platform, and also the strength of the equity trading business in the European market that Pete was just referring to.

And additionally, this'll provide synergies with, and also compliment the strength of our US-based credit trading business. You can also see in the chart, in the dark green, all the businesses that we have enhanced, um, the leadership in since the beginning of last year, which include the aforementioned Head of European Fixed Income as well as the credit businesses there. But also, we're very excited about the additional hires that we've made in the US-based businesses, which are really helping to drive our results.

Uh, creating a unified culture takes time and dedication to find the right mix of professionals that could work together to drive consistent performance. And looking back on this journey, approximately 40% of our Fixed Income team have been recruited to Jefferies over the last three years. And during this time, we have further inculcated a team-oriented culture, focused on building long-term partnerships with our clients with the relentless focus on risk management and disciplined use of the firm's capital. And finally, it's important to note, as Peg was implicating, that we operate a predominantly cash-oriented business, with very little in unclear derivatives, nothing exotic, and very little illiquid or hard-to-value securities.

So turning to our results, through the first three quarters of the year, we're running about 10% ahead of last year. And as I mentioned earlier, it's our best performance in five years. And the LTM number we're using, or showing here, obviously uses last year's fourth quarter, but we all know that last year in this time period was very challenging with the Fed aggressively raising interest rates much to the disagreement of Donald Trump, and also resulted in significant downside volatility in global stock markets. So again, our performance is even more noteworthy considering that we've outperformed many of our peers.

And you can see on the right hand side of the slide, the highlighted metrics that show that while our performance has improved, we've been more efficient with the use of our balance sheet, which is down 11% over the past four years, our headcount which is lower by close to 20%, we've reduced stress risk by about 25%, and given the increased diversity of our revenues, we've been more consistently profitable, as measured by the percentage of profitable trading days, which has improved by 15 percentage points to 82%, or basically better than four out of five days are profitable in Fixed Income.

So the third theme is the consistent improvements in our client franchise. And I mentioned, our culture of building long-term partnerships with our clients create a very important, positive long-term impact on our performance. First, it enhances the quality of the business that we're doing with our clients, which leads to higher margin trading. Secondly, it increases our market intelligence, as we're closer to the thinking and the decision-making of the most important investors in our market. And thirdly, it enhances our liquidity, which helps us manage risk, and leads to more consistent, reoccurring revenues that are less dependent on the success of taking risk for their own balance sheet.

And as you can see from this slide, our market share is improving across many aspects of our business, which is consistent with the improvements in our rankings in some of the most respected industry surveys, such as the Greenwich Survey. So for example, we have number one ranking in overall service quality, as well as the most helpful traders in emerging markets, and also not mentioned on the slide is top two ranking in the most helpful strategists in the end as well. We're number three underwriter of Ginnie Mae CMBS, top five service quality for Distressed Debt, which has led to a doubling of our market share in that market, and a top five ranking in Agency Discount Notes in many of the U.S. electronic trading venues such as Tradeweb.

Additionally, we now have top 10 rankings across almost all of our businesses, um, uh-- businesses, and this has increased our relevance across almost all of our businesses, and these improvements have led to increased market share that you can see on the right hand side, in areas such as High Yield and Munis which have increased nicely. And our franchise is further enhanced by the continued improvements in our global investment banking and origination effort, which is synergistically providing a larger backlog of lien left underwritings that has increased our overall market presence in fixed income credit, but will also lead to more valuable trading opportunities over time, especially as volatility increases in the credit markets.

So strategically, for 2020, we're focused on continuing to attract culturally-aligned, top-tier talent to further strengthen our business globally, and across Fixed Income. The long-term investments we're making in our client relationships are recognized by our core clients and the relevant surveys which are leading to higher market share and most importantly, higher quality share of the business that we are in with these clients. And we'll continue to look to invest in markets where our model will bring increased value to our clients, and are currently focused on extending our strengths in credit trading to Europe, and better aligning ourselves with our global client partners.

We're also excited about the investments that we've made in our Madison CRM system, which will not only make us more efficient with respect to the data that we currently collect, but also gives us the capability to employ the latest available technologies to digitize unstructured data, and utilize the latest AI tools to make us more intelligent, and more effective in delivering our services to our clients. The flexibility and scalability of this platform, and the ease with which it connects with our e-trading architecture will make it possible to evolve with future advances and innovations in technology.

So while we're excited about our year-to-date performance, we're even more confident in the positioning of our franchise, and our prospects for future improved performance. Now I'll turn it over to Nick Daraviras.

Nick Daraviras
Thanks, Fred. Uh, while--as Brian mentioned, we are in the relatively early development of Leucadia Asset Management, overall. 2019 has been an incredibly gratifying year on a number of fronts. We've had sustained growth and positive momentum in our assets under management, both from existing platforms and new partnerships, many of which I'll discuss in a moment. In fact, most of the progress in, uh, AUM, is not yet fully reflected in our statistics, as we have either not completed initial fundraises for certain of our new initiatives, or in the latter stages of converting, uh, or significant pipeline for addition to AUM.

In conjunction with this AUM growth, we have seen an increase in management fees, attributable to the platform for investment, uh, launched, particularly late last year and early this year. And on the investment front, we've seen enhanced results thanks to our further diversification and focus on leverageable, low net, and uncorrelated strategies. As an example, less than 20% of our internal capital today is in single equity strategy--single manager equity strategies, with the majority of our capital in multi-manager or other diversified strategies.

I'm going to run through some of the highlights of the past year of accomplishments. At the beginning of the year, we completed the previously announced merger of Folger Hill into Schonfeld's Fundamental Equity Fund. We maintain a significant revenue share in this attractive, global equity multi-manager, while reducing our overall dollar commitment versus what we had in Folger Hill.

We announced the creation of Stonyrock, a joint venture with seasoned executives, to acquire GP stakes and middle-market asset managers. We begun fundraising for this platform, and we've experienced initial positive feedback. We also recently closed on our first investment for Stonyrock, which we will warehouse at the Jefferies Financial Group level. We believe this first investment will add further momentum to our fundraising, as the investment fits squarely within Stonyrock's strategy of partnering with well-established, high-quality managers. And it further evidences the strategic benefits of partnering with Jefferies, as the firm with which we're investing has been a long-term and key relationship of the investment bank.

Point Bonita is a trade finance-focused manager. We believe our partner, Ross Berger, has created a unique, uncorrelated credit strategy. Uh, while we've only deployed internal capital in this strategy to date, we are feeling strong interest from investors even prior to launch. We brought on the Solanas team, and I think what's unique there is it will mark our first foray into ESG via their alternative energy products.

We recently acquired a stake in a group called Monashee, a Boston-based manager focused on capital market strategies, and we believe this will be a nice complement to our overall product offering. We also continue to invest in and develop strategies within quantPORT, uh, recently renamed Tenzine(SP) and Kathmandu, all with an eye on further fundraising and, uh, capital raising in the not too distant future.

Our marketing efforts in 2019 have been focused on Sikra, a European kind of a long-short equity strategy. Jefferies Finance Asset Management, and particularly its direct lending product, and the Weiss multi-strat product. Also as of late, uh, we've been focused on Stonyrock. We've built a very strong pipeline, and expect to see substantial conversions from it in the near future. To support these efforts, we've grown our marketing team from just four members two years ago to 12 members today, and with additional part of those hires expected in the near future. We believe, uh, that the, uh--this effort is key to supporting our various platforms and fueling our growth via coordinated investor outreach.

Lastly, we continue to leverage the relationships with the firm and senior management to develop differentiated and proprietary opportunities for further growth, whether it be through seeding managers, acceleration capital for existing platforms, joint ventures, or, uh, in limited cases, acquisition. We believe we're uniquely positioned to partner with managers at the various stages of their development, uh, combined with our marketing structure and prudent use of our capital, this flexibility is a distinct competitive advantage.

This slide is a summary of select managers, many of which I've already mentioned. I believe they show the breadth of our product offering, but also highlight that there's significant whitespace and capacities even within usage strategies for organic growth. And to summarize, we have a number of priorities. Clearly, growing fee-paying third-party assets under management is at the top of the list, and we look to develop long-term sustainable cash flows in this business.

We're seeking to add new platforms and continue to grow our product offerings. Where I think we've transformed the business over the last few years to position it to earn an attractive risk-adjusted return on our invested capital. And we seek to do all this as efficiently as possible by leveraging the broad capabilities of the firm. Overall, it's been a year or two of transformation in this business. We're very excited about where we are, and you know, we believe there's tremendous opportunities in the near and longer term for the Asset Management business.

With that, I'm going to turn to Merchant Banking. First, to just give an update on National Beef, National Beef completed its third consecutive year of record results and is well-positioned to continue this streak in 2019. The company's experiencing strong demand from consumers, coupled with ample cattle supply, leading to strong capacity utilization and operating leverage. Furthermore, USDA statistics suggest positive supply dynamics, uh, for the foreseeable future, which also are a, uh, good indicator of the, uh--the prospects or the business.

In the past year, while we sold our majority interest just over a year ago, we've partnered on pursuing strategic initiatives for the firm to allow it to expand its market share and product offerings, including the acquisition of a well-situated processing plant in Iowa as well as the acquisition of an additional patty plant in Ohio. We continue to own 31% of this company, and have a positive relationship with our partner Marfrig. The company is a strong cash generator, and we are pleased with its ongoing performance.

Moving to Idaho Timber; Idaho Timber had a record 2018, which was driven in particular by a very strong first half, during which market conditions were extraordinarily favorable. These conditions were birthed in the second half of last year, and then continued into 2019. That said, then efforts of our management team over the prior year to diversify our customer base, uh, focus on operations, and position our sawmills for sustained profitability allowed us to navigate this period while remaining reasonably profitable. We believe some of these dynamics, particularly around supply, have alleviated in the, uh, in the late summer, and we're hopeful for an improved finish to the year.

Vitesse is our non-operating oil and gas investment vehicle. The company focused on the North Dakota Bakken Oil Field, and partnering with leading operators in that market. Core Bakken economics continue to improve, and the field has entered the manufacturing phase of its development. We believe there are attractive returns embedded in our holdings, particularly with the majority of our production yet to come. A key factor is that while CapEx spending remains to develop our holdings, we expect cash flow from flowing wells to more than cover those leads while also providing a return of capital.

As this capital is returned, our net investment will be reduced, and this will further drive investment returns. We're also carefully monitoring commodity prices and hedge accordingly. The vast majority of remaining 2019 and 2020 expected deduction is hedged, and we will add to these as prices and market opportunities allow. With that, I'll turn it over to Jimmy Hallac.

Jimmy Hallac
Good morning. Uh, Homestead is a developer of residential and mixed-use real estate, with projects in California and New York, Florida, South Carolina, and Virginia. It's essentially where we hold our real estate exposure. Uh, earlier this year in July, we closed on the acquisition. We had previously owned 70% of Homestead, and we closed, uh, the acquisition of the remaining 30% of Homestead that we didn't already own.

The large motivating factor for the acquisition is that we felt that under our full ownership, we could better optimize Homestead's assets to focus on expediting its development programs and maximizing, you know, the return of cash flow from those assets. We also thought there were opportunities to better structure Homestead's activities from a tax and other perspective, we see that there's a lot of potential to leverage the experience of Homestead's management team and skill set to ramp up our activities at Homestead, including exploring partnerships, uh, that may better, uh, leverage the assets and the teams that we have, uh--and that includes continuing to explore new opportunities, new assets, and potentially new markets.

Homestead's assets, uh, are largely located in California, and Brooklyn, New York, although it's got some smaller exposure in other states. Uh, the three assets that I'd like to talk about are Otay Ranch, which is a nearly 4,500-acre, uh, development, entitled for over 13,000 units. Otay is being sold off and developed in the form of villages, the first village Escaya, is a 450 master plan community--450-acre master plan community with, uh, 992 homes planned at the site. We have been selling homes at Otay for, I believe nearly two years now, and thus far we've sold 735 homes.

Uh, we are also very well underway the development of a mixed-use project with, uh, 272 apartments, 20,000-square-feet of retail space and some community space. Uh, this model of what we're doing at Otay, we'll likely continue as we develop the other villages where it will be a combination of, you know, lots and home sales, plus some apartments for multi-use development. The second village, Codevera(SP), is also under development as we speak.

In Brooklyn, we have two projects--well, one is an asset which is Renaissance Plaza. Renaissance Plaza is a mixed-use, uh, office building, Marriott hotel, and garage, we have a partner there. Uh, we recently refinanced two of the office condos, and, um, that resulted in $119 million of cash to Homestead.

The other asset is a development asset, it's an assemblage on the corner of Flatbush Avenue and Fulton Mall. In Brooklyn last December we bought 49% of the project, the project owned 15/16 buildings that comprised an entire city block on that corner. And you know, this is the highest density, highest rent location in downtown Brooklyn. The idea is to, of course, develop the property with our partner. Um, the remaining assets in--at Homestead, uh, are either smaller or earlier stage than Otay, but similar in style to Otay. But you know, after a--hopefully not too long entitlement process, we'll find ourselves in a position where we can develop them into an Otay-like community.

Moving onto Linkem. Linkem, uh, as you've heard in previous meetings, is a fixed wireless broadband provider in Italy. Uh, just some background; fixed wireless broadband means that we are providing broadband services wirelessly. Uh, the way it works, we put antennas on existing cell phone towers, and, uh, if you live within six kilometers of that tower, you can have a device at your home that receives the broadband signal, uh, that is essentially on part with fiber to the cabinet, not fiber to the home.

Uh, the reason that this service is quite compelling, particularly in a geography like Italy that is, you know, first it's full of mountains and coastlines, but also every time you put a shovel in the ground you find some ruins. Uh, it is unmatched in terms of speed of deployment, uh, amount of CapEx required when compared to something like fiber to the cabinet, let alone fiber to the home. Um, it allows us to grow more rapidly than the other players in the market, which we have been doing for many years now, and do so much more cheaply.
Uh, thus far, Linkem services are on the LTE advanced technology platform, but the frequency that Linkem owns across all of Italy is exactly the frequency that has been designated globally as a key frequency band for 5G. And this, essentially, underpins the asset value of Linkem today. A year ago, there was an auction in Italy for the exact adjacent frequency to ours. Uh, the prices--there were four winning bidders, and the prices from that auction imply a value to Linkem's frequency of approximately one and a half billion dollars. Um, so, you know, we're trying to build a business, revenue-wise, EBITDA-wise, it's still relatively small, but it's underpinned by tremendous, you know, asset value from the frequency.

Uh, going forward, 5G will definitely be an interesting opportunity for us to navigate. We have become quite, uh, interesting to a lot of major incumbents in terms of, you know, partnering to leverage our network. Among other things, we have been--uh, we have signed wholesale agreements with four partners where they are white labeling our service and selling it to their customers. We have also launched a business offering, uh, fairly recently that is growing nicely. And finally, we've created something called Linkem Labs, which is an opportunity to partner with smaller players, potentially getting some value, uh, in order to give them access to our network. I should've mentioned, we own 54% of Linkem on a fully diluted basis.

I think we're onto Q&A. Why don't we first take questions from the room? If you raise your hands, there's microphones that'll be brought up.

Chris Kotowski
Uh, good morning. It's Chris Kotowski, from Oppenheimer. Um, you know, before the Leucadia merger, you know, if Jefferies grew the way it does now but consistently earned kind of the double-digit return on equity, maybe never the 17s and 18s that the highly-leveraged companies did, but you know, consistent the 11s, 12s, 13s, that kind of thing. And you know, you look at the bulge bracket, the Goldmans and Morgan Stanleys these days, nobody's having a lot of fun, but they're the 11, 12, 13% range, too.

But, you really haven't been able to produce a double-digit return for a couple of years, even though we've put Burcadia in there, which was kind of a, you know, nice cash generator. So, you know, I mean, the market share numbers that you showed were great, but ultimately your shareholders can't eat market share. And you know, what's the plan to drive to a double-digit return on equity?

Rich Handler

I'll go first. I agree with your question completely, so it's not a surprise. Quite frankly, um, I think if you saw--if you sit back and look at the presentation today, you'd probably see a bit of our frustration in that things are actually going pretty well, and we'll be in double-digit, probably above where we were, touching double-digits, if two of our biggest businesses in the bank were not so severely impacted.

So, clearly, there's always going to be something that's going on, but the fact of the matter is, having Energy and Leverage Finance where they are, it's clearly hurt us this year. And it's pretty surprising to sit there and say Sales and Trading's actually doing a fairly decent job, and our core business is slower but it's unique to us, it just happened to be a disproportionate amount of our business.

Our investment in asset management is a significant investment, and that is clearly a drag on our ROE. And it's one where we feel like we finally turned the corner where we'll be able to withdraw some capital from the business to drive ROE better, and additionally get significant third-party capital coming in, so that will be a significant amount of drive on ROE. Um, you know, our bank is clearly capable, and we are on track to do $500-million-type quarters on a routine basis, and this year we had a couple of major headwinds. If trading stays where it is, okay, if banking is remotely more balanced than it is, if you add all those additional people we brought in and have groomed, and are basically starting to hit the ground running, and you get asset management to actually kick in, I think we'll have those numbers.

Um, it's--we've been saying it for a while, we're as frustrated as you are, but if you look under the hood at the various pieces, uh, the machine is built, it's ready. We've had a couple of headwinds this year, and I want to go back to the point of saying that despite the headwinds, and they've been considerable, we haven't had any real catastrophes, okay, both on the training side, on the backend side, on the leverage/finance side.

We've said no to a number of transactions where competitors leaned into, and they had more exposure. We passed on a couple transactions that we should've passed on. That being said, having energy, which has historically been a couple-hundred-million-dollar revenue business, and our team is doing a great job. We're actually doing more deals than anybody else, but basically the business is nowhere near where it was given the fact of the volatility in the commodity space there. You want to answer it, Brian?

Brian Friedman

Nah, I mean it really--in the short term, it's all revenue. I mean, if you posit--you know, pick a number, but if you look at our first quarter, what wasn't there, and if you look at our Investment Banking business, look at the market share momentum. If you posited, you know, 250 million revenue difference, you're looking at a margin of 50% plus on it. After tax, that alone adds 200 basis points plus to our ROE.

I mean that's--we're that close, and the operating leverage is that clear, but when you lose, you know, half a quarter effectively in the year and have a slight dampening of the rest of the year, that's what's missing. And the mistake in our view would be to change strategy or to change course when it's that close.

Burt Reese
Thank you, Burt Reese, Janney Montgomery, uh, Scott. Uh, with respect to the, uh, the M&A talents you're attracting, seek thereof, unless investment banks have the acquisition costs of these people, unless you're recently than what it would've been five years ago, and will your ability to retain these people, you know, going forward be more icky?

Brian Friedman
I would say the answer is, uh, on the per person, the cost probably hasn't changed. Um, if you want quality talent, there's a reasonable cost that's associated with it, that hasn't really changed. Our retention level is incredibly high. We have on the investment banking managing director level, a less than handful of regretted departures each year, and we generally only lose people that we would like to see retained leaving the investment banking business, going to private equity or corporate. But the turnover form those that we want to retain is negligible.

Rich Handler
I would also add, one of the reasons why we're--um, why the costs aren't going down with recruits, the people we're bringing in are world class people, and they're in demand everywhere, and the best people can always get an offer. What's exciting to us is, it's easier than ever for us to recruit them to our platform because our platform is more robust than ever and our brand is better. And more importantly, they can hit the ground running faster. So it's really a very good commercial transaction and partnership for them and for us, and it's definitely a strategy that's leverage-able.

Kevin O'Keefe
Good morning, Kevin O'Keefe from Stephens Capital. Uh, Brian, you mentioned the end of a two-year cycle in your prepared remarks, and seeing more meaningful change coming forth in the next two years. I'm just curious if you could, uh, maybe take it to that--uh, maybe a little bit more detail from a higher level perspective, like as investors, what should we be thinking about over the next two years as the potential for value realization, whether it's ROE or further sales of large assets? Yeah, just kind of want to delve a little bit more into that vision. Thanks.

Brian Friedman

At a high level, it's a pretty straightforward, which is, you know, after what we just talked about, the return on it would be in the core business, will--should be driven by the growth in revenue, particularly in the investment bank, but also on the equities and fixed income side, I think we've made the case for that. That's then enhanced by the asset management business maturing into a true business with good third-party assets. So when you think in a one-year and two-year timeframe, we see that coming through.

And lastly, the periphery, on the merchant banking side, we will continue to effectively deemphasize it by possibly moving one or two pieces into the asset management mode, and that's ideas we have. Uh, but on the other hand, we'll see further maturation of those assets, and monetization on opportunities. So, you know, when we look out two years, again, go back two years, the non-core was larger, the slide that Rick showed, that slide should continue to go in the direction that we showed, hopefully even at a greater slope.

And the return on core, again, we look at these last 12 months as, you know, it's not masking anything because it's all there, but effectively we had a year where we didn't get the full benefit of our efforts, we think it is due to macro factors like the government shutdown, like the uncertainties in the political world. We're not predicting those are going to clear, but we're going to keep adapting to them and drive the business through.

Rich Handler
I would just add, looking out two years from now, I would expect our share count to be a lot--significantly fewer shares outstanding, more capital returned to our shareholders, perhaps with a reduced float, a higher dividend payout. And people say have you lost interest in doing merchant banking transactions? Okay, I think the answer is a couple things. First, it's hard to justify doing a merchant banking transaction when we have the opportunity to buy our stock where it is, that's first and center. So that would be a very strong priority.

Number two, um, we think the market wants a more--the market wants--let me backup, it's hard to find merchant banking transactions in a super competitive world, given all the dynamics we've created today. So to find unique opportunities are few and far between that are compelling for us. And finally, the market wants for the simplification as do we, we think that will help tell our story. So I think in two years you'll see a more simplified story.

Um, but when the gap disappears, um, from our value and the perception of our value, and, uh, we have the double-digit ROE as a core business, which is a disproportionately large amount of our company, within our asset management vehicle, do we have a merchant banking capacity with third-party capital, with our capital? I think that'd be a smart thing to do, but in the meantime, our capital is going to 200 shareholders.

Mike Bronson
Morning, Mike Bronson, KBW. Um, I guess, you know, I hear you loud and clear on the targets, appreciate the color there, um, but was interested to hear about kind of where the margin

improvement could come in if we end up in another challenging revenue environment, because I was just kind of looking to 2020, there's obviously still some headwinds out there. So, what is kind of at your disposal to kind of maintain, or kind of improve margins, and then what would kind of be an aspirational margin for Jefferies Group?

Brian Friedman
Just trying to decide what assumptions you're putting in there. But if we're right, and we can get incremental market share, particularly in investment banking but across the whole firm, then that revenue carries a meaningfully higher margin than the average margin, you know, up to the current point. If we believed we were in a sustained period of revenue contraction because of the environment, whatever the circumstance, then we have to compress compensation and we have to take a harder look at operating costs.

It's very hard for us to constrain our operating costs while we're trying to gain market share and drive growth, because we have to make the travel expenditure, we have to, you know, do all the things that we're doing to get that revenue gain. Um, so, it's a little bit what environment you're in. That's why I say when I look at the last 12 months, we gave up margin and we gave up return because we didn't change, nor, in our view, even today should we have changed our operating approach, despite the government shutdown, the thing that took our revenue down, because we're gaining market share and we see this as transitory and therefore we're going to get the payback.

So, I mean, it's a difficult question to answer because, you know, it's what assumptions are you working with? You know, we're motivated for our ROE goal, we're not motivated for ROE for two quarters that we can't sustain. And so to cut a cost, for example, and sacrifice the opportunity to keep growing the business, we believe at this point, when market share is soft in the industry, is a mistake. The opportunity is to take that market share. So I don't know if I did a good job of answering, but feel free to follow it up.

Mike Bronson
Uh, that was very helpful. Yeah, just one other follow-up. As you--kind of a little bit too rich goals to lower the share count at the time is probably going to come through probably as some monetization activity. So a common question that we get is, which businesses are kind of maybe closer to that, um, monetization event? Obviously you can't exactly say, you know, exactly which ones and when, but maybe just an insight into which ones are kind of closer to that point, maybe which ones are little bit further away. Thank you.

Rich Handler
You know, it's hard to directly answer that question. But if you realize, we're looking at each one on a routine basis. So, it's not like anyone is sacrosanct that we would not want to monetize. That being said, since we are filling up cash, it's not necessarily preventing us from buying back our stock. So, you know, we have a put on a beef company, in several years. Could there be a possibility of doing something premature to the companies outperforming? Yes. But

is there anything planned or imminent? No. Are we open to it? Yes. Does it have to be at the right price? Yes. Will be fire sale it? No.

Um, you look at Linkem, um, Linkem is a very, very attractive asset. Um, it has a floor underneath it, you know, based upon an auction. It's a unique asset where we'll dealing with a bunch of very well-established, deep-pocketed competitors, who all like the asset. There's also public markets that we're finding attractive. There's dynamics that we pay attention to all the time, there's a lot of moving pieces. I can't tell you anything there that's imminent, but we are focused on all of that.

Um, you know, Brian can talk about the test as well, but it's a very interesting--he goes through each one, and I would just go back to the fact that we had 14 or 15 of these, you know, 18 months ago, and we have four right now, and there are a bunch of other smaller ones that we're working on as well.

Um, we're not the kind of people who would go out there and say we're looking to put x, y, z out for bid and see who shows up, and mess up the company, and not have anything happen and have false expectations for people. But we are very motivated and aligned shareholders who want to transfer ownership of these assets at high prices, and we use our float as quickly as possible. And that's pretty much what we're communicating to people.

Brian Friedman
I would just add that the merchant banking portfolio, almost to every dollar, is fairly mature. So, the idea that we're, you know, inside it three years, we're not talking about this is a five to 10-year opportunity, this is a, you know, zero to three year. On virtually everything in there, there could/should be reasonable opportunities. That said, that includes the potential that some of those businesses will be part of our long-term strategy through changes that we can make in their structure.

Rich Handler
And that being said, if four people call tomorrow, all want to do transactions for our nice ones, we'd be in four different conference rooms right now talking to people. I mean, again, in the last two years, we're talking about $2 billion including the Spectrum distribution.

Kevin O'Keefe
Hi, Kevin O'Keefe again. Um, as you can tell, we're all impatient for more monetization, I guess that's the downside of dealing with public equities people. You know, I guess, I asked about Linkem last year, and it was after the Spectrum auction, and you know, your team pointed out that there's this bottom-line valuation of likely $1.5 billion plus.

And you know, I guess it's a two-part question. Number one, from my perspective, there just seems to be such a--there's an urgency of the shareholder to see that converted to cash because it's so hard to discount cash, you know? You guys put out this NAV value north of 30 bucks, you're trading at 60% of that, the market doesn't want to give you any valuation on these assets, even though they all seem to be doing pretty well. Um, so I guess from my perspective, um, you know, I don't know how you think about maybe taking $200 million less to convert something to cash because then it just makes it hard to discount your NAV.

Rich Handler
Well I'll just say, publicly, for any potential buyer who's listening, we're not looking to discount any of assets. Um, for all of you who are listening, I will also say that we don't have the top ticket either because we have an attractive use of capital, and that's all I can really say about that.

Kevin O'Keefe
That's fair. Um, and then, just on slide two, there was a note that said "continue to evaluate existing holdings, including potential for selective migration asset management." I'm just curious, uh, in just from--I know you can't go into specifics, but I don't think that bullet point was unintentional, I just don't understand it really, and just how it might look if you did move something into the asset manager and why that would create that item?

Rich Handler
I want to make one other comment on Linkem. You know, Linkem is the lumpiest asset, arguably, that we have, because it has no current earnings, and only an event is going to give us value. I then would put it back where everything else was said, which is, there'll be an event when there's an event. And it's one of those, we can't give you half an event, we can't give you three--there'll be a day where there'll be an announcement, and the announcement will be what it is, you know. The choices are all the things that we do in investment banking, whether it's M&A, ECM, or DCM.

Um, and I guess when we talk about the possibility that we might move an asset from merchant banking to the core, I could give you five examples of how that'll happen. I'm going to try to do it carefully because I would say that this fits into the same mold as we will monetize an asset on the day that we do, and it's premature to say more until we do. You could look at some of our merchant banking interests, and you could see businesses that others practice in an asset management mode, whether it be asset-based businesses or other, so you could see certain of our management teams fitting into an asset management mold with a change.

And we're--our current investment could be reduced, it could be a seed investment, and effectively the business that exist there could continue with an asset-focus for third-party. Modestly for us, over time, it would simply blend into our overall asset management platform. You could, in theory, see a strategy where groups of assets are owned not just by us but also by third parties, and effectively we're earning on their capital, and again, over time, that becomes an asset management business.

So, you could, in theory, take every asset in the merchant banking pool and it could be part of an asset management strategy. Is that likely? No. Is it possible that several of them will in one form or another move in that direction? Yeah, that's possible. We're simply trying to open everyone's minds to the fact that, you know, we talk about the fact that we have a number of levers to pull.

And again, you were kind enough to say, correctly, which is that a lot of shareholders are just saying just pull the levers. We wish it was that easy. You pull them on the right, yeah, we could've pulled National Beef two years earlier and walked home with less than half of what we got out of it. We're trying to do this the right way. We inherited an interesting, you know, group of assets.

We thought it would lead to a merchant banking building, based on market reaction, particularly after the National Beef and Garcadia liquidations. We thought we should take it another direction, we're doing that, and we're trying to do it in a smart, orderly way. We think--we are shareholders, we think like shareholders, but we think like shareholders who have more than a quarter ahead of them.

Rich Greenberg
Rich Greenberg, Donald Smith & Company. You're not subject to the same restrictions that the banking industry is in regulatory capital restrictions. So, I'm just wondering, could you give us some sense of, what holds you back on your stock buyback? What are the guidelines that you look to to say, we can't buy more than x dollars of stock? Is it the credit agencies? What number should we look to, to figure out how much stock you could buyback, excluding any further, you know, merchant banking transactions?

Rich Handler
Sure. We're governed by a couple of things. Just stepping back on the one hand, you have to keep in mind that we are the only people who didn't go bankrupt, or were bailed out, for the most part, in the financial crisis. So first and foremost, there's a conservative nature to our mentality. That being said, what is governing it more than our normal conservative nature is, um, quite frankly, the rating agencies. And we have been in good standing with all three rating agencies for a very long time in our careers, um, because we view our bond holders and the rating agencies as partners.

And, um, I have a philosophy that, um, as long as you protect the downside, you can always deal with the upside. It may take longer than you'd want. Uh, some of the rating agencies in particular have ratios, one is the RAC ratio, with S&P, doesn't want it to go below 14, and you can go through and read their report that talks about how they qualify each of the assets.

We're on a positive outlook with S&P. I would love at this time in the cycle to get upgraded by them. We were upgraded by Stich, we were recently upgrading the holding company, by Moody's. It's kind of common cycle where you'd like to build inclusion because things--while they're not wonderful, they haven't been terrible, and we've had a lot of positive momentum from that perspective. That being said, the rating agencies aren't the only ones who are a constituency that's important to us.

We spun out--and we're trying to figure out because we were first rated in terms of the RAC ratio and being restricted for half of the year for a variety of reasons, how to get them capital back to the shareholders. Spectrum Brands was a unique way to do it, and the answer to a number of points. First is, it got capital back to shareholders. Second, it took some volatility out that the rating agency didn't like in our numbers, so they didn't mind us distributing it, which is, you know, just one of the ways that they look at it.

We also felt like there was a lot of value in the stock, but we didn't feel like we were necessarily able to influence the direction of the company as much as we would've liked. So as a result of distributing it, people can make their own decision whether they want to keep the stock or not. Um, we're trying to independently and creatively figure out ways, with a sense of urgency, by the same token being, you know, respectful of the rating agencies, being mindful of the fact that we're at the end of the--you know, the very long cycle here, and we always want to have enough liquidity, enough flexibility. And the fact of the matter is, you can turn a third of your tangible capital in 18 months and have more liquidity than when you started, and no one cares. I mean, that's pretty unbelievable.

Um, so--but back to your question, we don't feel like gun to really take a fire sale price because we say, we're going to go buy or stock for a while here because we're telling everybody what we're doing. And if we can really reduce the float and maximize the value and get Jefferies' ROE to a reasonable level, by the time it all happens, people wonder why they can't buy our stock, that's fine with us. Um, but we understand there's a sense of urgency, we're frustrated by the price but there's a very specific plan here, and we're going to be mindful of all the constituencies.

Rich Greenberg
Is there a number--if your stock were to stay, you know, at these levels? Could you buyback a billion dollars of stock? Would that--?

Rich Handler
--It varies based upon how the rating agencies look at each of the various underlying assets. So, it's--and what the mix goes at--I'm sorry, so that's why we--it's hard for us to just put a plan in place to buy and not be restricted because we have these other characteristics that we have to manage towards. You want?

Brian Friedman
Yeah, I'm not sure exactly how long you want the billion, but if we're right about the trajectory of the merchant bank, then there's nothing to say we couldn't or wouldn't, or shouldn't buyback a billion dollars’ worth of stock. If you said could we do that today, the answer is

technically we could, but we wouldn't because to do that in the face of the rating agencies would be a mistake. So that there is a governor that comes from maintaining the credit relationship we want to have.

To be clear on something Rich said, he mentioned a 14% RAC ratio, that's where S&P has said that they would see the potential for upgrade. Our current rating is supported down meaningfully below that, so we have no narrow pressure that says we can't buy more shares tonight. However, we are balancing what we'd like to see happen on the credit rating side, with everything else.

As Rich said, we're very much focused on the nature of our assets, it's what allowed us to do the SPB distribution. So yeah, could we get to a billion dollars? Obviously, because we basically said that we have, you know, three to four billion dollars in assets that in one form or another we expect to go through change in the next couple of years.

At the same time, we have meaningful earnings generation. And keep in mind that as we generate earnings, we're also turning the deferred cash asset into cash. So our--you know, that's the secret to how do you buyback two and a half billion and only have a slight degradation of the tangible book, it's the gains, it's the earnings, and it's also the DTA going to cash.

Steve Leonard
Hi, Steve Leonard with Pacifica. Uh, talk about Homestead, if you would. You own that now, 100%, you have assets in there that have similar incomes, and the development, they don't tend to be owned by public companies. Income assets are very valuable today and if, you know, the Blackstones of the world, so what are you thinking there?

Brian Friedman
When we look at those assets, you can probably put them at a couple of buckets. And this is something that--well I mean, we've only recently taken 100% control, so we'll now be able to, in a way, work with it in a different way. There are assets that I would put in the category of runoff, they are projects that are simply going to cash out over the next six months to three years. On a second level, when you're speaking about income--so for example if you look at Renaissance Plaza, we are essentially up-fronting the cash on the income-producing capacity of Renaissance Plaza through the refinancings that we're doing.

So we're essentially, as each of the assets sort of leases up or is at its pivotal point, we're able to essentially capitalize today what is more or less the next 10 years of earning power into cash. So, a lot of that is coming out up front, and in fact, in the case of Renaissance, a lot of that has already come out. There's actually, in the near term, not a lot more, though there's a bit more. Um, so the overriding piece that we're focused on is the Otay home lots, and the multi-family, and the industrial, but really the multi-family, and that's where we think we have a lot of strategic opportunity.

We haven't yet decided how we're going to go at it. We would agree with you that simply working that inside of a public company without third-party capital or some other change in approach to it is not likely to be what we're going to do, but we haven't yet committed to it.

Rich Handler
Why don't we get a question from the phone? Emails? Well talk into it and we'll find out. Talk into it.

Unknown Speaker
The same theme has gone through a lot of these questions as you heard in the room, one of which is what you're in charge of, which is the discount to tangible book value; have you all considered being out in the public more? Have you all considered more than just an Investor Day like this, investor calls, quarterly calls, whatever it might be?

Rich Handler
Okay, we have--we have gone through every analyst on the street and told them we will open the kimono to them to cover us. If any of you have called to me or tried to get ahold of us within three minutes we respond. What used to be a 27-page, impossible presentation to understand is now pretty darn straightforward. Um, we're never going to give earnings guidance, and quite frankly, um, we're completely open and transparent with everybody who takes the time to talk to us. Um, I don't think, um, we could be any more open or inviting to people.

So you know, I'm open to suggestions. Um, I think a lot of our competitors who have analysts aren't dying to cover us because they just wish we'd go away, and we're not going to go away. And quite frankly, you know, in the meantime, we could miss the opportunity to buy our stock, so, I don't know what else to say. You got anything?

Brian Friedman
Now look, if we believed it would make a difference--but I'll say one thing, we're really not prepared to do, and I'm not sure we'll ever be prepared to do, is be out there every six weeks at a conference and on a quarterly conference call, when in the nature of what we're trying to do, that's not the measure. The measure here is over longer periods of time.

Again, we're--you know, those of you who call us or visit us know this, we will take every call, we will take every meeting. We're not trying to leave anyone in the dark, we're trying to be as clear and as transparent as we can be, but there just isn't that much to say, even every three months.

Rich Handler
We might be the worst stock promoters of all time.

Unknown Speaker

Uh, on the stock purchase runs, have you all considered making your own purchases?

Rich Handler
Uh, I mean, I don't--I've taken 85% for 29 years of what I make, put it into the stock, and I've never sold a share except for taxes, and, uh, giving to charity. So, I think my actions speak fairly loudly, um--

Brian Friedman
--Yeah, look, I think I'm over 90 in terms of comp. And on top of that--and again, these are things people don't necessarily appreciate, but by the fact that we've kept, um, our interest in shares, and a lot of it is in restricted units, even though they're vested but haven't yet distributed, you know, a large proportion of both of our dividends are reinvested in the stock. So we're effectively buying stock, you know, on a quarterly basis, if not more frequently.

Rich Handler
Yeah, but we're not getting the cash dividends.

Unknown:
With the respect to the--sort of a general question, with that deep discount, what's your theory for why that happened? Why is it that there is such a deep discount in the tangible book?

Rich Handler
You know, um, I think it's probably a combination of things. One, there is a dearth of value investors today in the world, number one. Number two, despite our amazing simplification job that we pat ourselves on the back for, it's still not a simple story because we still have more work to do. Um, you know, none of our businesses are, unfortunately, in growth areas and growth is in favor right now, so it's truly a value perspective. And you know, a lot of people don't have patient capital, and we recognize and understand that, and that makes our story, you know, more difficult.

By the same token, if you're constantly--either constantly selling assets well above where they're marked, buying stock well below where intrinsic value is, tricking the float, and getting the bank to a reasonable ROE, I feel pretty confident at the end of the day, we'll be pretty happy shareholders, I just can't tell you when that day is. And just if anyone has any--if all of you jumped up and down and said, "Sell assets faster and buy/sell quicker!" Okay, you couldn't do it any louder than he and I do it to each other, okay? So it's like, you know, there's no more sense of urgency there than we have in terms of what we have to get accomplished.

Unknown Speaker
That was the next question. The rest of these questions are more in the weeds, with respect to the business. One is--and the market, can you discuss the impact of the recent squeeze you saw on the repo stress, with the Fed (INAUDIBLE) and then inject liquidity?

Rich Handler
Look, it's--I think it's a bigger deal than people say it is. And I had a macro event at my apartment with a bunch of our clients awhile--about a week ago. And what the banks are being told by the regulators is, you basically can't send repo because you have to keep your cash to, you know, to basically be regulatory and compliant, and it commoved a massive dislocation in the repo market. Now, it wasn't unique to any one company, so it's not like in 2008 or 2009 when people started to lose--um, lose confidence in specific institutions.

And no one's given me a really great answer, I've heard all the theories of why it happened in terms of all the confluence of events that happened in that same point in time. All I do know is, the U.S. government has to deal with it, it is a structural flaw, and they will deal with it because it's a serious problem. And if it's a solvable problem, and it's on their radar screen, it's not unique to any of us. I don't think it's going to cause us to operate our business any way differently, but I think it was a big deal.

Unknown Speaker
Earlier you mentioned that there was some pressure on the low spend business, um, do you have concerns related to these sets of corporate leverages out there right now? And can you talk a little bit about how the balance sheet--where's the leverage fall on the balance sheet and how you feel about that exposure?

Brian Friedman
I'll start at the last of those questions. Um, you know, 100% of our underwriting activity takes place at Jefferies Finance, the 50/50 joint venture between Jefferies and MassMutual. It does not have, um, meaningful, um, syndicated loan exposure today. It has a reasonable range of commitments that are outstanding, these are deals that haven't yet closed, um, I mean I'm fresh on this because I know it from the team meeting yesterday, we have avoided--fortunately, you don't get credit for the deals you don't do.

But we have avoided a number of deals that, you know, could readily have been ours if we wanted them, that we felt were outside the parameters of the current market. The current market is tighter than the market has been in a while. Whether this is a permanent shift and a reduction in leverage levels we'll see. It's right now, the system is grinding, and M&A processes are elongating, they're--a small number of them are being postponed as people assess, you know, this could be a moment where multiples on acquisitions and multiples on leverage contract a modest amount, or it could be a time where things return to where they were.

We're managing that very comfortably. We haven't struggled terribly much through the last 12 months in dealing with our commitments and in syndicating, you know, out what we we've closed. Again, you know, there's always a marginal competitor or two who's left behind in the race who unfortunately tries to use this opportunity to catch up. That's where I would say more of the edgy stuff has landed in terms of risk, it hasn't landed with us. Inside of Jefferies proper, we will have some loans on the balance sheet in our trading inventory, but that is incredibly modest.

Uh, and over at Jefferies Finance, we retain relatively small portions of each of the deals that we underwrite, um, that is structured in a group of CLOs, uh, some of them we own the equity, some of them we sell the equity. We're very comfortable with that portfolio, it's performed well over--you know, Jefferies Finance actually next week will have its 15th anniversary, so we have a 15-year track record and we're comfortable with it.

Unknown Speaker:
And with respect to the next recession coming--

Rich Handler
--I wanted to add something--.

Unknown Speaker:
--Oops, sorry.

Rich Handler
I think with all the noise going on with the--between Brexit and China, Hong Kong, and all the lunacy, um, the smaller single B high-yield market right now is challenged. And that means that what was flying off the--you know, off the shelf six months ago, it's no longer flying off the shelves. And that has implications for the middle-market, the sponsors, and middle-market companies.

I don't think there's at the full cycle anytime soon because A, there's no conveyance to default, and B, you know, the coupons are incredibly low, and all the challenging companies have pushed to that, so I don't think there's a wave of defaults occurring. But you did see over the course of the last six weeks, you've seen some pretty significant drops in bars in isolated situations, which gives people some pause given the fact that the macro climate is a little--you know, more than a little iffy.

Unknown Speaker:
And that was actually the next question, with respect to what slowed down our recession, is your strategy going to change at all with respect to what we're doing and what we're holding?

Rich Handler
Look, I mean, we do our best, uh, to, um, assess risk regardless of environment. We don't get more aggressive because the market's hotter, we tend to be, um--now, on Jefferies Finance, since 2004, that's a very long track record going through cycles where we financed literally hundreds of billions of transactions, and in moments of dislocations, yes, you lose some money, but to the tens of millions that we've lost historically, that's because we're not reacting to the environment. We're relying on the expertise of our core professionals on the underwriting side.

Brian Friedman
And if you go back and look through, you know, the '01-'02 downturn, or '08-'09, um, this paper has held up. You know, there was market value issues, but there wasn't fundamental issues in the CLOs that saw it through.

Unknown Speaker
Question about Garcadia; why do you not break it out in the results? Have you had in the prior years, and what were the recent results?

Brian Friedman
Just going to be sure I don't get it wrong.

Rich Handler
What page is that?

Brian Friedman
In the case of Garcadia, profitability, uh, this year versus last year has been substantially the same. Uh, the return on equity in that business has been in the 25 plus, you know, percent level, of--nothing has really changed there. We do make this disclosure in all of our filings, we didn't highlight it today, but it's all been consistent with history. And right now looking forward, the prospects in the business are solid.

Unknown Speaker
Are there any of the businesses in Jefferies that are now generating double-digit returns, and do you have the ability to invest more money in those businesses?

Brian Friedman
I mean, it's not that simple, but if you, you know, slice in different directions, you're going to see businesses are in fact generating, you know, double-digit, you know, very strong returns. Uh, you know, one of the things we believe is that every business we have is integrated that if you pulled out any single piece at Jefferies, some other piece at Jefferies would say ouch. You know, or it's that we're leveraging our capability in more than one way, and that's sort of the definition of a firm.

So we don't--you know, we obviously see returns down to the trader and down to the desk, and we see returns down to the sector and down to the product, but, you know, we've always wanted to try to show, you know, take our M&A business and take the profitability of our M&A business and give it to multiple that you're giving a boutique and then you can have all the capital for free.

There's really no point in doing that, we believe in the integrated model, we believe that at a different point--I mean, going back to the question before, I think what we believe is that, when we further reduce and/or, you know, potentially eliminate the non-core, you know. When we're at, you know, 80-something or 90, or 78, or 100% core, and the return on equity is, you know, at or above 10, uh, we're going to be a very different company in everyone's eyes. And the question is when does that happen? We thought we'd have more progress, this year we've been held back, we don't think we're that far.

Unknown Speaker
You never mentioned the NOL before. How many years do you think you have until you burn through the NOL?

Brian Friedman
It depends on the gains we book, but, um, for better or worse, the NOL probably, uh, is no longer there in 2021.

Unknown Speaker
A question regarding Otay; you mentioned there were 735 homes there, uh, the question is how much in revenues were recognized on those sales, and what's the operating margin?

Brian Friedman
Is that a question, Jimmy, you can answer?

Jimmy Hallac
It's complicated (INAUDIBLE). The revenue question is a little bit complicated because we have them inside of joint ventures, um, and I don't have the margin number with me here.

Unknown Speaker
Hold onto the mic.

Brian Friedman
That was a non-answer, but, uh--

Rich Handler
--Call Jimmy out.

Unknown Speaker
We'll get back on that one. Jimmy, hold onto the mic. Um, with respect to Linkem, it looks like we put additional funds into Lincoln in recent quarters. Um, how much more do you think we might need to put in over the short-term?

Jimmy Hallac
Over the short-term, nothing, uh, the money that was put in was to fund the shareholder loan, uh, and other shareholders participated as well. That was used to extend the term of our frequency, and it was something that we wanted execute very quickly. Linkem did refinance all of its existing bank debt a few months ago, um, so it was able to successfully hit the market.

Unknown Speaker
Did that increase the ownership percentage?

Jimmy Hallac
No, the shareholder loan did not.

Unknown Speaker
Uh, JFin question. JFin lost $7 million in the third quarter, during what seemed like a relatively reasonable steady market environment, what happened?

Brian Friedman
Two things in JFin, the seven million--and I'm going to do this, and I'll tell you more precise numbers. But off the top of my head--and again, I could be off by a few million, it'll be higher, but I think there was at least 15 million of charges in the third quarter related to the refinancing of Jefferies Finances debt, and that refinancing will meaningfully lower our interest costs so it was money well spent. So on a pre-VAT basis, Jefferies Financial was profitable for the quarter.

The second thing that impacted Jefferies Finance in the third quarter, um, was, um, a bit of additional, um, reserve that they took, uh, it related substantially to, uh, some equity positions that are from, you know, a few small loans here--I mean, small dollar numbers, but those were the two drivers that took the numbers from what would've been a reasonable--you know, close to reasonable quarter. It wasn't a high feat quarter because we didn't do as many syndications in the quarter, just because volumes are down, but it would've been a reasonable quarter, but for those two items pulling it down. But it was profitable before the refinancing costs, which is what's important to us.

Unknown Speaker
The last question is coming from--

Brian Friedman
--Again, I may be off on those numbers, so those are approximates.

Unknown Speaker
Last question coming from the email has to do with legacy Leucadia and now Jefferies Financial Group; with respect to what you look for in investments on the merchant banking side, with respect to return on equity. And how the philosophy has changed between Joe and Ian, and you two now, and whether you think there's been a change in philosophy and a change in how you are viewing the merchant banking side.

Rich Handler
I think the core philosophy of Joe and Ian, and us, there's a lot of very distinct similarities. Um, we both share a strong desire to focus on downside and value first, um, and protection of

downside. Um, I think there's a long-term orientation that, um, you know, needs patience. I think, uh, Joe and Ian have the flexibility of their time to be able to look at just about anything across the board. Um, we've decided that we're going to be more financially--financial services-oriented as we migrated our strategy.

I think, um, the real philosophy right now is, it's something for us to do something that's is of huge value in the financial services sector, and we're going to compare that very closely with buying what we know to be real, tangible value at a very cheap price. And it's very hard for us to pull the trigger on something. Now I'm not saying we won't, I'm not saying an opportunity might not surface, but we're going to make a very tough decision of why it has to be better than our stock price.

I think fundamentally, um, worlds are different worlds. When Joe and Ian did what they were able to do, um, there wasn't a million hedge funds and private equity and a whole all flushed with liquidity. The good news for us is, most of those people are now our clients. Um, we can't compete against them, but they're our clients.

And, uh, I think as we build up our asset management business, as I alluded to before down the road, we could have a merchant banking component in an asset management vehicle. That's something we could do, and if we did that, we'd have a lot of the same philosophies as Joe and Ian, historically, and have the web of Jefferies to source ideas. But right now, it's about returning capital to shareholders, shrinking our float, building our business, uh, getting the ROE, further simplification, get market share, um, and build our brand and culture, and that's what we're committed to.

Unknown Speaker
Any other questions in the room? We thank you very much.