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Make room for Jefferies

People & Markets US investment bank takes advantage of rivals' weakness as it makes it to the big league

BY PHILIP SCIPIO

JEFFERIES FINANCIAL GROUP is on track to break into the top 10 global investment banks as measured by fees this year, which would be its first full year in the top tier. The landmark will come after a 20-year push in investment banking which has seen Jefferies overcome wobbles, take advantage of a retreat by European rivals, and reap the reward from a bonanza in activity this year.

For two decades Jefferies has been adding good people to drive growth in its investment banking platform and taking advantage of opportunities has always been at the heart of its strategy, Jefferies president Brian Friedman told IFR.

"We have put enormous human capital resource behind growing our investment bank – hiring and growing our professional team," Friedman said. "During this period a good number of our competitors, particularly the European banks, have gone through changes that weakened them as direct competitors. We took advantage of the downturn in 2008 and 2009 to drive a further spurt in growth just as we have taken advantage of the European banks pulling back to drive forward."

New York-based Jefferies was founded in 1962 but took on its current form in 2000 when Rich Handler took over as chief executive. Friedman joined the firm a year later, and the bank conducted a strategic review that concluded its number one opportunity would be to drive much further into investment banking.

"I don't think we have ever wavered," Friedman said. "We couldn't waver if we wanted to be successful – we have watched others waver and when you waver you lose your way. But we knew it would take time."

ROADBUMPS

That's not to say there haven't been bumps along the way.

In 2012 Jefferies' largest investor Leucadia National bought the entire bank, giving it a lifeline following the 2008–09 financial crisis when many banks needed taxpayer rescues or financial support, and many continued to operate under pressure. But by 2018, Jefferies took over Leucadia, renaming it Jefferies.

Back in 2001 Jefferies ranked 33rd for global investment banking fees with a 0.38% market share from 151 deals, according to Refinitiv data. A decade later the bank was ranked 16th with a 1.26% wallet share from 948 deals. So far this year, Jefferies is ranked ninth, breaking into the top 10 for the first time, with a 1.87% share from 1,310 deals.

"They have been building their business very systematically and gaining share almost every year for the past 20 years," said Oppenheimer bank analyst Chris Kotowski.

Jefferies has vaulted past Wells Fargo, Royal Bank of Canada, BNP Paribas, UBS, Nomura and HSBC to land in the top 10. While the big five US banks have barely budged from the top five spots, there has continued to be movement below them as firms like Deutsche Bank, UBS and now Credit Suisse have restructured and retreated from some areas.

Jefferies' move into the top 10 has come in a surging market for investment banking on the back of record industry revenues from M&A advisory and buoyant equity and debt underwriting.

"Yes, markets are active, but the underlying trend is undeniably strong," said Kotowski. He is one of the few analysts to continue following Jefferies years after the bank ceased holding analyst calls.

Kotowski said Jefferies had consistently gained share in investment banking and trading over the last 20 years without growing its balance sheet and risk commensurately.

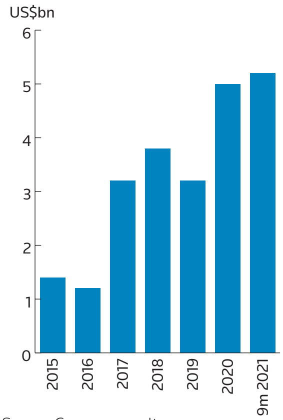
Jefferies' investment banking business has grown at a 3.7% annual rate since 2000, Kotowski said.

HIRING AND PROMOTIONS

A key issue now is whether Jefferies can hold or build on its gains.

It has done well in a market where there has been a fight for talent, and Jefferies has not only protected its franchise – this year it offered junior bankers Peloton bikes to help the work/life balance – and the bank has made significant hires.

JEFFERIES: UP AND AWAY; INVESTMENT BANKING AND CAPITAL MARKETS REVENUES



Source: Company results

Jefferies started 2021 with 225 managing directors in investment banking and will end the year with more than 275, thanks to a combination of external recruitment and promotion of home-grown talent.

"2021 has actually been more productive from a recruiting perspective than we would have expected at the beginning of the year," Friedman said. "That's not so surprising given that there has been some disruption at some competitors despite there being a strong market. Whenever there has been a disruption, we have been an attractive firm for capable people to join and we have been able to recruit disproportionate to our market share, further fueling our growth."

Next year could be even better for Jefferies. In July, the bank struck an alliance with Japan's SUMITOMO MITSUI BANKING CORP for capital markets activity, which will see the institutions combine resources in US leveraged finance, M&A involving Japanese companies, and the US healthcare sector.

SMBC took a 4.9% stake in Jefferies as part of the deal, and could provide financing to give it more firepower. That stock investment was about US$386m, but the Japanese partner has already made almost US$100m from a 26% jump in the share price in those four months. ■