Jefferies

A Market of Windows

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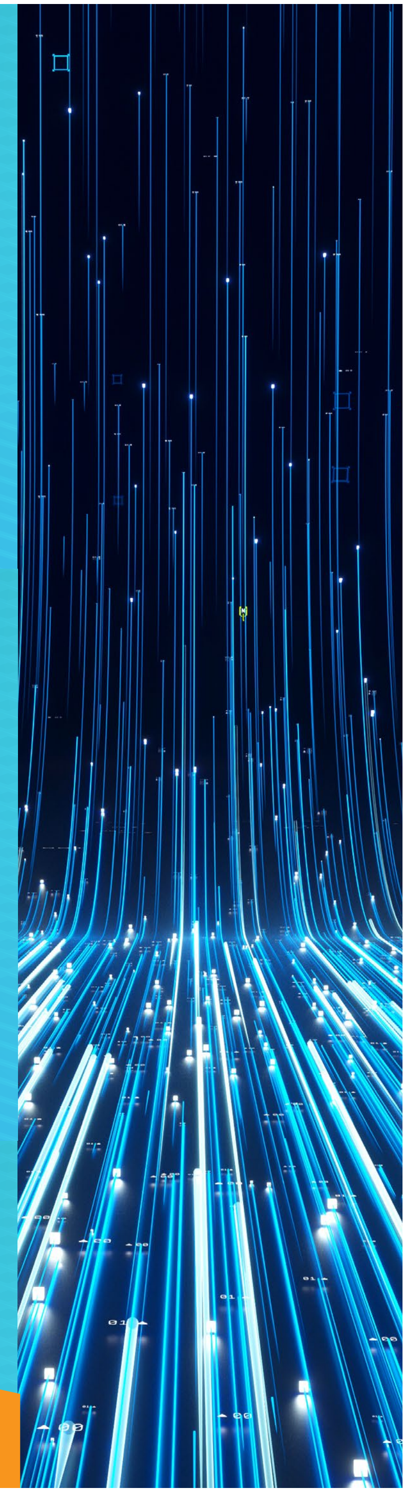
I hope that 2023 is a healthy, happy and successful year for you and your families.

The year begins with diverging views on whether the global economy is headed for a “soft” or “hard” landing. In almost any outcome of that debate, we believe that the windows of opportunity will be different than what we have seen in the past, likely shorter and driven by broader economic and geopolitical dynamics. Jefferies, as a trusted partner, is committed to helping our clients recognize and seize these opportunities as they arise.

Several trends that emerged in 2022 are likely to accelerate into the new year.

1) Healthy Corporate buyers start 2023 in a better relative position

In 2022, global M&A volumes were down 36%, according to Dealogic, driven by macro uncertainty and worsening financing terms and cost. Sponsors acted as acquirors in 17% of the global M&A volume in the fourth quarter of 2022, down from 26% in the third quarter of 2020 (source: Dealogic), when the 10-year Treasury yield was materially under 1%. In 2023, we expect this dynamic to continue, as corporations less affected by the market downturn will find it more attractive to pursue cash and/or stock transactions that may have been out of reach in the past. These companies are now facing less competition from potential buyers that rely on the capital markets for financing and can be stronger competitors to private equity firms. A slowdown in the economy in 2023 would create more distressed situations, more willing sellers and more restructurings. Additional clarity in the economic and geopolitical situation will likely increase conviction in M&A decisions.



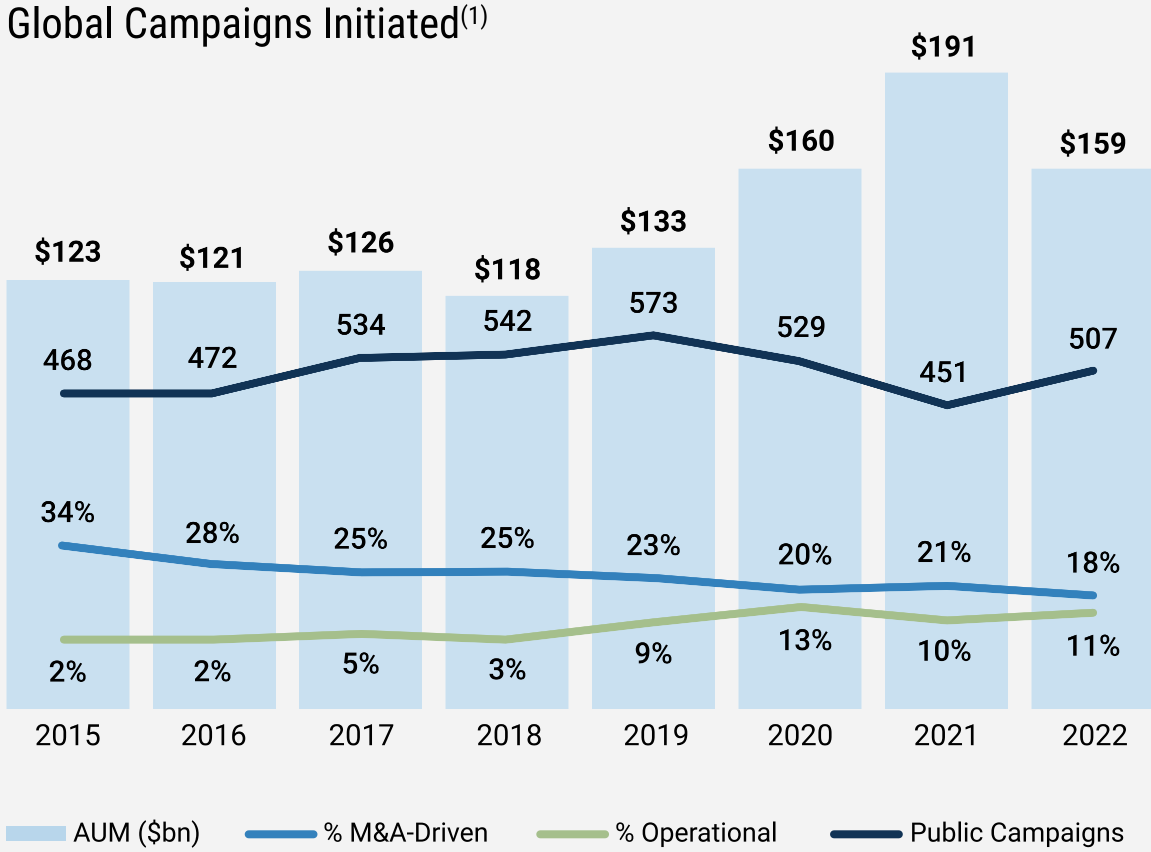
2) Private equity firms will get more creative

As Sponsors seek additional fundraising this year and face the need to realize returns from existing investments, we expect them to be more open to divesting large minority stakes in their portfolio companies and/or consider continuation fund transactions, thereby maintaining the existing capital structure. To a lesser extent, there will be more M&A between Sponsors-owned companies with Sponsors' rolling their equity stakes into one of the existing capital structures. A few private equity firms may also be willing to front very attractive deals with equity if financing is not available at acceptable terms until a later date.

3) Activism will be prevalent across all sectors globally

Amid the depths of the COVID-19 pandemic, activist investors were hesitant to put too much pressure on companies for fear they would be blamed for causing more disruption at a moment when companies and their employees were already dealing with an unprecedented set of challenges. However, activists were quietly building "toehold stakes" throughout the pandemic and became more vocal in 2022. In 2023, we expect activism to be very prevalent driven by several factors: activists' assets under management reached an all-time high in 2021, and 2022 levels were higher than any year prior to 2020; more activist funds are being created; and more institutional investors are comfortable with activism. In addition, the Universal Proxy Card will make it easier for activists to get Board seats. On the other hand, high volatility makes it more expensive to build equity stakes using derivative instruments, and a more tepid M&A market is a challenge to activist campaigns. Activists consider themselves "deep value" investors and will press for operational demands across sectors globally, with a focus on companies whose business is affected by the new macro, geopolitical and interest rate environment. Operational campaigns often target changes in management or evolve into M&A campaigns when market conditions turn favorable. Preparedness is key.

Estimated Activist AUM and # of High Impact Global Campaigns Initiated[1]



Source: FactSet and HFR as of 12/31/2022.

Throughout 2023, Jefferies will be monitoring these, and other trends, with a singular focus on delivering actionable advice and insights that can contribute to our clients' success. We thank you for your continued trust and partnership.

I hope your New Year is off to an excellent start and wish you much success.

Best regards,

Alejandro Przygoda
Co-Head of Global Investment Banking