Jefferies Financial Group Inc.
Investor Day
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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.

Richard Handler: Uh, thank you. Uh, that was a mouthful. Um, good morning, and welcome to our 2018 Investor Day. Uh, I'm Rich Handler, the CEO of Jefferies Financial Group. I'm very excited to be here. Uh, after I speak, my partner, Brian Friedman, is going to go through an overview of where our company is today, and then we're going to talk about Jefferies LLC, as well as our merchant bank. You're going to hear from the leadership of Jefferies, uh, of all the various departments, banking, fixed income, equities, research, back office, risk. Uh, you're also going to hear, um about, um, Berkadia and Leucadia Asset Management. As most of you have read, we'll be merging those businesses into Jefferies LLC. Actually we have merged them into Jefferies LLC. We're very excited about it. Uh, we'll talk about the breadth and depth at the Jefferies LLC level and one of the main reasons why we're doing this. I'll say the scale of the business today and the diversification of the business today in the Jefferies LLC area I've never been more excited about in my 28 years I've been part of that entity of the company.

Finally, um, you're going to hear about the merchant bank, and you'll hear from our investment team, and we'll go business by business of all the larger operating, uh, companies that we are, uh, in our portfolio today. But before all that, I want to give a big picture perspective of our strategic objectives, um, basically, um, the things that we've been thinking in the background as we put our various pieces together.

The number one [inaudible] it's about simplification, focus and transparency. Um, we believe we have a really good story to tell, and it's taken a while for us to actually be able to focus the company and eliminate a lot of the complexities. Um, the complexities, uh, were part of a strategy during the financial crisis, uh, and we really wanted to basically, you know, build a moat around our company, provide scale and basically diversify our operating businesses. Uh, the time for that has passed. The crisis is long gone, and the work you'll hear and the conclusions today, I think, are the culmination of many years of hard work.

Um, it was not prudent to reduce our complexity sooner, um, for a bunch of reasons. Number one, um, some of our portfolio assets were at the wrong time of the cycle, i.e. beef. We had to make the right time and the right choices, uh, to actually make the divestitures that we made.

We also had to work with the rating agencies. Um, it was a very complicated combination of two different companies. We had to prove to them that we could prudently, transparently and effectively transform a complicated merger of two different companies into a single, more focused and integrated company. Um, we accomplished that, uh, you know, I believe finally. Um, I think the rating agencies who are all here today, uh, know I'm eager for upgrades by all of you. Um, we think that we've, uh, proven everything that we said we could do we will do, and we'll continue to be prudent going forward.

Now Brian is going to take you through the specifics, but I want to explain exactly why, um, you know we're more straightforward and understandable company today. It's basically an investment bank, it's a merchant bank, and it's cash. There is no giant tail wagging the dog in terms of a beef company. It's not a complicated story to tell anymore. It's basically just an investment bank, a merchant bank and cash. Um, you'll hear more from Brian about our biannual NAV on the merchant bank. Uh, we're going to--we have an independent, uh, assessment of some of the assets that require independent assessment. That should give clarity and understanding to the various businesses within our public--within our merchant bank that are harder to understand. And again, this is our search for transparency.

The final leg will be the blending of our fiscal year and our boards. Um, this is a big deal for us. Um, November 30 is when this will all be finalized. We did get SEC approval. This is incredibly important for a number of reasons. Number one, it simplifies our story further. You'll be able to see financials the same day, both the operating company and the parent company. Most importantly, it's going to wind up allowing us not to be as restricted as we have been in terms of the windows where we can actually buy our stock, and it really just signifies as we combine our boards and our fiscal year ends, we really are one large company.

Aside from simplification, and you know, our next strategic strategy has been to further reduce the volatility of Jefferies LLC, our biggest asset, and make it a larger, broader, more reverse operating business that will be even better prepared for operating cycles, which I'm sure will keep coming our way. Remember, even before the merger with Leucadia, um, in Jefferies' long history we only lost money one year, 2008, and with that we raised equity dollars as any prudent financial services company would do in excess of the loss. But even then, you know, we still wanted to figure out a way--so it's not like the volatility was ever out of control, um, we just wanted to broaden the platform, diversify the platform stronger and better prepare for the future. So that really is the reason why we, um, you know, why we effectively brought in Berkadia and, uh, and our asset management business. But I'll talk about that in a second.

One of the most important things to do, uh, to reduce the risk at Jefferies, we believe, is to have investment banking be our major growth engine, and you're going to hear from Ben and the rest of the team today about the progress that we've made. It's less risky business. It's more recurring in nature. Um, so some quarters it's been between 75% and 80%. It's more valuable revenues from an operating perspective. It builds the brand and franchise value, and Brian will talk about how it should translate to shareholder value once our transition is actually understood and appreciated by the marketplace.

The second thing that we did at the LLC level to take the volatility out is bring Berkadia into the business. This further diversifies Jefferies. It brings more scale to our business. It's a wonderful, you know, wonderful business. Justin's going to talk in detail about it, the progress that, uh, the team has made there. Uh, we're staying true at the Jefferies LLC level to be a pure financial services play, and by combining this and the asset management business, uh, it will show you the recurring revenue businesses that we intend to keep for the long-term.

As I mentioned about Jefferies about LAM, it's been a process for us to actually build LAM. We started from scratch. It's never easy. Um, we think the time is right now to bring that into Jefferies for a bunch of reasons. Number one, we have much better diversification in terms of managers. Um, they're top-quality investors that we're proud to be partners with. We've completed the expensive buildout, the initial buildout. There's start-up costs. There's growing pains. There's some mistakes. There's things you have to go through, but they all pale in comparison to actually going out there and buying at a huge price an asset management business with a ton of goodwill. We think we're in a very good spot with Leucadia Asset

Management. It's been a bit of a process, but we feel like we're in the right spot. It's still early days. It's just the foundation of an asset management business, but we think that will also bring stability and diversification to Jefferies.

The final point about keeping Jefferies, you know, in a good position is probably the most important one. We have been able to keep our culture intact. And that means entrepreneurial. It means we're flat, transparent, client-focused, conservative in terms of a long-term mentality versus a short-term mentality, all those attributes that have allowed us to whether the cycles of the past three decades are all completely intact.

The final strategic initiative, um, just generally is that, you know, is for us to stay focused on new merchant banking deals, which means we want to--um, you know, right now the world's better to--you're better to sell things than to buy things, so there's not a bunch of opportunities, but that will change. We still have to be opportunistic. It's in our DNA. We have to make sure we have enough cash at all times to take advantage of it, and we hopefully will continue to be smart sellers of things that we, you know, when we see opportunities to divest. The merchant bank is still a very important part of our strategy.

The final thought I want to leave you with before I turn over to Brian is, you know, if the market doesn't really appreciate what we're doing, um, we are going to buy our stock. And keep in mind we're always going to keep an appropriate amount of cash on our balance sheet to be opportunistic for deals, and we're always going to work with our friends at the rating agencies. We're not going to do anything that will jeopardize our credibility there. But we're going to generate a lot of cash from our operating businesses. We have a lot of cash today. Um, effectively we've returned nearly three quarters of a billion dollars this year between dividends and buybacks. We got approval for another 25 million shares. We'll finally, you know, we are pre-releasing our numbers today. You can imagine it's not coincidence. The last time we were able to pre-release our numbers we were able to get rid of the window to actually transact. So you can read into that what you'd like.

I would just say that if someone told me a year ago, um, we would sell Beef at the price we sold it, we'd monetize Garcadia, we'd have Jefferies in a strong operating perspective, um, the way it is, our competitive position would be as strong as it is, I would say, oh my gosh, that's amazing, okay? And then if you said, okay, and by the way, no one cared and you would be able to buy back a large amount of your stock I'd say I don't believe it. And if they said, okay, you know, you bought the stock and they still don't care; you'll have that opportunity again, I'll say, okay, I'll buy the stock. I'm not promoting it to anybody. I'm not telling anybody what to do. Our actions are going to speak louder than our words. Um, I think you'll see for yourself as you go through the variety of our businesses.

Uh, I've been a CEO of a company when our stock was really high and our business prospects were not. And that really didn't feel so good. It actually feels better to be part of a company where your business prospects are really good and your stock is not so high. That's a challenge you can work on, and I'm very happy to have that in front of us.

With that being said, um, I'm going to turn it over to Brian and the rest of the team. Thank you.

Brian Friedman: I think what we're going to do from here is really just explain the detail that supports what Rich just said. If you look at particularly the--wherever we are now, I guess the 9-plus months of this year, a lot has been accomplished, both in terms of simplification, realization of value and--and we'll talk about this at length when we get into the operating businesses--creating enhanced momentum. So when we look forward from here, and particularly as we look into next year, we have a fair amount of optimism about where our operating businesses will go.

As you look at the company--and there's a graph that is about as simple and straightforward as we've ever been--the core business has book equity approaching $11 billion. Approximately $2 billion of that is the goodwill from when Leucadia acquired Jefferies, so $9 billion of tangible. We have $1 billion of parent debt. So the question really is how is that $10 billion to $12 billion of capital allocated? With the combination of Leucadia Asset Management and Berkadia into

Jefferies, on a tangible level $4.5 billion is now inside of Jefferies Group. $3.5 billion is the carrying value of the merchant bank, and Teri is going to get into the detail. A part of that are assets that are marked to market. Part of it are assets that are carried at cost or other historic values. And as we're going to get into, uh, we're going to give you what we believe the June 30 value is, and we'll talk about going forward.

We then have almost $2 billion of net other assets, and essentially think of that as close to the amount of cash that we carry today. So this is a much simpler company, much more straightforward company. The fact that there's no meaningful concentration in the merchant bank and the fact that $7.5 billion of [unintelligible] don't flow through our income statement, um, it's a lot easier to see what's happening on the operating level and a lot easier to see where the value is going to be created. And our disclosure every six months of the net asset value on the merchant banking side should hopefully help everybody. And, uh, again, you're going to get some detail today on where we are, and hopefully you'll get a sense of where we're going.

When you look at the operating business of Jefferies--and this now includes, as you'll see on the bottom left we've included Berkadia, and the column on the right is Leucadia Asset Management. Um, this is truly a unique business, a unique set of facts in the world today. Our primary competitors are incredibly large bank holding companies. Uh, they have many other priorities than competing with us, not that they're not ferocious competitors every day, not that we don't see them every day in almost every aspect of our business, but we have a great distinction, and you're going to hear the word focus over and over again today. We get up in the morning with a very clear mission. For the most part we're competing with people who have many missions, and in some cases, as I think some of you know, a fair amount of confusion. The fact that we are US-based really, really means a lot. That is the largest market. It's the market that sets the culture for our industry. The fact that we are among only a handful of major competitors that are US-headquartered and where the primary thrust of our business is located, is a big asset.

We have achieved significant scale in all our businesses. We've been in equities for, you know, getting close to 60 years. We've been in the fixed income business. The high-yield business began almost 30 years ago. Um, our investment bank goes back also 30 years. Ben's going to go through the trajectory of growth over the last 20 years. And it's incredible, and there's nothing in our industry that compares. And particularly if you look at the last 10 years, everyone focuses on the crisis for all the negatives. Um, if you look at our company today versus 2007, on an overall basis we've more than doubled. Our investment bank is up about 160%. Um, what we've been able to achieve in the last 10 years in the operating side of Jefferies, there's no comparison in our industry, and there's no reason to think we can't sustain that momentum. It comes in spurts. There's a little bit of step function to it. It's not a narrow, linear--it's not a single straight line, um, but it's been relatively continually upward. And particularly Leucadia Asset Management, as Rich said, adds an optionality and an upside that will take us a bit of time to realize, but we strongly believe it's there.

When you turn to the operating performance--and Peg will go through this in detail in just a few minutes--um, but over the last a number of quarters we've achieved approaching a 10% fairly consistent return on equity. With the growth and that we see in our investment bank particularly and overall in our company, as well as some of the cost absorption that will change over the next several years, um, further enhanced by Berkadia and Leucadia Asset Management, we now think that, assuming reasonable market conditions, we're going to start to climb into the double digits. We've just hit the double digits, which is something we talked about a year ago, and now we see that the ROE can grow over the next several years fairly steadily.

What's driving us is on the one hand our own focus and our relatively relentless effort to both improve our internal operation--and we're doing that with technology. We're doing that, you know, people development efforts. Um, we're doing it by enhancing the teamwork and communication. At the same time we're facing a marketplace where several of our key competitors, primarily the European banks, continue to go through change. They go through changes in their leadership. They go through changes in their priorities. They go through changes in the pressures that they feel from regulators and shareholders. And what's been noteworthy in the last three years is that it's created yet another round of opportunity for us, and it particularly is coming through in the investment banking, and it's starting to come through in the IB numbers. Um, we're also starting to see that it's not just a US phenomenon, but it's actually also a European phenomenon, that in London--and I was in London last week--um, I sent a note back to our folks. It was by far the best response I've ever seen in terms of our clients in London and in Europe, where we sit with them, what our opportunity is. So the growth opportunity, we think, remains in front of us despite all that we've accomplished. Um, and with Berkadia and LAM, again, in both cases there's a lot of upside yet, and Justin, um, who runs, uh, Berkadia will talk about, uh, some detail on what's going on there.

The priorities haven't changed. We're driving revenue growth. We're getting margin expansion. It's been slow till now. It will start to accelerate. We're maintaining the same discipline as ever. In fact, we are more liquid and have tighter risk limits today than we had three years ago. We stood up at the Investor Day two-plus years ago and talked about the changes we've implemented. Fred will go through this on the fixed income side. We have gotten the result we wanted, and we've been able to do it with less risk and less capital utilization.

I'm going to turn it over to Teri who will go through what we've done over the last number of years and talk about our NAV analysis.

Teri Gendron: From the day leadership changed hands our goal was to increase our shareholders' transparency into our businesses. Each milestone along this path has created a simpler, more transparent, more understandable Jefferies Financial Group. As early as the first post-merger annual shareholders meeting expanded information was provided, including an overview chart laying out the many investments we had at that time. This spirit continued as we instituted the annual investor days. We listened to what you needed, and we enhanced our quarterly information. Feedback from investors and analysts told us that it was working, but there are still too many pieces--there were still too many pieces, and the story was confusing with National Beef looming to large.

Since then we have prioritized and expanded investment banking, which as you heard is an important driver of incremental value within Jefferies Group. And we have become simpler. We sold Conwed, Garcadia and a large share, and more importantly, dis-consolidated (sp) of National Beef. Since then we have further simplified. With the movement of Berkadia and LAM into Jefferies Group, which we announced earlier in the week, we've also aligned our fiscal year end with Jefferies Group, which you will see in our fourth-quarter results, allowing us to harmonize our year-end reporting starting with a single year-end release for all of Jefferies. And in connection with these activities we are combining the boards for Jefferies Group and Jefferies Financial Group, reflecting, as implied by our name change earlier this year, integrated governance. The boards of each company will consist of the same directors, further strengthening the board's enterprise-wide oversight.

As an additional step in transparency, we're presenting for the first time a fair value perspective for our merchant banking business. As with this current exercise, aided by experts, we plan to provide updated net asset value disclosures every six months going forward. The next one will be in January, and as of November 30 of 2018.

You may have seen other valuations. Here is our perspective that we hope will enhance your understanding. These valuations are all as of June 30. You can see that almost $1.5 billion is either carried at fair value or can be estimated using the market price of the related stock. For investments in private companies, estimates were developed as if we were booking these at fair value. The GAAP fair value guidance, as noted in the accounting standards, was followed. We used an outside valuation firm for assistance, following valuation standards to develop the estimates. In each instance multiple methods were used to estimate the fair value. The income approach, or discounted cash flows, market comps and market transactions in a relevant industry were reviewed.

We have separated out on individual lines the investments that should be considered individually, with smaller businesses aggregated. In the case of National Beef, the recent transaction was clearly the relevant approach for now. The valuation for Linkem was based on a combination of discounted cash flows and market transactions, but it should be noted that this was done before the recent spectrum auctions, which likely will support a higher value at year-end. And the valuations of our oil and gas assets and Idaho Timber were based on a combination of all three approaches.

Some of you like to ask where we might have incremental value in comparison to book. Here you can see that HomeFed, Linkem, our oil and gas assets and timber are where we currently see the largest value in excess of book. Given ongoing developments we anticipate that these values will rise in coming periods.

Brian Friedman: One of the points--and you'll hear this when Jimmy speaks about--when Jimmy Hallac speaks about Linkem in a little bit--is that these are June 30 values, and particularly in the case of Linkem there's been huge development in the last week because of the Italian spectrum auctions, which proved out, uh, much higher values than had been prevailing in the past. And similarly, in the case of our oil and gas holdings, these are as of June 30 and don't reflect both price movements and other activity, uh, over the last number of months. And George Hutchinson will address that in a little bit.

This is a slide, and it's going to unveil slowly for those of you in the room, that in a way tries to put together what we think the reality is. And, uh, you know, as Rich alluded to earlier, you know, what are we looking at, and why did we, you know, buy back 26 million shares this year, and why do we have, you know, $24 million-plus of authorization remaining that as we're indicating we're favorably inclined to utilize? Um, we look at a company where the tangible book value on the book now stands at $24.41, and that number in the bottom right there is sort of a jumping off point. You know, it's not a--you know, I guess it is a coincidence that $24.16 is the average price we've paid this year. You know, on the one hand we'd like to see our price reflect value. On the other hand, we wish we could buy it lower.

Um, one of the things that we've emphasized--and let me just say it one more time so it's well understood--when you have two fiscal periods for a company, which is effectively what we've had for the last 5.5 years, um, you end up with essentially two blackout periods, and blackout periods, just from quarterly earnings, average one month. So we've essentially had two out of three months blacked out for the last five years, meaning barely 20 days a quarter where we can buy shares. If we have something material--

Richard Handler: Plus we were restricted on deals.

Brian Friedman: I was just going to say, if we have something material going on, such as the Beef sale, which that process went on for an extended period, you know, you arguably had in that particular case six months in a row where we couldn't buy shares, and many of you would always be asking, why aren't you in the market, why aren't you in the market? And if it was the earnings month we can tell you that was the reason. If it was because we had a material deal away all we said was, you know, we can't tell you.

This is going to be a big change now, and with the preannouncement that was made, uh, this morning, um, it's as if the earnings announcement had taken place. Had we not done that we would've been blacked out for the month of October. Um, so this really doubles the number of days a quarter, absent material events, that we can be in the market. Um, in terms of our serving the interests of shareholders, we think it really helps.

What else are we looking at? When we look at our business--and I'm putting up now the chart that's in the middle of page 10 for those that are on the phone. Um, as I said before, Jefferies has $4.5 billion of tangible book value. In the history of investment banks, um, rarely have they changed hands, um, at anything short of a reasonable multiple to that. Uh, we're going to look in a minute at the competitors today, but, um, and by putting up the numbers we're not trying to guide to a specific number or suggest that we have a narrow view of value. What we do is we look at all of our information, and we simply see that there is a fair amount of value in excess of the current share price, and that leads us to action our buyback program.

The merchant banking NAV of $4.4 billion, which is in the middle of that chart, comes from the page before that Teri just went through. And again, you know, when we look at a few of the assets there is little doubt that we have an upward momentum that will come through over coming periods. The liquidity and corporate net, what used to be almost $2 billion now comes down to a little under $1 billion because we're taking out the $1 billion of long-term debt. So this is bringing it back to equity value. And then on the right side you see what these various scenarios would look like on a per share basis. And again, I'm not going to say the numbers out loud because we don't necessarily pick any one of these numbers as right. But directionally we think we're on that chart.

When you then look at our competitors, um, on the bank level--and these are all, you know, the four of these are two very large and two smaller bank holding companies, and we've excluded the JPMorgan's et al. because the complexity takes them even further from our world, even several of these. In fact, all four of these are very different. Two of them are meaningfully more diversified with, in both cases, different priorities than we have. In the cases of the two smaller ones they're substantially driven by their retail franchises. So different strategies, but you see the, you know, particularly the next to last column on the right to price to tangible book at which they sell. There is a history of where Jefferies Group pre- the merger with Leucadia traded, um, typically at a premium to the larger firms. Again, something we have in mind when we look at where we think we should be valuing Jefferies when we make decisions on buyback.

Lastly, there's been over the last number of years the advent of focused, you know, M&A boutiques. And if you looked at our investment bank you could look at it as a business that is running in the $1.8 billion to $2.0 billion per year today of investment banking revenue. If you want to narrow it down further, and all of this is in our public filings, the last 12 months through August 31, uh, we reported $828 million of M&A revenue. There's no reason to think that our M&A revenue is any different than anyone else's M&A revenue. There's no reason to think our margins are meaningfully different than anyone else on our M&A business, and effectively you have, you know, somewhat pure to pure M&A shops trading at better than four times that revenue number, um, and you have businesses that are more blended businesses trading at better than two times that revenue number. Again, we're not suggesting a conclusion, but we are suggesting that the value of Jefferies, in our view, you know, is in excess of its book value thereby putting us, you know, into the table that's in the middle of this page.

I could go on and on, but this is really about giving you a perspective on why we have confidence in the company. Over the next couple hours we hope that the momentum and likely trajectory of the company will come through, which I think will cause everyone to understand why we see value in the repurchases and why we've repurchased what we have at $24.16.

I'll now turn it over to Peg Broadbent who is going to review the financial side of Jefferies.

Peg Broadbent: Hi. Thanks, Brian. Um, as Brian said, I'm Peg Broadbent. I'm the CFO of Jefferies Group. Um, many of you in the room I speak to on a quarterly basis about Jefferies Group's performance, so--and indeed Jefferies Group's balance sheet. So the next few slides will serve as a reminder for many of you, um, and therefore I can probably take you through the next few slides pretty--pretty quickly.

Um, as you can see here that the results for the last two years for Jefferies Group have been about $3.2 billion of revenues and about $500 million of pretax profits. As you'll hear from Ben, Pete and Fred when we go through the plans for investment banking and our sales and trading businesses, there's plenty of opportunity, uh, for growth from a revenue perspective, and on that basis certainly from a profitability standpoint.

Um, here's the, uh, Jefferies Group balance sheet. I'd say, uh, there are a couple of adjectives I would use to describe our balance sheet, um, consistency and conservatism. Um, consistency from the standpoint of size and mix, um, as I'll explain in a little bit, um, conservatism from the standpoint, a very strong philosophical standpoint, we have large amounts of long-term and permanent capital supporting our assets, which include, as you can see, uh, nearly $5 billion of cash, which as John Stacconi, our Treasurer, will describe as forms a substantial portion of our liquidity buffer, as well as our capital supporting a portion of our easy to price, um, liquid inventory, which at the end of this period was about $15 billion.

Um, it's worth noting here our tangible leverage at the end of the period was a little over 10. Um, the advent, as you would have read at the--in the announcement made at the beginning of the week of moving Berkadia and Leucadia Asset Management into Jefferies will be to increase the balance sheet by about $2 billion will be to--that will be supported with an equity capital infusion from Jefferies Financial Group of about $600 million, and the consequence of that will actually be to lower our tangible leverage by about a point, everything else being equal.

Um, so there is a modest, uh, you know, sort of conservative, um, more conservative, uh, consequence of bringing those assets onto the balance sheet and the way in which they're going to be funded. Um, to underscore the point about consistency, you can see here our tangible assets have, broadly speaking, remained unchanged over the last few period ends, um, and so has, indeed, our, uh, tangible equity, uh, um, leverage numbers, which as I said will actually be lowered a little bit with the consequence of bringing in Berkadia and LAM.

Um, Brian mentioned that our returns have been, uh, around 10% on tangible equity on average for the last seven, um, quarters or so. Uh, this slide sets up the detail how [unintelligible] we arrive at those numbers. I've taken many of you through the detail here over the last three (sp) quarters, so from a net income perspective we've eliminated the, um, one-time transition tax that occurred at the beginning of the year. And from a denominator perspective we look at the tangible equity at the beginning of each period.

Um, finally, to underscore the point about, uh, conservatism and what I was talking about with respect to price transparency of our inventory, as ever, our, um, uh, the portion of our inventory, um, remains very much tilted towards level 1 and level 2 assets. This is the metric which sort of measures price transparency. 98% of our inventory continues to be level 1 or level 2 and really is a testament to, uh, to the nature of our sales and trading business where we turn over our assets rapidly, um, as we, uh, as we serve our clients. So, that's the overview for me, and, um, I'll now introduce you to Ben Lorello who will take you through the investment banking business.

Ben Lorello: Uh, hi everyone. I'm Ben Lorello, uh, the Global Head of Investment Banking Capital Markets, and this is my 10th year at Jefferies. Uh, what I'd like to cover today is an overview of our business, our performance and some of the initiatives that we are pursuing to grow our business. Over the last two decades we've built a major, full-service, client-focused global investment bank. We believe that our long-term success has been due to delivering to our clients deep sector expertise, strong distribution capability, senior-level attention to executing our clients' transactions and a core philosophy of leading with content and not with balance sheet.

We deliver this capability through a footprint comprised of over 820 investment bankers with on-the-ground senior investment banking presence in 13 countries across the world. Our clients place enormous value on sector expertise, and we have significant depth in all seven major industry verticals. We actively cover over 4000 companies across the world, as well as over 250 municipal government clients. We support our sector coverage with financial sponsor and private capital coverage teams that actively cover over 400 private equity firms and over 300 pension fund investors, endowments and sovereign wealth funds.

While our company is rapidly adding new investment banking clients, 75% of our revenue in the latest 12 months was from repeat clients. Over the last two years we have been expanding our footprint by entering new sectors, adding new products and expanding into new geographies, as well as strengthening our team in selected areas. Our sector expansion has been primarily targeted at two industry verticals, industrials and technology, which has accounted for 70% of our sector expansion. These industry verticals are the two largest addressable fee pools in investment banking, and our industrial and technology teams are now among our largest teams, each with over 100 investment bankers in 20 coverage MDs.

As part of our strategy to continue to grow our leading merger and acquisition franchise, we have significantly expanded our MD footprint by adding several M&A specialists in four of our major industry verticals. We also added to our takeover defense capability by hiring one of the leading teams in public company activist defense, which is one of the rapidly growing areas in M&A.

In equity capital markets we have significantly expanded our ECM footprint by adding senior bankers who specialize in 144a offerings, ATMs, SPACs and technology private placements. Each of these capabilities provides us access to new segments of the ECM fee pool, and in addition most of these products have significantly higher average fees than traditional ECM products, and these new products are used by both our US and European clients.

In financial sponsor coverage where we are ranked third among all investment banks and sponsor M&A, and fourth in sponsor leveraged finance, we have significantly expanded our franchise by building out our midmarket team to pursue coverage of midmarket financial sponsors. Our midmarket team now covers an additional 150 private equity firms with $2 billion or less in fund size, and each of these private equity firms owns, on average, 15 companies or a total universe of over 2000 companies, the majority of which will eventually be sold. Finally, from a geographic standpoint we entered the Benelux region and Australia where we have put in place senior banking teams in both regions. We have also significantly expanded our coverage footprint of UK public companies.

Over the last five years our investment banking revenue has grown at an annual rate of over 11%, which is the highest growth rate among all major global investment banks. And through this growth we've established a business that is now one of the 10 largest investment banking firms in the world. Investment banking revenues for the nine months ended August 31 continue to reflect the momentum in our business. Investment banking revenues--excuse me--increased 12% compared to the same nine-month period last year, and increased 16% over the latest 12 months compared to the same period last year.

Our performance was driven by significant revenue growth in equity capital markets in mergers and acquisitions and resulted in an increase in our overall investment banking fee market share in both the US and in Europe. Most notable was the increase in our US fee market share where in the last 12 months we increased our market share ranking to sixth in M&A, seventh in ECM and eighth in leveraged finance. In addition, as I will touch on later, we believe we have reached another major inflection point in the scale and momentum of our investment banking business and that the sector footprint and product capabilities that we now have put in place will drive continued growth of our business in 2019 and beyond.

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 United States and Europe. Over the last 14 years and across multiple market cycles, Jefferies Finance has built a leading franchise in arranging leveraged loans for distribution to the institutional loan market.

Since its inception, Jefferies Finance has successfully arranged over $180 billion of institutional loans across the US and Europe. In addition, Jefferies Finance manages over $5 billion in CLOs, a large share of which are modestly retained portions of transactions we have arranged. Finally, Jefferies Finance is also a growing player in direct lending to middle-market companies, which provides Jefferies Finance with an important source of growth for its asset management business and provides investment banking with an important capability to grow our midmarket business.

I'd like to wrap up by discussing some of the major initiatives we have underway to continue to drive our growth and our market share. Our first two priorities relate to continuing to increase the productivity of our sector MDs. In the last 12 months our productivity as measured by revenue per sector MD is at its highest level ever. Our productivity should continue to naturally grow as MD hires that we made in 2014 through 2016 reach their peak revenue levels.

In addition, the 25 coverage MDs we've hired since the beginning of fiscal '17 cover industry sectors and geographies that give us access to approximately $3 billion of addressable investment banking fee pool, which prior to their hire we did not address. Our third priority is to continue to increase our market share at M&A by continuing to expand our sell-side franchise and increasing the average size of our M&A transactions. We are a leading advisor to companies in the sale of their businesses, and sell-side M&A, which is the high value add segment of the M&A market, accounts for over 80% of our overall M&A revenue, a greater percentage of our M&A business than any other major investment bank.

In terms of deal size, we announced 45 transactions greater than $1 billion in deal value in the first nine months of this fiscal year, 45% more than the same period in 2017. And M&A transactions greater than $1 billion in size now account for over 50% of our M&A revenue. However, we have 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 $1 billion in size.

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 one underwriter of LBO financings on Wall Street, has led or co-led acquisition financings of over 150 companies. Each of these sponsor-owned companies represents a potential monetization opportunity as sponsors will likely sell or IPO these companies. In total, we believe there is between $1 billion and $2 billion of embedded M&A and ECM revenue for Jefferies to compete for over the next two to three years that's built into these incumbent relationships.

Our next priority is to capitalize on the significant ECM revenue opportunities from our recent expansion into SPACs, ATM offerings, 144 and technology private placements. More specifically, SPACs are now the fourth largest ECM fee pool in the United States. ATM issuance is now significantly broadened from its origins in healthcare and real estate into energy, industrials and fig (sp). And 144 and technology private placements are the two--are two of the largest and highest margin segments of the private placement market.

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 middle-market 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. And as a result, we see midmarket sponsor clients becoming an important additional source of revenues over the next three years.

Our last priority is to continue to selectively expand in industry subsectors where we currently are not present. Towards that end, our focus centers around further expanding our presence in US financial services, in the depository fintech and specialty finance areas and expanding the buildout in both the US and Europe of our businesses in consumer and general industrials.

In closing, we believe we have reached a major inflection point in the scale and momentum of our business that's being driven by the combined effect on our growth from having now entered a large number of new industry sectors, from having significantly expanded our product capabilities and from growing from the growing productivity of our coverage officers as they have become more tenured to Jefferies.

Fifteen years ago Jefferies' investment banking revenues were approximately $150 million. Ten years ago our investment banking business achieved $750 million in revenues. Five years ago our revenues approached $1.2 billion, and today we are at the doorstep of $2 billion in revenues. In addition, we have put in place the largest number of revenue growth drivers that we have ever had to further grow our business in 2019, '20 and beyond. And today we have the highest quality, most senior team of bankers and the greatest breadth of sector expertise and geographic reach in our firm's history to take advantage of these growth opportunities. Therefore, we're very confident that if we adhere to the core tenants of our long-standing client strategy, which is built upon deep industry expertise, leading with content, not balance sheet, and delivering best-in-class, senior-level execution that we will continue our strong momentum and capitalize on the significant revenue opportunities that we have now put in place. Thanks.

Uh, Pete Forlenza will now come up to talk about our equity business.

Pete Forlenza: Thank you, and good morning, everyone. As Ben mentioned, I'm going to speak to you for a few minutes about our equity business. Global equities at Jefferies is a full-service, leading client franchise that I'm going to show you continues to grow strategically. Despite a global equities market wallet that many of you have heard is under increased pressure with the advent of the MiFID II regulatory changes, here at Jefferies we continue to grow revenues and equities. In fact, the Jefferies equities franchise has grown revenues by 17% over the last three years. Those are internal net revenues that include, uh, ECM revenues, while at the same time headcount has decreased 5% over that period. How have we done this? We have focused on diversifying our revenues by both product and region, and as you can see by this slide, which shows our market share gains over the last five years, we continue to gain market share across all products and regions that we're focused on.

I mentioned earlier that we've been growing revenues despite an equity market wallet that is under pressure, brought about these changes from MiFID. How are we doing this? Well you can see there is the pressure on the equity wallet. And if you look at the three bars, you'll see that the one that's been under most pressure, not surprisingly, is the global cash wallet, particularly on the high-touch side. But you can see some stability in the non-cash wallet. And what we've been doing is investing in those non-cash businesses. So over the last few years we've grown our prime services franchise. We've grown our equity derivatives business. And importantly, we've been able to take advantage of our investments in very sophisticated electronic trading technologies that our clients are now using on a global basis. We believe that we continue to have an opportunity across all of these markets.

Getting back to MiFID, where again you can see the pressure that, uh, the wallet is under, we published a report last year with the potential unintended consequences of MiFID. One of the things that we've been able to benefit from was those investments in electronic trading technologies that I referenced. Because of the unbundling of commissions, we've been able to leverage our sophistication that we've built into this and to gain share across all these markets.

As we go forward we believe we continue to have an opportunity in front of us in these non-core cash equity products, whether it's listed in over-the-counter options, whether it's swaps, whether it's continuing to gain share in the prime services or prime brokerage business, which we're seeing, and we're doing that by leveraging our core--and it has been a core--equity franchise that's been built, as Brian referenced, over the last almost 60 years. Our clients are asking us to be more relevant to them in these businesses, and we're delivering upon that. We're going to continue to invest in these technologies. We've seen the benefit from it today, and we believe we have further market shares to gain.

We continue to enhance not just technology, but our investments in advisory or in research, where now we cover almost 300 securities globally, some with ourselves and some with some cobranded partners. We believe we're well-positioned to continue to grow our equities revenues in a healthy and sustainable fashion.

Thank you. I'm going to turn it over to Fred Orlan to discuss fixed income.

Fred Orlan: Thanks, Pete. Uh, good morning, everyone. So three years ago, uh, at the Investor Day we talked about how we set out on a journey to address the challenges that we then had in fixed income and to refocus our business with an emphasis on reducing cost, risk, balance sheet and capital to drive better returns. And the past 12 months have been about progressing our plan and driving our platform to be even better-positioned to serve our clients, uh, produce more consistent revenues and yield better returns for our stakeholders. And we're very excited about the team that we've assembled and the measurable impact that we're having on our core client franchise and the progress that we’ve made in using technology to make us more efficient with our resources. So today we built a team that despite a lackluster trading environment is producing even more consistent and diversified revenues and returns throughout the cycle and is well-positioned to achieve significantly better results when the market environment permits.

In 2018 we improved our platform with the addition of key players across high-yield, distressed debt, interest rate swaps, FX and emerging markets. And with the help of enhancements to our information systems, we’ve reduced the amount of, uh, the capital intensity of our business, and these improvements have enabled us to efficiently react to changes in our funding needs and minimize the settlement friction that we often have across our business. And thus, we’re currently using 10% less capital today than we were in the first half of our business. Sorry, the first half of 2018. Um, we’ve been disciplined with respect to the velocity of our balance sheet and the management of our market risk by dynamically allocating that across businesses and to individual traders who have, uh, the best opportunities and client flows given the current environment, while also holding the overall quantum balance sheet significantly below where we started this process back in 2015.

And finally, the improved profile of our team has led to meaningful and measurable improvements in our market share and presence with our clients. And we’re also excited about the investments that we've made in our CRM system, which will not only make us more efficient with respect to the data that we currently collect, but will also give us the capability to employ the latest technological tools to digitize some of the unstructured data such as voice, um, and use the advancements in AI to make us more intelligent and more efficient in customizing our services.

So the flexibility and scalability of this platform in the areas which it connects also to our e-trading systems will make it possible to evolve with future advances and innovations in technology.

Rich Handler: [Unintelligible] slides.

Fred Orlan: What's that? Yeah, so I'm getting ready to the first slide, okay? So now that Rich says that--perfectly timed--um, I'll give you a brief overview of our business. Um, I'll walk you through, um, some of the, uh, discipline that we've had in our financial resources, as well as our, um, the improvements that we've made in our client footprint. And finally, I'll highlight our strategic priorities.

So in fixed income we have approximately 435 people operating across seven client-facing, global client-facing businesses that provide us all the capabilities of a competitive global fixed income franchise and complements the core components of our investment banking and equities businesses. Over 25% of our sales, trading and research and capital markets professionals are based overseas, and our international businesses are focused on servicing not only the local clients in that region, but also those that we connect to globally. We're a primary dealer in the US and in Europe where we continue to focus on major markets as well as some of the underserved markets, such as the Netherlands, Portugal and Slovenia where our focus is more meaningful to our clients, and we're competitively positioned to add more value.

And finally, we operate a predominately cash-focused business with little in unclear deliver derivatives, nothing exotic, little in illiquid or hard-to-value securities. And you can also see on this chart in the dark green all the businesses that we've enhanced our leadership over the past four years. And approximately 50% of our fixed income team have been recruited to Jefferies over that time period. And with our recent hires in 2018 we expect to see improved results in high yield, distressed trading, cleared interest rate swaps, FX and also our European emerging markets business. And given the current environment that we're currently seeing in emerging markets with the volatility that we're experiencing in US interest rates and also in the US dollar, we're well-positioned to capitalize on opportunities in this market. And as an example, when Turkey, um, and Argentina experienced sharp downside volatility this summer we were profitable and provided significant leadership to our clients with respect to liquidity and, uh, market advice. And you may have read the some of our competitors actually suffered losses due to market moves in these names.

So turning to our results, we're currently running about 8.5% behind last year's pace through the first three quarters of the year, and that's due primarily to reduced volatility and trading volumes with our clients. And the transition from central bank, um, from, uh, the transition from central bank quantitative easing coupled with the Fed, um, raising interest rates has flattened the yield curve and reduced demand for risk assets. Yet valuations are at post crisis highs across many of these assets, and thus the risk and reward are less favorably skewed than in other parts of the cycle. And also new issue volumes have trended lower across many of these markets. So as a result of all of these conditions, um, the current appetite for investor trading has been reduced. And we're seeing the impact of this play out in the global investment-grade corporate bond market, um, which revenues have been, uh, recessed so far in 2018, and that has been partially offset by the strength that we're seeing in our securitized markets group and also our distressed trading business.

But given the diversity of our platform, we've reacted to this environment, again, by allocating balance sheet away from some of the businesses that are performing less well to those where we see increased client flows and opportunities, and we've also, uh, maintained discipline around our key financial resources. Uh, so you can see from the slide the risk has trended down about 36%, um, over the past four years. Um, headcount was down 17% despite the significant hires that I've mentioned. Balance sheet is down 13% while our percentage of profitable training days, uh, continues to grow and has maintained, uh, consistency over the past couple years. So the key takeaway here is that if you take all of these actions together we're driving a better risk-adjusted return for our stakeholders.

So despite the slow current trading environment, we're very excited about the improvements that we continue to see across our client franchise, and when we look at these results, um, of these client surveys, we're less concerned about our specific rank or our specific market share. What we're more concerned about is the direction of travel or how we're improving from year to year. Um, we also care a lot about the subjective feedback that we get from our clients with respect to what we're doing well and where we can continue to improve. We're also--I like to think that we're focused on quality share over market share. And as a value add, high-touch provider in these markets that we focus on, we strive to earn a greater share of the trades that matter most to our clients, and this leads to stronger relationships and also higher margins. And we believe this happens because we are not diluting our focus on things that we aren't competitive in or don't differentiate ourselves, i.e. we're not trying to be all things to all people, and our clients appreciate this.

So looking at the chart, I want to highlight a few key areas where, uh, that we've received, um, very important, high quality feedback from our clients. Um, so for example, the strength of our US-based emerging markets franchise, which is tied for second in terms of market share, and the recognition of the growth of our European business, which again that direction of travel is very, very positive, and, uh, the market share is relevant and climbing. We also have the number one and two most helpful traders, as well as some highly-ranked research people as is suggested by the Greenwich survey, and we also mentioned cleared interest rate swaps where we have the number two most helpful trader. In European rates we have, uh, the number one status in some of the smaller markets where we focus and, uh, have strong client franchises because of the expertise that we have in those markets, as well as the consistency in those markets for, uh, over the past 10 years.

In municipal bonds we have top five, uh, market share in intermediate and long-dated maturities, um, as measured by the Federal Reserve [unintelligible] rankings, and also we moved up--we've dramatically moved up the league tables in an underwriting perspective, which also has a very positive influence and a complement to our secondary, um, trading business there.

In securitized markets we have top tier rankings in key focus areas such as the topical fintech or marketplace consumer lending sector, in CLOs as well as Ginnie Mae project loans where we've had dominant market share for many years. Our number one ranking in the leverage loan origination business that Ben mentioned, with our private equity sponsors, um, is extremely relevant to the overall Jefferies franchise as many of the largest private equity firms have built out significant, um, asset management arms that are very important to both fixed income and equities, and thus our top, um, our top ranking in the loan and bond underwriting side has carried over to help us build strong partnerships with this extremely important client base. And also the backlog of lead underwritings continues to--as that continues to build it's increased our overall market presence across, um, across the credit business in fixed income and will lead to valuable trading opportunities as volatility increases in the credit markets, um, as the cycle changes.

So overall, despite the soft trading environment that we're in, we're very pleased with the improvements that we've achieved across our platform. We continue to attract top-tier talent across many of our businesses, which is having a very positive impact on our client franchise and the quality of the business that we earn. Um, we'll continue to look to invest in markets where our model will bring value to our clients and drive reoccurring revenues and strong returns throughout the cycle, and we've maintained the discipline around our financial resources with respect to risk, cost, balance sheet and capital to improve returns to our stakeholders while also investing in our technology stack to improve the efficiency of our business and also the quality of our client experience. And thus we believe we're well-positioned to achieve significantly better returns when the market environment permits.

Thank you, and I'll turn it over to Paul Frean.

Rich Handler: Justin.

Fred Orlan: Oh, I'm sorry. Sorry, Justin.

Justin Wheeler: No problem. I'd just like to thank whoever put the agenda together. It's not often I get to follow my doppelgänger, uh, on stage, so appreciate that. Um, just to start off I'd like to congratulate Rich and Brian and their team for the successful transactions with National Beef and Garcadia. Those are fantastic and near and dear to my heart, and, uh, for the consolidation of your 50% ownership in, uh, Berkadia into the mothership, so very, very good things. Excited about that. Excited to be part of this.

Um, I'll go quickly through. I'm not going to read my slides. You've, I'm sure, pored over them anxiously, um, but just would like to start out by saying, you know, Berkadia is a leader in transacting in, financing and servicing mortgages for commercial real estate, uh, specifically for multifamily. Um, I like this. I've heard that, uh, in my business school that I went to they said growth is yummy, um, and so I kind of like this slide. Um, and as you can see, scheduled commercial real estate maturities triple as you go out for the next nine years, and in multifamily they actually go up by a factor of five. Um, in practice these transactions actually get pushed forward, uh, which is a good thing for us, but with some rising interest rates and other things they may not push forward as quickly as they have in the past. But there's lots of, uh, lots of yummy things out there for us to grab.

Um, this slide, uh, just kind of shows a nice pattern of stability, a pattern of growth, and I'd like to kind of focus on the, uh, the bottom right-hand side, cash earnings. And really the difference between the, uh, the dark blue and the lighter blue, which is the difference between, um, core cash earnings versus investment earnings. Those of you who recall in 2010 when we, uh, came together with Berkshire Hathaway and bought the company and shortly thereafter Warren Buffett gave us plenty of interesting, uh, investments that we put into. A lot of those investments have, uh, are maturing, and so we're seeing our core cash earnings increasing and offsetting the decrease in--more than offsetting the decrease in investment cash earnings, which is great. We're very excited about that.

This is kind of fun. This is our servicing portfolio, and as you look at that, despite a little bit of volatility, we essentially have the same size of our servicing portfolio in 2018 as we did nine years ago in the acquisition of the company. What's interesting is it's almost 100% turned over, and, uh, in the last nine years. And this shift in mix, the increase in the weighted average maturity, process improvements, all those things, that portfolio is now at least three times as valuable as it was, uh, at acquisition. It's a great asset for us and a source of great, uh, stable and, uh, based earnings.

Turning to our update, um, you know, earnings are growing due to improved productivity of our production group. In addition of great talent, uh, bringing the entire firm to our clients through what we call roundtrips, which is where we sell an asset and we end up--and we finance that asset as part of the acquisition. Um, adding and augmenting product to our--to the quiver of our salespeople who are out in the office--or out in the field, sorry--and very much not dissimilar to the other strategies you heard from the other folks, uh, who've been up here with me. Better talent, better products, um, more efficiency.

There are some potential headwinds for our business, as there are in all businesses. There's rising rates, the specter of rising rates, a specter of GSE reform which I think the three people up on Capitol Hill who are not involved in the Kavanaugh debacle, um, are thinking about, um, and capital flows into our business, whether that be through foreign or domestic sources are obviously kind of things we keep our tabs on. Um, but I would say that over the last past four years Berkadia has become one of the top firms in our industry. It's not easy to beat big banks and other strong competitors, and we certainly have some of those, but we do it by maniacally focusing on our clients and helping them win. And we'll continue to, uh, do that by recruiting and developing and retaining top talent, equipping them with great, um, products and insights via technology, which we're making, uh, pretty heavy investment in, and ensuring our clients can out beat--or sorry--outsmart and out earn their competition is our job at Berkadia, and we're pretty focused on doing that.

Thanks. I'll turn the time over to Nick.

Nick Daraviras: Thanks, Justin. I'm here to, uh, discuss Leucadia Asset Management, and I thought I'd begin by giving a little background on how we are building the business. Leucadia Asset Management is the central brand that we're building in asset management, but we're building around distinct platforms under the shared umbrella. These platforms range from longer-lived businesses such as quantPORT, Topwater, uh, Core Commodity, and our recent investments in Weiss and upon the completion of our transaction with, uh, Folger Hill, uh, our partnership with Schonfeld, to newer additions like, uh, Tenacis and Lake Hill. Some of these are homegrown, uh, like, uh, quantPORT and our event driven team, and some came, uh, uh, through, uh, some came along with, uh, came as ongoing efforts like Topwater or Lake Hill.

As you'll see in the coming slides, uh, some of these platforms have reached significant scale, uh, while others are still in earlier phases of development. In all cases we are focused on continuing to grow these efforts. In additions to the groups that I'll discuss here, we have interest in several other asset managers across Jefferies Financial Group, and this presentation reflects all of those activities. When combined, these entities have $17 billion in NAV equivalent assets under management. As we develop these opportunities, we're focused on being efficient with the deployment of the firm's capital and where appropriate, uh, utilizing the scale and efficiency of our back office support.

I'm going to run through some of the activities that we've, uh, that we've, uh, achieved and that we've been, uh, doing this past year. Um, overall, we've been focused on building our marketing and investment teams while adding new products and capabilities. These opportunities are developed through the broad relationships of the firm and from the groups already on the platform. To give you some examples, uh, in 2018 we successfully launched a commingled fund for Tenacis, our systematic macro manager. We ceded an energy-focused, long-short team that spun out of Folger Hill. Uh, we're prepping for the launch of a European catalyst driven, uh, strategy that's an offshoot of our, uh, event driven team and, uh, a levered version of our first loss (sp) product. We're also, uh, preparing, uh, a fund, uh, for the middle-market direct lending out of Jefferies Finance.

Another example, Lake Hill, our automated electronic trader and listed index options and futures launched its dynamic beta product, uh, which is in addition to its core tactical and long gamma product. Uh, we'll be offering long gamma, the long gamma program, to investors for the first time in the near future, and which is a, uh, a tale risk product designed to, uh, to bleed less than typical hedges and should perform well during periods of volatility.

Uh, we made a significant commitment to further scaling our successful and long-standing multi-quant, uh, systematic efforts, uh, which we've rebranded under quantPORT. These are all examples of the organic growth opportunities within the portfolio. You can look at--to some of the activities that were sourced with external partners and look at our, uh, completed investment in Weiss Multi-Strat Advisers. Weiss has been a long-term and successful partner and relationship of the firm, and our investment should give Weiss renewed momentum in marketing its suite of products.

We also announced the transaction with Schonfeld, which will combine certain of our Folger Hill assets, predominately our portfolio managers in Asia, with their fundamental equity, uh, product, um, and we believe this enhances both the products, and we are very excited to have an ongoing participation in the success of that offering.

To support the growth in these opportunities, uh, we've been adding to our centralized marketing team. We've added four people in the past 18 months, bringing the team size to eight people, including our product specialists. Uh, we are continuing to focus, uh, on growing this team and believe, uh, as we add quality and expand the team into key competitive strength, uh, and a key element to maximizing our growth. So these are all examples of the things that we've done, uh, and given our position in the market we continue to see interesting opportunities and have numerous avenues for further expansion.

This is a list of our various strategies. I won't read down the list, but I highlight that our platform comes in a variety of shapes and sizes, uh, and histories. What brings them all together is that we had distinct relationships, um, with these managers. Our capabilities were valued, and as a result we have a meaningful upside, uh, and a meaningful business opportunity across a diversified slate. Uh, we believe we inhabit a unique space in the marketplace. Uh, this is through--by virtue of our relationships at Jefferies. Uh, we have access to distinct teams. Uh, our support capabilities and the ability to commit appropriate levels of capital, uh, coupled with our growing marketing (sp) presence and brand recognition, uh, make us an ideal partner for many managers. And by achieving the level of diversification described here, we stabilized the overall platform and, uh, positioned to grow in a challenging environment.

I'll turn it over to Paul.

Paul Frean: Thanks, Nick, and good morning. By way of introduction I'm Paul Frean, the Chief Risk Officer for Jefferies Group. In the next few minutes I'll present a high-level overview of our risk management framework at Jefferies and comment on how some of our risk indicators have performed this year and from a longer-term trend perspective.

This slide and the next summarize our risk framework, which has been successful in helping us understand, right-size and effectively manage our risks over the years. Starting with our risk principles, first principle, risk culture, robust. Um, I'll highlight, uh, two points of it. The first one is that, um, as we've heard from, uh, the, uh, prior speakers, it's very well-embedded at the top of the firm, um, with a very conservative risk appetite, um, and limits that are well within our available capital and liquidity. And secondly, um, that attitude permeates itself throughout the firm. Um, everyone a Jefferies, across all functions, positions and locations, uh, take ownership for protecting our downside.

Our next principle is our hands-on approach to risk management. Uh, we're set up so that our information flows, uh, make the top of the house quickly aware of developments ahead of, uh, and during events unfolding. Integrated and independent. We are set up, from a governance perspective, to ensure the independent oversight of risk of the businesses, and yet we're integrated with the businesses where we have risk managers working on trading desks and in ongoing dialogue with the businesspeople, uh, to ensure that we collectively understand the risks at a detail level. Lastly, um, balance sheet asset quality. Uh, Peg's mentioned it. I'll speak to that a little later as well.

Our risk governance arrangements are comprehensive. I'll start with our committee structure, which we have on the next page. It is designed so that the top of the house, uh, our Board of Directors and senior management, receive an assessment of risk, um, independent from the operating businesses. Myself and John present on a quarterly basis on risk and liquidity at each regular board meeting. We review our limits on an annual basis, and on a weekly basis. Um, with, uh, Rich, Brian, um and our risk committee we discuss our risk capital and liquidity profile at a detail level.

The middle of the slide is our other firm-wide committees, which provide a granular review of each function. We have several of these, uh, covering asset liability management, the market review process, which is a key for us, uh, new business proposals, vendor risk management and model risk management in detail. And lastly, a variety of business line risk committees for each risk type provide ongoing day-to-day insight, uh, and an integrated review of risk with representation from both the business and risk, which we have at the bottom of the slide. And I'll jump back to the other components of our risk governance.

We have policies which formalize our risk management approach and controls for each risk type, uh, with specialist teams overseeing the different risk areas, all under the overall framework. We set detailed limits on a variety of risk metrics, which are parceled out to individual desks, traders, clients, counterparties and so on, with the appropriate actions taken to remediate any limit breaches to make sure that we operate within the risk appetite.

And lastly, we have a variety of procedures to handle unexpected external or unplanned events, including contingency plans, our recovery procedures to handle system outages and a comprehensive business continuity program. These have all worked well in a variety of situations over the past years.

The bottom part of the slide highlights our risk appetite. It is straightforward. It's conservative. And importantly, it drives how we set our limits. Our first statement is on leverage. Peg's covered that. Our leverage appetite is modest. It's consistent with investment-grade ratings, um, and where we have balance sheet growth we support it with the appropriate amount of equity. Our next, uh, appetite is on the business mix, which we seek to diversify, um, with no outsize concentrations, which drives our sizing and risk sharing arrangements.

Our capital planning is designed to sustain our operating model through stress conditions. That is accomplished by means of our comprehensive stress testing program. Our liquidity appetite is to ensure stable and efficient access to funding and liquidity, which John will cover in a few minutes. We maintain the asset quality of our balance sheet through conducting trading activity mostly in liquid markets and in high-turnover inventory. And consequently, we subject our less liquid positions and derivatives to particular scrutiny, and we use a wide variety of specific metrics, limits and constraints to manage these risks. And most importantly, uh, we protect the reputation and franchise of the firm and its standing within the market, keeping our clients' interests first and adhering to the highest ethical standards.

I'll now turn to our risk indicators, which are on this slide. Our value at risk metric reached a cyclical low a year ago, as you can see, following the extended period of below average volatility throughout 2017. Since then, with a broadly unchanged business strategy from the risk perspective, as we heard from Pete and Fred, our value at risk has gradually drifted a little higher, driven mainly by the periods of higher market volatility that have occurred through parts of this year. Also, as you can, see from a longer run perspective, the average 2018 value at risk is below the average 2017 value at risk, and it's also lower than where we were a few years ago prior to the rightsizing of parts of our balance sheet at that time.

My last slide covers our trading revenues. Two takeaways from this slide that I'd like to leave you with is that firstly, while we have seen a slight increase in the number of trading loss days, which has been in line with the periodic increase in market volatility this year, most of our trading loss days have been small. And secondly, that last year, and in fact going back many years, we continue to have had hardly any value at risk breaches, meaning that we continue to have confidence in how our value at risk model works.

And lastly, going forward we will now be picking up our share of Berkadia and Leucadia Asset Management assets that now fall under Jefferies Group into our group risk framework, which is in addition to their own risk management, which itself is comprehensive.

And with that, I will turn it over to John. Thank you.

John Stacconi: Thanks, Paul. I'm John Stacconi, Global Treasurer for Jefferies. Um, for those of you that are regular attendees to the Investor Day, you'll probably recognize this page. It's our liquidity and funding principles, uh, and they've been fairly consistent over the years, through, uh, various market cycles. Uh, and I can confidently say that our balance sheet, capital and liquidity have never been in a stronger position.

Um, it all starts with the balance sheet, uh, having a liquid balance sheet, uh, with liquid inventory that turns over on a regular basis. Uh, 82% of our tangible assets are in cash, inventory, stock borrow and reverse repo. Uh, about 2% of our inventory is level 3, so we have just north of $15 billion of inventory, and only $311 million is level 3. In fact, our level 3 inventory is down almost 30% in the last two years.

Uh, we maintain a strong, long-term capital base and reasonable leverage. Uh, we have over $6 billion of long-term debt. We now have approximately $4.5 billion of tangible equity. Uh, the weighted average maturity of our long-term debt is almost 9 years. Uh, all of our equity is tangible, common equity. There's no CoCo's, no preferreds, no funky equity that's difficult to understand and value. Uh, and as Peg mentioned, the recent transfer of Berkadia and LAM brought an additional $600 million of tangible equity into Jefferies Group from the parent, which is going to reduce our tangible leverage by approximately 100 basis points.

We have no material reliance on short-term unsecured funding. Uh, in previous crises the Achilles' heel of investment bank has been to be reliant on short-term, hot money, commercial paper, deposits and the like. Uh, we avoid hot money. All of our short-term funding is on a secured basis, uh, via repo, uh, and securities lending. Uh, and all of our unsecured funding is in the form of long-term debt, which I just mentioned has a weighted average maturity of nine years.

Uh, where we do have secure funding we try to source as much of that funding, uh, through CCPs, or centrally cleared funding. Uh, that has the added benefit of the counterparty lending us money being credit blind that they're facing Jefferies or any other counterparty within the CCPs, and that protects you in market stresses or idiosyncratic stresses. Uh, about 71% of our repo funding is CCP eligible. Uh, our repo funding that's transacted away from CCPs has a weighted average maturity of 121 days.

Uh, we assess the markets continually. We run a very strenuous, uh, liquidity stress model, which I'll discuss in a little bit more detail. Uh, but we keep, maintain enough liquidity, uh, at both the parent company and throughout all of our operating entities to, uh, survive a two-notch downgrade in Jefferies credit rating, coupled with a severe market event comparable to the fall of 2008. That's--we use a stress model to size our liquidity pool, and our current global liquidity pool is just over $6 billion.

And we're always looking for smart partners to help us mitigate our credit market and liquidity risk across certain products. Ben mentioned our long-standing partnership with MassMutual and Jefferies Finance for corporate lending and, uh, syndication. That partnership allows us to mitigate the market and liquidity risk, uh, associated with the corporate loan origination market, and obviously now with the transfer of Berkadia into Jefferies Group, we have a smart long-term partner with Berkshire Hathaway.

Uh, the next page gives a little bit more detail about the liquidity of our balance sheet and the fundability of our collateral. Uh, we break it down in four different buckets. Uh, as you can see almost 55% of our collateral is what we call Tier 1. By Tier 1, we--that's defined as collateral that's able to be financed on exchanges or clearing corps., mostly GSCC in the US for US treasuries and agencies and the lending clearing house in Eurex and Europe for European sovereigns.

Uh, 88% of our inventory in collateral is Tier 1 or Tier 2. We fund that with haircuts of less than 5%. Uh, the average haircut in our Tier 3 inventory is 13%. Uh, if you look at our less liquid bucket, which is our Tier 4 collateral, which is made up of corporate loans, distressed debt, uh, CLO and CDO equity, that's less than 2% of our collateral. And in the tier--within our Tier 4 bucket we finance that collateral with an average maturity of almost 340 days. So what you'll see is with each of these buckets as the collateral gets more liquid the weighted average maturity of our funding gets longer. And we have a significant amount of diversity in our funding. We have 95 different lenders who finance our Tier 2, Tier 3 and Tier 4 collateral, and no single lender is more than 10% of our financing buckets.

The next page gives a little bit more detail, uh, on our global liquidity model. Uh, we call it our maximum liquidity outflow. It's very similar to what you'll see with, uh, commercial banks in Basel III, the liquidity coverage ratio. Um, the liquidity risk that we run are much different than commercial banks. Commercial banks are in the business of taking long-dated credit risk, so they have to maintain a significant amount of liquidity for their loan book, for their derivatives book. In our case, you know, probably the two largest liquidity risks that we face are losses of our non-cleared repo and stock loan and higher margins at CCPs for our cleared financing.

So we maintain enough liquidity, uh, across the firm, uh, to support Jefferies for at least 30 days when we have--if we have a two-notch downgrade in our credit rating coupled with, uh, a repeat of the fall of 2008 market scenario. So we have $6 billion of total liquidity, and even after factoring in all of the outflows that we've listed here, and assuming no sale of our $40 billion balance sheet, we still have a significant amount of excess liquidity left on the balance sheet after 30 days.

And the last page shows our long-term debt profile. Uh, we have about $6.4 billion of long-term debt, uh, with an average maturity of almost nine years. Uh, we spread our maturities, and we stagger them in, uh, in a conservative manner, and we have no more than 20% of our debt maturing in any one year. Uh, our 2019 maturity has been pre-funded. Uh, many of you may recall within a $1 billion 12-year issuance, uh, back in January, and we've also issued about $150 million of structured notes throughout the year. So we'll--we continue to be opportunistic and look at the markets. We don't have any immediate, uh, reason to issue, uh, but as we said, we always like to issue when we can, not when we have to. Uh, so we'll continue to be opportunistic. Uh, but we have plenty of excess cash, and we will--can easily pay off our 2019 maturity out of our existing cash position.

So with that, I think that ends the Jefferies Group presentation, and we'll turn it over to Q&A.

Brian Friedman: Thanks, John. Um, if you're, um, on the webcast and want to ask a question, please send it to IRquestions@Jefferies.com. We're going to start with questions live in the room, and then we'll bring in some questions that have come in through the email. But again, if you're, um, online with the webcast, please, uh, email your questions now, and uh, we'll open it up to questions in the room. The microphone is coming down.

Unidentified Speaker: Thank you. Uh, you know, with all the, uh, chaos going on with MiFID, uh these days, uh--and I've seen some of the other sell-side firms on the equity side, uh, consolidate, buy some smaller vertical players that are just specialized in one vertical. Do you see yourself as part of a consolidator with some of the smaller, uh, sell-side firms, uh, sort of, uh, the landscape has changed because of MiFID, or do you see yourself not part of that?

Brian Friedman: We've always viewed ourselves as a consolidator. We view acquisitions of firms simply as another way to add talent. I think it would be fair to say that in our equities business, particularly, we're very comfortable and confident with the talent we have. We have depth and strength in every sector that we want depth and strength in. So never say never. I think it's unlikely we would be consolidating in an equity trading shop, but, uh, if you have an opportunity, try us.

Ann Dai: Thank you. Uh, Ann Dai from KBW. Thank you for taking my questions. So, um, first, you know, I think since initiating the dividend you guys have grown free cash flow. You downsized the balance sheet commitment to the fixed income business. Now you're transferring assets in so, you know, you've got a more diversified, stable revenue profile in the business. Is there, um, you know, based on John's comments also it just sounds like there's excess liquidity. So is there an ability or a willingness to upsize the amount that your dividending up to the parent company?

Richard Handler: Uh, we have, uh, constraints with what we've told the rating agencies in terms of the percentage of our earnings from Jefferies that we will dividend up. Um, we have plenty of cash. You know, we're not lacking for cash anywhere, either at the holding company or at the operating company. So I think what you'll see is, you know, we have enough cash, you know, to prudently, uh, exercise our right to buy back stock selectively, and that's what we'll probably be focusing on.

Ann Dai: And just as a follow-up to that and to clarify some of Brian's comments about ROTC (sp), you know you guys are--were already approaching that double-digit amount, and now with the transfer of assets it seems like pro forma you're there, so, um, from what I heard in the presentations it seems like you're expecting an inflection in investment banking, um, an inflection in margins as comp and non-comp comes down. So it seems to me, and, you know, please let me know if I'm reading this wrong, but it seems to me that there should be a nice inflection in ROTC even from that base kind of lower double-digit, uh, level. Can you just maybe give a little more clarity around that?

Richard Handler: I think you're reading it exactly right. I don't want to give a projection, but, you know, we think we should be going up from a low double-digit gradually over time, and the moves within the businesses into Jefferies will facilitate that quicker. The growth in banking will facilitate that. Our, um, the runoff of some compensation from years prior will facilitate that. We feel like we're in a good spot to actually start showing reasonable returns of equity in the company.

Ann Dai: Thank you.

Kevin O'Keefe: Good morning. Kevin O'Keefe, Stieven Capital. Um, I have two quick ones. Uh, the first question will be for Teri. Do you have a preliminary tangible book estimate as of the third quarter?

Teri Gendron: We don't, no. We actually, um, you know, we just pulled together a preliminary release with regard to the operating results, um, but we have not put together the balance sheet yet.

Kevin O'Keefe: Got it. Does something around $26.50 sound reasonable?

Richard Handler: No comment.

Kevin O'Keefe:

Richard Handler: If you've done the work, please share it with us. Save us some time.

Kevin O'Keefe: My second question would, um, for Peg or for Rich and Brian. There's been--uh, you've called out several times in the press release and multiple times today that the leverage, um, in the investment bank goes down by a point with the LAM and the Berkadia moves. I'm just curious, is that--are you stating that the leverage is going to permanently go down, or can you use that point to do something else to increase the profitability, put on low risk carry trade, uh, take something up? Just kind of curious what we should think about that.

Richard Handler: I don't think the moves transferring assets into Jefferies were designed to allow us to go ramp up our balance sheet. We have no desire to do that. We're going to continue to focus on growing our banking business. We have plenty of capital for fixed income. We're not--we don't have, you know, as rates rise there might be more opportunities, but we're not going to put on carry trades. We're not going to do anything that we never did historically.

Kevin O'Keefe: Great. Thanks.

Chris Kotowski: Good morning. Chris Kotowski from Oppenheimer. Um, you, uh, talked about how you're number one in LBO financings, and over the last six months, you know, Jim Grant keeps writing stories about the, uh, the horrors of, uh, cov light lending, and, uh, there's been increased--so this has come up as a risk factor, uh, in, you know, my conversations with investors, and there is concern about Jefferies Finance and exposure to CLO equity there and, uh, and you know, uh, so can you talk about, uh, risk management at Jefferies Finance and, uh, underwriting risk, and size of the inventory there and how you look to manage that and how that would compared to what we saw in, say, 2016?

Brian Friedman: I guess there's, um, probably two points of exposure to focus on. One is our, um, retained balance sheet. In other words, we're retaining modest hold positions in virtually everything that we underwrite and syndicate. Those hold positions are in the, you know, 10 to 35 million in size, um, and as I think most people know, the bulk of that, virtually all of it, is held, um, in a business unit of Jefferies Finance called Apex, which is a CLO management company.

Um, as far as our risk on that, um, we do retain the equity in a good part of what, um, we--of the CLOs that we have raised, but I will note that in the most recent CLOs, um, we have sold off half the equity. So as a matter of sort of judicious management of our capital and our risk, we've actually been reducing our go forward exposure, so that mitigates the risk, um, on us in the hold positions. And to the extent that we own all of the equity in the older CLOs, uh, those are much more seasoned loans. You know, those loans are, you know, recirculating. Um, so I think our risk profile there actually is moderating.

Um, on the underwriting side, um, inevitably you do have the risk that there is a meaningful market change. Uh, what I'll note is that, you know, in recent times our, um, average period of risk in the syndicated business--um, I'm not going to get it exact so I'm going to be off by a few days--but it's been averaging, um, on the US side, which is 95% of the business, about 45 days. I think it's actually slightly lower than that. Um, so we take risk, um, but we take it in a fairly, um, narrow time frame in terms of time that we sign the commitment to the time that we syndicate and effectively go off risk.

Um, so there is a high velocity, um, and I would say that the average syndication position that we're taking is probably--is running, uh, lower than it was running a year or two ago. I think there's more participants in the market. We're holding our market share, but as you can see from one of the bar charts that--or the bar chart that was on the Jefferies Finance slide that then reviewed the number of deals is actually up considerably. So I'd say, you know, our risk profile there is, you know, same to less than it's ever been in terms of risk of being hung, um, because the velocity of which we're turning it and the diversification.

Richard Handler: I would add that we made certain representations to the rating agencies about concentration, you know, and size of deals that we'll do. Um, we've been well below that, you know, religiously. Uh, I would say that, um, it's a time in the cycle, and we tell this to our team and both the two of us are very focused on it. You want to make sure that you don't have enormous market share right before the market blows up. Um, so we're very cognizant of it. Um, I would say that the quality of the deals that we're doing, we've turned down quite a bit. Um, there is more competition today, so you have to be careful about it. Um, but we're also seeing because of our M&A platform, we're seeing first call on a number of these transactions that gives us a very good position on companies that we actually know pretty well as well.

And so we're in a very good spot. And I'd also point out that even in the past crisis, you know, we originate tens and tens and hundreds of billions of these. Our losses in the last crisis was measured in tens of millions when everything was said and done. So it wasn't like we were jeopardizing the platform then. We're not going to jeopardize the platform today.

Ian Lapey: Good morning. Ian Lapey from Gabelli Funds. Um, could you address the profitability of the asset management business? I didn't see that in the slides.

Brian Friedman: The business is at its early stage. The bulk of our P&L from it comes from our invested capital in the seeds (sp) in the various platform. So if you look at that page or couple of pages and you actually did some math you'll see that we have, um, $250 million committed to Weiss, um, 250 off the top of my head to the Schonfeld Folger combination, which actually won't take place for another month, um, and then various smaller amounts to others. You can aggregate all that up to a number approaching $1 billion.

So the biggest earning point is that we earn the investment return on that capital. We then have interest in the GPs. Until now those interests have not been that productive for us because these companies have either been in their ramp up stage, or in the case of Weiss, we just made the investment in the case of Schonfeld. We're about to just get the benefit. I think our point on this is that as we go into next year we're actually going to have, again, a little bit of what we think will be a step change, which is that those GP interests, the management fee and profit share interests, will start to actually aggregate a worthwhile number, not necessarily a big number in terms of moving all of Jefferies, but will start to have a positive number on the operating side.

And because we're achieving greater diversification on the capital side we should get a better result. You know, that's all a polite way of saying that over the last year or two we were hurt by particularly Folger Hill, and we were hurt by one or two other things in the first quarter that we talked about in the first quarter results. We think that's behind us. And so when we look forward on it we see getting an okay return on capital for the capital we have deployed and then getting hopefully a premium return by virtue of earning it on the GP. We think that in 2019 we'll begin to see that flow into the P&L.

Ian Lapey: Okay, um, and then a second question, if I could. Um, just on your last quarter for Jefferies Group LLC it looked like the business development and professional services, um, was up about 56% year-over-year, which would seem to be the big driver behind the decline in earnings. Could you talk about what you're spending that on and do you expect spending at that level, which I think was about $75 million for the quarter, to continue at that rate or come down?

Brian Friedman: Yeah, if you look at the detail in the filings, and this is unfortunately one of the results of a change in Generally Accepted Accounting Principles, starting at the beginning of this year we've had to bring into our public statements at the revenue level and at the expense level. And at the expense level it's primarily on the business development line, um, all of the out-of-pocket expenses that we get reimbursed by our investment banking client. So in other words, we get paid a fee, and generally we get the right to get reimbursed our travel and other out-of-pockets. Those are running, top of my head, 30-something million dollars a quarter.

Unidentified Speaker: That's about right.

Brian Friedman: I'm looking at Peg. So 30-something million a quarter. It's goosing up the revenue, and it's coming right back out through the business development. That's all disclosed in our MD&A, but so the answer is that expense number is correct, and it will, in fact, continue. Historically these two numbers were netted. It made a lot more sense than the current, you know, GAAP approach, but it is what it is.

Richard Handler: I think the real reason why we had a softer quarter was our trading businesses were relatively softer. That was really the main determinator.

Brian Friedman: Yeah, I mean when you look at the third quarter it's about, um, the revenue level and the trading was lighter, um, and it wasn't--and it's just, I think, more seasonal than anything. It wasn't a super robust banking quarter. It's one of the reasons we added into the third quarter announcement the fact that we entered the fourth quarter, and it's still true today a month into the fourth quarter, um, with the best backlog we've had in a long time. So third quarter is somewhat aberrational in the way it all sorted out.

Drew Imhoff: Thank you. Uh, Drew Imhoff from Alpine Capital Research in St. Louis. Um, regarding the Jefferies margin expansion case, could you touch a little bit more on, uh, both from the non-compensation and compensation expense side, you know, why you think those will scale? Um, and especially regarding compensation expense, um, on average over a cycle what do you think, you know, comp to revenue should be? And then, um, you know, as deal sizes increase for Jefferies, um, will comp to revenue scale on a larger deal size? Thank you.

Brian Friedman: Yes. Um, I think the way to look at it--what we think we're seeing going forward is, number one, you know, higher revenue. Um, and that's going to drive off of--and again, if you look at the numbers it will drive off of investment banking where, you know, as we're saying we go into I think a strong fourth quarter, but we also think that we're getting another breakthrough in terms of step change of revenue productivity that will carry forward into next year. Um, this round of growth--I mean if you look at--you know, Ben cited the numbers of 20 years, 15, 10, five are growth. They've tended to coincide with multiyear recruiting and competitive opportunity. So we got a very big kick out of the '01to '03 period where we did a lot of buildup and we got the payback for that in '05 to '07. We then built up again between '08 and '11, and we kind of got the kick for that between '12 and '14 and a little bit into '15, although that was a softer year because of the environment.

Um, 2016 really kicked off another opportunity for us. I mean if you look at the first two they kind of came out of the '01, '02 market challenges. The second one came out of the '08, '09 crisis. The third one, I believe, came out of, you know, a confluence of events that essentially

2.5 years ago saw the European banks, um, change course a bit, and that really gave us more opening here in the US and ultimately in London.

So the revenue driver is one piece. The second piece is that when you build up particularly the investment bank, but really the business generally, there is a certain amount of up-fronting of comp expense. Um, a really good banker, trader, whoever they are, joining us, um, is going to expect that in their ramp up period we're going to be supportive of them, a polite way of saying we're going to pay them well while we wait for the results. Um, they're taking a lot of risk. We bear that risk. And, um, it generally pays off for us, but it does drive up our comp costs in anticipation of the revenue.

In this round that kind of began a couple years ago. We're starting to catch up with ourselves, so that should bring the comp ratio. And everything else you said is correct, which is if you're doing larger deals, all that because you're going to get operating leverage on your fixed compensation costs, the fixed compensation costs are everything from the support side of the firm, whether it's the technology accounting, um, facilities, all those types of things, um, but also on part of the investment bank where at the junior levels the compensation doesn't vary as directly to revenue as it does at the upper levels. So our marginal contribution on incremental revenue is obviously well better than our average.

So those two things are going to come together, and our non-comp costs are for the most part fixed. Um, our real estate costs, you know, um, our technology costs, a lot of them are substantially fixed. Um, those are all the factors that will go into it. Um, you then get into the nuance of the mix to tell us, are we going to pick up at the rate of 50 to 100 basis points a year of margin expansion for the next couple years, or on the upper end or slightly above it? It's just going to depend on how all that comes together, which is why we don't want to put a prediction.

It's getting a little harder to actually talk in comp ratios because the movement of the, um, uh--

Richard Handler: Banking revenue?

Brian Friedman: The bank--you know, this 100-plus million of no margin banking revenue that goes into the top line now because of this expense gross up requirement, um, coupled with, um, just the way the--it's getting harder for us to talk about the comp ratio just because the way the numbers come together.

When we actually look at the comp ratio, we look at it on an internal basis, frankly, numbers that you can't see in the public anymore because all these other things have gotten into the mix. The answer is it will come down, we know it's going to come down, and we can see where it's going to come down but--and it will translate into it coming down publicly, but I can't translate the way we're going to look at it into the public in numbers anymore so I can't give you a number. But it's, it's in tens of basis points in the next year or two getting toward, you know, potentially 100 basis points in a year reduction, but it comes over the next two or three years.

Rich Handler: I would agree with everything Brian just said, but also put the caveat on, uh, that the financial world is better today and there's more competition for people and so you have to fight that effect as well, combined with the fact that we are investing fairly heavily on the technology side of our company to make ourselves more efficient and productive going forward. So there's a natural tension between the two, but I think the, you know, Brian's side of it is going to far outweigh what--the negatives I just mentioned.

Brian Friedman: Why don't we go back to, uh--.

Unidentified Speaker: --You'd spoken earlier about the, uh, leverage lending market and one of the questions is given the loosening in the leveraged lending guideline, the six X (sp), uh, guideline, are you seeing competition out there that you haven't seen before and, at this point, do you see us as being a taker of market share they are, maintaining market share, or giving up market share?

Rich Handler: You know, it's interesting. For a while, banks were told they couldn't be lending above six times, but somehow every transaction, almost every transaction that we were involved with, they were in also. Um, now they're allowed to be in it, um, but they are more aggressive than ever, um, and we see that, um, but something happened during this interim period. Um, we got ourselves a seat at the table, which is a prime partner of primarily the private equity funds and as a result of that combined with our strong M&A presence, we're holding and building, you know, market share and we're doing it in a way that is, I believe, sustainable as opposed to just using your balance sheet and buying business.

Um, that being said, there are people being super aggressive, we are passing from a number of transactions, but I think our competitive position is really good and it's up to us to make sure we stay focused and conserved and smart and partner with our clients and not get ahead of our skis.

Unidentified Speaker: Teri, for you, um, on the other line that has 882 million on slide nine, what makes up the other businesses in that combined line?

Teri Gendron: You know, we toyed with the idea of disclosing some of these additional items other than what we had already mentioned and what I will tell you is that it is quite a few very small items, um, over the years with the liquidity at the parent level. We have made investments when we have access to that money almost immediately. We keep it in liquidity if we think it's going to stay investment for a longer period of time, um, we do not include it in liquidity. So we have quite a few smaller items that, um, we felt it was best if you focused on the larger items that drive the larger share of the value.

Unidentified Speaker: As you are moving to a combined quarter end and year-end for Jefferies' Financial Group and Jefferies Group, will you start to have quarterly conference calls?

Rich Handler: No. Look, you know, we are being transparent, we're being forthcoming, um, we're showing everything that we possibly have. To get caught up in the game of earnings, you know, giving estimates, trying to hit those estimates for short-term goals, um, is not a good game. We don't believe in that game.

That being said, we are fully accessible. Any--any shareholder or potential shareholder that wants to call any of us, you know, we will respond that day and have a meeting or a phone call and we will go through anything that's going on. We're just not going to, you know, we have, we have two meetings a year, uh, in terms of our annual shareholders meeting. We have this meeting exposing our entire team, and quite honestly want to execute and focus and--and not promote our stock and not try to do it the wrong way, which trying to do it the right way, obviously, uh, people aren't paying attention, but I think eventually if we continue to execute, they will pay attention.

Brian Friedman: We--we will, in the quarterly press releases and we've been, I think, pretty good on the Jeffries Group level of--of giving fairly detailed information, you can assume that our new quarterly release will be at least as robust as the combination of the existing two disclosures and were likely to go a little bit further and as we've said, every six months, the--the same level of detail on the NAV will be in there.

Rich Handler: I mean, the story is a lot simpler today, uh, and with the NAV, with Jeffries being so straightforward, without beef there, uh, I mean, there's not a whole lot else to say except putting up the results.

Unidentified Speaker: You talked about ROE before and the 10 percent are we, uh, should we think investors would be satisfied with 10 percent, if not, what do you think the--the goals are here?

Rich Handler: Well, I'll just say that we are not, okay? Um, we're--we think that this is the baseline we get to and I would see a path to--to--to increase it. And I would say as you go from low, you know, low double digits to mid double digits, once you hit mid double digits, you start to put on too much risk unless you're in a completely different interest rate environment. So somewhere between low and mid is probably the right place to be.

Unidentified Speaker: In the earlier slide you talk about the book values and multiples to book value for broker dealers, had you ever, are you thinking about selling off Jeffries to get maybe 1X, 1.5 X, 2x?

Rich Handler: Um, does that person have a bid? Is that it? Um, kook, we--we--we didn't do this to put a price tag on Jeffries because we want to sell Jeffries. I mean, although we are a public company and we--we do whatever is right for shareholders, the point of that slide, I think Brian made a very well, is there is a lot of embedded value in what we've been building at Jeffries and the market just doesn't seem to recognize it. And I think the new disclosures and the simplification should derive it. Um, I'd rather own our asset than a lot of the other assets that trade much higher multiples and I think over time, uh, you'll see, you know, you'll see the ROE creep up and you'll see the value of the scale and the breadth and depth and it will be realized. And until that happens, we'll, you know, I guess will be the ones that buy the stock.

Unidentified Speaker: That's all I have for now.

Brian Friedman: Any other questions in the auditorium? Uh, what we're going to propose to do is deviate a little from the planned schedule and continue on now for a little while and then we'll take a brief lunch break, but the net of this is that should get us home earlier, so hopefully we can finish up closer to 12:30 or so. So we're going to turn to the merchant banking business and Nick Daraviras will open up with, uh, a recap on National Beef. We're going to have a changing of the guard here. Why don't you give it a minute? I guess the NAV took care of everything.

Unidentified Speaker: No one cares about the merchant bank, huh?

Nick Daraviras: Okay, switching gears into Merchant Banking now, I'll, uh, give a quick recap on National Beef. Um, as a reminder, it's the fourth largest beef company in the U.S. It's the largest exporter of chilled beef, uh, uh, and it is also the second largest, uh, U.S. hide tanner. Uh, it has a unique focus on value-added production and we believe, uh, this focus produces leading margins, uh, as evidenced by the, by the recent results.

Obviously, the--the big, the big news of this year was our sale of 40 percent, 48 percent of National Beef two, to--to Marfrig, a Brazilian beef, uh, producer. Uh, Rich and Brian have--have previously shown the--the economic transaction, so I--I will skip over, but I--I--I will mention that, you know, we continue to own 31 percent of National Beef. Uh, we have significant minority rights, and liquidity protections. Um, and as a review in a moment, we continue to believe that industry dynamics, uh, exist for brief production.

As shown in the various statistics, uh, on this page, uh, favorable supply and demand dynamics continue leading to an--an enhanced margin environment, uh, industry wide. Thanks to strong consumer demand, both domestically and abroad, price levels have been firm even as supply increases. Uh, and given that incremental capacity utilization is highly accretive, uh, the overall packer margins, uh, have--have all been, have been above prior years.

The chart on this page, uh, and the bullets highlight this supply dynamic. Cattle available for slaughter, uh, continues to increase, the peak in availability, uh, for this availability for slaughter, uh, lags the peak in the actual size of the cow herd. And as of, as we have yet to see the--the peak or the top in, in that, uh, uh, market, we believe that throughput should continue to increase, uh, for the foreseeable future. And I imagine that although we were pleased with the valuation of the Marfrig transaction, we--we firmly believe we've not yet reached the midpoint of the up cycle and momentum will continue, uh, for a good number of years.

All of that I should say is, you know, absent a--a unique weather event of some sort of, some sort of other exogenous factor. Um, this--this slide just shows the strong financial performance, uh, and--and the continuing improvement and margin over the--the last few periods. Uh, you know, clear, clear function of the supply and demand dynamics, uh, and--and obviously, you know, we're very pleased with these results.

This industry is significantly in the hands of--of four players, National Beef, Cargill, Tyson, and JBS. We believe National Beef has a unique position in its focus in value added production. Uh, the--the company plans to continue to leverage its strength on a supply side and to focus on--on this value added, uh, and to build its--its--its margin enhancing and industry-leading position.

With that, I'll--I'll segue to Idaho Timber. Idaho Timber is a manufacturer and distributor of wood products. It--it operates in two segments, remanufacturing and sawmills. Uh, to give you a little background as we haven't spoken about timber in a few years, in the sawmill--sawmill, uh, segment, primary logs are--are brought into the mills and converted into--into lumber products. In the, in the remanufacturing plants, low value or low grade lumber, uh, is remanufactured, recut into a higher value products, uh, uh, through cutting it to different sizes or, uh, removing defects.

When you look at 2018, the company experienced truly exceptional profitability during the first half of the year. Uh, this was caused by a combination of factors including continued improvements in our plants, particularly in the sawmill segment, but also by the shrewd management, uh, led by the, led by Ted Ellis and his team, um, around the volatility caused by the expiration of the softwood lumber agreement, uh, between the U.S. and Canada and by certain, you know, unique purchasing inventories and unique management opportunities, uh, that we took advantage of.

While the--the trade status remains unresolved, softwood lumber is not part of NAFTA, uh, or whatever were calling it. The market has--has corrected during the second half of this year and when thinking about this business, uh, you know, the--the profitability during the first half of 18 is a bit of an aberration, albeit one that we're very happy to have occurred. But 2017 it is--is more representative of a, of a normal year in which growth initiatives began to pay off, uh, in particular, you know, seeing a sawmill segment, particularly Coushatta Sawmill segment producing meaningfully positive results.

I mean, to be clear, 2017 was not an aberration nor a peak and it continues to be revenue growth and margin improvement opportunities in the recurring business. Uh, the team in Idaho Timber remains focused on enhancing profitability through timely, uh, inventory purchases, production efficiencies, customer outreach, and opportunity--opportunistically investing in new capital. Uh, you know, it's been a terrific, uh, rebound from lows in the new housing, uh, cycle. We've diversified the business since then and we're really pleased with the diversion of the company.

Andrew Whittaker: Thanks, Nick. Our current stake Spectrum Brands originated from our prior investment in HRG Group. Jeffries has a long with HRG, which positioned us to be the first call when there was an opportunity to invest in the business. Jeffries went on to significantly increase its ownership in 2014 and began actively working with HRG's board and management.

When Jeffries invested in HRG, the company up owned many businesses including stakes in two very attractive public companies, Spectrum and Fidelity & Guaranty Life. The--the sale of Fidelity in 2017 for approximately $2.2 billion combined with the sale or exit of all the other remaining businesses allowed us to focus solely on Spectrum. The merger of HRG with Spectrum in July of this year was the final step in unlocking value at HRG and resulted in our significant direct stake in Spectrum.

The transaction was overwhelmingly approved by shareholders of both country companies and resulted in an independent company with a much widely distributed shareholder base. It meaningfully increased the trading in company's stock, removed the perceived overhead from the HRG ownership, provided Spectrum with independent governance structure, and brought significant tax attributes.

This merger allowed Spectrum to gain access to HRG's NOLs of approximately $1.2 billion, which Spectrum will utilize to completely offset the capital gain resulting from the sale of the batteries business to an Energizer. The merger led to the conversion of Jefferies' 23 percent interest to you HRG to a 14 percent direct ownership stake in Spectrum Brands. The total cost of our investment was $476 million while the fair market value on June 30 was $610 million. Joe Steinberg, our Chairman, and David Harris, a Jeffries designee, are on the Spectrum Board of Directors.

Spectrum is a diversified product global products company and a member of the Russell 1000 Index with annual pro forma net sales of approximately $3 billion. Spectrum's focus is primarily on nondiscretionary consumer products are that are used in household daily, in households daily. Spectrum manufactured markets and distributes its--its products in approximately 160 countries through a wide variety of trade channels.

The company's products are in four categories, global auto care, global pet supplies, home and garden, and hardware and home improvement. Spectrum is on track to close the sale of its batteries business and a cash transaction to Energizer for $2 billion at the end of this calendar year pending regulatory approval. With the proceeds from this divestiture, Spectrum plans to reduce debt, reinvest into core businesses both organically and through acquisitions, and repurchased shares.

Historically, Spectrum has seen reasonably steady growth in sales, adjusted EBITDA, and adjusted free cash flow. However, in the second quarter fiscal of 2018, the company was negatively impacted by several factors. The most significant issues affecting the company were to extensive facility consolidations. Additionally, the company's performance was adversely affected by several other factors including rising commodity prices and increasing freight costs.

The company has made several leadership and organizational changes to address these issues. Since these changes have gone into effect, the company's result improved. Third-quarter fiscal 2018 results from continuing operations rebounding and sales and adjusted EBITDA increased versus the prior year even as the company continued to be impacted by higher commodity costs and freight costs. Although there was still work to be done to reach peak operating potential company, the company believes that the third quarter results demonstrate that the leadership changes and renewed focus on restoring ownership and accountability culture at the company are already driving improved financial performance. George?

George Hutchinson: Hi, I'm, uh, George Hutchinson, uh, talking about Vitesse. So we launched Vitesse in 2014 when we backed the proven management team led by Bob Gerrity, um, and his partner Brian Cree and since then, the company has grown, uh, smartly. Earlier this year, we were able to make a catalytic acquisition, which essentially doubled the size of the company.

So what does Vitesse do? Uh, the company invests its equity as a non-operating partner alongside a dozen of probably the best operators in the U.S. who are drilling horizontal oil wells in the Bakken field in North Dakota. We're diversified. We have interests in over 4000 wells and we're also diversified by operator so no one single operator has control over what we're doing and yet those little interest today add up to over 9,000 barrels a day of flowing production. From a big data perspective, each of the wells, uh, each of those 4,000 wells give us monthly information and data and so we're always constantly evaluating that data to figure out where the Bakken is going, where the best place to invest might be, and are any of our dozen or so operators actually, uh, you know, unlocking even more secrets, kind of thing.

From a hedging perspective, we put a floor on oil prices for '18 and '19 in the form of puts and callers. Uh, we basically have a floor of $58 for this year, 53 and change for '19, and we're beginning to look at '20. Our--importantly, our hedges are structured so that we actually have the ability to participate in rising oil into the 70s.

As I mentioned in April of this year, we made a compelling acquisition of other non-OP assets from a fund, uh, which has essentially doubled our production and acreage without any incremental increase in G&A and overlays our existing platform on highly complementary basis. We have a very long inventory of--of opportunities and our reserves are 90 percent remaining to be developed in the future, so we think that that gives us the expectation of, uh, growth and production, EBITDA pre-tax income, well through 2022.

So just a little bit about the Bakken, we think the Bakken is a great place to invest. If you look in the upper left, reserves continue to increase as our operating partners are improving their completion and frack methods, longer wells, uh, more stages in the front fracks, more province, uh, just leverage to technology. And so what you'll see is that reserves in the Bakken on an average basis that we track have increased by 70 percent since 2014.

If you look in the upper right, you'll see that drilling and completion costs appear to be back to where we were in '14, but it's a little bit misleading because the truth is, uh, wells are being drilled at half the number of days that they were and '14 and the amount of proppant, or sand that's injected in these, you know, two, three, four, five mile wells has actually doubled since '14. So taken on a cumulative basis, we're getting 40 percent more productivity today, uh, for the same cost that we got in '14.

The other thing in the oil business is that here in Clearlake, which is where we sell our oil, we are essentially at parity with WTI. And that's quite a bit different than the Permian, where, uh, operators there are getting nicked by 13 or $14 a barrel under WTI because of capacity constraints and the inability to get oil out of the Permian, without pushing. So when you look at the bottom, taken on a whole, when you combine all of these factors plus rising oil returns today, are stronger than any time since we started in '14.

So Vitesse today is a meaningful contributor to the Jeffries Financial Group. It generates positive pre-tax income and solid EBITDA, and we expect to continue, uh, to participate in the drilling of the wells and importantly virtually all of our future CapEx will be funded from internally formulated cash flow. The benefit of the acquisition we made in April, you can see that in the lower right, uh, EBITDA income production are all up for the four months since we close the deal in April. Uh, results for August are also good, estimated 9,000 barrels a day. EBITDA the month was 10 million and pre-tax income for the month was over 5 million.

So you know, going forward we think that production EBITDA income, they'll all continue to ramp up for the next three to four years. We are very likely levered now less than half return of EBITDA and we project that we'll be free of debt by that time. We'll continue to, uh, develop and improve our big data analytical capability. Right now we actually monitor every well, not including interest that we have, but every well we have in the Bakken and so we'll continue to monitor to see which areas of the Bakken are beginning to improve, which operators are creating the best results and will shape our cash flows to those opportunities. And I think next is Jimmy Hallac.

Jimmy Hallac: Hi, I'm Jimmy Hallac. I'm going to talk about HomeFed, FXCM, and Linkem. I'm also the last prepared speaker, so hopefully we'll get this done before lunch. Uh, HomeFed is a publicly traded real estate company that develops and owns residential and mixed used real estate properties. Uh, Jeffries owns 70 percent of HomeFed. As you can see from the map, HomeFed's real estate assets are located on--in coastal states.

This is a--a list of the major assets inside of HomeFed. Uh, they are largely operating real estate or entitled land ready for sale after many years in the entitlement process. Uh, the largest concentration of value at HomeFed that is in the greater San Diego area. Uh, this is primarily Otay Ranch, which, uh, we'll get into in just a second, but San Elijo Hills is also there.

Uh, it was a, uh, nearly 2,000 acre community that we've been developing over many years and is nearing the end of its cycle. Uh, Fanita Ranch, which is still in the entitlement stages, is sort of the next, uh, after Otay.

Otay Ranch is a 6,200 acre development that's entitled for over 13,000 homes and 1.85 million square feet of commercial development. Uh, he community has 75 acres set aside for schools, 300 acres set aside for parks, uh, it's big. HomeFed acquired its initial stake in 1998 and started entitling it then. Uh, in 2015, at HomeFed acquired an additional 1,600 contiguous acres.

Otay is being developed in distinct villages, the first of which is called Escaya. Uh, in April 2016, HomeFed entered into joint venture, into joint ventures with Brookfield, Lennar and Shea Homes. Uh, the ventures, uh, were structured to build 948 homes in total Escaya. Uh, the builders paid HomeFed $50 million up front and HomeFed participates in the homebuilding profits. So as homes close, which they started to do, uh, we--we get more money.

Uh, the village of Escaya held its grand opening in June 2017, home sales have been strong and through June of this year, uh, 191 homes have close. HomeFed has also arranged financing and started construction, uh, for a mixed-use project in Escaya. It will include 272 apartments, 20,000 square feet of retail, and a 10,000 square foot community facility.

HomeFed's next most significant asset is an office building, hotel, and garage complex in New York called Renaissance Plaza, the Marriott in Brooklyn, uh, is in the complex, that's the hotel. In February of this year, HomeFed closed a $198 million refinancing of one of its office condominiums Ren Plaza. This generated net proceeds to HomeFed of $88 million. A second smaller condo is getting close to being ready for refinancing, which will allow HomeFed to realize much of Ren Plaza's, uh, value in the near term.

As mentioned earlier, HomeFed's, uh, San Elijo project is nearing completion, uh, and Sweetbay in Panama City is also actively selling homes. Just showing that HomeFed is sort of monetizing and--and, uh, collecting cash in--in lots of different directions, this also includes the sale of Rampage earlier this year and, uh, a successful EB-5 program that, through the end of June, has allowed HomeFed to collect $92 million. All of this cash generation allowed HomeFed to pay off, uh, 100 percent of its corporate bonds earlier this year and, uh, to actively consider new compelling opportunities.

In terms of strategic priorities, uh, HomeFed's priority is to continue optimizing all across its properties. Otay Ranch and Ren Plaza are clearly the two most important assets, but the other projects will also drive value creation over time. With HomeFed harvesting after years of effort, it would have more flexibility to seek new opportunities that provide strong risk adjusted returns.

FXCM is next. Uh, FX--FXCM is the leading online provider of foreign exchange trading services to approximately 109,000 retail trading accounts, all of whom are outside of the U.S. Approximately 70 percent of FXCM's volumes are Spot FX and 30 percent is contracts for difference on precious metals, oil commodities, and equity-indices. It recently launched a bitcoin CFD product.

FXCM has a global reach serving customers in 172 countries and in 2o languages. Jeffries got involved with FXCM in January 2016 through a rescue financing that FXCM needed to meet a capital shortfall that resulted from the extremely volatility that followed the Swiss National Bank's decision to de-peg the Swiss Franc.

Our investment was originally structured as a $300 million secured financing. It's been amended since then, uh, but at this point, Jeffries has recovered 100 percent of its initial investment plus $64 million of additional cash. 70 million remains outstanding on our loan as of June 30 and Jeffries is entitled to receive a minimum of 50 percent and up to 75 percent of the economics of FXCM subject to a waterfall.

As you can see from this slide, FXCM's operating performance has not been fantastic, uh, yet it has a good amount of operating cash and a strong regulatory capital cushion. Uh, since making our investment three and half years ago, FXCM, along with all of its competitors, has faced challenging trading conditions due primarily to persistent--persistently low foreign exchange volatility.

The regulatory environment has also been challenging for the entire industry as recently demonstrated by the new ESMA rules, uh, ESMA is in Europe, uh, that significantly limit trading granted to customers. In response to these challenges, FXCM has stream--streamlined operations and is well, uh, positioned to participant in any pickup and volatility.

Going forward, FXCM will continue to focus its--on its cost discipline and invest in enhancing its offerings and has launched or [unintelligible] the pipeline to drive enhanced revenue. On the few days where volatility does, uh, spike, FXCM performs very well so it should be in a great spot when volatility picks up if that ever happens.

Uh, finally, Linkem. Uh, and Linkem, I think is a bit of a reward for you have stayed to the end. Uh, as you probably heard, there was an auction that concluded just this week. Um, I'll get into that in just a moment. Uh, this first slide is one that, uh, repeat visitors should be familiar with. Linkem's a fixed wireless broadband provider in Italy. Uh, Italy is unique in that it has no cable system so the only, uh, cabling that enters most people's home is copper. Uh, for years that meant people can only get broadband at home via DSL.

Uh, Limited decided to exploit that opportunity, uh, some years back, acquired a frequency in the 3.5 GHz band. Uh, it owns 84 MHz of this frequency and the frequency as you, as you'll hear is pretty important, uh, covering 82 percent of the population in at least 42 MHz, uh, over the remaining 18 percent of the population. Uh, most of this, the majority, the large majority is directly by Linkem, uh, the rest is leased from Telecom Italia.

Uh, Linkem then put its antennas up on existing towers and started selling services to customers that lived within roughly a 6 km radius of the tower, umm, and ever since, it's been steadily growing, uh, and investing in its growth. Uh, as of the end of June, Linkem service covered about 66 percent of the Italian households, it had over 540,000 subscribers, and has, uh, a network that generally gives its customers up to 30 megabit per second download speeds.

Speeds could be increased, but that would reduce the number of customers we would have on the network. Uh, customers are generally happy and all of Linkem's operating metrics are strong.

As encouraging as Linkem's operating results have been, there have been two other trends that have been, you know, equally or even more exciting. Uh, first of all, fixed wireless, which was really, you know, a--a niche thing, not very commonplace, has become a--a real thing globally. Uh, and just to explain, fixed wireless is using, you know, wireless airwaves to go point-to-point, so from an antenna to someone's home as opposed to mobile where people are--are moving around. Uh, and--and generally, fixed wireless can support a lot more data consumption for example, uh, a typical, an average Linkem customer consumes 100 gigabits of data, um per month.

Uh, many operators have announced plans to employ or test fixed wireless. Uh, the names on the list are just some--some of them. This is great because it drives innovation among equipment providers, and drives down costs, increases choice, and accelerates product improvements and in fact stuff that's coming in the lab for fixed wireless is really neat.

Uh, secondly, our specific frequency, which is in the 3.5, uh, band has been globally accepted as a key Spectrum band for future 5G services. For years now, there have been no auctions of Spectrum in this band--band, but in the last year there were a few culminating in the, in the one that concluded this past Tuesday in Italy. Um, the, based on the prices from the, uh, auction in Italy, we estimate that the applied value of Linkem's frequency, uh, is 1.5 billion U.S. dollars. That is just for the frequency that we control our right, I'm not including Telecom Italia's, uh, what we what we lease from Telecom Italia. And also not included in that number is any value for the business, it's customers, it's network, or other assets.

Uh, to put this in context, the book value for Linkem today, uh, as of June 30 was $178 million and we own 54 percent or just under 54 percent of Linkem. The auction, uh, exceeded expectations in large part because of increased competition in the Italian market where there are three major operators, Vodafone, Telecom Italia, and Wind, uh, which is owned by Hutchinson, uh, and an aggressive new entrant, uh, that started, uh, earlier this year, Iliad, uh, who's been highly disruptive and rapidly building market share there. Uh, I also want to add that, interestingly, one of the most cited early applications of 5G is providing fixed wireless broadband services, so this is like a convergence of the two forces that are impacting us.

Linkem's focus is to, uh, continue to exploit its leadership position in [unintelligible] wireless into maximize the value of its strategic assets. It continues to be the fastest growing broadband provider in Italy, not just wireless broadband provider. Uh, it deploys a new next-generation, it--it deployed a new next-generation indoor modem with improved performance that will expand our ability to, uh, serve customers through an indoor service that does not require, uh, an installer.

It's taken steps to get closer to our installers who have, uh, become, uh, a key competitive advantage for us and a barrier for entry for other players. Uh, Linkem also launched a B2B offering earlier this year, actually last year, uh, that's targeting higher margin business customers. Uh, last year and signed a wholesale agreement with Telecom Italia where Telecom Italia is white labeling our fixed service to serve its customers. This has been slow to take off from Telecom Italia's perspective, uh, but if it ever did it would become a game changer and of course we're testing 5G services.

Our strategic priorities are continue, are to continue to execute across all of our initiatives. The core retail business is, of course, our top priority , uh, and this is all about growing our customer base and our footprint while maintaining our quality. Uh, 5G, wholesaling, B2B, and smart home, uh, initiatives all hold promise and are being cultivated, uh, and hopefully someday soon we'll be value contributors as well. Thank you.

Brian Friedman: Thanks Jimmy. We're--we're going to turn back two questions again if you're on the, on the, if you're on the webcast, it's irquestions@jeffries.com. Uh, questions of the room, if any?

Unidentified Speaker: Sorry, this is just a clarification question, so on the, sorry, uh, the, um, the Spectrum that you guys are own outright, that's verses, is that the 84?

Richard Handler: Jimmy, come on up and--give him the microphone.

Brian Friedman: If you can give him the microphone there.

Jimmy Hallac: I--It's a little bit more complicated than that. We--we own 84 over all of the north or--or most of the north of Italy. We lease 42 MHz from Telecom Italia in four regions in southern Italy. So it's a combination. And when I say own outright, I should clarify, we, like every other operator, actually lease this from the government, but in our case what we, what I called we own, we lease and we've already secured an extension on that frequency. The four regions where we lease from Telecom Italia, that's murky, murkier as to whether we will be able to extend that lease past its expiration.

Brian Friedman: In--in coming up with the 1.5 billion number, we've sort of population equivalentized (sp) these numbers to try to, you know, to--to get to, you know, at the auction, what's the value.

Unidentified Speaker: Okay, okay. Um, and--and I guess the Spectrum that was--was, uh, that was just auctioned was--was I guess twenty-year licenses and your--.

Jimmy Hallac: --No, the Spectrum that was auctioned until 2037.

Unidentified Speaker: 2037.

Jimmy Hallac: Yes and our extension is going to 2029.

Unidentified Speaker: Okay.

Jimmy Hallac: Uh, and our intention costs, uh, was a small fraction of the ultimate, um, price. I mean, what you, what you find globally is people pay big to get the auction and when they extend, because they always extend, the Spectrum is owned by governments, they are not owned by companies, uh, those are, you know, a smaller price and--and we factor that in as well.

Unidentified Speaker: Into that 1.5 billion?

Jimmy Hallac: Yes. I mean, it's an estimate because we don't know what our extension cost will be in 2029, but we know what it will take to get to 2029 and we've--we--we've put in an allocation for a further extension to--to try to normalize.

Unidentified Speaker: And you don't [unintelligible] but you don't foresee any issue, I mean, you're not going to, we're not going to need to spend 500 million bucks in a couple of years to extend the license or something, or--.

Jimmy Hallac: I--I don't expect so. And the, I mean, the way that I think about it is that if we do, then every operator will need to as well. They--they can't discriminate against one. So if suddenly, um, you know, we're paying the equivalent of, uh, the upfront cost of buying this frequency, then Vodafone will, Telecom Italia will, you know, et cetera, uh, Verizon will, AT&T will, you know, it--it's sort of a precedent that seems to me to be well established, but--.

Unidentified Speaker: And--and you're, and at this point, you guys are not, like, Spectrum constrained, like, how many subs can--can that Spectrum support, I guess, or--?

Jimmy Hallac: Uh, a lot.

Unidentified Speaker: Okay.

Jimmy Hallac: We--we're nowhere near Spectrum [unintelligible].

Unidentified Speaker: Fair enough. And then just my last question was just I'm trying to ascribe a value to the, I guess the 500,000 subs that you have, what is your cost to acquire a sub, what is kind of the lifetime value of the sub? Can you kind of--.

Jimmy Hallac: We-we, I mean, we have all of that. I--I don't know if we, we've never disclosed that and I don't think this is the right form to do that.

Unidentified Speaker: Okay, fair enough.

Brian Friedman: Yes?

Unidentified Speaker: Um, I have a--a narrow question and a broader question. Uh, the narrow question is about HomeFed. I was always wondering whether that was kind of going to be as you sell the land, uh, whether that was going to be a source of cash to dividend up to the parent or whether that was going to, you are going to use HomeFed as a vehicle, uh, to kind of invest in real estate on an ongoing basis and it sounds from today's presentation like it's mainly the latter.

Brian Friedman: Um, well, to put it differently, I think we made the decision five years ago that in all likelihood whatever we do in real estate we'll do through HomeFed. The fact that it has, as you can see, a fair amount of--of near-term liquidated likely means that we have the resources. If the opportunity is there with the returns, we're likely to pursue it. If for whatever reason the opportunities are not there, then the cash will go where the cash should go. To be determined.

Unidentified Speaker: And then, I--I guess more broadly, uh, you know, you simplified the company deal, you know, that--that's been a theme of the day, but in the merchant baking portfolio, you still have a--a pretty broad and diverse basket of assets that's hard to value and--and so on. Uh, and you've turned some of them into cash and some you're deciding to keep for the long run and I guess, you know, what--what is making you go one way or the other? Is there a guiding philosophy behind that? And then, in terms of future investments, you know, is theme or what--what will make you decide to buy something versus not?

Rich Handler: I--I--I think the theme, and is just the theme and there will be exceptions, is we're going to focus on financial services and we've greatly preferred two find opportunities that we can put into Jefferies' LLC as long-term recurring revenue businesses and grow that portion of the, of--of our company. Um, that being said, we are still opportunistic and we're in a very unique seat where we see a lot of flow, and right now in this environment there's not a lot to be done.

Um, we're not going to allow that to [unintelligible] to really be anything more than of a merchant bank as opposed to a large operating business. Uh, I think, you know, everything in the merchant bank, you know, we'll, you know, we'll look at it, um, from a valuation perspective. Uh, if there's, if it, if it's a very aggressive price, you know, we're probably going to consider doing something with it. I think, you know, strategically on the Jeffries LLC, um, we want to build. And that's really the way, you know, if you look, you know, Berkadia is in Jeffries for that exact reason. Asset management is in Jeffries for that exact reason.

Unidentified Speaker: FXCM could have theoretically fit into that as well?

Richard Handler: You know, it--it--it could, theoretically. FXCM is an inflection point and, um, you could tell we're trying to put businesses that, you know, have a clear path right now into Jefferies that have, you know, a more stable, more robust, less volatile footprint. FXCM is an incredible option on volatility and there is, there is a lot of reason why [unintelligible] successful company going forward. Clearly in this environment, uh, is challenged like all its competitors. So just because it's not in Jefferies right now doesn't mean that everything is for sale but, you know, we're trying to really strengthen Jefferies LLC and at this point time we don't see FXCM as--as the right time of the cycle.

Unidentified Speaker: Hey, uh, o to continue in the vein of supplication of the balance sheets, so is there a greater bias today towards, you know, incoming bids aside, but towards looking at the roster of businesses and saying, well, these complexities have been worked out or we see that these are more mature businesses. I mean, even in the absence of having something to readily deploy it into say, well, we see the stock--stock is cheap and maybe we're willing to go and just monetize, um, that asset and put it back into the stock?

Richard Handler: I mean, look, we are looking at our stock right now and maybe we're the only two people on the planet who think this, um, uh, we think there's a major dislocation in our stock. So, um, and but we have plenty of cash right now. So I don't think we would sell anything just to buy our stock. I think we're in the luxury position to be able to sell things when there is a, you know, what we consider a remarkably good bid for that asset.

So I think we're going to use our cash, were going to be mindful of the agencies, we're not going to, we're going to make sure we have enough capital so that when there is a dislocation we could be aggressive, uh, and smart and there's--there's no exact math to it, but right now my guess is I'd say we have too much cash and not enough stock, um, and that's probably what we're going to move towards.

Unidentified Speaker: Okay, and just a follow-up to clarify in the cadence of repurchase, so should we think of that as really [unintelligible] monetization's or, you know, in the absence of further monetization's you're still very committed to it and there's--.

Richard Handler: --I--I don't think we have to sell anything to keep buying stock. We have plenty of cash and we're going to generate plenty of cash and our businesses, as you heard today for the most part across-the-board are generating more cash. So, um, the monetization's will just [unintelligible] really very attractive to us, which is a great position to be in when you don't have to sell something. The fact that we were able to sell all these assets, not have our stock move and buy the stock, you know, and buy in as many shares as we had, that--that's a pretty good opportunity for us.

Unidentified Speaker: Thank you.

Brian Friedman: Yeah, and keep in mind we still have 1.2 billion of NOL. So our pre-tax income is more or less, you know, our cash flow.

Unidentified Speaker: I had, uh, just two quick questions, one on, um, just, you did a great job simplifying, uh, the HRG assets and, uh, the insurance piece was sold into your Spectrum Brands and so I guess, it, I mean, first question is just how do you sort of think about that asset now? Uh, is that something, you know, um, some challenges, some great brands, uh, that--that they have, but is that something that sort of a long-term fed and hypothetically, if you wanted to spin off that asset, what--what would sort of be involved or what would, how would that look?

Brian Friedman: Look, I--I--I think, you know, it was a plan that effectively, everything that we could control was executed pretty darn well. Um, we saw a cheap stock, we saw a complicated story, we saw, uh, an entry point that we thought, you know, was attractive and required a lot of work to clean up and--and divest and governance and all the things we had to do were done. And then, as soon as it was done in the goal line, the company stumbled, which never is a fun thing and we're not happy about it, but it does happen.

Um, we are, you know, we believe that the brand and the asset and the company especially [unintelligible] investiture's is a pretty attractive company. Um, you know, we have some of the divestitures occur, uh, they're pending, one in particular, I think there's some overhangs still, but with believe it still is going to happen with the, with the, you know, regulatory approval and there's some cleanup involved in terms of turning around some of the businesses.

Uh, we think it's not pretty attractive right now so we're not looking to sell our stock. We have the flexibility down the road to spend shares off and things like that. There are things that we've done both at Jeffries and Leucadia historically, um, but right now will really focused on working with the management team to effectively, um, fix some of their operational problems, which we think are fixable, [unintelligible] deserves to be, then we'll decide we want to do with it.

Unidentified Speaker: Great, and just one other one, uh, just in the spirit of sort of the merchant banking assets, could you just sort of talk about your, the Vitesse asset and I was just sort of curious the assumptions that you had when you acquired it originally. You know, we were in a sort of different economy environment then [unintelligible] other and just I guess my question is, um, I mean, I can see the sort of IRR appeal, but as you look back, was this really something that--that you think was deeply and sort of I guess the circle of competence of, uh, of Jeffries as a whole and just sort of how you think about that and, you know, any other, you know, appetite for something like this going forward?

Brian Freidman: When--when you go back to the beginning, and I'm looking at George to--to nod his head, I think the original plan, which was in a time when oil was in the 90 to 100 range, um, everything was evaluated based on about a $70 long-term price. Um, and we ended up with, you know, a $50 intermediate period price.

Richard Handler: Two weeks later.

Brian Friedman: Um, the acquisition we just made, um, was done on, you know, it's actually an interesting story, it was a circumstance where a private equity firm, uh, got into oil and gas. It was from what I know [unintelligible] group. It was their only oil and gas investment. We were in discussion with them for 18 months. Um, as I describe it we ended up paying last year's price this year, um, so I think the answer is it's--it's definitely within our world of competence if you look at our overall Jefferies activity, we're, you know, 5 to 10 percent oil [unintelligible] we have a lot of experience in it.

Um, you know, we got the cycle probably only little wrong with hindsight for a few minutes. It was, like, a lot wrong. Um, and now with the acquisition, we--we rebased it really well. Um, if you look at the value that we have on [unintelligible] move forward, you know, it's going to work out very well for us.

Richard Handler: I--I would just add on the competence side, we probably have one of the strongest EMP banking franchises on the street. We have a robust, um, uh, database, I mean, you know, Brian and his past life and private equity has made [unintelligible] investments. This is kind of in our comfort zone. We actually, you know, this is why you always want to have, um, permanent capital because we bought a good company with a good management team and the commodity changed dramatically and we were allowed to go through the cycle, manage our way through it and not [unintelligible] come out the other side when the commodity price comes back and then actually make a smart acquisition. So I--I think it actually is in our confidence zone, um, and I think we'll wind up making a fair amount of money on it.

Unidentified Speaker: Thank you.

Unidentified Speaker: Hey, just coming back to Linkem for a second, I think it's an interesting case study and it is wanted to walk you through some of the [unintelligible] I've gotten with the merchant bank. So if--if, because you are attracting a lot more financial services investors who--who don't know what to do with the merchant bank, and when we look at Linkem, you see an asset that right now is--is, one could make the case, is a detriment to your share price because it operates at GAAP pre-tax loss, okay?

You showed that spectrum alone values at 750 million, uh, to--to Jeffries. Let's just use round numbers and assume that the--the whole Linkem complex is worth, call it, you know, 650 million after-tax gain. When you look at something like this where it's reporting pre-tax loss and you're not getting credit in the market for your share price, why not, now that the--the--the auction is finished and there is a, "Loser," uh, of the three bidders, if you could sell the asset, add a couple of dollars gained to your tangible book and then either have that at, the funds available to [unintelligible] isn't that the purpose of the merchant bank?

Richard Handler: I think if you look at what we've done the past five years, It's exactly that. And there wasn't a lot of valuation on beef, okay? There wasn't a lot of valuation on Conwood (sp), there wasn't a lot of valuation really on KCG, there wasn't a lot of valuation on insurance company, Fidelity Guarantee and Life. Um, we're not wedded to these companies. Um, we are trying to do what's smart and prudent in the merchant bank to realize value, um, you know, I'm not saying were going to put Linkem up for sale, but I think it's, you--you know, look at our past actions in terms of--of what we've done to the assets and our timing and how we've dealt with it, um, and I think that is a good guide for what we'll do going forward.

Brian Friedman: Yeah, I would also say, I mean, today's the first day of the new era in terms of over these next couple of quarters you're going to see Jefferies Groups, you know, net income, bar, whatever metric you want to use, clearer than ever and there's more equity there than ever, so we're talking about a larger part of our value is there. Then you're going to see the NAV and the NAV progression. I don't want to put a timeframe on it, but if you think out, you know, I personally would like to see [unintelligible] more importantly the May 2019 numbers. In other words, if--if what we expect to happen, which is we're going to have clear running room for the first time in the first half of next year, when we see the first six months of next year return on equity at Jefferies Group, and we see the progression in the NAV through to, you know, May of next year, so this is what I'm talking about, you know, you'll see at the end of June, I think somewhere between now and then is when we'll be able to judge whether in fact the merchant bank is--is a detriment or--or an asset. I mean, I ultimately believe it's an asset whether it has to be proven out in another way [unintelligible] full disclosure. We'll see.

Unidentified Speaker: That's great. But I guess, just to clarify, um, what I was trying to get out and I think you've answered it, but it is that National Beef's, uh, rationalization, um, was not an anomaly. It's--it's how the merchant bank is supposed to exist. You deploy capital, the employee increases, you bring it back and you bring something for shareholders. That's the purpose [unintelligible]. Then the second question, one of my colleagues was asking about the asset manager and--.

Richard Handler: --Just remember how many boxes, if you were at our presentation a couple of years ago, there were a lot of boxes, okay? There aren't that many boxes.

Unidentified Speaker: Yeah, it's--it took a few days to figure out based on the '17, so much easier. The second question was just on the asset manager. So from my humble perspective, if you [unintelligible] the release of putting Berkadia and the asset manager into Jefferies, uh LLC, uh, in theory, it should increase your ROE because you're putting into low capital-intensive businesses. You know, we can all figured out that Berkadia earns a very high ROE, but we're not really sure what to do with the asset manager and you can you gave a little bit of detail, but if we think about that, um, that 500 million equity, or I think it was even a billion that's in there, is there some sort of either is there a return type hurdle that would, that would put it above what Jeffries Investment Bank is earning or can you give a little bit more detail about achieving economic [unintelligible] try to understand that that's going to benefit ROE?

Richard Handler: I think for the start, because we had a choppy period, which we think is behind us and the asset management, assume it's a zero, okay? Just assume there is no return asset management and then go look at the entire return on our cap, it's still pretty good. You know, that being said, um, we didn't put money into these asset managers to earn zero and I don't think [unintelligible] on the GP, I think that's the gravy, but our belief is that the ROE on the asset management side combined with the GP will be in excess of the ROE at Jeffries. That's why we're doing it.

It hasn't been there historically but we had a lot of pain historically and we think that the pain is behind us. I can't give you the [unintelligible] these managers will be, but it's very diversified, it should be less volatile, and it should be scalable. And as we scale it, it, you know, the ROE should be even more meaningful. You want anything?

Brian Friedman: No, I mean, we--we would not put it in if we thought it was meaningfully dilutive. I wouldn't assume it's meaningfully accretive. [Unintelligible] in 2019 will--will--will be plus or minus whatever the return on the whole unit is.

Unidentified Speaker: And--and just to clarify that, the investment dollars that are generating the return are actually, you're--you're betting on the investment managers themselves, so you're, the managers [unintelligible]--.

Brian Friedman: --Yes--.

Richard Handler: --We are in the strategies [unintelligible]--.

Brian Friedman: Yes but the--the big breakthrough this last moment, which actually, it sort of goes live November 1, is the, is the breadth of the diversification. In other words, when you combine Schonfeld and--and Folger Asia, your--your--your capital is spread, you know, top of my head, 25 to 30 PMs, twice is a large number of PMs.

[Unintelligible] strategies is a wide range of strategies. So very top order versus where we were even a year ago in this mix. It's a vastly better business and a vastly less risky likely to be more consistent business, which is why we have a little more confidence going into next year.

Unidentified Speaker: Great, thanks for taking my questions.

Richard Handler: Yes?

Unidentified Speaker: I have a one regarding HomeFed, so maybe for, uh, for Jimmy. Uh, Joe Steinberg recently mentioned that the village of Escaya is the first time HomeFed is creating JVs with builders instead of selling the lots outright, so I just would be curious if you could provide some color the logic, the logic there and why that's better for HomeFed. Thank you.

Jimmy Hallac: I mean, we--we could have sold lots out, uh, outright and in this particular instance we decided that having some skin in the game in a, in a market that we knew very well, I mean, HomeFed's based in Carlsbad, San Diego County, um, that it was a good bet. Uh, what we do next time, because there is a next village and a village after that, in a village after that, we'll see and we'll judge based on you know, conditions at that time.

Unidentified Speaker: Thank you. And if I could do just one quick on--on National Beef, could you just frame kind of a long term [unintelligible] opportunity for the company? I think it's around 12 percent of revenue right now and the company has said its, uh, it's higher margin, so you know, longer-term, how big the export business beef for National Beef.

Brian Friedman: Sure, the, uh, if you look at the markets that are served today, it's predominantly in places like Japan and Korea where we are the leading exporter. Uh, those markets are growing their demand so were seeing growth in those markets. We have yet to tap China, um, obviously there's lots of trade issues around that. There are other markets where, as, you know, the general population moves towards the middle class and higher protein consumption, beef is sort of the--the ultimate high-end of protein and, you know, we see significant growth opportunity and--and demand coming from, you know, these existing and new markets. So you know, National Beef is unique and it's focused on--on export. I mean, I think others do it, obviously, but you know, it's how we generate the excess margin in our business and clearly [unintelligible] markets where we can see we capture share.

Richard Handler: Any other questions?

Unidentified Speaker: On Vitesse, uh, in last year's presentation there was a slide, uh, a line that referred to two billion of future--future cash flow, net of CapEx, um, [unintelligible] could you comment on that, what that would look like, and, uh, who that flows through to?

Brian Friedman: Uh, I think it hasn't changed, but George?

George Hutchinson: Uh, in terms of future CapEx?

Unidentified Speaker: [Unintelligible.]

George Hutchinson: Yeah, yeah, that number actually has, I won't tell you [unintelligible] larger because we've essentially doubled the size of the business. So that too is--is significantly larger.

Richard Handler: Should've put it on the slide.

Unidentified Speaker: Uh, yes, regarding HomeFed, um, [unintelligible] for buying in stock a Jeffries given the evaluation, looking at your sort of control position with HomeFed and what appears to be a low public market valuation of the company and the fact that HomeFed has lots of cash and you no longer have restrictive covenants because you've paid off the debt, um, is there any concern [unintelligible] buying in HomeFed stock at the HomeFed level?

Richard Handler: It--It's a very concentrated holders list, uh, of people to see what we see.

Briand Friedman: Are--are there questions from the webcast?

Unidentified Speaker: Yes. What is going on right now with Foursight? Uh, could you give us some insight on what's going on there?

Brian Friedman: Uh, in the case of Foursight, um, the business is operating okay. Uh, it's not yet up to the kind of return we'd like to see. Um, there is no particular challenges, but at the same time, uh, it's--it's a market share game and we are clawing for market share by adding [unintelligible]. It's a fairly competitive market, particularly since we sold off Berkadia, uh, we've been, uh, you know, less inclined to--to particularly look at acquisitions in the space because, uh, the valuations are still above where we think, you know, we'd be comfortable. Uh, you know, nothing's really changed would be the bottom line.

Unidentified Speaker: [Unintelligible] what is the corporate overhead just at the holding company?

Teri: Uh, it's about 90 million for the year or so about 22 million or so a quarter.

Unidentified Speaker: Thanks, that's all I have.

Richard Handler: Okay, will we greatly appreciate everybody coming, um, and your support and we're always available to answer any questions. [Unintelligible] eat it here or you can take it with you. Thank you