Jefferies Insights

APRIL 2014

To Our Clients

From the 2013 Annual Report of Leucadia National Corporation:

One year ago, Leucadia and Jefferies combined to form a unique and powerful merchant and investment banking platform, a combination almost as old as commerce itself. Leucadia is distinguished by our ability to take a truly long-term view in a world often characterized by impatience and increasingly shorter investment horizons. A philosophy of patient and prudent risk-taking is one shared by the founders of Leucadia, as well as the two of us. With hard work and good luck, we intend to capitalize on our ample permanent capital and ability to invest for the long-term.

Transaction Complete

Since closing the Leucadia and Jefferies combination on March 1, 2013, Leucadia's historic New York City and Salt Lake City deal and operations teams have been combined with our Jefferies Capital Partners' private equity investment team to form a single group working with the two of us in the joint New York City headquarters of Leucadia and Jefferies to source, review and structure new investments and acquisitions. We and the combined team are also working with our existing subsidiaries and investee companies on strategic development and operational improvement. We are pleased that Justin Wheeler and Joe Orlando continue in their respective roles as Leucadia's COO and CFO, and are joined by Mike Sharp, our general counsel at Jefferies and now of both companies.

During the year, working with our Chairman, Joe Steinberg, we also consolidated and added to our Boards of Directors at Leucadia and Jefferies. We believe the recipe for consistent long-term value creation includes surrounding ourselves with highly experienced, able and committed directors, and working with them in an active and transparent manner, taking advantage of their knowledge, experience and relationships.

As we believe long-term interest rates have only one direction to go (up!), during 2013 we devoted ourselves to raising additional long-term capital across our businesses. With improved bond ratings at Leucadia, we raised $1 billion of ten and thirty year debt, which, in essence, pre-funded our near-term maturities. We also raised $1 billion in long-term debt at Jefferies, $600 million at Jefferies Finance and $300 million at Jefferies LoanCore. Separately, National Beef's credit facility was increased in size and extended in maturity. Leucadia is now investment-grade rated by two of the three rating agencies. We have committed to specific diversification and liquidity metrics that should allow us to continue our upward ratings momentum, and should not hamper our ability to deliver solid long-term results for our shareholders.

IN THIS ISSUE

For the months leading up to the Leucadia and Jefferies combination and throughout this past year, a number of Leucadia's subsidiaries and investments were sold where expectations for future value creation did not meet our return expectations. To this end, since mid-2012, Leucadia sold its interests in Mueller Industries, Inmet Mining (stock merger), Keen Energy and TeleBarbados, liquidated our remaining stock and royalty note in Fortescue Metals, agreed to sell Premier Entertainment, and agreed to swap certain of Leucadia's real estate assets and cash to increase our ownership in HomeFed to 65%. These transactions generated well over $2 billion in cash and marketable securities. Regrettably, we shut down Sangart, which, despite a substantial investment over many years, failed to find a commercial partner. We have no current plans to sell any other of our existing businesses. We look forward to doing everything we can to assist them in compounding their successes in the years to come.

Leucadia currently holds around $3.1 billion in available liquidity at the parent company. With the anticipated monetization of Leucadia's NOL's through the pre-tax earnings of our existing businesses (which should offset approximately $1.1 billion in cash taxes), we will have substantial cash to invest in new opportunities over the next several years. While the strong capital markets and M&A environment make our task more difficult, we are pleased by the significant number of interesting opportunities that consistently find their way to us. That said, there are many stars that must align before we deploy capital, and we are keen to remain selective and opportunistic, and to stick to what we know.

Our Value Focus

Our vision of the combined company has Jefferies not only as our largest business unit, but also as the primary engine of Leucadia's future. Our teams at Leucadia, Jefferies, and all our subsidiaries and affiliates have distinct and specific expertise in certain industries and businesses, true relationships, access to broad and unique deal flow, a global presence, and the ability to move quickly and decisively. As a first example, we recently had the opportunity to acquire a 13% stake in Harbinger Group for $158 million (18.6 million shares at $8.50). This transaction was led by Andrew Whittaker, a Vice Chairman of Jefferies who recently also was named a Vice Chairman of Leucadia, and is a classic example of how a unique relationship and extensive existing knowledge can lead to an appealing entry point in a public holding company at a price we find attractive.

Jefferies has a prominent and longstanding presence in investment banking and capital markets in the energy sector, and Jefferies Capital Partners has been investing in the U.S. oil and gas industry for over ten years. As a result of these relationships and with the oversight of George Hutchinson, who transitioned from Jefferies Capital Partners and heads our oil and gas investment effort, in the last few months we formed partnerships with two management teams to pursue opportunities in the U.S. oil and gas exploration and production business. As a first step, through Juneau Energy, which is led by one of these management teams, we recently funded an Oklahoma City-based operator to drill horizontal wells and acquire additional acreage in the core of a productive formation in northern Oklahoma.

We also continue to pursue two longstanding Leucadia projects, the gasification plants and the Oregon LNG export facility. In the last year, we made significant progress on all fronts, and the timeline and decision in respect of moving ahead should be determined in 2014. Having devoted over ten years to shepherding the development of Leucadia Energy, Tom Mara, 37 years with Leucadia, is leading our team to finalize all elements, including a fixed price construction contract, to build a gasification plant in Lake Charles, Louisiana. If completed, the plant will convert petroleum coke into clean energy products, primarily consisting of methanol and hydrogen, for sale to industrial customers under long-term contracts. Justin Wheeler continues to oversee our team pursuing the necessary state and federal permits to build an LNG export facility and pipeline in Warrenton, Oregon. We have submitted almost all of the necessary applications to the State of Oregon and have completed our application to the Federal Energy Regulatory Commission. Both these projects hold great promise for Leucadia and the world, but we caution that numerous obstacles must be overcome for either or both to be brought to fruition and a profitable result for Leucadia.

In 2013, we organized a new subsidiary, Leucadia Asset Management LLC (LAM), with a view to bringing together under one umbrella Jefferies' strategic, convertible and event-driven investment management efforts, as well as Topwater Capital, which we acquired in 2013. Topwater pioneered the first-loss model of investing, which we feel offers a unique risk-reward trade-off for investors and a prudent way for hedge fund managers to increase their assets under management on attractive terms. We believe we are very early in the development of LAM, which over time will afford us a broad exposure in investment management. We intend to actively build LAM, and will hire key personnel and devote significant capital as opportunities develop.

Our Business

JEFFERIES

Jefferies' 2013 fiscal year results (November 30 year-end) were below those of 2012, primarily due to the difficult mid-year fixed income environment. With a strong finish to the year, including record results for its fourth quarter, we believe Jefferies is well-positioned for greater success in 2014. The investment banking industry has experienced massive consolidation over the past forty years, and Jefferies consistently has advanced its market position to the point where it is now the major non-bank investment banking firm. We believe this distinction will afford Jefferies significant growth opportunities, and will present Leucadia with adjacent opportunities in finance and asset management. The two of us continue to provide Jefferies hands-on leadership in partnership with the other twelve members of Jefferies' executive committee, and continue to develop and expand Jefferies' senior team to guide its growing business.

Jefferies has two joint ventures, Jefferies Finance (corporate loans) and Jefferies LoanCore (commercial real estate mortgage loans), and Leucadia has one joint venture, Berkadia (multi-family real estate mortgage finance). In 2013, these three companies originated over $33 billion in new corporate and real estate loans. Regulation designed to promote safety in the financial system has increasingly leveled the playing field in favor of Jefferies and these other capital markets focused platforms. In the meantime, our primary competitors, the bank holding companies, are burdened by the implementation of Dodd Frank, the Volcker Rule and Basel III, reform of the government-sponsored enterprises in the housing sector, and other new requirements and directives. It is up to us to execute!

BERKADIA COMMERCIAL MORTGAGE

2013 was a banner year for our 50/50 joint venture with Berkshire Hathaway. Berkadia originated over $10 billion in new financing for its customers, more than double the volume in 2010, our first full year of ownership. Management's efforts to become the lowest cost servicing provider paid dividends as Berkadia entered into several valuable sub-servicing agreements. The integration of the Hendricks-Berkadia investment sales team increased the solutions we can offer to Berkadia's customers and is a key to future growth. During 2013, Berkadia's cumulative distributions to Leucadia exceeded 100% of the capital originally invested in 2009. We are grateful to Hugh Frater, Randy Jenson, Don Hendricks and the entire Berkadia team.

NATIONAL BEEF PACKING

National Beef, the fourth largest beef processor in the U.S., is recovering from what we hope is the bottom of the U.S. cattle cycle, the turnaround of which has been delayed due to the prolonged drought in various cattle producing regions. Though the U.S. cattle herd is at an all-time low, the U.S. remains the world's leader in beef production and a net exporter, recognized as delivering the highest quality beef. Tim Klein and his team are known globally for their exceptional talent and focus, and we are pleased to be partnered with them in pursuing further development of this business.

While National Beef's sales and market share held up well in 2013, the impact of the smaller cattle herd led to a difficult margin environment and reduced net income. National Beef recently announced the closure of its Brawley facility, which resulted in a non-cash write-off of $63.3 million in 2013, but will save substantial cash in future years by eliminating losses and avoiding capital expenditures.

National Beef's management team has continued to make progress on key strategic initiatives, including increased quality and quantity of production at its state-of-the-art wet blue tannery, the acquisition of the remainder of Kansas City Steaks and the on-going development and penetration of consumer ready product lines. Lastly, there is some cause for optimism that China may soon reopen to imports of U.S. beef, which could have a meaningful impact on National Beef's prospects.

GARCADIA HOLDINGS

Garcadia, our auto dealership joint venture, continued to grow in 2013 both organically and through acquisitions. Garcadia grew same store new unit sales by 13.6%, significantly surpassing national industry growth of 7.5%. During the year, we acquired three new dealerships, bringing the total to 21. Management remains on the lookout for acquisition opportunities and continues to focus on improving operations in the current portfolio. We appreciate and value our partnership with John Garff, Brett Hopkins and the entire Garcadia team.

LINKEM

Linkem, based in Rome, Italy, is a fast growing, fixed wireless broadband provider. Its key asset is a significant block of 3.5GHz wireless spectrum covering all of Italy, a country with few cable TV systems, sub-standard DSL service and limited fiber availability. Linkem is rolling out a residential broadband service with a compelling combination of speed and price. Since becoming a shareholder in 2011, Leucadia has funded most of Linkem's growth and become its largest shareholder, with Jimmy Hallac of Leucadia providing active oversight and guidance.

After tripling its subscriber base in 2012, Linkem slowed growth in 2013 in anticipation of the impending commercial availability of 3.5GHz LTE technology in 2014. Despite increasing prices and a subdued marketing effort, Linkem increased its subscriber base by 64% to 164,000 and maintained high levels of customer satisfaction and operational excellence. 2014 will be an exciting year and we wish buona fortuna to Davide Rota, Linkem's CEO, and the entire team in Rome.

CONWED PLASTICS

Conwed had double digit growth in both its top and bottom lines in 2013 resulting from the full year impact of the mid-2012 acquisition of Tensar's lightweight netting business, continued organic growth and maintenance of market share. This improvement was accomplished despite a strong headwind of declining variable margins, as resin costs rose 14% over 2012.

We expect topline growth in 2014, driven by robust product development efforts and potential acquisitions in the pipeline. However, raw material costs are expected to continue their upward trend, negatively impacting margins. Chris Hatzenbuhler, CEO, and Conwed's entire management is energized and passionate about the future, and we are too.

IDAHO TIMBER

For the past several years, management at Idaho Timber was weathering the recession storm and restructuring to take advantage of any improvement in the housing industry. In 2013, the housing industry saw signs of life and Idaho Timber delivered its best performance since 2007. We recognize that this is not by chance, but due to the tireless efforts of our CEO, Ted Ellis, and his team.

After years of searching high and low, in March 2013, Idaho Timber purchased an idled primary mill in Coushatta, Louisiana, capable of producing both dimensional lumber and radius edge decking. In the meantime, we continue the search for new business opportunities and additional acquisitions in this out-of-favor industry.

HOMEFED

Leucadia has enjoyed a long association with and 31% ownership interest in HomeFed (indeed, Joe, our Chairman, is also HomeFed's Chairman). We just agreed to increase Leucadia's ownership in HomeFed by exchanging the bulk of our current portfolio of direct real estate assets and some cash for HomeFed stock. As a result, our ownership of HomeFed will increase from 31% to 65%.

HomeFed develops properties for residential and mixed-use applications and has had wonderful success through the years in California and Virginia. We are confident that will translate well to New York, Florida, Maine and South Carolina under the stewardship of Paul Borden and his team.

FAREWELL TO PREMIER

After seven years of letting it ride, Leucadia is cashing in its chips! Leucadia made its original investment in Premier Entertainment Biloxi, the owner of the Hard Rock Hotel & Casino in Biloxi, Mississippi, in 2006. Having been heavily damaged by Katrina, the property was in bankruptcy and in dire need of repair. The years spent remaking the facilities and building the business will culminate in the sale to Twin River Worldwide Holdings for $250 million in the second quarter of 2014 or thereabouts, pending Mississippi Gaming Commission approval. A big "thank you" to our world-class management team, diligent employees and ever-growing number of loyal customers for making Hard Rock Biloxi the premier property on the Gulf Coast.

Looking Forward

As you may conclude from all of the above, we have a lot of work ahead of us. It is no small challenge to invest our available capital in the right new opportunities. We have a great team with a long history of smart investing. In addition, we intend to devote considerable focus and effort on our subsidiaries and affiliates where we believe there is much potential for further growth.

Although we intend to follow Leucadia's historic practice of letting our actions and results be our primary voice, we also will conduct several annual events to allow shareholders, bondholders and other relevant constituencies to gain further understanding of Leucadia and Jefferies. We also stand ready to meet with all constituencies as appropriate.

We congratulate and thank Ian and Joe for building Leucadia, establishing a true long-term perspective among our shareholders and investing in Jefferies. Most of all, we thank them for believing in the two of us and managing a straightforward transition with their typical grace.

Finally, we thank all of you — our clients and customers, our employees, our shareholders, our bondholders and all others associated with Leucadia, Jefferies and all our businesses — for your continued support.

Sincerely,

RICHARD B. HANDLER	BRIAN P. FRIEDMAN
Chief Executive Officer	President

Economics and Strategy

The Yellen Put

So far, during Q1 2014, many new risks and uncertainties have emerged. In particular we now have to contend with the Russia/Ukraine crisis, the widening of the Chinese currency band, and the communications mishaps from our new Fed Chairman. In addition, the weather has made reading the U.S. economic tea leaves much more complicated than usual. But even with all this added uncertainty, the risk asset markets have held up remarkably well. The S&P is up about 1% for the year, and the NASDAQ is up over 3% for the year. Our longstanding positive views on the performance of risk assets are doing just fine.

Looking ahead, there is no reason to assume that developed market risk assets will have a stumble. We have thrown a lot of complications into this recovery process over the years (including this last quarter), and the medicine of central bank stimulus has been there to backstop markets from any major dislocations. If more is needed, the developed market central banks will surely step up again. And to be sure, in Europe and Japan, there may be need for more. However, in the U.S. we are most likely moving to the next phase of the recovery. In 2014, we will be transitioning from Fed-assisted growth to organic non-QE generated growth. Of course as the stimulus is reduced, the markets will occasionally become nervous, but that should not cause too much concern on the risk asset side. It will be the highly overvalued rates sector that bears the brunt of the pain.

And if the FOMC fails to taper at the correct pace, or it firms up financial conditions too quickly, they will very quickly make an about-face. The markets will not be shy about screaming uncle! Of course there is always some room for policy error as we come towards the end of the greatest monetary policy experiment in history, but we should all remain confident that the core of the FOMC is still firmly on the dovish side of the equation. And even if that may have not been communicated well by Janet Yellen in her first press conference, there is no doubt in my mind that looking into 2014 and beyond, we are all long a Yellen put.

—David Zervos, Chief Market Strategist

Global Equities to Rebound

Global equities struggled through the first quarter as increased geopolitical risks, ongoing concerns in emerging market money markets and a harsh winter in the U.S. Northeast undermined sentiment. However, after a brief dip in January, equity fund inflows resumed with Developed Europe once again a clear favorite. Aside from the U.S., economic data points were mixed, but New Zealand became the first developed economy central bank to hike rates post the global financial crisis.

Japan's equity market suffered from a reversal in the carry trade and a lack of fresh catalysts. That said, we expect the Japanese market to be surprised by corporate tax cuts in the run up to the Consumption Tax hike and by a decision to restart Japan's nuclear reactors. U.S. markets were not helped by the 'polar vortex' but investors still appear to be keen to add to positions as evidence builds of a turnaround in wages. European markets were encouraged by the reform mandate of the new Italian prime minister but disappointed by the ECB's decision to defer rate cuts. Emerging markets continued to flounder as the Chinese currency reversed its appreciation trend while the bond markets experienced the first ever default of a Chinese entity.

Although a careful eye needs to be kept on valuations, equities ought to do well given relaxed monetary policy conditions and improving global growth.

—Sean Darby, Global Head of Equity Strategy

U.S. Labor Market Set to Reach Expansion Phase of Cycle, Important Landmark in Normalization Process

The private sector labor market in the U.S. is poised to finally enter the expansion phase of the cycle over the next few months. This will set the stage for faster wage and income growth, as well as an acceleration of consumer spending that will sustain U.S. economic growth of 3% or more as the year progresses.

Until this point of the current business cycle, the U.S. labor market has been in a prolonged recovery. That is, all of the job growth since the labor market recovery began in Q1 of 2010 has replaced headcount that was lost during the recession. Specifically, the U.S. labor market lost 8.79 million private sector jobs during the recession as total private payrolls declined from a peak of 115.977 million in January 2008 to as little as 107.187 million in February 2010. Since the labor market turnaround, the private sector labor market has generated average private payroll increases of 180,000 per month and replaced more than 8.64 million of the jobs that were lost during the recession.

Once all of the lost headcount has been replaced, the U.S. private sector labor market will enter the expansion phase of the labor market cycle and begin to generate net job growth for the first time since January 2008. Most importantly, the labor market will absorb surplus labor at a faster pace and set the stage for faster wage growth in the process. The extreme surplus of labor due to the prior recession has delayed a cyclical upturn in wage growth.

The limited wage growth, in turn, has caused U.S. income growth to be very moderate as well. However, there was some evidence in the February employment data that wages may have finally reached a turning point and are beginning to trend higher for the first time since the end of the recession. The onset of rising wages is a major milestone on the road to a return to a “normal” economy because it sets the stage for faster income growth and consumer spending.

As U.S. wages trend higher, household income will also trend higher and provide consumers with the wherewithal to spend more freely in the process. To-date in the current business cycle, U.S. consumer spending has grown at an average rate of 2.2% per quarter and accounted for 1.5 percentage points of the 2.4% quarterly average U.S. GDP growth. Such growth accelerated to 3.25% in the second half of 2013 before the extraordinary winter weather temporarily caused a deceleration in economic activity. However, consumer spending growth will accelerate over the course of 2014 and help the U.S. economy sustain growth of 3% or more.

The sustained improvement in U.S. labor market conditions and overall economic activity has prompted the Federal Reserve to initiate the process of gradually normalizing monetary policy. The Federal Open Market Committee has been reducing the size of the ongoing QE by setting a path of “tapering” the size of the monthly QE purchases by $10 billion per FOMC meeting. At this pace, U.S. monetary policy will return to holding a steady size of the balance sheet, or balance sheet neutrality, before the end of this year. By that time, however, the total size of the QE will exceed $1.6 trillion and the total size of the Fed’s balance sheet will exceed $4.5 trillion. As a result, there will still be enormous amounts of liquidity in the financial system.

An increase in rates by the Fed is likely to be well off in the future, probably the second half of 2015. The decision to raise rates will be based on the collective FOMC assessment of the economy and inflation, but the health of the financial markets will also play an important role in the decision. At the current juncture, the Jefferies Taylor Rule model projects that the Fed will begin to increase the federal funds rate early in Q3 of 2015. By that time, Jefferies projects that the U.S. unemployment rate will be near 5 ½% with inflation above the Fed’s longer-term target of 2%. It has been a long haul, but the economy continues to move back toward a strong labor market and prosperity.

—Ward McCarthy, Chief Financial Economist

A Low Inflation World: Euro Area Skirting Deflation and Sub-1% UK Inflation?

One of our major themes has been that the euro area would find itself with an inflation rate stuck below 1% for an extended period of time. Base effects may add additional volatility to the inflation profile in coming months, but the risk now has to be that inflation prints below 0.5% before year-end. Moreover, the region can be seen as being one significant shock away from outright deflation, a view of the world that is gaining traction, leading to calls that the ECB needs to do more, including outright QE (something that we always thought could prove to be the end game for the ECB in this cycle).

However, it also has to be recognized that as far as the ECB is concerned, it really is living in a world of small numbers, where what may appear as minor differences to inflation and the growth rate of GDP could make a big difference to policy. At present, surveys point to Q1 being the fourth consecutive quarter of recovery, giving the ECB more confidence that it can live with the current bout of low inflation. If, however, recovery stalled or inflation printed below 0.5%, the ECB would be under much more pressure to act. Moreover, the ECB is probably hoping to see a decisive turn in the currency later this year, as U.S. Fed tapering comes to an end and the market starts pricing in a greater risk of U.S. rate rises.

Arguably, UK inflation (down to only 1.7% in February) is now set to surprise. Given the history of UK inflation being above target for so long and recovery continuing apace, it is almost as if everyone is conditioned to expect inflation to head higher again, particularly with all the debate about the timing of when the Bank of England will first raise rates. However, from where we stand now in our view, the balance of risks is that UK inflation prints lower, fitting the pattern of UK inflation to fall in the first two years of recovery.

Our Deflation Monitor continues to flag growing evidence of disinflation in the euro area, but also the UK. In both regions the proportion of CPI baskets showing very low rates of inflation continues to grow. Based on macro fundamentals the ECB needs to ease policy further and will not be in a position to raise rates for a very long time.

Additionally, we still do not think there is enough focus on the potential implications of a Yes vote in the coming Scottish referendum concerning independence. Current opinion polls continue to show support for Scottish separation building. FULL REPORT

—David Owen, Chief European Financial Economist

—Marchel Alexandrovich, European Financial Economist

Best Research Ideas

AMERICAS

Pfizer: Oncology AND Restructuring Under One Roof – Upgrade to Buy

Oncology and restructuring are key themes for the Pharma sector. Pfizer has both with palbociclib (breast cancer) looking like it could launch before year-end, while management looks to give increased visibility on a new organizational structure. Jefferies is positive on shares and expects the market will soon reflect incremental value in the stock price from these drivers. FULL REPORT

—Jeff Holford, Senior Equity Research Analyst, Global Pharmaceuticals

Mobile Point-of-Sale Deep Dive: PAY Safer than Thought, Still Some Risk for MCRS

Jefferies' exhaustive research into the mobile point of sale (mPOS) market yielded three key conclusions: 1) new mPOS market entrants have gained very limited penetration to-date in the retail vertical and for the foreseeable future pose little threat to incumbents such as VeriFone Systems, Inc. (PAY, Buy); 2) our in-store checks show larger U.S. retailers reported use of mPOS is overhyped; 3) mPOS is likely additive to PAY's addressable market, but could threaten the hardware business of MICROS Systems, Inc. (MCRS, Hold) in restaurants. FULL REPORT

—Jason Kupferberg, Senior Equity Research Analyst, Computer Services & IT Consulting

—Ross MacMillan, Senior Equity Research Analyst, Software

EMEA

Investment Banks: FICC Is Dead; Long Live FICC

In the context of initiating coverage of Credit Suisse, Deutsche Bank and UBS, Jefferies conducted a comprehensive review of the key revenue driver for investment banks: Fixed Income, Currencies & Commodities (FICC). Beyond short-term uncertainties, the analysis concluded cyclical factors are supportive of at least mid-single digit underlying revenue growth. DBK GY and CSGN VX, initiated with Buy ratings, are the clear plays on this theme, alongside Buy-rated Barclays. The report goes beyond the usual debate on regulation, deleveraging and litigation – and focuses on positive medium-term fundamentals for FICC, driven by three key points: 1) the cyclical sweet spot; 2) overstated structural headwinds; and 3) the new investment banking cost model should allow for significantly greater "Jaws" than seen in the industry previously (Jaws ratio = income growth rate - expense growth rate). FULL REPORT

—Omar Fall, Senior Equity Research Analyst, Pan-European Banks

UK Housebuilders: The Truth About Operational Gearing

Jefferies assessed the scale of operational gearing, both on the upside and downside, and built an operational gearing model to compare to the actual performance of UK Housebuilders. Notably, the price of land entering the landbank appears to be the key determinant of future returns. Investors should keep a close watch on the price of land purchased and be fearful if the current trend of reducing disclosures prevents making an assessment of the anticipated return. The analysis also finds traditional return on capital employed (ROCE) measures irrelevant in this space, and provides a new way to estimate the value by deriving the net present value (NPV) of the capital employed, or NPV ROCE. FULL REPORT

—Anthony Codling, Senior Equity Research Analyst, UK Building & Residential Services

ASIA

Fuel Cell Electric Vehicles: Benefits Without Compromise

Jefferies expects the global Fuel Cell Market to grow 16-fold in the next decade at a 31.5% CAGR, reaching ¥5.6 trillion ($56 billion) by 2025 from a mere ¥70 billion ($700 million) in 2011. The main driver for this rapid expansion will be Fuel Cell Electric Vehicles (FCEVs).

Commercialization is set to start in 2015, and sales should materially increase after 2020 with the fourth generation of fuel cell stacks. Infrastructure and hydrogen related names will be in the spotlight first, including Iwatani Corp (8088 JP, Buy) as the company builds 20 hydrogen stations and has a 55% market share in hydrogen sales. A sensitivity analysis also shows 68% operating profit growth and Chiyoda Corp (6366 JP, NC), the company that developed the organic chemical hydride (OCH) technology, which allows hydrogen transportation at ambient temperature and pressure. FULL REPORT

—Thanh Ha Pham, Equity Research Analyst, Industrials-Materials

Internet Finance: From Creative Disruption to Disruptive Creation

E-commerce entrants (ECE) are most disruptive to banks & brokers, while insurers are more insulated due to product niches. Jefferies sees ECE pressuring bank funding, offset by a growing Internet economy that drives higher fee income and even interest income for some banks at the expense of peripheral financiers that charge high double-digit rates. Additionally, brokers' commission rate pressure may intensify, offset by new revenues from capital market reforms. With technology potentially displacing traditional competitive edges like network and service in China, banks with strong retail franchises may ironically underperform. Most resilient are ICBC (1398 HK, Buy) and MSB (1988 HK, Buy), with Ping An (2318 HK, Buy) a top pick among insurers given first mover advantages, followed by CITICS (6030 HK, Buy) for its lower dependence on the brokerage business. FULL REPORT

—Ming Tan, Senior Equity Research Analyst, Financials
—Baron Nie, Equity Research Analyst, Insurance
—Jaclyn Wang, Equity Research Analyst, Insurance

Actionable Ideas for Companies and Sponsors

EQUITY CAPITAL MARKETS

Attractive Terms for European Convertible Issuers

European convertible market issuance in 2013 totaled 58 offerings for $28 billion of volume, a 45% increase in the number of offerings and 25% increase in volume compared to 2012. The average coupon and conversion premium in 2013 were 2.8% and 30.0%, respectively. The 15 offerings in 2014 year-to-date are continuing this trend with an even lower average coupon and higher average conversion premium.

Attractive terms have been aided by credit spreads tightening as well as interest rates decreasing. The Markit Itraxx Europe Crossover Index, a credit spread benchmark, is trading at approximately 275 basis points, down from 400 basis points five months ago.

Exchangeable bonds represent 25% of European convertible issuance and are an attractive way to monetize equity stakes in public companies by selling shares at a premium while providing cheap borrowing rates.

144A IPOs

144A Equity / Pre-IPO Convertibles are financing vehicles that permit private issuers–usually newly formed companies–to access the institutional equity market in size without the potential delay from SEC review. Using back-end registration, these offerings can be completed in as few as eight weeks and range in size from $200 million to $1 billion.

Some of the more important investor considerations in 144A equity opportunities include:

1. A unique investment opportunity with limited or no comparable investment opportunity in the public equity markets
2. A well-known CEO / management team that has a proven track record of generating returns for public investors

3. A near-term equity capital need to fund an acquisition or asset purchase that results in a valuation step-up for 144A investors over a 6- to 12-month period
4. Investors requiring the securities to be listed within 12-24 months, which typically takes the form of a traditional registered IPO

In March, Jefferies priced, as lead left bookrunner, a highly successful $750 million 144A pre-IPO convertible note offering for American Energy—Utica, an energy company focused on the Utica Shale. This transaction represents the largest U.S. 144A pre-IPO financing since 2011.

U.S. IPOs for Non-U.S. Issuers

Foreign companies are increasingly utilizing the U.S. capital markets as a viable vehicle to raise proceeds and global awareness. Robust new issue volumes and more lenient requirements vis-à-vis the JOBS Act have enticed more international companies to go the U.S. IPO route. Other benefits include premium valuations, increased liquidity and knowledgeable sellside support versus foreign exchanges.

Since 2013, 34 foreign issuers completed U.S. IPOs raising $6.0 billion in proceeds vs. 16 for $1.7 billion in 2012, an increase of 113% and 253%, respectively. Issuance predominantly came out of China (nine IPOs), UK (eight IPOs) and Israel (seven IPOs), which in aggregate accounted for 71% of the issuance over the past couple of years. Aftermarket performance has also remained strong with the average international IPO in 2013 +59% on an offer-to-current basis vs. +47% for their U.S. counterparts.

ATM Equity Issuance

At-the-Market (ATM) programs are an efficient and cost-effective solution for issuing equity. They are analog to a medium-term note program or the inverse of a stock repurchase. Since 2010, over 4,000 programs have been filed across all sectors for over $125 billion in gross proceeds.

An ATM program involves issuing shares continuously and anonymously off the Jefferies trading desk in an amount that typically represents 10-20% of an issuer's average daily trading volume. The issuer has complete discretion regarding timing and execution, and may stop or start issuance at any time, including intraday. Additional benefits to the issuer include minimal management time required, limited market risk and discreet reporting.

DEBT CAPITAL MARKETS

Middle Market Lending Initiative at Jefferies

Jefferies Finance recently expanded its platform by launching a direct lending effort focused on the middle market. The initiative is focused on lending to U.S.-based leveraged companies with $15 million to $30 million of EBITDA, and occasionally higher.

Since October 2013, the group has invested in 15 middle market transactions, including traditional change-of-control M&A deals, financing of tack-on acquisitions and dividend recapitalizations. This direct lending effort is a complement to Jefferies' existing leveraged loan platform, which continues to focus on arranging and distributing larger, liquid loans to the institutional loan market.

Floating Rate High Yield Bonds

Corporate issuers can issue floating rate debt and maintain the covenant and structural flexibility of a high yield bond. Floating rate high yield bonds can be an option for issuers that wish to take advantage of current low short-term rates by tying their interest costs to the three- or six-month LIBOR rate.

Unlike leveraged loans, a floating rate bond can be unsecured, while including call payment premiums, which are more issuer friendly than fixed-rate high yield bonds. This offers additional capital structure flexibility to issuers.

Privately Placed Second-Lien Loans

A recent trend in 2014 LBO deals has been a shift towards privately placed second-lien loans. With funds having ample cash and looking for yield, there are numerous investors that are willing to help negotiate deal terms and take down an entire tranche.

For financings where a second-lien piece may be difficult to sell in the syndicated market, a privately placed second-lien sold before general syndication can give confidence to both investors and the company that a transaction is possible within the agreed-upon terms, thereby reducing execution risk.

Emerging Market Corporates Tapping the International Bond Market

More emerging market issuers are considering USD bond issuance as an alternative funding solution for the following reasons:

1. Domestic liquidity is under pressure.
2. Foreign investors have been selling local currency as part of an emerging market selloff.
3. Local banks are tightening funds to the credit market given Basel III implementation.
4. Local funding costs are increasing as central banks have been tightening liquidity onshore to support their local currencies.

MERGERS AND ACQUISITIONS

The Return of In-Bound M&A in Southern Europe

For several years much of Southern Europe (Portugal, Italy, Greece, Spain) have been viewed as practically un-investible. During 2010-12, recurrent worries about the stability of the Eurozone marked these countries as the ones most likely to exit the Euro and devalue their currencies. This led to capital flight out of these markets and a lack of appetite for in-bound investment, particularly M&A.

However, during the last six months we have seen a turnaround in foreign investment sentiment, as structural reforms and government austerity across Southern Europe have started to bear fruit. Major economies such as the U.S., China, Germany and the UK have corporates and investors who are gaining enough confidence to look outside domestic borders for growth. The Mediterranean nations are becoming more attractive as investors are looking at the strong potential and capital appreciation opportunities that would come with recovery. EU and national government-driven privatization programs are also helping to make quality assets available to international M&A markets.

In 2013, cross-border M&A into Southern Europe was approximately $56.1 billion, up over 72% from 2009 levels of $32.5 billion. This trend seems to be accelerating in 2014 following 12 announced acquisitions into the region YTD with an aggregate disclosed value of $14.4 billion compared to only $9.6 billion in the first three months of 2013.

"Stub Equity" Structure to Facilitate Going Private Transactions

"Stub equity" structures are increasingly being used by private equity sponsors to help bridge a valuation or financing gap and make feasible a going-private transaction. In this structure, shareholders of the target public company are offered the opportunity to retain a minority stake (typically up to 30%) in the newly private company, and participate in the company's future growth and in the levered returns of the private equity firm. By offering shareholders the opportunity to invest alongside the sponsor, stub equity can help overcome the resistance of board members, activist hedge funds, institutional investors or other shareholder groups who believe the value offered is too low.

For shareholders, the advantages of stub equity include:

1. Investing with a private equity firm without management fees or carried interest
2. Tax-free exchange into the private equity vehicle

Disadvantages include:

1. Limited liquidity associated with not being listed on an exchange
2. Limited required period of SEC financial disclosure
3. Very limited or even no governance rights (e.g., no independent directors)

For private equity firms, stub equity may be a useful tactical tool to convince holdout shareholders to support the transaction. It may also help convince a target's board of directors, who may worry about disparate treatment between insiders who rollover and public shareholders. Stub equity may also bridge an equity funding gap and may allow for recap accounting. However, the stub equity structure may require minority board representation; it may also limit affiliate transactions, and additionally it may create a longer time period to close the transaction.

"Mix and Match" Structure to Facilitate Cross-Border M&A

A number of cross-border M&A transactions in the last 12 months were facilitated by the use of a "mix and match" offer structure, whereby the target shareholders elect to receive consideration in differing proportions of cash and stock.

Mix and match structures have significant benefits for both the acquiror company and target shareholders:

1. The consideration mix helps the acquiror offer a portion of equity to those investors who have a desire to hold stock and thereby assist the acquiror in reducing transaction debt financing or leverage restrictions.
2. The structure assists the acquiror in aligning and expanding its shareholder base after the acquisition by targeting long-term supportive shareholders.
3. The mix helps manage "flow back issues" for the acquiror. By matching buyers and sellers of the acquiror's stock as a part of the transaction structure, there is less post-acquisition negative stock price pressure.
4. Target shareholders can decide the optimal consideration mix to elect, depending on their investment perspective and tax considerations.

Deal-Contingent Hedges for M&A FX Risk Management

As the "announcement-to-close" period in an M&A situation will typically contain a number of contingencies, the universe of hedging products to manage any related FX risk is often very limited. However, there are two hedging products specifically tailored to M&A FX hedging, which alleviate the need to pay upfront and have no unwind risk or cost in the event the M&A does not close.

1. A Deal Contingent Forward is a forward FX contract where the client is obligated to deliver into the contract at the contingent forward rate on deal close. If the M&A transaction it is hedging terminates, the FX contact terminates with no cost whatsoever to the client. There is no upfront premium and the cost for the contingent feature is an adjustment to the outright forward rate.
2. A Deal Contingent Option is a vanilla currency option, but instead of paying the premium upfront, this is deferred to deal close. On deal close, the client is obligated to pay the premium and then owns the option and any prevailing value it has. If the M&A transaction does not close, the contract terminates with no cost to the client. The cost for the contingent feature is added to the premium payable on close.

RESTRUCTURING AND RECAPITALIZATION

Exchange Offer Strategies for Highly Leveraged Companies

There are three basic forms of Exchange Offers that can be used to accomplish a highly leveraged company's goal of reducing leverage. All these Exchange Offer strategies involve various accounting, legal, tax and market implications for the issuer and holders.

1. Debt-for-Equity Exchange: New shares are exchanged for existing debt, which directly reduces leverage and interest expense but typically dilutes existing equity and may trigger change of control provisions on other debt in the capital structure.
2. Debt-for-Debt at a Discount Exchange: Enables the issuer to reduce the total debt and interest expense incrementally by offering existing creditors better protection in a downside event. For example, unsecured debt trading at a 50% discount could be offered the opportunity to exchange into new second-lien debt at a modest discount to face.
3. Two-Tranche Debt-for-Debt Exchange: Exchange debt trading at a discount exchanged for two tranches: one safe, and one with greater risk (typically senior and junior with staggered maturities), with the objective of creating a new senior tranche that trades close to par and a smaller piece that trades at a substantial discount. This exchange has the impact of isolating the discount into a more concentrated form so the sponsor may have a more efficient way to repurchase debt or streamline creditor negotiations.

PUBLIC FINANCE

Tax Season Highlights the Value of Tax-Exempt Municipal Bonds

Every year, the municipal securities market endures a five-week seasonal disruption from the beginning of March through April 15 as primary market issuance ramps up and individual investors sell municipal holdings to fund tax payments. As we begin this seasonally difficult period, long tax-exempt municipal bonds are the most tax-inefficient part of the curve, as the benchmark 30-year yield for AAA-rated tax-exempt municipal debt is above that of Treasuries. Thus, long municipals are offering a tax-exempt yield that is in excess of the taxable U.S. Treasury bond yield. For as attractive as long tax-exempt municipal bond yields appear now, any further backup as a result of seasonal weakness as we move towards April 15 represents an attractive opportunity for investors seeking tax-advantaged income as well as taxable investors seeking high quality, long duration assets.

The combination of the top income tax rate, which is now 39.6%, and the 3.8% Net Investment Income Tax imposed as part of the Affordable Care Act produces an effective top federal tax rate of 43.4%. Although these tax rates have been in place for more than one year, many individual fixed income investors have been preoccupied with altering their investment behavior based on the Fed's tapering of asset purchases rather than focusing on investment fundamentals. As tax bills are calculated, however, individual investors are increasingly likely to be less concerned about Fed policy – particularly since tapering has already commenced– and instead focused upon the fundamentals of the product and the value of tax-preferred assets in a high tax rate environment. The current low probability of meaningful tax reform may also spur additional interest in the asset class.

To illustrate the value proposition, the State of California (rated A1 by Moody's and A by S&P) recently sold tax-exempt general obligation bonds, which are backed by the full faith and credit of the Golden State's taxing power, with a 5% coupon maturing in 2043 to yield 4.22%. On a tax-equivalent basis at the maximum effective federal tax rate of 43.4%, a comparable taxable bond would have to yield 7.46%, or more than double that of the 30-year U.S. Treasury bond yield when the transaction priced.

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NOTABLE TRANSACTIONS

Healthcare, January 2014 Salix Pharmaceuticals, Ltd. **$1,350,000,000** Credit Facility to Finance Acquisition of **Santarus, Inc.** Joint Lead Arranger	Maritime, February 2014 Excel Maritime Carriers Ltd **$994,000,000** Restructuring Financial Advisor to Official Committee of Unsecured Creditors	Technology, February 2014 AO World plc **$811,000,000** Initial Public Offering Joint Bookrunner	Energy, January 2014 Fourpoint Energy **$800,000,000** Private Placement of Debt to **EIG Global Energy Partners, LLC and GSO Capital Partners, LP** Sole Financial Advisor **$200,000,000** Private Placement of Equity Sole Financial Advisor
Technology, February 2014, Pending Kronos **$750,000,000** Sale of Minority Equity Stake to **Blackstone and GIC** Joint Financial Advisor	Consumer, March 2014 Payless Shoesource **$665,000,000** Credit Facility Joint Lead Arranger	Business Services, February 2014, January 2014 Harland Clarke Holdings Corp. **$670,000,000** Credit Facility to Finance Acquisition of **Valassis Communications** Joint Bookrunner **$540,000,000** Senior Unsecured Notes Offering Joint Bookrunner **$275,000,000** Senior Secured Notes Offering Joint Bookrunner	Healthcare, March 2014, January 2014 DPx **$1,525,000,000** Credit Facility to Finance Merger with **DCM Pharmaceutical Products** Joint Lead Arranger **$450,000,000** Senior Unsecured Notes Offering Joint Bookrunner
Healthcare, February 2014, Pending Medpace **$915,000,000** Sale to **Cinven Limited** Joint Financial Advisor	Industrials, February 2014 Axalta **$2,818,000,000** Credit Facility Joint Lead Arranger	Technology, March 2014 CommScope **$443,000,000** Common Stock Offering Joint Bookrunner	Holding Company, January 2014 Icahn Enterprises L.P. **$3,650,000,000** Senior Unsecured Notes Offering Joint Bookrunner **$1,350,000,000** Senior Unsecured Notes Offering Sole Bookrunner
Real Estate, February 2014 Hunt **$525,000,000** Senior Secured Notes Offering Sole Placement Agent	Healthcare, February 2014 Cepheid **$345,000,000** Convertible Notes Offering Joint Bookrunner	Gaming, February 2014 Safari Holding Verwaltungs GmbH **$318,000,000** Senior Secured Notes Offering Joint Bookrunner	Real Estate, March 2014 Realty Income, The Monthly Dividend Company **$551,000,000** Common Stock Offering Joint Bookrunner
Energy, February 2014 American Energy Utica **$750,000,000** Convertible Notes Offering Joint Bookrunner	Technology, January 2014 Applied **$1,145,000,000** Credit Facility to Finance Acquisition by **Hellman & Friedman** Joint Lead Arranger	Finance, January 2014 SNL **$309,000,000** Credit Facility Joint Lead Arranger	Consumer, January 2014 Hain Celestial **$357,000,000** Acquisition of **Tilda Limited** Sole Financial Advisor
Technology, February 2014 Skrill Group **$415,000,000** Credit Facility to Finance Acquisition by **CVC Capital Partners** Joint Lead Arranger	Metals & Mining, February 2014 First Quantum Minerals Ltd. **$2,241,000,000** Exchange Offer and Consent Solicitation for Existing Senior Unsecured Notes Joint Bookrunner	Energy, February 2014 GMX Resources Inc. GMXR **$475,000,000** Restructuring Financial Advisor to the Company	Healthcare, March 2014 PRA **$1,013,000,000** Credit Facility Joint Lead Arranger

JEFFERIES KEY FACTS & STATISTICS

(as of 2/28/2014)

Founded: 1962

Total Capital: $11.2 billion

Total Assets: $43.4 billion

Number of Employees: 3,838

Investment Banking Professionals: 650

Equities Professionals: 725

Fixed Income Professionals: 550

Commodities Professionals: 350

Companies under Research Coverage: 2,400

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