Jefferies Insights
JANUARY 2019

New Year's Priorities, Thoughts And Goals For An Uncertain Time

Dear Client and Employee Partners,

Usually the first page of the new calendar turns and our priorities/resolutions are made as we eagerly start another annual journey with optimism, earnestness and excitement. If you are like us, you are planning to work harder and smarter than ever to achieve individual and collective goals to the best of your abilities. It is a time to be reflective, pensive and honest with yourself. There are personal, professional, and hopefully societal goals that energize us as we finish the holiday festivities and symbolically start, once again from zero. We love this time of year because anything and everything seem possible as bad habits can be changed, new plans and strategies can be initiated, and mistakes are a thing of the past as all that matters is today and tomorrow.

This turn of the year feels a little different to us and for many reasons, the foundation doesn't feel as firm, the future doesn't feel as certain and optimistic, and the path forward does not seem as clear. The markets are extremely volatile and virtually impossible to anticipate or navigate but unlike other turbulent periods, the reasons why are not obvious. The political climate both within the U.S. but also around the globe appears to be exacerbating the mood swings versus trying to help smooth the edges. The global economies are fighting a tug of war between needed global coordination and the isolating populism that many people are embracing as the preferred way forward. And if this wasn't enough, throw on top of the pile the eventual rise of global interest rates, the shrinkage of sovereign balance sheets, the newfound power and seeming anger of massive amounts of algorithmic trading, and the paucity of truly permanent investment capital. It can just feel overwhelming to prioritize a useful list of goals, thoughts and New Year Resolutions.

All this said, we believe that because things appear so crazy right now, it is the best time to remind ourselves that simplicity is often the best antidote to complexity. That is why we are sharing with you our extremely simple and straightforward thoughts/priorities for 2019:

1. Make sure we remember what "value" means, even if today it is a dirty word when it comes to investing. Today nobody wants to hear about tangible or intrinsic value, fundamental analysis, margin of safety, independent thought, contrarian investing, due diligence, patience, cost controls, cash flow,

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counter cyclicality or low p/e's. Growth and momentum are wonderful, but just when the entire world appears to capitulate by declaring a concept as important as "value investing" being deceased, even more painful lessons are often learned. By the way, in addition to "value investing," let's not forget "personal values." It really isn't so difficult to be a "good person." In fact, the crazier and angrier the world appears, the bigger the difference "good people" can make.

2. Don't confuse a low stock price with stupidity (or a high stock price with genius). There are many companies (we are at the top of the list) who have had a solid 2018 both operationally and strategically and their market price reflects substantial loss of value. We are not saying that this variance shouldn't be constantly and honestly assessed to make sure one isn't completely missing something material that the market sees or fears. We do this to ourselves every day, trust us. But you really can't and shouldn't manage or build your company based on short term swings in your stock price. In today's dynamic and transparent world this is a lot easier said than done, but we believe building quality earnings and cash flow, smart diversification, protecting downside risk, and building a culture, brand and strong client base will ultimately best reward all stakeholders. Unfortunately there are no quick fixes to achieve any of these but having a good plan with "buy in" from every constituency should eventually win.

3. Don't forget about playing defense. Since the financial crises, the general climate has been a strong financial wind behind almost every company resulting in an unprecedented global recovery. Aggressive expansion and "damn the torpedoes" offense is a lot of fun when it works. But let's not forget, cash and liquidity is good. Improved credit ratings are important. Undrawn lines of credit can actually be an asset. Capital structure matters. Keeping a continual watchful eye on costs is even better than growing revenues because cost reductions repeat annually. Economies cool. The consumer scales back. Over-leveraged companies have fewer options. Restructuring and bankruptcies occur to even companies that were once the most admired. The better one can master the art of defense, the more effective one will be on offense.

4. Appreciate your people—both employee and client-partners. There isn't one person on this planet who MUST work for you or MUST buy something from you. Every day a person comes back up your elevator to sit at his or her desk or calls to make another purchase is a blessing. These relationships need to be earned every single day and all that is required to break these bonds is to take them for granted, even once.

5. It has to be about more than money and wealth. We are as competitive and capitalistic as anyone. We hate to lose on an absolute or relative basis and when we do, we work even harder. That said, we believe it is important for us and everyone who we touch both professionally and personally to have broader and more important goals and aspirations. A company has to stand for something. People need to accurately believe they are doing something meaningful and important. They need to know they are making a positive difference. Personal integrity is non-negotiable. Treating everyone with respect is the bare minimum. Empathy and compassion define who you are as a human. Work is important, and a massive priority, but it cannot be the only one. Family, community, friends and important causes should never be sacrificed. Mentoring, leading by example and assisting those in need are privileges. Everyone has their own way of prioritizing and balancing their many demands but a life based predominantly on career and W2 will never be truly satisfying. We will continue to work hard this year (like all others) to never lose this vital perspective.

Nothing we have discussed here is earthshakingly new or brilliant. In fact, we believe this is all straightforward and should be obvious to all. That said, sometimes in periods of extreme disarray, common sense is no longer very common.

We look forward to spending 2019 either doing our best to serve you as client-partners or help build Jefferies with you as employee-partners. Regardless of the uncertainty and volatility, we would rather be us than anyone else because we have the privilege of working with all of you.

Happy New Year,

Rich and Brian

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Economics and Strategy

Flip-Flop, Flip-FLOP

Since early October I have found Fed communications quite difficult to understand. And based on the increased turmoil in financial markets, it appears I'm not alone. Now, we could spend an enormous amount of time parsing through the potential reasons for this increase in Fed opaqueness, but I doubt we would ever uncover the truth. In any case, some possibilities might include:

1. A deliberate attempt by the Fed to add volatility to financial markets in order to stave off future criticism for aiding in bubble creation
2. A move by the Fed to assert its independence in the face of increased criticism from the POTUS
3. A more malicious political motive at the Fed to undermine the agenda of the current administration
4. A rookie chairman who likes to go off script, make incongruous statements, and then stubbornly refuse to take responsibility for the blunders

I'm going to go with number 4, but I'm certainly open to other possibilities. The reason I say number 4 is the way Jay answered the December FOMC press conference question on his neutrality flip-flop from the time of the PBS interview to the NY Economic Club speech. His response was, "Let's look forward, not backward." This revealed a lot about Jay's character: He doesn't like to admit fault, and he is extremely stubborn. I'm afraid therefore that his hubris has played (and will continue to play) a more important role in communication than actual policy considerations. Further, this hubris may also imply that reasons number 2 and 3 above are coming into play a bit! In any case, this is all extremely dangerous for the Fed policy reaction function.

And to be sure, my beloved risk-parity trades rely heavily on a well-functioning Fed policy reaction function. When disinflation risks rise (as they have done recently), this trade needs to see some healthy doses of Fed dovishness. We cannot have a sanctimonious Fed leader looking to abdicate responsibility because pride gets in the way. If that happens, we will be following in the unholy footsteps of the Bank of Japan.

Now, if it were just Jay making the decisions going forward, I would honestly be binning my risk-parity trades right here. But I am going to put faith in two other senior leaders on the FOMC: Rich Clarida and John Williams. These two individuals will recognize the very serious developments brewing on the disinflationary front. And they will understand that the Fed can ill afford to head into the late stages of this business cycle with embedded disinflationary expectations. I'm banking on these two seizing control of the monetary policy reaction function in 2019.

— *David Zervos, Chief Market Strategist*

Sentiment Shifts

A perfect storm hit equities in 4Q18 – high oil prices, a strong dollar and a shift upwards in the U.S. yield curve – which altered perceptions towards risk assets and encouraged investors into cash. No sooner had the U.S. yield curve shifted upwards when investors began to worry about an inversion of the yield curve and concerns over a U.S. recession forced further liquidation of equities. Selling beget selling as the desire to de-risk and run cash over-ran all other considerations running into year end. Small changes in volatility have led to sharp outflows as investment strategies that tended to perform well during Quantitative Easing (QE) have become strained during Quantitative Tightening (QT).

In one sense investors appear to have already priced a recession into global equities during 2019. While global growth is likely to decelerate modestly, many economies will benefit from lower oil prices, and certainly Emerging Markets (EM) central banks will not necessarily tighten policy that aggressively in response to inflation concerns. Moreover, worries over a prolonged U.S.-China trade war appear also unfounded given the recent concessions made.

The stampede out of equities has left the equity asset class inexpensive versus government bonds while the price-to-earnings (PE) multiple has already incorporated a sharp drop in earnings forecasts. Corporate cash-flows and dividends provide a wide margin of comfort even incorporating two further hikes by the Fed in 2019. We have been upgrading EM equities recently while seeing evidence of under-valued securities in Europe. We continue to favor Convertible bonds as well as some closed-end funds trading at exceptional discounts to net asset value (NAV).

— Sean Darby, Global Head of Equity Strategy

U.S. Outlook – 2019: Next Phase of Monetary Policy Normalization, Political Uncertainty and the Ongoing Trade War

The U.S. economy is still in a good place despite some pockets of weakness. The consumer sector remains strong and will continue to be supported by job growth, rising wages, rising disposable income and solid confidence. The job market boasts record job openings and jobless claims near 50-year lows, and measures of aggregate wage growth will continue to creep higher. In addition, the cumulative effects of business deregulation and corporate tax relief continue to foster a business-friendly environment. Importantly, small business confidence remains high, and business formations continue to accelerate.

The trade war has become an impediment, however, and caused some investment spending to be deferred due to uncertainty caused by trade tensions. The trade war has chipped away at U.S. investment activity and will continue to do so until there has been more significant progress on trade issues. We estimate that trade war uncertainty has become a drag of 0.5% on investment spending. Consequently, we have lowered our projection for 2019 GDP growth from 3.4% to 2.9%.

The U.S. housing cycle has stalled but is not over. Housing activity continues to adjust to less attractive affordability and demographics that favor mid-priced housing over the higher-priced end of the market. The limitation of SALT deductions in the 2017 tax legislation has frozen housing markets in high-tax, high-priced housing markets, and more price concessions will be necessary to get sales in those markets moving again.

As measured by the CPI, U.S. inflation averaged about 2.5% in 2018, which compares with an average of 2.2% over the prior twenty years. Inflation was in the process of returning to a normal cyclical pattern, but the trade war was been unmistakably disinflationary over the second half of the year. The tariffs will put modest upward pressure on inflation in early 2019 that partially offsets the disinflationary effect of the trade war. Nonetheless, we expect the average U.S. inflation rate in 2019 to decelerate to 2.0% from 2.5%.

With U.S. monetary policy entering the next phase of normalization, the pace of rate hikes will moderate and there will be more uncertainty about the timing of future rate hikes. With the Fed continuing with the maximum balance sheet roll-offs of Treasury and MBS holdings of as much as $50 billion per month, the size of the balance sheet will shrink by more than $550 billion in 2019.

2018 rate normalization was easy to project for two reasons. First, the fed funds rate was well below the FOMC range of estimates of the neutral fed funds rate, so there was limited opposition to rate hikes by FOMC policymakers. Furthermore, the dual mandate objectives consistently flashed green to quarterly rate hikes because the labor market was strong and inflation matched or surpassed the Fed’s 2% target for most of the year.

The pace and timing of rate hikes in 2019 will be more uncertain for a variety of reasons. Uncertainty about the accuracy of the Fed's estimates of the neutral fed funds rate argue for the FOMC to moderate the pace of rate hikes as the fed funds rate approaches the Fed's 2½% to 3½% range of estimates for rate neutrality. As this happens, rate hike decisions will be more data-dependent. Finally, the FOMC will have increased flexibility to make rate changes in 2019 because Jerome Powell will hold a press conference after every FOMC meeting, making every meeting potentially a "live" meeting.

Due to Powell's comments about increased caution with fed funds neutrality within reach and our projection for a deceleration of U.S. inflation in the first half of the year, we expect the FOMC to raise the fed funds rate twice in 2019.

The transfer of economic stimulus from monetary policy to fiscal policy will continue to be a turbulent process that contributes to market uncertainty. The perpetually poisonous political environment will add a new dimension with a split Congress and rising impeachment pressures. Prolonged fiscal profligacy and the switch from LIBOR as a reference rate are threats to growth prospects longer-term.

— *Ward McCarthy, Chief Financial Economist*

European Outlook – Ending QE Was Easy, Normalizing ECB Policy Won't Be: Challenges Around Timing, Personnel Changes and Global Spill-overs; Brexit is the Great Disruptor

The conclusion of Quantitative Easing (QE) closes an important chapter in the ECB's history, but the end of net asset purchases does not mean an end to stimulus. With over €2.5 trillion of assets bought, significantly reduced proportions of sovereign debt in free-float circulation, much expanded TARGET2 National Central Bank imbalances, converging bank lending rates, and substantial capital outflows from the euro area into the rest of the world, the legacy of QE is undeniable.

In fact, the changes to reinvestment policy announced in December mean that in some sovereign bond markets QE effectively carries on next year, while other markets will already get a small dose of QT (quantitative tightening). The amendments to the ECB capital key weights, coupled with historic underbuying and overbuying of bonds, means that some national central banks (NCBs) will carry on adding to their holdings of sovereign debt in 2019. Meanwhile, other NCBs will not fully reinvest the cash generated through bond redemptions and will see their balance sheets begin to contract.

Through it all, however, the labour market continues to tighten and, crucially, wage growth across the euro area is accelerating. The pace of future policy normalization, however, will at least partly depend on the composition of the ECB's Executive Board, and 2019 will see the departure of Mario Draghi (October 31), Peter Praet (May 31) and Benoit Coeure (December 31) – the three main architects of negative interest rates, QE and current forward guidance. The other significant change taking place in Europe next year is political, with the EU Parliament elections set to take place May 23-26, elections scheduled in Belgium, Finland (April 14), Portugal (October 6) and Greece, possibly Spain (May 26) and Italy.

Nothing politically, however, compares to the mess around Brexit. At present, there is gridlock in Parliament, with no obvious way forward. Eventually, Theresa May may have to concede to calls for a second referendum, but that could take more than 22 weeks to arrange, taking us well past the March 29 deadline and beyond the May 2019 EU elections. Rescinding Article 50, without taking it back to the country, could only be done as a final resort. It should also be remembered that if Theresa May wins the vote in Parliament, Article 50 still needs to be enshrined into UK law, requiring further debate and amendments. Ultimately, the final details of the UK's future relationship with the rest of the EU may not be clear until well after the transitional phase has been extended out beyond December 2020.

Brexit is a Great Disruptor and, overtime, can be expected to lead to a significant change in the economic geography of the EU, including not just the UK and the euro area but also the EU-8. This change will create winners and losers, as supply chains in some cases are ripped up and in other cases evolve. Advisory, M&A and financing will follow, along with capital flows. From the UK's perspective, it might be better to retain the design, R&D and intellectual property where value added is higher, and allow production lines that may be much more dependent on seamless UK-EU27 trade to move.

There remain substantial global imbalances led by the euro area with its very large current account surplus and the U.S. with its very large current account deficit, both of which are around $500 billion. Since the ECB started doing QE in 2015, there has been a significant asset allocation move out of euro area debt securities into higher-yielding U.S. credit and UK Gilts. This shift included net foreign selling of low-yielding German bunds and, in 2018, Italian bonds in size. What has also occurred since 2015 is over €500 billion of net euro area buying of U.S. debt securities – a substantial figure. Key questions for 2019 include whether these capital flows reverse as QE ends, which could have a significant impact on bond yields globally, and whether foreign buyers will return to Italy. FULL REPORT

— *David Owen, Chief European Financial Economist*

— *Marchel Alexandrovich, European Financial Economist*

Actionable Ideas for Companies and Sponsors

MERGERS AND ACQUISITIONS

SPACs Becoming a Viable Competitor for Significant M&A Transactions

SPAC issuance in 2018 set a new record of $10.7 billion across 46 deals. Driving this new issuance growth is the underlying success of SPACs in delivering M&A exits of scale. In 2017, there were 10 acquisitions by SPACs greater than $500 million and total exit value doubled to $14.3 billion. And in 2018, there have been 11 such transactions and total exit value increased over 40% to $20.2 billion. This trend in SPAC acquisitions is expected to continue with the rapid rise in private equity firms sponsoring SPACs and financial sponsors' expertise in identifying targets and competing in auctions. With $13.6 billion of equity dry powder, SPACs have now become a credible buyer for significant transactions.

M&A Exit Through a 144A Equity Placement

As a result of market volatility, the sale of all or a substantial part of a private company to institutional investors via a 144A equity placement is gaining renewed interest as an M&A exit alternative. In a 144A equity placement, the company's owners sell their shares to a broad group of institutional investors, and the company then embarks on a defined registration timeline, after which it will list its shares on a public exchange.

The primary benefits to a company considering using a 144A Equity Placement as an M&A exit are: (1) speed of execution – owners can achieve liquidity in as little as eight to ten weeks versus risking greater market volatility undertaking a sale process; (2) the 144A market can bear a large amount of secondary shares (up to 100%) as a percentage of the company; (3) 144 institutional investors typically can afford to pay a competitive price for the business, given their return expectations and the opportunity for near-term trading liquidity; and (4) owners are required to make only limited representations and warranties in completing a sale via a 144A equity placement.

Opportunities for Financial Sponsors in a Tightening Market for Leverage

The current challenges of financing acquisitions in the leveraged finance market is causing financial sponsors to pursue a range of alternative approaches to creating value in both existing investments and in deploying new capital. These alternative approaches include: (1) non-cash mergers for portfolio investments which provide the benefits of synergy opportunities, increased scale, market consolidation and potential deleveraging; (2) "PIPEs" which provide public companies an ability to de-lever or to support attractive and transformational acquisition transactions (e.g., Carlyle's $1 billion (16%) PIPE investment into CommScope to facilitate CommScope's $7.4 billion acquisition of AARIS in November), and (3) minority transactions into other sponsor-owned private companies (e.g., Vestar's significant secondary equity investment into Information Resources Inc. in November, joining New Mountain Capital as a lead shareholder going forward).

DEBT CAPITAL MARKETS

Structuring Financings to Provide Flexibility Around the Junior Portion of the Capital Structure

With the recent volatility in the leverage finance market, companies and sponsors have begun to structure their committed acquisition financings to provide the flexibility to access either the second lien term loan or the high yield bond market for the junior portion of their capital structures. This is due to the fact that historically the second lien term loan market is the first to close when investors begin to go off risk. This approach provides issuers with maximum flexibility in completing the acquisition financing, and this flexibility gives the underwriting banks additional comfort and gives issuers ultimately better execution around the junior portion of the commitment, by providing the ability to access a deeper high yield market to improve execution if the second lien term loan market isn't favorable at the time the deal needs to launch. By structuring the commitment with optionality to access both markets, companies can also maximize the quantum of committed financing available.

Improving High Yield Bond Execution by Incorporating Concurrent Convertible Bond Issuance

We have recently seen more highly leveraged companies manage their leverage through issuing concurrent convertible bonds, which improved pro forma cash flows and provided additional equity cushion into the transaction without the dilution of pure equity. Recently HC2 Holdings was in market with $540 million senior secured notes to refinance their capital structure, but pivoted in market to incorporate issuing a $55 million convertible bond and downsizing the senior secured notes to $470 million. This allowed HC2 to successfully execute their senior secured notes and push out their near-term maturities to 2021. We also saw recently Bristow Group incorporate a $135 million convertible bond into their $510 million committed financing for the acquisition of Columbia Helicopters.

Non-Fungible Incremental Add-ons

The widening out of credit spreads in the leveraged loan market has reduced the ability for companies to easily tack on tax-fungible leveraged loans due to the market clearing price dropping below the required issue price threshold for tax fungibility. When companies need financing for acquisitions and can't wait for their loan price to rebound, instead of potentially repricing the entire existing tranche, companies have recently issued smaller non-fungible tranches at wider pricing than their existing loans. Lenders generally have a minimum tranche size for eligible investments, but recently have begun to deploy capital into these non-fungible tranches. Recently Jefferies arranged a non-fungible $125 million Term Loan for PetVet at L+325 issued at 98.5, compared to their existing L+275 loan. Also, Jefferies arranged a non-fungible $60 million Term Loan for Berlin Packaging with the same spread as their existing L+300 Loan, but with a discounted price of 96.0, compared to the fungible level of 98.55.

EQUITY CAPITAL MARKETS

Direct Private Investments by Pension Funds and Endowments Continue to Grow

Direct investing by pension funds and endowments, traditionally investing as limited partners ("LPs"), continues to expand. More LPs across the Americas, Europe and Asia have added dedicated teams to pursue direct investment transactions, with larger investors beginning to hire multiple industry-specific deal teams. The longer duration of their investments (typically 5-10 years or more) have largely insulated them from recent market volatility, with no discernable drop off in demand during the fourth quarter. As the LP appetite for direct investing has increased, the structure of these transactions has also expanded to include:

- Platform Company Investments – Investing $500 million to $1 billion in a blind pool format into a de novo company formed by a proven management team, whose prior track record and identifiable pipeline of opportunities are key criteria evaluated by LP investors. Jefferies recently raised over $900 million in blind pool capital for a de novo data center platform company.
- Minority Equity Financing – Purchasing a minority stake in an existing operating company with proceeds used to fund growth, provide shareholder liquidity and/or pursue acquisitions. These are often funded by a single LP but can also be structured as a "club deal" for larger minority investments.

Convertible Market Remains Resilient and Terms Remain at Historically Attractive Levels

Despite recent market volatility, the convertible market has been resilient and open to new issuance. A continued supply/demand imbalance with redemptions outpacing issuance, as well as investor outperformance relative to other asset classes has supported the general market backdrop. These dynamics, combined with relatively low interest rates and higher equity volatility, are driving attractive terms for issuers. Coupons remain at historically attractive levels with the average coupon for corporate issuers being less than 2% in 2018, and conversion premiums remain high, with the average conversion premium in 2018 being 30+%, along with the ability to raise the conversion premium to 100% with call spreads.

Accelerated Share Repurchase Activity Increasing

Accelerated Share Repurchase (ASR) volume has more than doubled year over year and given recent market volatility, there has been a significant increase in the use of ASRs. ASRs allow a company to retire a block of stock immediately, can be sized to meet capital return objectives and can serve as a tactical complement to existing open market programs. ASRs also offer several significant financial benefits when compared to traditional open market programs, including enhancing earnings per share by retiring a large block of stock immediately and repurchasing stock at a fixed discount to market prices. Finally, ASRs provide a strong signal to equity investors given the firm commitment to repurchase stock and require minimal management time and attention.

RESTRUCTURING AND RECAPITALIZATION

"Deemed Dividend" Tax Changes Enhance Financing & Liability Management Options for Stressed Companies

On October 31, 2018, the Internal Revenue Service and Treasury Department issued proposed regulations that in most circumstances eliminate the tax on "deemed dividends" (i.e. the transfer of foreign earnings back onshore). These includes transactions in which a foreign subsidiary invests in U.S. property, including not only via direct loans to a U.S. parent, but also certain types of credit support provided by a foreign subsidiary for the benefit of third party lenders to their U.S. parent – for example, via guarantees, pledges of more than 2/3 of the foreign subsidiary's stock, or other collateral.

As a result, stressed or distressed borrowers may now be able to significantly enhance the credit quality of their borrowings by offering the guarantees of their foreign subsidiaries and/or a pledge of their foreign subsidiaries' stock. For companies with significant foreign operations, these enhancements also may offer substantial incremental value to their creditors, either in the context of a new financing or a debt exchange, to improve its terms and enhance participation.

MUNICIPAL FINANCE

Issuers Should Prepare for the End of LIBOR

LIBOR, which is a key benchmark for billions of dollars of securities in the municipal market, will be discontinued by the end of 2021. Municipal issuers that have used LIBOR in financial instruments including bank loans, floating rate notes and bonds, and long dated interest rate derivatives will need to develop a replacement strategy. The Federal Reserve Board has selected the Secured Overnight Financing Rate (SOFR) as its recommended alternative to LIBOR. SOFR is a broad-based U.S. Treasury repo-secured financing index based upon actual transactions and is a lower rate than LIBOR, since LIBOR represents an unsecured rate. SOFR futures began trading in May 2018 and a robust SOFR curve is expected to be developed by the end of 2021. Some market participants have begun to issue new issue SOFR-based securities, using SOFR-based floating rate notes. These include $1 billion by the World Bank in August 2018, and $100 million by the New York MTA in September 2018, the first by a municipal issuer.

Best Research Ideas

AMERICAS

U.S. Insights – Housing: Needs a New Front Door, Not a Teardown

Jefferies published a collaborative report on the U.S. housing market where affordability concerns and weaker metrics have led to market uncertainty. The backdrop is compelling, though, with Millennials seeing above trend income growth just as this most populous tranche reaches household formation age. While the longer-term demographics favor homeownership, REIT analyst Tayo Okusanya pointed out that the decline in affordability and low housing inventory may continue to favor rentals and, therefore, apartment REITs. Building Products analyst Phil Ng believes builders will pivot toward more affordable housing, though evidence of that trend may take several quarters to show, and he highlighted SKY, MAS and FBHS in the current environment. Consumer analyst Jonathan Matuszewski believes FND overly discounts housing risks, especially as factors other than housing turnover correlate better to sales growth for the compan. FULL REPORT

— *Jefferies U.S. Equity Research*

Biotechnology – Three Emerging Positive Trends to Watch in China: Opening Up Huge Long-term Market Opportunity

Jefferies took a deep-dive look at the opportunities for U.S. biopharma in China, which has historically been closed to U.S. biopharma. The Chinese government, however, has recently shifted from a primarily "closed" network towards a more "open" and pro-innovation stance. Jefferies believes over time an estimated $20-25 billion "branded" drug market could grow to $50-100+ billion. AZN and Novo Nordisk currently generate $3 billion and $1.5 billion, respectively, in sales in China, and Jefferies estimates that if AMGN or GILD are able to generate 20-50% of that amount, it would be ~5% accretive to revenues per year over the next 3-5 years. FULL REPORT

— *Michael Yee, Jefferies U.S. Equity Research – Healthcare, Biotechnology*

Honeywell International – Deep Dive: Going the Distance with Aerospace & Defense Firepower

Jefferies analyzed HON's Aerospace portfolio, which appears likely to attain more market focus following the spin-off of the auto and residential businesses. Following the Garrett spin-off, Jefferies estimates 58% of the company's Aerospace portfolio will consist of aftermarket volumes vs. the peer average of 23%. Jefferies believes HON's aerospace portfolio, currently ~36% of revenues, is well-positioned for growth and profitability given aftermarket exposure, regulatory-driven benefits, and defense positioning as a key supplier. As a result, Jefferies raised HON's aerospace growth and profit forecasts by 5% in conjunction with this report. In addition, HON has potential to deploy $18 billion in capital over the next three years, which would be 15% accretive to EPS. FULL REPORT

— Sheila Kahyaoglu, Jefferies U.S. Equity Research – Industrials, Aerospace & Defense

EMEA

European Pharmaceuticals – Set to Capitalize on Taking its Medicine

Jefferies is positive on EU large-cap Pharma as it enters a period of sustained earnings momentum, justifying a move above the long-term historic PE. U.S. pricing remains a headline risk but investors are becoming immune to soundbites, and Jefferies sees real change being rational. Jefferies assumes coverage with Roche the most preferred EU large-cap Pharma, followed by GSK, Novartis and Sanofi. Jefferies is cautious on AstraZeneca, with Novo Nordisk the least preferred stock. FULL REPORT

— Peter Welford, European Pharmaceuticals Analyst

Renault – House of Cars, Season 3: Upgrade to Buy

After "Synergies" and "Coup," now comes Season 3: "Capital Unwinding." The most likely outcome from the current crisis, in Jefferies' opinion, is a rebalancing of the Nissan Alliance with cooperation continuing and Renault reducing its stake to a "fairer" level, possibly as low as 15%. Synergies can still be generated but selling down shares to Nissan or in the market would help reduce the valuation discount and enable Renault to redeploy capital organically or via M&A. FULL REPORT

— Philippe Houchois, European and U.S. Auto Analyst

ASIA

Telecom Services - Investor Guide to China's 5G Scenarios: Short-term Pain for Long-term Gain

China is set to become a leader in 5G, but government decisions on spectrum and thus licensing are taking longer than expected. To help investors, we offer in this 300-page report three most likely scenarios, analyzing in each how the Chinese telcos and the supply chain would fare. We think a CT-CU merger is much more likely than the market thinks, which makes CU and CT our top Buys, followed by ZTE and YOFC. We initiate on China Tower at Underperform. FULL REPORT

— Edison Lee, Jefferies Asia Equity Research – Telecom Services

Gas Utilities - Navigating the CGD wave, Initiating on Guj Gas with BUY; IGL top pick, MGL UNPF

We initiate on Guj Gas, assume coverage on IGL/MGL and evaluate the key themes affecting the CGD sector. IGL is our top pick where a 13% volume growth (aided by policy support) may drive a 16% CAGR in EPS (FY18-23E). We also like Guj Gas due to an expected recovery in margins and robust volume growth. We rate MGL as UNPF where we expect a mid single digit EPS growth capped by infra constraints rendering current valuations at 15x FY20E P/E unattractive. FULL REPORT

— Pratik Chaudhuri, Jefferies Asia Equity Research – Energy

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Consumer November 2018 Pending Jostens **$1,275,000,000** Sale to **Platinum Equity** Sole Financial Advisor	Industrials November 2018 CPM **$790,000,000** Credit Facility to Finance Acquisition by **American Securities, LLC** Joint Lead Arranger	Technology November 2018 CERIDIAN **$455,000,000** Common Stock Offering Joint Bookrunner	Energy October 2018 Pending NORECO **$1,910,000,000** Acquisition of Danish upstream assets from **Royal Dutch Shell Plc** Financial Advisor
Finance November 2018 Pending VIRTU FINANCIAL **$1,039,000,000** Acquisition of **Investment Technology Group, Inc.** Joint Financial Advisor	Consumer October 2018 YETI **$288,000,000** Initial Public Offering Joint Bookrunner	Energy October 2018 Pending PENN VIRGINIA CORPORATION **$1,700,000,000** Merger with **Denbury Resources Inc.** Sole Financial Advisor	Healthcare October 2018 Envision HEALTHCARE **$6,300,000,000** Credit Facility to Finance Acquisition by **KKR** Joint Lead Arranger
Industrials November 2018 HC2 **$470,000,000** Senior Secured Notes Offering Joint Bookrunner	Healthcare October 2018 Allogene THERAPEUTICS **$373,000,000** Initial Public Offering Joint Bookrunner	Technology October 2018 Upwork **$215,000,000** Initial Public Offering Joint Bookrunner	Media November 2018 IRi Growth delivered. **Undisclosed** Sale to Vestar Capital Partners Joint Financial Advisor **$1,680,000,000** Credit Facility to Finance Acquisition by **Vestar Capital Partners** Joint Lead Arranger
Industrials November 2018 INNIO **$2,225,000,000** Credit Facility to Finance Acquisition by **Advent International** Joint Lead Arranger	Consumer November 2018 Gibson **$550,000,000** Restructuring Financial Advisor to the Company	AeroDefense November 2018 Pending Bristow **$560,000,000** Acquisition of **Columbia Helicopters, Inc.** Sole Financial Advisor	Technology October 2018 September 2018 bmc **$4,775,000,000** Credit Facility to Finance Acquisition by **KKR** Joint Lead Arranger **$1,825,000,000** Senior Unsecured Notes Offering Joint Bookrunner
Real Estate November 2018 bxp Boston Properties **$1,000,000,000** Senior Unsecured Notes Offering Joint Bookrunner	Healthcare October 2018 CCS CORRECT CARE SOLUTIONS **$675,000,000** Credit Facility to Finance Acquisition by **H.I.G. Capital** Joint Lead Arranger	Technology October 2018 boingo **$201,000,000** Convertible Notes Offering Joint Bookrunner	Metals & Mining November 2018 contura energy **$550,000,000** Credit Facility to Finance Merger with **Alpha Natural Resources** Joint Lead Arranger
Technology November 2018 Pending ConvergeOne **$1,800,000,000** Sale to **CVC Capital** Joint Financial Advisor	Finance November 2018 AMCI Acquisition Corp. **$221,000,000** Initial Public Offering Sole Bookrunner	Energy October 2018 ENCINO Energy, LLC **$550,000,000** Credit Facility to Finance Acquisition of **Chesapeake Energy**'s Ohio Utica assets Joint Lead Arranger	Healthcare November 2018 Pending sobi Pioneer in Rare Diseases **$1,500,000,000** Plus up to $815,000,000 contingent Acquisition of Synagis® US rights and rights to participate in 50% of future earnings of MEDI8897 in the US from **AstraZeneca Plc** Sole Financial Advisor

JEFFERIES KEY FACTS & STATISTICS

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