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Jefferies 1Q Profit Up 21%; Revenue Climbs Broadly

By **BRETT PHILBIN**

NEW YORK (Dow Jones)—Jefferies Group Inc.'s (JEF) fiscal first-quarter profit climbed roughly one-fifth from a year ago as revenue surged in principal transactions and investment banking, and as the company got an unexpected boost in fixed-income trading.

Overall revenue at Jefferies climbed 31% to a record \$758.4 million.

During a conference call with analysts, Chairman and Chief Executive Richard Handler said, "I do believe we're gaining market share throughout all of our businesses."

Shares of Jefferies recently traded up 0.5% at \$24.67, after earlier rising as much as 5.2%.

For Jefferies, the first U.S. investment bank to report first-quarter results, the across-the-board revenue gains appear to be due to the investment bank's hiring spree since the financial crisis. While those efforts have slowed recently, Jefferies was one of the most active banks in adding talent from bulge-bracket firms since 2008.

Principal transactions, in particular, were a major beneficiary in the quarter as revenue nearly doubled from a year earlier to \$290.2 million.

"The increase is a reflection of the investment we have made over the course of the last several years in the trading business flow of both our fixed income

and equity platforms," Handler said in an interview. "It's been client-flow driven."

Jefferies' results are sometimes considered a barometer for larger rivals Goldman Sachs Group Inc. (GS) and Morgan Stanley (MS). Last week, however, analysts began cutting earnings estimates on the pair, as capital markets activity was disrupted by continued political unrest in the Middle East and, in March, the earthquake, tsunami and nuclear crisis in Japan. Jefferies' fiscal quarter ended Feb. 28, while the other firms include the month of March, during which some deals have been postponed.

For the quarter ended Feb. 28, Jefferies reported a profit of \$87.3 million, or 42 cents a share, up from \$72.1 million, or 35 cents a share, a year earlier.

Analysts polled by Thomson Reuters had most recently forecast earnings of 36 cents a share on \$637 million in revenue.

Bucking recent industry commentary from analysts, Jefferies experienced better trends within fixed income, posting its best results there since the third quarter of 2009, when such investments were fueling big profits at the likes of Goldman Sachs. In the quarter, fixed income trading at Jefferies surged 58% to \$318 million.

In a note to clients, Ticonderoga Securities analyst Douglas Sipkin wrote, "either Jefferies was very well positioned for the spike in rates in December or fixed income is generally a lot better than most are letting on."

"This should provide some support to bigger investment banks," he said.

Despite the better-than-expected results, Handler said "it wasn't an easy trading environment for fixed income," and instead was characterized by "extreme liquidity and very tight spreads." But he believes growth in the company's "individual businesses within fixed income is a reflection of market share gains as opposed to an overall lift in the marketplace."

Within investment banking, Jefferies continues to gain traction as the firm's revenue climbed about 21% to \$239 million. Jefferies completed 114 capital-markets transactions during the quarter, including 82 debt deals; in 40 of them, it served as a book-runner, or one of the banks in charge of the sale of securities.

While the company's headcount was roughly flat with the prior quarter at 3,082 employees, Handler said on the call that number was a "reflection of some of the garden-leave policies of some of our competitors" and the company completed the lion's share of its investments in new hires over the last couple of years.

Compensation costs for Jefferies jumped 38% to \$442.9 million.

Jefferies also experienced a sharp rebound in its asset-management business. While the unit accounts for a relatively small portion of the firm's total quarterly revenue, asset management fees and investment income from managed funds more than tripled to \$23.9 million, boosted by inflows to Jefferies' European-based convertible fund.