Jefferies Insights
JANUARY 2021

To our Jefferies Clients & Friends,

We just released our 2020 Letter to Shareholders which reflects on the challenges and opportunities of 2020 and the incredible growth and progress at Jefferies. We wish you a healthy and successful New Year and look forward to connecting personally with you in 2021. Please never hesitate to reach out to us if we can ever be of direct assistance.

Dear Fellow Shareholders,

History will record 2020 as one of the most challenging, threatening and complex times in the modern era. Our hearts go out to all of the people around the world whose lives have been forever impacted by serious illness, the passing of loved ones or financial hardship. At Jefferies, we sadly lost Peg Broadbent, our Jefferies Group CFO and partner, to this horrible virus. We miss him deeply and are thankful his legacy will support and inspire our organization well into our future. Hopefully, as we emerge from this period, we will be stronger, with a more pronounced spirit of humanity, cooperation, equality and caring for those most in need, as we all have a greater appreciation of the fragility of life and the understanding that we are truly "all in this together."

Turning to Jefferies, we are humbled by the resilience and strength of our team that rallied as never before and in the face of adversity further established themselves as true partners with each other, our clients and all of our other valued stakeholders. Our results for 2020 are not the consequence of an overnight miracle, but rather decades of investment, hard work, patience, perseverance and great execution. We believe 2020 was a seminal year for Jefferies and more is yet to come.

Jefferies Group, which includes our core Investment Banking, Capital Markets and Alternative Asset Management businesses, delivered 2020 record annual net revenues of $5.2 billion, up 67% over the prior year, record net earnings of $875 million, up 258% over the prior year, and a return on tangible equity (ROTE) of 20.4%. The operating leverage inherent in our business is demonstrated by the fact that our 2020 net revenues were 110% higher than in 2015, while our operating costs increased only 70%. We had said for several years that our margins would improve once we fully absorbed the significant investments we have made over the years in talent, technology and capabilities. This is reflected in our 23% pre-tax margin for 2020. Three of our four quarters in 2020 were each, at the time, all-time records in terms of net revenues and earnings, and our record fourth quarter means we are entering fiscal 2021 with real momentum. We believe the success of Jefferies Group in 2020 is sustainable into the future, and are optimistic for 2021 and beyond.

IN THIS ISSUE

Economics and Strategy

- A Strong Global Recovery Leads to Better-than-Expected Forecasts for Economic Growth and Earnings

Actionable Ideas for Companies and Sponsors

MERGERS AND ACQUISITIONS

- Financial Sponsor Go-Private Activity on the Rise
- Private Equity and Activist Investing: A Convergence in Asset Classes

DEBT CAPITAL MARKETS

- Dividend Recaps with Portability
- Leveraged Debt Maturity Wall Update

EQUITY CAPITAL MARKETS

- European Capital Markets Are Receptive to Companies Looking to Raise Start-up Capital
- Financial Sponsors Are Quickly Accessing the Follow-on Market for Secondary Offerings Post-IPO

DEBT ADVISORY & RESTRUCTURING

- Debt-for-Equity Exchange Offers in Restructurings

Best Research Ideas

- Global Insights – Make a Change: ESG's Influence on Equity Flows, Asset Returns & Stockpicking
- Microstrategy – What's in Style for 2021?
- Sustainability Matters – Metals & Mining: Is There Enough Copper for the Green Wave?

Jefferies Financial Group, our consolidated enterprise, recorded net income of $768 million, or $2.65 per fully diluted share, and adjusted ROTE was 11.7%. These results were held back by $101 million in non-cash charges at HomeFed and JETX in the first half of the year, as well as a $44 million non-cash charge to write-down our WeWork position to a de minimis amount.

Jefferies Financial Group returned $974 million in capital to shareholders in 2020 through $161 million in cash dividends and $813 million in share repurchases (42 million shares at an average of $19.29 per share). Over the past three fiscal years, Jefferies has returned to shareholders nearly $3.4 billion, or 44% of tangible shareholders' equity at the beginning of this effort. Yet, we closed fiscal year 2020 with tangible shareholders' equity of $7.5 billion, roughly equal to the level at the beginning of the three-year period. On a fully diluted per share basis, tangible book value increased from $20.48 three years ago to $27.38 at November 30, 2020. The combination of this 34% increase in tangible book value per share plus $3.05 per share for the three years in dividends and the Spectrum Brands distribution, delivered a 49% return to shareholders for this period. We finished 2020 with parent company liquidity of $1.9 billion and Jefferies Group ended the year with all-time record liquidity of $8.6 billion.

Our strategy remains straightforward and designed to complete the transformation of Jefferies into a pure financial services firm that is a global leader in Investment Banking, Capital Markets and Alternative Asset Management. With our continuing efforts to smartly manage down our legacy Merchant Banking portfolio, we intend to reinvest in our core business, while continuing to return excess capital to shareholders through buybacks and dividends. We expect Jefferies Financial Group's consolidated ROTE to converge over time with that of Jefferies Group. It should go without saying (but we will still say it and live it) that long-term stability and success will continue to require prudence in risk, liquidity and capital management and will be consistent with our respect for our obligations to all constituencies, including creditors, rating agencies, regulatory bodies, and the communities in which we live and operate.

Consistent with our stated plan, we are actively managing the legacy Merchant Banking portfolio for optimal value. We carry our remaining Merchant Banking investments on our balance sheet at their tangible book value of $1.9 billion. Since mid-2012 when Jefferies and Leucadia began the process toward merging, we have sold our interests in eleven businesses for $4.7 billion in proceeds and recognized pre-tax gains of $2.4 billion in aggregate, or 122% above tangible book value. We believe there is solid upside in the remaining portfolio.

We continue to believe that the stock market has neither fully appreciated the uniqueness and momentum of the Jefferies core operating platform, nor the sum of the value of our businesses and assets. We have taken advantage over the past three years of what we consider a "once in a lifetime" opportunity to reduce our fully diluted number of shares outstanding dramatically from 373 million to 274 million at prices that represent a substantial discount to both tangible and intrinsic value. As significant and long-term minded shareholders, we are thrilled that this massive reduction in share count has increased our personal ownership percentage and we are happy to let this commitment speak for itself.

Similarly, we easily could just stop here and allow the facts above to speak for themselves, but we believe that at this moment in the world, there are important topics that deserve to be addressed:

COVID-19 and Culture

With our combined 50+ years at Jefferies and 70+ years on Wall Street, we have endured many cycles and our share of crises. COVID-19 presented us with the most challenging set of threats we have ever faced. Not the least of these was at the onset, when our team successfully dealt with the historically unthinkable task of getting everyone safely working at home, while instantaneously transforming Jefferies Group from a firm with 41 regularly attended and densely populated global offices to a community operating from 3,822 individual home offices across four continents. This seamless evacuation and transformation (amid record market volumes, and broad corporate needs for advice and capital) strove to keep our precious employee-partners safe from the virus, while helping our clients navigate the staggering economic and market impact of the pandemic. Jefferies overcame this challenge not just because of the quality and commitment of our team, but also because of the strong bond of partnership, trust, camaraderie and transparency that defines our culture and permeates our firm. We also had a secret weapon that heroically enabled us to seamlessly protect our firm and serve our clients: our incredibly talented technology and support teams. We could not be any prouder of the entire Jefferies family.

Living in a COVID-19 World

We believe that 2021 will be a year of forward transition for society, thanks to the miraculous brilliance of our scientists and medical professionals who have developed vaccines that are beginning to rollout across the U.S. and world, hopefully on a fair-minded and transparent, prioritized basis. We caution everyone against premature celebration. This will be a frustrating and complex process of mass producing the vaccines, moving them properly through fill and finish technology, transporting them and ultimately administering the injections to all of us. We believe 2021 will be a dangerous year of making sure nobody gets careless or reckless as the COVID-19 war winds down and peacetime approaches. As such, we will continue to stress flexibility in allowing each member of the Jefferies team to decide personally whether and when to come to the office. We implore everyone to follow all the rules of social distancing, continual proper hygiene and wearing a mask whenever at possible risk. There will be a great deal to enjoy once this pandemic eases and we want to make sure the party will be as big as possible.

Future of Work at Jefferies

As we said above, COVID-19 will eventually be a crisis that ends. We learned that we all have much more flexibility than we ever realized in how, where and when we can work. The question therefore is: What does the future of work look like and how can we best design the operating environment of Jefferies to incorporate the needs and desires of our clients and our team? We started our process of developing perspective on this opportunity by sending out a fulsome survey to our people, asking many of the most relevant questions regarding how and where they want to work in the future. We are holding focus groups and leadership discussions around this topic. This will be an ongoing work in process and there is no doubt our thoughts will evolve as time passes and we learn more. That said, it is clear that there will be some version of a hybrid model going forward, creating a combination of a series of active central offices and meeting places, balanced with the opportunity to work from home. This will have implications for the size and layout of our offices, technology decisions, ability for people to live in a greater radius of their primary Jefferies location, and the elimination of the misguided notion that people raising families or caring for ailing loved ones can't be completely effective when they spend time at home. We don't know where this exercise will lead, but are optimistic that if we listen to our people and effectively balance their needs with our opportunities to serve our clients, the end result will be extremely positive for everyone. We wish it didn't take a pandemic to show us this was possible, but we certainly aren't going to let any of these newfound insights go to waste.

Diversity, Equity and Inclusion

Another regrettable, but very important realization in 2020, is the incontrovertible fact that there are serious systemic issues of racial inequality and exclusion permeating at least the U.S. and Europe, and it is up to all of us to accept and embrace this truth and do something about it. There was always a realization around this issue, but when we each watched video after video of this stark and painful reality, it became the last wake-up call we needed. Businesses must champion these causes and Jefferies is striving to do more than ever. We are extremely thankful that as a result of initiatives over the years, we now have six active Diversity, Equity and Inclusion Groups within our firm: J-NOBLE, jWIN, JEMS, jMosaic+, jVETS and NextGen. While they are empowered to help us be better, the fact is that it is up to every one of us to do our fair share and Jefferies will be relentless in our efforts.

U.S. Government

In March, we very actively and publicly expressed our opinion that governments needed to act smartly, swiftly and in huge scale to prevent an explosion of unemployment, an implosion in the financial markets and the destruction of far too many businesses that did absolutely nothing wrong. In the U.S., our political leaders on both sides of the aisle took actions that brought a desperately needed measure of stability to the economy. The economy is somewhat better today and the financial markets are projecting a return to health in a post-pandemic world, but reality is that far too many people and businesses are still in too much trouble and this winter will be very hard. We are writing this as some incremental stimulus has been approved. This will help, but may not be sufficient. We implore both U.S. political parties to put aside their differences and come together again now in 2021 and provide a truly sufficient backstop for those most in need, particularly essential workers and their families. We cannot let these people down just as the end of this calamity is finally in sight.

Privilege and Responsibility

There are some businesses, including Jefferies, that have been remarkably resilient and fortunate throughout this pandemic. COVID-19 has been hard on everyone and nobody is immune from its consequences, but the truth is that some people have been much more fortunate than others. We count ourselves and Jefferies in this category. There are many others. We would like to remind everyone, including ourselves, that it is a privilege to be in this position and every one of us needs to accept the responsibility that there is much we can do to help others who have been adversely impacted much more dramatically only because their circumstances made them more vulnerable.

Through our corporate philanthropy and support of volunteerism, Jefferies strives to make a positive difference in the communities in which we live and work. In this vein, in January, our firm, our employee-partners and our clients banded together to provide A$4 million of support for the wildfire relief efforts in Australia. In May, to honor Peg's memory, we led the donation of $9.25 million to over 85 different charities on the front lines of helping those in need in the face of COVID-19. There is more that we must and will do.

Culture defines every enterprise and we believe Jefferies benefits from our unique Wall Street culture of partnership, service, nimbleness, drive and humility. Inside Jefferies, we doubled down in 2020 on our people, their safety, their physical and mental well-being, their personal development and their commitments to each other, to justice and equity, and to society at large. As a people-driven business, our greatest contribution to the world flows through our team of outstanding and special individuals. We are committed to caring, service and accountability.

Annual Meeting and Investor Meeting

We look forward to answering your questions at our upcoming Annual Meeting on March 25, 2021. We also will hold our annual Jefferies Investor Meeting on October 12, 2021, at which time you will have the opportunity to hear from our senior leaders across the Jefferies platform. We thank all of you—our clients and customers, employee-partners, fellow shareholders, bondholders, vendors and all others associated with our businesses—for your continued partnership and support.

Sincerely,

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Appendix

The following tables reconcile financial results reported in accordance with generally accepted accounting principles ("GAAP") to non-GAAP financial results. The shareholders' letter contains non-GAAP financial information to aid investors in viewing our businesses and investments through the eyes of management while facilitating a comparison across historical periods. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, reported results prepared in accordance with GAAP.

JEFFERIES GROUP

Calculation of 2020 Return on Tangible Equity (ROTE) (1)

($ millions)	(Unaudited) Year Ended Nov. 30, 2020
Net earnings attributable to Jefferies Group LLC	$ 879
Reconciliation of Member's Equity to Tangible Member's Equity	**Nov. 30, 2019**
Member's equity (GAAP)	$ 6,125
Less: Intangible assets, net and goodwill	(1,814)
Tangible member's equity (non-GAAP)	$ 4,311
Return on tangible equity	20.4%

JEFFERIES FINANCIAL GROUP

Calculation of 2020 Adjusted Return on Tangible Equity (ROTE) (2)

($ millions)

Reconciliation of Net Income to Adjusted Net Income	(Unaudited) Year Ended Nov. 30, 2020
Net income attributable to common shareholders (GAAP)	$ 770
Intangible amortization and impairment expense, net of tax	11
Adjusted net income (non-GAAP)	$ 781
Reconciliation of Shareholders' Equity to Adjusted Tangible Shareholders' Equity	**Nov. 30, 2019**
Shareholders' equity (GAAP)	$ 9,580
Less: Intangible assets, net and goodwill	(1,923)
Less: Deferred tax asset	(462)
Less: Weighted average impact of 2020 cash dividends and share repurchases	(545)
Adjusted tangible shareholders' equity (non-GAAP)	$ 6,649
Adjusted return on tangible equity	11.7%

JEFFERIES FINANCIAL GROUP

Calculation of Tangible Book Value per Fully Diluted Share (3)

Reconciliation of Shareholders' Equity to Tangible Shareholders' Equity

($ millions)	(Unaudited) Nov. 30, 2020	Dec. 31, 2017
Shareholders' equity (GAAP)	$ 9,404	$ 10,106
Less: Intangible assets, net and goodwill	(1,913)	(2,463)
Tangible shareholders' equity (non-GAAP)	$ 7,490	$ 7,643

Reconciliation of Shares Outstanding to Fully Diluted Shares Outstanding

(millions)	(Unaudited) Nov. 30, 2020	Dec. 31, 2017
Shares outstanding (GAAP)	250	356
Restricted Stock Units ("RSUs")	23	16
Other dilutive shares	1	1
Fully diluted shares outstanding (non-GAAP) (4)	274	373
Tangible book value per fully diluted share	$ 27.38	$ 20.48

JEFFERIES FINANCIAL GROUP

Reconciliation of Book Value to Tangible Book Value of Merchant Banking Portfolio

($ millions)	(Unaudited) Nov. 30, 2020
Book value of Merchant Banking portfolio (GAAP)	$ 1,940
Less: Intangible assets, net and goodwill	(49)
Tangible book value of Merchant Banking portfolio (non-GAAP)	$ 1,892

JEFFERIES FINANCIAL GROUP

Reconciliation of Book Value to Tangible Book Value of Merchant Banking Assets Sold

($ millions)	
Book value of Merchant Banking assets sold since mid-2012 (GAAP)	$ 2,593
Less: Intangible assets, net and goodwill	(323)
Tangible book value of Merchant Banking assets sold since mid-2012 (non-GAAP)	$ 2,270

Notes:

(1) Jefferies Group ROTE is equal to 2020 Net earnings attributable to Jefferies Group LLC divided by beginning of year Tangible member's equity.

(2) Jefferies Financial Group Adjusted ROTE is equal to 2020 Adjusted net income divided by beginning of year Adjusted tangible shareholders' equity.

(3) Jefferies Financial Group Tangible book value per fully diluted share is equal to Tangible shareholders' equity divided by Fully diluted shares outstanding.

(4) Fully diluted shares outstanding exclude preferred shares as they are antidilutive. Fully diluted shares outstanding include vested RSUs as well as the target number of RSUs issuable under senior executive compensation plans.

Cautionary Note on Forward-Looking Statements

This letter contains "forward-looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. Forward-looking statements include statements about our future and statements that are not historical facts. These forward-looking statements are usually preceded by the words "should," "expect," "intend," "may," "will," or similar expressions. Forward-looking statements may contain expectations regarding revenues, earnings, operations, and other results, and may include statements of future performance, plans, and objectives. Forward-looking statements also include statements pertaining to our strategies for future development of our businesses and products. Forward-looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors, including Risk Factors that could cause actual results to differ, perhaps materially, from those in our forward-looking statements is contained in reports we file with the SEC. You should read and interpret any forward-looking statement together with reports we file with the SEC.

Past performance may not be indicative of future results. Different types of investments involve varying degrees of risk. Therefore, it should not be assumed that future performance of any specific investment or investment strategy will be profitable or equal the corresponding indicated performance level(s).

Economics and Strategy

A Strong Global Recovery Leads to Better-than-Expected Forecasts for Economic Growth and Earnings

In the U.S., Jefferies Chief Financial Economist Aneta Markowska expects growth to average at an above-consensus 5.25% next year, with a positive inflection point in January. While she expects the initial boost to come from fiscal stimulus, Aneta believes that by Q2 the vaccine will allow the private sector to take the baton by unleashing pent-up demand in service spending. Meanwhile, she believes ultra-low inventories will continue to drive manufacturing and housing activity and further highlights that financial markets have climbed the wall of worry on the vaccine and fiscal stimulus, and those risks are now gone. The main worry for 2021 is inflation and the Fed, however Aneta doesn't expect these risks to materialize. Despite stronger demand, she expects inflation pressures to ease on improving supply-side dynamics, both in the labor and goods markets, keeping the Fed from tapering until early 2022.

On a similar note, Chief European Financial Economist David Owen believes that with a vaccine being rolled out we can be much more confident about a strong recovery, albeit with deep economic scarring, from Q2 onward if a no deal Brexit can be avoided. Both monetary and fiscal policy will likely remain very accommodative, with the BoE potentially going negative in 2021. Brexit will bring a fundamental change in the economic geography of Europe, as the UK leaves the single market and customs union of the EU. David further points out that importantly, unlike the GFC, COVID-19 has brought a rapid pace of innovation and spending on pure science and research. Combined with an increasing focus on measures to combat climate change, he expects a rapid pace of company formation and a wave of mergers and acquisitions.

Chief Market Strategist David Zervos highlighted that recent price action has offered a clear view of what's in store during the upcoming recovery phase of this cycle. He believes the market is beginning to price in what he refers to as "the handoff," a point in the cycle where monetary policy takes a backseat to private-sector animal spirits. This transition replaces constant Fed support with true, organic economic growth—and marks when depressed expected real returns on risky investments turn the corner and start to rise markedly. David points out that there is a conditioning during the early phases of a downturn that associates dollar strength with system stress and risk-off. However, this reverses course when the Fed finally gets the monetary policy stimulus level calibrated correctly. David expects that as risky real rates turn back up, the USD will be supported, gold will suffer, equities will rally and the curve will steepen.

More specifically within global equities, Christopher Wood, Global and Asia Equity Strategist, continues to recommend a barbell strategy of owning both growth and cyclical stocks. However, if the choice was between owning only cyclical or growth stocks in the next three months, he would prioritize cyclicals. Christopher believes the American economy will be more resilient than many assume even without yet another fiscal stimulus. In addition, while the main risk to this view is a further acceleration in deaths in America, Christopher expects the vaccine momentum should continue to cause investors to look beyond this tragedy. From a longer-term perspective, he continues to prefer Asian and emerging market equities based on USD bearishness and China's increasing share of the world economy.

Global Equity Strategist Sean Darby echoes that in Q4 global equities benefited from news of successful launches of COVID-19 vaccines as well as the U.S. election proceeding smoothly. Importantly, earnings and GDP forecasts are continuing to be revised up, while monetary policy remains loose alongside a soft USD. He sees this as a perfect backdrop for global equities to outperform other asset classes in 2021. Sean's 2021 S&P 500 earnings estimate of 180 implies 28% growth vs. 2020 earnings and is 5% higher than the current consensus.

Actionable Ideas for Companies and Sponsors

MERGERS AND ACQUISITIONS

Financial Sponsor Go-Private Activity on the Rise

With the roll-out of COVID-19 vaccines, financial sponsors have turned their focus to opportunities in the public market arena. With over $1.6 trillion in dry powder, financial sponsors are focused on opportunities of scale which come with publicly listed companies. Further, with stock market valuations soaring, public company boards are once again willing to engage in dialogue with sponsors. Buyout activity is supported by a strong leveraged financed market environment in which many recent offerings have been substantially oversubscribed. In the three months ending December 2020, over $62 billion in go-privates were announced. This amount exceeds all go-private activity for the year up to September 1.

Recent go-privates of scale include:

- The $11.6 billion portfolio add-on of Dunkin' Brands to Inspire Brands, which is owned by Roark Capital; the acquisition of Dunkin' will add the Dunkin' and Baskin-Robbins brands to Inspire's existing portfolio which includes Arby's, Buffalo Wild Wings, SONIC Drive-in, and Jimmy Johns to create a restaurant colossus representing $26 billion in revenue from over 31,000 restaurants.
- The $3.0 billion acquisition of Endurance International, a leading provider of cloud-based platforms for small-to-medium businesses, by Clearlake Capital.
- The $1.4 billion acquisition of specialty building products distributor Foundation Building Materials by American Securities Capital.

Private Equity and Activist Investing: A Convergence in Asset Classes

As we begin the new year, the lines drawn between activist investors and traditional private equity continue to blur. Hedge fund activists such as Elliott Management continue to deploy capital to buy entire companies outright, a recent example being Elliott and Veritas Capital's joint bid for Cubic. At the same time, some PE firms continue to experiment with activist tactics. The public equity arm of private equity firm KKR, known for its management-friendly style, disclosed a rare "activist" 13D filing for a minority stake in Dave & Buster's, privately negotiating for a Board seat. TPG has raised a new fund to buy minority stakes in public companies and reserves the right to seek board representation alongside constructive engagement on strategic issues.

The convergence of private equity and activist investing persisted throughout the COVID-19 pandemic. In examples of this trend, PE funds used more aggressive activist tactics, including New Mountain Vantage's public campaign against Virtusa and Cannae Holdings/Senator's hostile bid and related proxy contest at CoreLogic. In Europe, Cerberus, a traditional private equity firm which historically has refrained from activist tactics, reportedly sent a letter to the Board of Commerzbank stating Cerberus had "serious doubts" about the newly appointed Chairman.

As activist investing has become an accepted asset class over the past two decades, the stigma historically associated with activism has declined and the reputational risks of deploying activist strategies and tactics has also declined. Activist investing offers PE firms the opportunity to deploy capital in an otherwise increasingly competitive investing universe. If PE firms conclude the increased opportunities for capital deployment and related ROI outweigh the reputational risks of adopting a more unsolicited, aggressive style, we should expect to continue to see more activist-like campaigns led by financial sponsors.

DEBT CAPITAL MARKETS

Dividend Recaps with Portability

The strength of the leveraged loan market has led to increasingly issuer-friendly structures, including those that support dividend transactions as well as rare but sponsor-friendly portability features in credit facilities. Portability is especially advantageous to private equity sponsors as it allows them to sell a portfolio company while retaining its existing capital structure; decreasing transaction costs and facilitating sale processes. With the recent strength in the market, issuers can couple portability with dividend transactions, allowing sponsors to take a dividend ahead of a potential sale and reduce market risk by meeting certain documentation conditions.

Jefferies recently completed a portable dividend recap transaction for Charter NEX, a specialty films producer owned by Leonard Green and Oak Hill. The $1.6 billion first lien term loan was priced at L+425 / 0.75% Floor / 99 OID. Pro forma leverage for this transaction increased from 4.0x / 4.9x to 5.5x / 7.2x. Similarly, this portability feature also played out in Jefferies' deal for Flexera, supporting Thoma Bravo's purchase of a majority stake in the Company. Jefferies recently completed a $285 million fungible incremental first lien term loan that supplemented the existing portable first lien term loan as part of the sale transaction.

Leveraged Debt Maturity Wall Update

As we begin 2021, the maturity landscape for high yield bonds and leveraged loans offers opportunities for issuers looking to refinance and update their capital structure. With rates near record lows, refinancings can offer issuers compelling payback periods by refinancing debt even as far as 2026. Looking ahead to the next four years, over $800 billion in high yield and leveraged loans will mature and may need to refinance. Even for issuers with call protection, the current rate environment and flat yield curve can offer significant savings.

EQUITY CAPITAL MARKETS

European Capital Markets Are Receptive to Companies Looking to Raise Start-up Capital

European issuers can take advantage of investor appetite to support newly created companies that invest in a specific business or asset class. There is an unprecedented opportunity to invest in sectors experiencing significant structural growth, which are uncorrelated with the broader economic cycle. Jefferies recently completed the $1.1 billion IPO of Conduit Holdings, a newly established reinsurance company, on the London Stock Exchange. Against an industry backdrop of losses, litigation and capacity constraints, as a new business Conduit had no legacy exposure and offered investors the opportunity to invest in an uncorrelated asset at book value.

UK closed-end investment funds have also been historically used to raise capital through an IPO with a portfolio of seed assets or an identified pipeline to invest in various asset classes including global healthcare, energy storage or energy efficiency. While there are different structures available to issuers, a good start-up candidate must have several characteristics: (i) a management team with a successful track record of achieving attractive returns; (ii) a focus on sectors with underlying secular growth characteristics; and (iii) access to investment opportunities.

Financial Sponsors Are Quickly Accessing the Follow-on Market for Secondary Offerings Post-IPO

Financial sponsors continue to access the follow-on market to monetize their stakes in recent IPOs. In 2020, sponsors monetized $27 billion through secondary share follow-on offerings and registered block trades. Importantly, we are seeing timeframes compress from IPO to first follow-ons. First follow-ons from Sponsor-backed IPOs since 2019 have priced, on average, five months after the IPO. This compares to the historical average of just over six months. Additionally, subsequent secondary share offerings have priced three months after the first follow-on compared to historical average of just over five months. We expect these timeframes to continue to compress given the strong market backdrop.

DEBT ADVISORY & RESTRUCTURING

Debt-for-Equity Exchange Offers in Restructurings

While debt-for-equity conversions can be accomplished through a Chapter 11 process, given the increasing direct and indirect costs of restructuring pursuant to Chapter 11, a growing number of companies are evaluating their ability to consummate an exchange offer outside of a bankruptcy.

There are several important considerations in utilizing exchange offers to complete out-of-court debt-for-equity conversions, including: (i) a very high acceptance rate (e.g., 95%) among bondholders is usually required, as most debentures in the United States have no collective action clause to drag along dissenters; (ii) the change of control provisions as exchanges can be very dilutive and trigger change of control provisions in the company's debt instruments; (iii) potential tax liability as the exchange may result in cancellation of debt income which can result in a significant tax payment; (iv) the company must have a clear runway going forward, with respect to both liquidity and other debt maturities, in order to be attractive for creditors to relinquish debt claims in exchange for equity; and (v) the company must have enough authorized but unissued shares in order to complete the exchange.

Best Research Ideas

Global Insights – Make a Change: ESG's Influence on Equity Flows, Asset Returns & Stockpicking

Jefferies analyzes the ESG landscape as it continues to gain importance in the investing community. In this deep dive report, Jefferies notes: ESG is one of the only areas with consistent inflows, a trend that is expected to continue as millennials build wealth; performance for ESG funds has been better than the overall trend; key themes to watch and methodologies for analyzing investments with ESG in mind. In addition, Jefferies points out that ESG investing could develop its own version of risk on/risk off based on differences in consistency, capital intensity, complexity and credibility.

— *Laurence Alexander, U.S. Equity Research – Chemicals and Steven DeSanctis, U.S. Equity Strategist*

Microstrategy – What's in Style for 2021?

Momentum dominated for most of 2020 while value underperformed severely, leading to extreme crowding in megacap tech. Since the positive news on COVID-19 vaccines, however, a reversal is underway. With earnings recovery accelerating, the reversal trade could stretch until Q1 with another 15% upside for value stocks along with COVID-impacted baskets. Longer term, more sustainable value strategies such as GARP and GARY, backed by earnings revisions, will be in focus.

— *Desh Peramunetilleke, Global Head of Microstrategy*

Sustainability Matters – Metals & Mining: Is There Enough Copper for the Green Wave?

A remarkable increment to demand for copper will come from the build of Offshore Wind and Electric Vehicles, leaving the commodity wired for higher prices. Jefferies' analysis indicates 20% deficits by 2030 with no short-term way to increase supply. As the substitutability of copper is low, price will have to do the work. The way to play this theme is via Glencore, Antofagasta, Freeport McMoRan and First Quantum. The analysis adds to the firm's body of research on Offshore Wind developers and contractors with a guide to which way the wind is blowing.

— *Chris LaFemina, Equity Research, Metals & Mining*

Jefferies Group LLC, the largest independent full-service global investment banking firm headquartered in the U.S. focused on serving clients for nearly 60 years, is a leader in providing insight, expertise and execution to investors, companies and governments. Our firm provides a full range of investment banking, advisory, sales and trading, research and wealth management services across all products in the Americas, Europe and Asia. Jefferies Group LLC is a wholly owned subsidiary of Jefferies Financial Group Inc. (NYSE: JEF), a diversified financial services company.

NOTABLE RECENT TRANSACTIONS

AeroDefense – November 2020 Rolls Royce **£2,397,000,000** Common Stock Offering Joint Global Coordinator	Technology – December 2020 airbnb **$3,830,000,000** Initial Public Offering Joint Bookrunner	Healthcare – December 2020 Pending hydrafacial **$1,140,000,000** Merger with **Vesper Healthcare Acquisition Corp.** Lead Financial Advisor	Telecom – October 2020 ligado NETWORKS **$3,850,000,000** Senior Secured Notes Offering Joint Bookrunner
Healthcare/ Consumer – December 2020 Pending aphria inc. **$1,613,000,000** Acquisition of **Tilray, Inc.** Sole Financial Advisor	Telecom – November 2020 Totalplay **$575,000,000** Senior Unsecured Notes Offering Joint Global Coordinator and Joint Bookrunner	Technology – October 2020 link mobility **NOK 6,900,000,000** Initial Public Offering Joint Global Coordinator and Joint Bookrunner	Healthcare – October 2020 Lianbio **$310,000,000** Private Placement of Equity Sole Placement Agent
Technology – December 2020 MicroStrategy **$650,000,000** Convertible Notes Offering Sole Bookrunner	Automotive Aftermarket – December 2020 Pending Truck Hero **Undisclosed** Sale to ***L Catterton*** Lead Financial Advisor	Healthcare – October 2020 AUROBINDO Committed to healthier life! **$550,000,000** Sale of **Natrol** to **New Mountain Capital** Sole Financial Advisor	Technology / Telecom – November 2020 OneWeb **$2,226,000,000** Restructuring Financial Advisor to the Committee of Unsecured Creditors
Healthcare – November 2020 Sotera Health **$1,233,000,000** Initial Public Offering Joint Bookrunner	Mining – November 2020 Pending Kaiser Aluminum **$670,000,000** Acquisition of **Alcoa Warrick LLC** Sole Financial Advisor	Healthcare – October 2020 Help at Home **$819,000,000** Credit Facility to Finance Acquisition by **Centerbridge** and **The Vistria Group** Joint Lead Arranger **Undisclosed** Sale to **Centerbridge Partners** and **Vistria Group** Sole Financial Advisor	Technology – November 2020 Pending Codemasters **$994,000,000** Sale to **Take-Two Interactive** Sole Financial Advisor
Power – October 2020 Linden Cogeneration Plant EFS Cogen Holdings I **$1,100,000,000** Credit Facility Joint Lead Arranger	Healthcare – December 2020 Certara **$769,000,000** Initial Public Offering Joint Bookrunner	Finance – October 2020 Brightstar **$420,000,000** Senior Secured Notes Offering Sole Bookrunner	Healthcare – December 2020 Pending adapthealth **$2,026,000,000** Acquisition of **AeroCare Holdings, Inc.** Lead Financial Advisor
Finance – December 2020 Conduit Re **$1,100,000,000** Initial Public Offering Joint Global Coordinator	Automotive Aftermarket – November 2020 Mavis Discount Tire **$500,000,000** Credit Facility to Finance Acquisition of **Town Fair Tire Centers Inc.** Sole Lead Arranger	Healthcare – November 2020 maravai LifeSciences **$1,863,000,000** Initial Public Offering Joint Bookrunner	Industrials – October 2020 SBP Holdings **Undisclosed** Refinancing Financial Advisor to the Company

JEFFERIES KEY FACTS & STATISTICS

(November 30, 2020)

Founded: 1962

Total Long-Term Capital: $13.0 billion

Number of Employees: 3,922

Companies under Global Equity Research Coverage: 2,500

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