Jefferies Insights

OCTOBER 2021

From Day 1 To The Start Of Jefferies 60th Year, It's Always Been About Our Clients and Our Team

Dear Clients, Fellow Employee-Partners, and Friends of Jefferies,

On October 2nd, 1962, Boyd Jefferies borrowed $30,000 and purchased a seat on the Pacific Coast Stock Exchange. The Jefferies firm grew to be the pioneer of the "third market," which enabled institutional investors to trade listed securities with each other in an over-the-counter manner. Tomorrow, we begin the 60th year that Jefferies has been in business, and while a lot has changed, much has remained the same. In particular, the philosophy our firm was built on 60 years ago:

1. There is no limit to what one can achieve.
2. It's amazing how lucky one gets when you consistently out-hustle the competition.
3. Clients First, Always.

The thousands of people who helped build Jefferies over the past almost six decades, including the 4500-plus of you here today who have been instrumental in super-charging that growth in the most recent periods, should be proud to see what Jefferies stands for and is today. Our original small stock trading business has been transformed into a full-service global investment banking and capital markets firm. Today, our equities platform has exceptional research, best in class electronic trading, highly specialized sector trading, prime brokerage, derivatives, convertible bonds, portfolio trading and wealth management advisory.

There was no fixed income business in the original version of Jefferies, but today our fixed income business is truly global in scale and presence. We serve our clients in investment grade, high yield, bank loans, emerging markets, municipal bonds, structured credit, mortgages, rates and distressed securities.

Instrumental to the growth of our trading businesses are our operations, support and tech teams. They are all state of the art and enable our entire Jefferies team to support our clients in good times and bad, while always protecting the foundation of the company. We started as a trading firm serving institutional clients, and today Jefferies has never been in a stronger position to carry on that legacy.

By fully leveraging the capabilities of our significant capital markets business, we have spent decades (especially the last 20 years) building a global investment banking and capital markets origination business that has become an indispensable and leading pillar of the firm. Because of our strong history, relationships and trust with the very best investors around the globe, today we are an important partner with thousands of prestigious investment banking clients. Effectively, because of our "one firm" team mentality, our sales, trading and research teams have enabled

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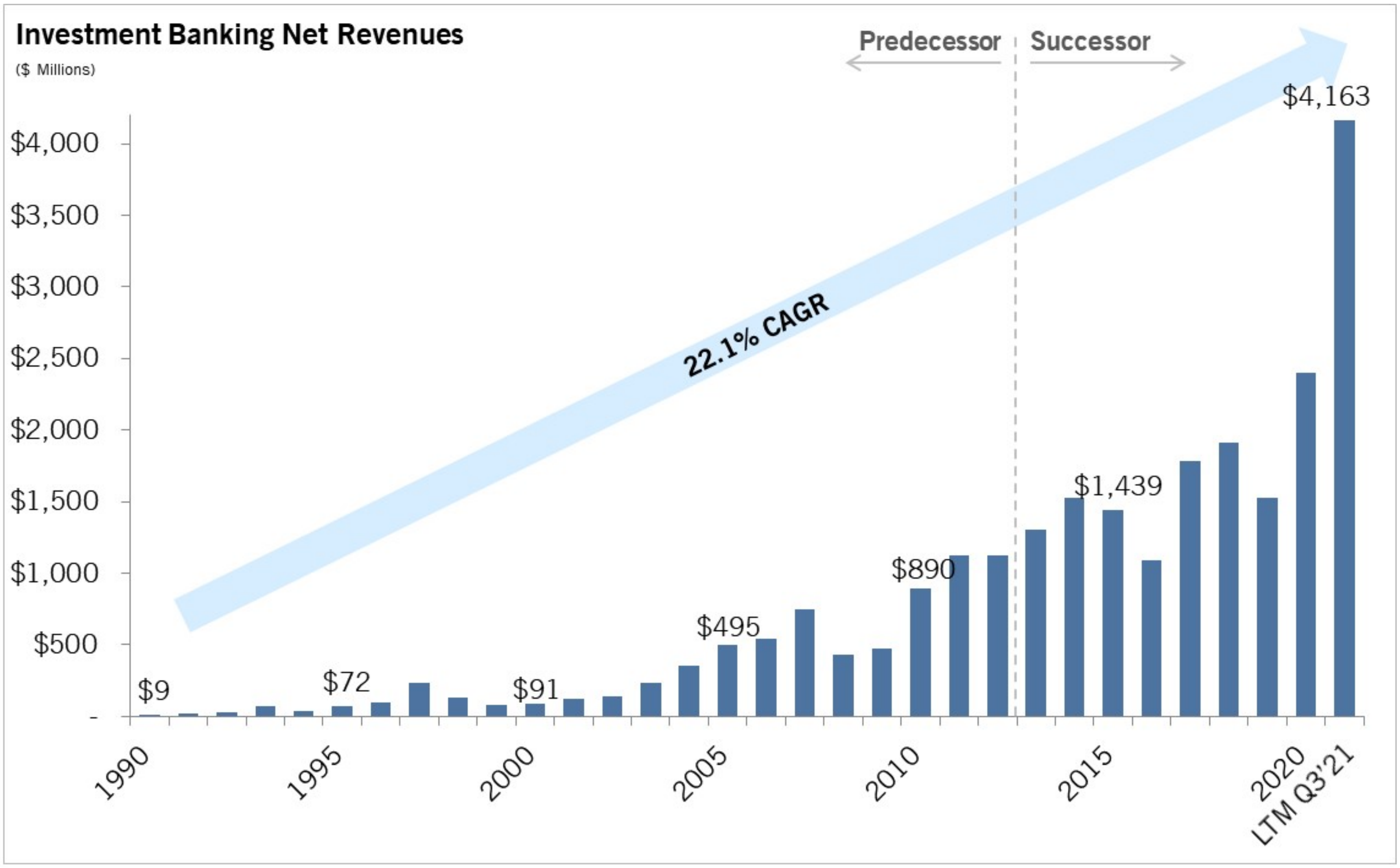
Jefferies to become the largest independent, U.S. headquartered, full-service investment banking firm. Today we have more than 1,300 investment bankers covering every industry with capabilities in virtually all products and services on a truly global basis. This business was started from scratch in 1990. Literally, every single relationship that has been established with our banking clients has been based on the same three principles that Jefferies was founded on in 1962. Our investment banking clients have rewarded us by trusting us to be their advisor with their most important and complex challenges and opportunities. They have been incredibly loyal over the years, as we all consistently strive to prove ourselves worthy of their trust every single day. As a result, approximately 70% of our banking revenues are from repeat clients. We are incredibly gratified and humbled by this reality. To put the magnitude of our growth into proper perspective, for our third quarter of 2021 that just ended, our investment banking team closed 424 banking transactions (6.5 deals per day) with total aggregate deal value approaching one-quarter of a trillion dollars. That is a LOT of trust from an enormous number of the very best companies in the world. This business was built person by person, deal by deal, over three decades, throughout all types of financial markets and by many incredibly talented individuals (at all levels of seniority) who have worked tirelessly and with enormous pride to serve our clients. They partnered successfully with our global sales, trading, research and support teams, and this is the result of their work to date:



Note: As reported in Jefferies Group public filings / press releases. Excludes predecessor first quarter ending 2/28/13. Investment Banking Revenues for the excluded quarter total $288 million. In the first quarter of 2018, we made changes to the presentation of our "Revenues by Source" to better align the manner in which we describe and present the results of our performance with the manner in which we manage our business activities and serve our clients. For a further discussion of these changes, see Jefferies Group LLC's Form 8-K filed on March 20, 2018. We have presented prior fiscal years 2016 and 2017 to reflect results on a comparable basis, as reported in Jefferies Group public filings. Periods prior to fiscal 2016 do not reflect these changes in the presentation of revenues by source. "Predecessor / Successor" line delineates merger with Jefferies Financial Group.

We may be entering our 60th year at Jefferies, but this is a firm that feels like we are all in our 20's -- okay, maybe our 30's. The reason for this is that when we wake up in the morning, we see opportunity to improve and grow in every direction we look. We are energized by our long-term Jefferies partners who have been with us for much of the heavy lifting that got us to where we are today. We are incredibly excited about and grateful for all the new Jefferies partners that have and who will join us to help us best navigate the future (our headcount grew by more than 600 people or 17% over the past 18 months). At the end of the day, the two groups of people that are entirely responsible for our results to date are our incredible clients and our more than 4,500-strong team of Jefferies partners. Without all of you, there would be no milestone birthday year ahead, there would be no results to be proud of, and certainly there would be no Jefferies.

Thank you all and happy birthday year to everyone that touches Jefferies,

Rich and Brian

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Economics and Strategy

Expectations for Accelerating Growth and a Resumption of the Cyclicals Trade

Chief Financial Economist Aneta Markowska continues to expect the Fed will announce a tapering program that will conclude by the middle of next year, which appears to have been confirmed at the most recent FOMC meeting. Inflation has clearly met the requirements for substantial progress, and despite the disappointing August payrolls print, labor market gains are keeping pace to reach full employment by the middle of 2022. While the state of the U.S. consumer remains one of the most hotly debated topics at the moment, recent retail sales data suggests that the fears related to Delta and stagflation were overdone. So while there was a loss of GDP growth momentum vs. 2Q, Aneta still forecasts 3Q growth of 4.8%. In addition, though significant concern about a potential stimulus cliff still exists, she thinks these concerns are overblown as households are still underspending relative to their current income. Aneta believes pent-up demand could generate a boost in travel and holiday shopping, which is why she expects GDP growth to re-accelerate toward 8% in 4Q.

European Economist Marchel Alexandrovich highlights that the European economy continues to recover and should reach its pre-pandemic level of output later this year. As both the euro area and the UK are seeing surging inflation, the markets are starting to focus on the timing of when the ECB and the BoE may pivot toward less accommodating monetary policy. Neither Central Bank will want to front-run the U.S. Fed, but over the coming quarters, if the recovery can be sustained, the BoE will start to discuss rate rises and the ECB will reduce the pace of its asset purchases. In terms of the risks, a sharp rise in the number of COVID cases over the winter months is one clear concern, and the Central Banks mishandling policy normalization is another.

Chief Market Strategist David Zervos continues to believe the long-term disinflationary trends will reassert themselves as the short-term COVID-induced supply disruptions dissipate and prove that current inflation concerns are overdone. He believes it necessary to push back on those that believe we will see 1970s-style inflation, as that mentality has been at the root of many horrible monetary policy mistakes over the last three decades — in particular, premature tightenings and delayed easings, which in turn led to extended periods of excessively high real rates, persistent growth undershoots or, even worse, unnecessary recessions. However, with makeup of the Fed changing, rates steepening and risks rising, David may be on the lookout for hedges to add to his preferred spoos trade.

Global Head of Equity Strategy Christopher Wood suggests the Delta variant has undoubtedly caused a setback for the cyclical trade this quarter, resulting in renewed outperformance by Big Tech stocks, and a renewed rotation into cyclical stocks should kick in once it becomes clear that the Delta wave has peaked–provided another more lethal variant doesn't emerge. As energy prices continue to rise globally despite the Delta surge, Christopher continues to support the energy trade, not only because of the demand side re-opening theme but also the lack of supply due to under-investment resulting from the escalating political attack on fossil fuels witnessed in recent years.

Global Equity Strategist Sean Darby notes that equity markets touched another consecutive quarterly record high helped by strong inflows and resilient earnings growth. Very strong pricing power accompanied by ultra-loose monetary policy has provided an excellent tailwind for profits, and the fact that long rates remain low has allowed for multiple expansion. However, the next quarter might see some headwinds appear as margins come under pressure and as global economic activity peaks led by China. As a result, Sean thinks investors should keep an eye on equity valuations.

Actionable Ideas for Companies and Sponsors

MERGERS AND ACQUISITIONS

Mid-market Corporate M&A Heats Up

Middle market corporate M&A has returned at a feverish pace with both buy-side and sell-side transactions sparking widespread competition. In 2021 year-to-date, acquisitions of middle market corporate targets between $1.0 and $5.0 billion are up nearly three times relative to 2020 and over 40% relative to 2019. This return to corporate deal making reflects a renewed focus on the pursuit of external growth opportunities and the need for scale, with both large and mid-capitalization corporates often competing for targets in their core markets. Recent examples of competitive activity in the broader corporate middle market arena include the bidding war for Meggitt Plc between Parker-Hannifin and TransDigm in in which TransDigm emerged as a potential topping bidder to Parker-Hannifin's agreed $8.7 billion takeover. The competition for Meggitt reflects the continuing need for scale in the aerospace and defense industry as suppliers seek critical mass in their dealings with Boeing and Airbus. Also in Europe, where activity levels have been even more robust than the U.S., Hella GmbH became the focus of an intense competition amongst multiple bidders who included Mahle GmbH, Cie Plastic Omnium and Faurecia SE. Faurecia ultimately prevailed with an agreed transaction valued at approximately $8.0 billion. This transaction also reflects the drive for scale as auto parts suppliers position themselves to supply electric mobility products and automated driving services to larger OEMs. Expect continued activity in the corporate arena as mid-market companies seek scale transactions or default to consolidating transactions with larger acquirors.

Heightened Investor Scrutiny on "Use of Proceeds" from PIPE Transactions

History suggests that sponsor-backed PIPE transactions tend to surge in times of turbulent market conditions, which is a trend that proved to be true again over the past year as more companies raised money via PIPEs than ever before in the wake of the COVID-19 pandemic and ensuing recession. There were over 100 PIPE transactions announced in 2020 alone, including Silver Lake's $1 billion investment in Twitter, Apollo and Silver Lake's $1.2 billion investment in Expedia, and KKR's $500 million investment in US Foods. Although PIPE deals often provide issuers in need of cash with strategic benefits that do not always come with more traditional capital market financing options, such deals are often subject to criticism from common shareholders because of the perceived notion that these deals can create a misalignment between the PIPE investor and the common shareholders.

Earlier this year, tech company Box, which already was considered to be "flush with cash," agreed to a $500 million convertible preferred equity deal with KKR in exchange for one Board seat. The investment gave KKR an 11% stake, making it one of the largest shareholders in Box. Later, activist investor and Box shareholder Starboard criticized the deal, opining it served no business purpose and was done in the face of a potential Board election contest to "buy the vote." Influential proxy advisory firms Glass Lewis and ISS each raised concerns over the KKR transaction. In its report, Glass Lewis stated, "Starboard fairly argues Box had little clear impetus to undertake a further capital raise in such a short time frame" while ISS noted the timing of the deal was a "head scratcher." Box shareholders ultimately rejected the Starboard slate at the annual meeting, an election result that Starboard in an open letter to shareholders blamed was "heavily skewed by the voting rights tied to the preferred equity financing".

Board and management teams should consider the public perception of raising capital, particularly through PIPE transactions. Without a demonstrated use of proceeds for the cash, shareholders are likely to view these deals as entrenchment maneuvers designed to create an almost veto-proof block of votes to ward off an activist or interloper. At the end of Q2 2021, corporate balance sheets held an all-time high of $6.8 trillion in cash and short-term investments, representing a 45% increase over the five-year average preceding the pandemic. With this high level of cash and potential inefficiency on corporate balance sheets, PIPE investments will continue to be subject to heightened scrutiny from investors.

DEBT CAPITAL MARKETS

Shift from Dual Tranche to Max Leverage Unitranche Structure

The strength of the leveraged loan market has led to increasingly issuer-friendly structures, including those that support all first lien transactions which benefit issuers by reducing their weighted average cost of debt. As private equity sponsors evaluate the most inexpensive financing options available for portfolio companies, the traditional first lien / second lien, dual tranche syndicated structure could give way to the less costly, all first lien max leverage syndicated unitranche structure.

In July 2021, Jefferies acted as Joint Lead Arranger in Sovos Compliance's all first lien, max leverage dividend recapitalization. The company's existing capital structure consisted of multiple first lien / second lien tranches resulting in first lien / total leverage of 3.7x / 7.4x. As part of the transaction, Sovos issued a $1,245 million First Lien Term Loan and a $215 million Delayed Draw First Lien Term Loan resulting in first lien / total leverage of 7.3x / 7.3x. In addition to syndicating the all first lien, max leverage unitranche structure, the underwriting group was able to tighten the existing first lien term loan margin from L+575 (1.0% LIBOR floor) to L+450 (0.5% LIBOR).

Rapid Expansion of the Whole Business ABS Market

Whole Business ABS is utilized by companies with cashflow generating assets to achieve higher ratings and thus a lower cost of funds versus the high yield and levered loan markets. As of September 28th, Whole Business ABS issuance volume for 2021 YTD totaled $10.9 billion, up +145% from 2020 total volume. Traditionally, Whole Business ABS has been used by large franchisors such as Wendy's and Dunkin' Donuts to obtain long-term investment grade-rated financing. These companies still comprise the majority of issuances, and recently issuers have been able to price transactions at all-time lows (e.g., on August 11th, Taco Bell priced a $2.25 billion 7.3-yr transaction at a weighted average cost of funds of 2.31%).

Jefferies has recently worked to expand the Whole Business ABS market to create a structure that is able to provide acquisition financing for sponsors and brand management companies looking to fund the purchase of franchisors. Unlike traditional Whole Business ABS, these acquisition financing structures are unrated and shorter-term. For example, FAT Brands Inc. has utilized this acquisition-finance Whole Business ABS structure to acquire two companies in 2021 – Global Franchise Group and Twin Peaks – which has effectively quadruped the company's cashflow. Jefferies acted as structuring agent and sole bookrunner on both transactions. This technology has the ability to be broadened to other sectors that exhibit strong recurring cashflows.

EQUITY CAPITAL MARKETS

Alternative Monetization Strategies for Equity Holdings

With U.S. equity markets trading near all-time highs coupled with record recent IPO and SPAC activity, we have seen meaningful wealth creation in equities that has led to increased capital markets activity. There are several alternative strategies versus traditional sell downs that allow these shareholders to monetize positions more efficiently. These approaches can provide hedged economics with meaningful proceeds, retained ownership for legal or tax purposes, incremental liquidity, customized economics, or a combination thereof, among other items.

Closed-End Investment Funds Provide Issuers with an Opportunity to Create New Companies Focused on Alternative Asset Classes

Closed-end investment funds are used by management teams to raise capital for newly created listed companies that invest in a specific asset class. European listed funds have raised $18 billion year-to-date. The UK continues to be the dominant market in Europe and represents approximately 50% of fund issuance. The growth of closed-end investment funds is driven by institutional investors' interest in public companies that provide exposure to alternative asset classes, including renewables, healthcare, real estate, credit strategies, infrastructure and private equity. Assets that generate a mid-single-digit dividend yield and a total return close to 10% are particularly attractive. These funds require a portfolio of seed assets or a clearly identified pipeline to have the IPO proceeds fully invested within 9-12 months. The most successful funds also have the ability to scale up the business and become multi-billion market cap companies through the issuance of multiple follow-on equity offerings that continue to provide growth capital for asset acquisitions over time.

DEBT ADVISORY & RESTRUCTURING

Acquiring Distressed Companies through "Plan Sponsor Reorganizations"

Sponsoring a plan of reorganization can be a creative way for private equity investors, hedge funds and strategic acquirers to take control of a distressed company when it emerges from Chapter 11. It is often the best alternative to a traditional 363 Asset Sale or plain vanilla Chapter 11 plan in situations where: (i) an asset sale will result in negative tax consequences, (ii) the solution to the restructuring requires new equity capital to execute a business plan or achieve consensus among disparate stakeholders, or (iii) when pre-petition creditors want to team up with a third party investor and retain interest in the re-organized company through a new money investment.

A Plan Sponsor transaction is one in which a private equity firm, existing creditor, or strategic acquirer agrees to invest new money in conjunction with a plan of re-organization. The new money is typically used to: (i) pay certain creditors in exchange for their claims and an affirmative vote in favor of the plan of re-organization and/or (ii) fund capital investments in the Company. In certain Plan Sponsor transactions, creditors receive a combination of cash from the new money investment plus a security interest in the re-organized company, often in the form of a minority equity stake in the reorganized company.

Best Research Ideas

Panning for Gold in Whitewater: Single Stocks with Substantial Upside

Jefferies published a report highlighting single stock ideas for outperformance from current, elevated index levels. Impact from the Delta variant, rising geopolitical instability and potential changes to monetary policy have caused positioning to tilt back toward risk averseness. That said, the Research team highlighted that economic data has remained broadly encouraging and 2Q earnings were robust on balance. In addition, the firm also sees a significant number of stocks under pressure with attractive company-specific attributes. For some, this is due to businesses transformations, product changes & innovations or secular trends that were largely unencumbered or outright accelerated by the ongoing pandemic. Jefferies analysts identified stocks for which they see substantial upside, with leverage to a continued recovery, secular drivers or stock-specific catalysts. The list includes: ACVA, ANF, AVNT, BLMN, CALX, CHPT, CL CN, CURO, DAL, ELY, FCX, FREE, GLNG, KMT, LFST, LKQ, LYV, MIDD, OLMA, PAR, PRG, THC and UTHR.

— *The Jefferies Global Equity Research Team*

The Thirty Years' War on Carbon

As part of Jefferies' global thought leadership in ESG, the firm has presented a view on the EU's decarbonization agenda to 2030 and the investment implications that will emerge. Key takeaways include: 1) Carbon costs will increase for all European companies; 2) the EU's leadership will fuel greater protectionism globally; and 3) investors should seek impact opportunities in the "unloved" transitional sectors and the "unusual suspects" of decarbonization.

— *Luke Sussams and Charles Boakye, EMEA Environmental, Social and Governance*

Demographics: Population declines in key markets

Humankind's population peaks at less than 10 billion and then declines almost everywhere. The developed world is already well on the way to being old. China peaks in 2035 and starts to shrink rapidly—can it avoid following Japans fate? India has its moment in the sun, and then it too declines. Only Africa offers population growth with Nigeria set to become more populated than China by 2100. Jefferies has identified stocks leveraged to the Mega Trend of Demographics.

— *Simon Powell, Global Head of Thematic Research, and the Jefferies Global Equity Research Team*

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

Sector	Date	Company	Amount	Details
Healthcare	July 2021 Pending	Pharmathen	€1,600,000,000	Sale to **Partners Group**; Sole Financial Advisor
Technology	July 2021	McAfee Enterprise	$2,950,000,000	Credit Facility to Finance Acquisition by **Symphony Technology Group**; Joint Lead Arranger
Healthcare	July 2021	Stevanato Group	$693,000,000	Initial Public Offering; Joint Bookrunner
Gaming	August 2021 Pending	Golden Nugget Online Gaming	$1,500,000,000	Merger with **DraftKings Inc.**; Lead Financial Advisor
Finance	July 2021 Pending	Bullish	$9,000,000,000	Merger with **Far Peak Acquisition Corporation**; Sole Financial Advisor and Capital Markets Advisor
Industrials	August 2021 Pending	Hitachi — Reliable solutions	Undisclosed	Termination of joint venture relationship with **Deere & Company**; Sole Financial Advisor
Real Estate	July 2021 Pending	GCP Student	£969,000,000	Sale to **Scape Living** and **iQSA**; Sole Financial Adviser
Healthcare	August 2021	adagio	$356,000,000	Initial Public Offering; Joint Bookrunner
Technology	June 2021	Mister Spex	€327,000,000	Initial Public Offering; Joint Global Coordinator
Consumer	September 2021 Pending	Igloo	$900,000,000	Sale to **Dometic Group AB**; Lead Financial Advisor
Healthcare	July 2021	Icosavax	$209,000,000	Initial Public Offering; Joint Bookrunner
Finance	August 2021 Pending	PICO	$1,400,000,000	Merger with **FTAC Athena Acquisition Corp.**; Joint Financial Advisor and Capital Markets Advisor
Industrials	August 2021 Pending	Euro Auctions	£775,000,000	Sale to **Ritchie Bros.**; Sole Financial Advisor
Healthcare	August 2021	Healthwell	$250,000,000	Initial Public Offering; Sole Bookrunner
Industrials	August 2021	Visible Supply Chain Mgmt	$838,000,000	Sale to **A.P. Moller Maersk**; Sole Financial Advisor
Finance	July 2021	Curo	$750,000,000	Senior Secured Notes Offering; Sole Bookrunner
Automotive Aftermarket	July 2021	Rough Country	$810,000,000	Credit Facility to Finance Acquisition by **TSG Consumer Partners**; Joint Lead Arranger
Industrials	August 2021 Pending	Sanne	£1,509,000,000	Sale to **Apex Acquisition Company Limited**; Joint Financial Advisor
Technology	August 2021 Pending	ADVA	€759,000,000	Merger with **ADTRAN Inc.**; Sole Financial Advisor
Automotive Aftermarket	September 2021 Pending	Prime Automotive	$880,000,000	Sale to **Group 1 Automotive**; Sole Financial Advisor
Industrials	September 2021 Pending	Rolls Royce / babcock	£315,000,000	Sale of 38.5% stake in **AirTanker Holdings Limited**; Sole Financial Advisor
Consumer	September 2021	Dutch Bros Coffee	$557,000,000	Initial Public Offering; Joint Bookrunner
Healthcare	September 2021 Pending	avantor	$2,900,000,000	Acquisition of **Masterflex**; Joint Financial Advisor
Healthcare	September 2021	Certara	$713,000,000	Common Stock Offering; Joint Bookrunner

JEFFERIES KEY FACTS & STATISTICS

(August 31, 2021)

Founded: 1962

Total Long-Term Capital: $13.6 billion

Number of Employees: 4,444

Companies under Global Equity Research Coverage: 2,800

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