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Here Comes Jefferies

Aggressive growth strategies propel firm up the ranks



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hen **Tim Healy**, CEO of **EnerNOC**, vetted investment banking firms to manage his company's IPO, **Jefferies & Co.** stood out. Of the 15 banking firms he reviewed, about half specialized in Fortune 500 corporations and the others were

By **Constance Gustke**

solidly focused on mid-tier businesses. "Jefferies was the only firm that actually differentiated itself during presentations," says Healy, whose clean-tech firm monitors electricity usage when electric grids are stressed by heavy use. "It wasn't just league tables. They said, 'Here's what we do, and here's what we don't do.'"

No surprise then that EnerNOC hired Jefferies to co-manage its public offering with **Morgan Stanley** and **Credit Suisse**. EnerNOC's flotation of 3.75 million shares at \$26 a share in May ended up 22 times oversubscribed. Some of the healthy investor appetite may have been due to how the investment banking firm managed the Boston company's debut in the public markets. "Jefferies was pounding the phone, getting the word out," says Healy. The firm's CEO and co-founder also recalls that Jefferies brought institutional investors into the mix, which Healy saw as its strength.

From the beginning, says Healy, a Jefferies vice chairman, **Paul Deninger**, was part of the team managing the public offering. "Paul knows some of the same VCs I know," Healy recalls. "And they had good things to say about him." But there was another selling point for Healy. Deninger spoke, as Healy puts it, with an "entrepreneur's passion, unlike other bankers."

Jefferies has a lot more going for it than banking for the clean-tech industry, though. The New York firm, which first opened its doors in Los Angeles nearly five decades ago, prides itself on its diversity, and it has tenaciously dug into 12 different industries. The result: a massive wave of more than 350 transactions in which Jefferies has participated, including merger-and-acquisition advisory work and IPOs last year worth more than \$145 billion. In 2006, Jefferies jumped to third place in the number of deals valued at less than \$500 million, according to **Thomson Financial**. That's up from

eighth in 2005. Suddenly, the firm's presence was becoming more obvious.

Jefferies plays multiple roles, everything from adviser to buyers or sellers and managing leveraged finance deals to co-managing IPOs and advising M&A transactions. Such a wide array of roles means that Jefferies can arrange financings for a young business, then take the company public, forging a long-term relationship that gushes fees over many years and capitalizes on Jefferies' reputation as a high-touch firm.

Take the case of **Dune Energy**. In the second quarter of this year, Jefferies provided multiple services to Dune, an oil and-gas exploration company listed on Nasdaq, that included a bridge loan, advising Dune's \$321 million purchase of **Goldking Energy** and raising money for the Goldking acquisition through the sale of \$216 million of convertible debt and \$300 million in high-yield debt.

Increasingly, investment banking and M&A play a greater role at Jefferies. In the second quarter of 2007, investment banking revenue rose 81% to \$223 million from the prior year's second quarter — the firm's best-ever results. Such surging growth prompted **Bank of America** analyst **Michael Hecht** to call Jefferies "a best-in-class investment bank," lauding its ability to snare market share. **Moody's Investors Service** in May noted that while Jefferies is "modest" relative to bulge-bracket firms in terms of earnings and the breadth of its product offerings, "the firm has a leading franchise in the middle-market segment, and strong relationships with many buy-side and investment banking clients."

When it comes to M&A, the firm was involved in 130 deals last year. The \$100 million to \$1 billion zone is the sweet spot, says **John Huwiler**, head of Jefferies' M&A group. Earlier this year, Jefferies handled the high-profile spinoff of **Aston Martin** from its **Ford Motor** parent into the arms of an investor group led by auto industry veteran **David Richards**. In that \$925 million deal, Jefferies represented the buyers. Jefferies has also handled three transactions for **Anadarko Petroleum**, each of which was around \$1 billion. "Our business is well-balanced," says Huwiler. "Our industry groups are constantly talking to companies in our sweet spot."

This year, Jefferies is hot on the trail again. A quick glance

at 2007 tombstones shows the diversity: grocery delivery company **FreshDirect** raised \$235 million with a convertible preferred offering in January, wireless broadband company **Clearwire's** \$600 million IPO was co-managed by Jefferies, and **MGM Mirage's** \$750 million senior note offering was co-managed by Jefferies.

Some seven years ago, Jefferies CEO **Richard Handler** made growth his mandate, and the firm grew from fewer than 990 employees in 1999 to a 2,200-person operation by the end of 2006. Today, Jefferies has 2,500 employees. The firm has no specific goal in terms of the number of people it wants to add because, as management puts it, the firm hires opportunistically. While the number of banking professionals has steadily increased, Jefferies has also pushed to build its sales and trading staff, particularly in the areas of prime brokerage and se-

curities finance. It now has some 550 investment bankers, and many of the firm's recent acquisitions have beefed up M&A and investment banking.

began aggressively building its overseas business. In May, it bought London-based **LongAcre Partners**, a European media and Internet M&A firm with 17 investment bankers. In June, it bought **Putnam Lovell's** global banking financial services business with 23 bankers, including a base in London. Jefferies' non-US business now accounts for only 13% to 15% of overall revenues, notes Bank of America's Hecht. "But, there is a real chance to replicate what the firm has done domestically," he says.

Recently, Jefferies opened a Frankfurt office, adding 13 bankers. "We'll grow significantly outside the US," according to Friedman. In the first three to six months of this year, half of the investment bankers Jefferies hired were overseas. In addition to Frankfurt, it now has offices in Zurich and Paris. Friedman believes "that's a good set to attack the market."

Much of the campaign to build a presence overseas is being staged by **David Weaver**, who was lured away from **Deutsche Bank** in June after a 17-year career as a senior banker at the German banking giant. Weaver now heads Jefferies' international efforts. "The biggest challenge internationally is finding the right partners and clients," says Weaver. "You discover who the leading players are, and then talk to them."

So far, the banking assignments in Europe are dominated by M&A advisory work, says **Chris Kanoff**, a co-head of Jefferies Investment Banking Group who has been with Jefferies since 1991. In the UK, Jefferies has underwritten nine public offerings in the past year, according to Friedman. Jefferies execs say the firm was drawn to Europe by the prospect of banking work within specific industry groups: industrial technology, clean technology, biotech, shipping and logistics, media, and aerospace and defense.

Jefferies management also plans to add as many as 30 bankers to handle consumer-oriented businesses, and the



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In quick order, Jefferies gobbled up aerospace and defense-sector player **Quarterdeck Investment Partners** in 2002; technology player **Broadview International** in 2003; energy specialist **Randall & Dewey** in 2005; and private equity placement agent **Helix Associates** the same year. Today, investment banking drives company growth.

Interestingly, a **Fitch** analysis of Jefferies published in May found that the banking firm's net revenue and net income have grown at a faster compound annual growth rate than an equally weighted composite of its bulge-bracket competitors.

"We've determined to be full-service to a broad range of industries," says **Brian Friedman**, the number-two man at Jefferies and chairman of its executive committee. "As a management team, we've been patient in each industry that we've entered."

Growing Pains

Rounding out the mix of talent and service offerings is now the goal of Jefferies' management. At the top of the firm's "to do" list is global expansion. This year, Jefferies



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banking firm wants to buttress its presence in the booming clean-tech niche, where it expects to add one or two senior bankers. Currently, four Jefferies bankers are panning for

business in the clean-tech world, up from two just months ago, says Friedman. The firm recently brought on **Paul Clegg** as an analyst to cover the clean-tech industry. Clegg was previously an analyst at **Natexis Bleichroeder**, where he tracked the alternative energy industry.

In the meantime, Jefferies plans to step up its role in mezzanine and high-yield financings. The firm, though, is no newcomer to high yield. Its corporate debt business has its roots in 1990, when Jefferies hired some 40 bankers and sales and trading professionals from **Drexel Burnham Lambert**. It was an astute move: while much of Wall Street backed off from high yield in the early 1990s after the collapse of Drexel and thrift buying of high-yield debt was curtailed, the junk debt mart was very much alive by the latter half of the decade and had become an acceptable investment for many fund managers.

Jefferies also has a joint venture with **Mass Mutual's** Babson subsidiary that allows the banking firm to arrange loans. Since the second quarter of 2005, Jefferies has agented 54 deals, 38 of them as a lead arranger, with loan sizes from \$50 million to \$250 million.

How does Jefferies map out its next step? By scrutinizing the marketplace, says Friedman. "We look at the types of activities we think will take place, and then we match it up against our capabilities," he says. For example, the consumer area that Jefferies has its eye on accounts for 14% to 15% of the economy and shows a lot of growth. "A large number of retailers and restaurants fit our client focus," he says.

Forging a Culture

Lots of acquisitions can mean integration headaches further down the road at many investment banks. While Jefferies would not offer details about staff turnover, top execs say that once they manage to acquire a group of professionals, these people do not leave. "The groups we've acquired have had the same culture," says Kanoff. "With a lot of these small companies, you know each other personally."

Part of the key to bringing on specialists and being able to retain them may be that the firm eschews the star system and has embraced what on Wall Street is known as the **Goldman Sachs** ethos, where the individual professional comes second to the client and the firm. "Our culture is based on camaraderie," Kanoff says.

"Every group leader owns a percentage of Jefferies," adds

Friedman. "It aligns them with the goals of the firm." (The firm is about 50% owned by employees.)

Indeed, the Jefferies mantra when adding staffers is that they're "looking for partners." And those partners can come from almost anywhere - other investment banks and even other industries, such as aerospace and energy. You will find Jefferies recruiting on the grounds of Ivy League schools on the East Coast, and at Stanford and UCLA on the West Coast.

"We are looking for people who are entrepreneurial and interested in working with entrepreneurs," says **Andrew Whittaker**, a vice chairman and a member of Jefferies' executive committee. People who finance their own education or start their own businesses are also preferred. When scout-



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ing at colleges, the company typically does three to four rounds of interviews.

Jefferies execs also say the "flat culture" — one without much of a hierarchy — helps attract good people. "We don't have a lot of layers," says Huwiler. "We're always on the front lines. We call ourselves 'player coaches.'"

The lack of a top-heavy bureaucracy attracts people who want to be "liberated from the bureaucracy/politics of their institutions," according to Bank of America's Hecht, who tracks Jefferies' stock, which last week was trading at just over \$28 a share. The attraction is the firm's "no-nonsense approach (no 'fiefdoms')." And then there's the draw of a fast-growing firm that has leapt to the head of the midmarket class.

CEO Handler also gets involved in many transactions, especially the debt issues, by motivating the sales force. This was particularly evident when Handler stepped in to help staffers complete some high-yield offerings in the rough month of August. The transactions were completed during one of Wall Street's most trying months. Says **Brent Stevens**, head of Jefferies' leveraged finance group: "When we say senior-level attention, we're not kidding." **ID**

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