

November 8, 2022 10:30 AM EDT

Jefferies Financial Group Inc. (Pre-Spin)
(NEUTRAL)

Current Share Price (11/7/2022): \$34.37	Ticker: JEF
Fair Value Estimate: \$38 per share	Dividend: \$1.20
Shares Outstanding: 228.8 million	Yield: 3.5%
Market Capitalization: \$7.8 billion	

Jefferies Financial Group Inc. (Post-Spin)

Fair Value Estimate: \$36 per share	Ticker: JEF
Shares Outstanding: 228.8 million	Dividend: TBD
Market Capitalization: \$8.1 billion	Yield: N/A

Vitesse Energy Inc.

Fair Value Estimate*: \$3 per share	Ticker: VTS
Shares Outstanding*: 228.8 million	Dividend: TBD
Market Capitalization: \$629 million	Yield: N/A

TBD – To be determined. N/A – Not applicable.

* Vitesse fair value estimate and shares outstanding based on a yet to be finalized, yet assumed one-for-one share distribution ratio.

Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin JEF.

Market capitalizations may not sum due to rounding.

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INVESTMENT THESIS

On July 19, 2022, before the market open, Jefferies Financial Group Inc. (NYSE: JEF) announced plans to separate its oil and gas exploration & production business, Vitesse Energy, into a standalone, publicly traded company via a tax-free spin-off. The separation is expected to be completed prior to year-end 2022. The planned spin-off, along with the completed sale of Idaho Timber, and together with management's plans to merge Jefferies Group LLC into Jefferies Financial Group Inc., will allow the companies to meet SEC requirements for duplicate filings, and eliminate the need to report Merchant Banking as a separate reportable segment. The merger part of the transaction was completed on November 1, 2022. Post-spin and sale, the legacy Merchant Banking portfolio's net book value will decline to under \$1 billion (from approximately \$1.6 billion).

Today, JEF describes itself as being "engaged in investment banking and capital markets, and asset management. The company is currently focused on building out its investment banking division, capital markets business, and alternative asset management." Additionally, JEF has a legacy portfolio of businesses and investments, many of which are related to the operations of Leucadia, which the company classifies as its "Merchant Banking" business. JEF is in the process of liquidating these assets or transferring them into the asset management arm of JEF.

We approach our valuation under the assumption that little to no value is currently being attributed to Vitesse Energy within the current JEF stock price. Further, we view the current JEF shareholder base as unlikely to have meaningful interest in holding shares of the oil and gas entity following the distribution, as their probable reason for owning Jefferies is for the financial market exposure. Under these assumptions, we do not expect a significant move in JEF's share price following the distribution, and we anticipate significant volatility in shares of Vitesse as JEF shareholders rotate out of the distributed shares, with little to no traditional sell-side coverage being assumed in the near term. That combination of factors may present an opportunity to buy VTS at a steeply discounted price relative to the assets that the company owns.

On a pre-spin basis, we fairly value shares of Jefferies Financial Group at \$38 per share. Given limited upside to fair value from the current market price, we rate pre-spin JEF shares at NEUTRAL. Following the separation, we will reassess our recommendation and would become incrementally more positive on both spin and parent companies if they were to trade at a significant discount to peers on book and earnings valuation metrics.

COMPANY DESCRIPTION

Jefferies Financial Group Inc. (NYSE: JEF), in its current form, is a result of the 2013 merger of Jefferies Group LLC and Leucadia National Corp. Jefferies Group LLC was founded in 1962 by Boyd Jefferies when the founder borrowed \$30,000 to purchase a seat on the Pacific Coast Exchange (acquired by Archipelago Holdings in 2005 and merged with the NYSE in 2006), where the company was primarily known for being a pioneer in the “third market,” through which institutions could trade listed stocks with anonymity and sufficient liquidity. In subsequent years, the company joined various stock exchanges, including the NYSE in 1967, while remaining focused on its profitable brokerage business. Following the retirement in 1987 of Mr. Jefferies (who was charged by the SEC in connection with securities violations in the course of doing business with then-customer Ivan Boesky), the new CEO, Frank Baxter, began diversifying Jefferies Group’s business by hiring 60 bankers and traders from the collapsed Drexel Burnham Lambert, bringing the company into the high-yield and investment banking markets. In 2000, Mr. Baxter retired as CEO, and Richard Handler, one of the Drexel bankers hired, assumed the CEO role, where he remains today.

Leucadia, for its part, was a diversified holding company focused on investments and on its ownership of a variety of businesses in a manner that the company likened to being a mini-Berkshire (NYSE: BRK-B). At the time of the merger with Jefferies Group, Leucadia owned majority interests in various operating businesses, including beef processing, manufacturing, gaming entertainment, real estate activities, and medical product development, as well minority interests in commercial mortgage origination and servicing, automobile dealerships, and real estate activities.

The merger of Jefferies Group LLC and Leucadia became effective on March 1, 2013, with Richard Handler assuming the CEO role at the combined company, which initially operated under the corporate moniker Leucadia National Corp. On May 24, 2018, the company changed its name to Jefferies Financial Group Inc.

Today, JEF describes itself as being “engaged in investment banking and capital markets, and asset management. The company is currently focused on building out its investment banking division, capital markets business, and alternative asset management.” Additionally, JEF has a legacy portfolio of businesses and investments, many of which are related to Leucadia’s operations, that the company classifies as its “Merchant Banking” business. JEF is in the process of liquidating these assets or transferring them into the asset management arm of JEF.

In F2021 (November fiscal year-end) the consolidated company generated \$8.1 billion in revenue, \$2.6 billion in EBITDA, and \$6.16 per share in net income, all of which were record highs, as JEF’s business units benefited from industry-wide strength (see Exhibit 1). As it is constituted currently, JEF reports under three segments: Investment Banking and Capital Markets (83% of revenue and EBITDA), Asset Management (4.1% of revenue and 6.5% of EBITDA), and Merchant Banking (12.7% of revenue and 10.5% of EBITDA) (see Exhibit 2). Notably, JEF’s disclosures to the sell-side are lacking in comparison to investment banking peers. JEF issues a press release in conjunction with quarterly earnings, but management does not hold quarterly conference calls. Under that model, JEF operates as something of a black box, especially with reference to the smaller business units, primarily held within the Merchant Banking segment.

Exhibit 1 Jefferies Financial Group Inc.: Historical Consolidated Operating Results

(\$ in millions, except per share data)

	<u>C2013</u>	<u>C2014</u>	<u>C2015</u>	<u>C2016</u>	<u>C2017</u>	<u>F2019</u>	<u>F2020</u>	<u>F2021</u>
Revenue	\$ 10,261.2	\$ 11,282.8	\$ 10,665.7	\$ 9,919.5	\$ 11,391.3	\$ 3,754.7	\$ 5,958.4	\$ 8,096.5
Gross Profit	2,693.5	3,043.1	2,788.7	2,901.4	4,171.8	3,211.9	5,353.2	7,625.7
EBITDA	639.2	387.3	415.7	297.7	1,149.7	322.0	1,416.0	2,571.5
Net Income	515.7	277.5	299.6	109.0	506.7	381.7	789.4	1,676.1
EPS	\$ 1.48	\$ 0.73	\$ 0.80	\$ 0.29	\$ 1.37	\$ 1.21	\$ 2.72	\$ 6.16
Revenue Growth	9.4%	10.0%	-5.5%	-7.0%	14.8%	N/A	58.7%	35.9%
Gross Margin	26.2%	27.0%	26.1%	29.3%	36.6%	85.5%	89.8%	94.2%
EBITDA Margin	6.2%	3.4%	3.9%	3.0%	10.1%	8.6%	23.8%	31.8%
Net Margin	5.0%	2.5%	2.8%	1.1%	4.4%	10.2%	13.2%	20.7%
EPS YoY	-60.2%	-50.5%	9.0%	-63.2%	365.0%	N/A	125.4%	126.5%
CFO	\$ 702.3	\$ (987.2)	\$ (761.8)	\$ 608.8	\$ 1,072.8	\$ (827.8)	\$ 2,075.9	\$ 1,573.0
Cap Ex	(166.1)	(600.8)	(295.9)	(318.7)	(193.5)	(232.2)	(177.0)	(165.6)
FCF	\$ 536.2	\$ (1,588.0)	\$ (1,057.6)	\$ 290.2	\$ 879.4	\$ (1,060.1)	\$ 1,899.0	\$ 1,407.4

Source: Company reports, and Bloomberg.

Exhibit 2 Jefferies Financial Group Inc.: Historical Operating Results by Segment

(\$ in millions)

(FY Nov End)	9 months					
	<u>F2019</u>	<u>F2020</u>	<u>F2021</u>	<u>3Q F2021</u>	<u>3Q F2022</u>	
Investment Banking and Capital Markets						
Revenue	\$ 3,036.0	\$ 4,989.1	\$ 6,796.6	\$ 5,183.3	\$ 3,714.9	
Operating Income	347.1	1,119.9	2,097.2	1,559.8	775.7	
Assets	40,523.2	44,835.1	51,974.3			
Depreciation and Amortization	77.5	82.3	85.2	62.5	69.7	
Pretax Income	\$ -	\$ 1,119.9	\$ 2,097.2	\$ 1,559.8	\$ 775.7	
Asset Management						
Revenue	\$ 84.9	\$ 235.3	\$ 336.7	\$ 293.9	\$ 77.3	
Operating Income	(41.1)	68.9	167.3	173.9	(26.7)	
Assets	3,313.7	3,231.1	3,150.7			
Depreciation and Amortization	2.0	5.2	1.9	1.5	1.2	
Pretax Income	\$ -	\$ 68.9	\$ 167.3	\$ 173.9	\$ (26.7)	
Merchant Banking						
Revenue	\$ 735.2	\$ 764.5	\$ 1,040.7	\$ 887.9	\$ 825.6	
Operating Income	63.9	(24.6)	208.8	170.0	229.6	
Assets	3,285.7	3,173.1	3,252.3			
Depreciation and Amortization	70.2	67.4	67.6	50.6	57.2	
Pretax Income	\$ 63.9	\$ (24.6)	\$ 114.4	\$ 170.0	\$ 173.1	

Source: Company reports, and Bloomberg.

Investment Banking and Capital Markets ("IB")

The IB segment is subdivided into Investment Banking, Equities, Fixed Income, and Other. JEF's Investment Banking division conducts advisory services, equity underwriting, debt underwriting, and corporate lending. Equities provides

research and capital markets capabilities (sales and trading), equity finance, and wealth management services to high-net-worth individuals, private equity, and venture funds, among others. Fixed Income provides capital markets for corporate bonds, U.S. and European government and agency securities, municipal bonds, and high-yield and distressed securities, among others. Other primarily consists of a 50/50 joint venture with Berkshire Hathaway Inc., Berkadia Commercial Mortgage Holding LLC, which originates commercial real estate loans for Fannie Mae, Freddie Mac, and FHA.

Investment Banking and Capital Markets generated \$6.8 billion in revenue and \$2.1 billion in operating income in F2021. Record F2021 IB revenue of \$4.42 billion (versus \$2.4 billion in the prior year) was driven by record Advisory and Underwriting revenue on increased deal flow and transaction fees. Capital Markets and Other revenue totaled \$2.37 billion, versus \$2.59 billion in the prior year, as “challenging market conditions for fixed income trading” led to lower volumes, particularly in 4Q F2021.

Through 3Q F2022, Advisory fees remained strong; however, this was offset by significantly lower debt and equity underwriting, resulting in a segment revenue decline of 30% versus the first nine months of F2021. Capital Markets revenue was negatively affected by equity market volatility and lower fixed income trading volumes (see Exhibit 3).

Exhibit 3 Jefferies Financial Group: Investment Banking and Capital Markets Historical Revenue Breakdown
(\$ in millions)

	<u>F2019</u>	<u>F2020</u>	<u>F2021</u>	<u>3O F2021</u>	<u>3O F2022</u>
Advisory	767.4	1,053.5	1,873.6	1,285.8	1,402.3
Equity Underwriting	362.0	902.0	1,557.4	1,186.7	429.5
<u>Debt Underwriting</u>	<u>407.3</u>	<u>546.0</u>	<u>935.1</u>	<u>712.4</u>	<u>429.1</u>
Total Underwriting	769.3	1,448.0	2,492.5	1,899.1	858.6
<u>Other</u>	<u>(14.6)</u>	<u>(103.3)</u>	<u>57.2</u>	<u>208.5</u>	<u>111.0</u>
Investment Banking Revenue	1,522.1	2,398.2	4,423.3	3,393.4	2,371.9
Capital Markets					
Equities	774.0	1,128.9	1,300.9	1,010.5	809.3
<u>Fixed Income</u>	<u>681.4</u>	<u>1,340.8</u>	<u>959.1</u>	<u>826.4</u>	<u>538.9</u>
Total Capital Markets	1,455.3	2,469.7	2,260.0	1,836.8	1,348.2
<u>Other</u>	<u>58.5</u>	<u>121.3</u>	<u>113.4</u>	<u>29.0</u>	<u>(5.2)</u>
Total Investment Banking and Capital Markets	3,036.0	4,989.1	6,796.6	5,259.3	3,714.9

Source: Company reports.

Asset Management

Operating as Leucadia Asset Management (“LAM”), the company provides alternative asset management platforms across a variety of strategies and asset classes to include niche equity and credit strategies. Products (strategies) are offered to pension funds, insurance companies, sovereign wealth funds, and other institutional investors globally. F2021 revenue increased by 43% to \$337 million versus the prior year, as increased investment returns drove management and performance fees increased by 355% to \$121 million. Through 3Q F2022, revenue declined by 74% to \$77.3 million, as higher management fees were offset by lower returns and revenue from strategic affiliates versus the prior-year period (see Exhibit 4).

Exhibit 4 Jefferies Financial Group: Asset Management Historical Revenue Breakdown

(\$ in millions)

	<u>F2019</u>	<u>F2020</u>	<u>F2021</u>	<u>3Q F2021</u>	<u>3Q F2022</u>
Asset Management Fees and Revenues	20.3	26.5	120.7	107.7	75.7
Investment Return	96.8	257.2	260.9	218.5	40.5
<u>Allocated Net Interest</u>	<u>(40.5)</u>	<u>(48.5)</u>	<u>(44,907.0)</u>	<u>(33.0)</u>	<u>(38.9)</u>
Total Asset Management Revenues	76.5	235.3	336.7	293.2	77.3

Source: Company reports.

Merchant Banking

The Merchant Banking business is comprised of a portfolio of legacy businesses that report under consolidated subsidiaries, equity investments, securities, or “in other ways.”

Over the past four-plus years, JEF has been strategically liquidating its Merchant Banking portfolio by either selling the businesses to third parties, distributing to shareholders, or transferring assets from Merchant Banking into the Asset Management segment. As of August 31, 2022, Merchant Banking primarily consisted of Italian fixed wireless broadband provider OpNet S.p.A., oil and gas exploration & production company Vitesse Energy, real estate developer HomeFed LLC, and foreign exchange trading provider FXCM Group LLC. (Notably, JEF sold its Idaho Timber real estate manufacturing business in August 2022 for \$239.3 million, recognizing a pre-tax gain of \$139 million.)

In F2021 Merchant Banking reported \$1 billion in revenue and \$114.4 million in pre-tax income, which benefited from record revenue at Idaho Timber and mark-to-market increases on several public and private investments (see Exhibit 5). JEF reports Merchant Banking under four operating divisions: Oil and Gas, Idaho Timber, Real Estate, and Other.

Through 3Q F2022, revenue increased by 1.6%, as strength at Idaho Timber (including the above-noted gain on the sale of this business) and at Vitesse Energy was offset by mark-to-market valuations. Notably, profitability at the Oil and Gas division, which includes Vitesse Energy and JETX Energy, has benefited greatly from the increase in oil and natural gas prices in the current economic and commodity environment.

Exhibit 5 Jefferies Financial Group: Merchant Banking Segment Historical Operating Results

(\$ in millions)

	<u>F2019</u>	<u>F2020</u>	<u>F2021</u>	<u>3Q F2021</u>	<u>3Q F2022</u>
<u>Revenue</u>					
Oil and Gas	150.2	142.0	151.8	95.3	177.8
Idaho Timber	324.8	421.5	538.7	440.9	564.6
Real Estate	37.4	47.2	130.1	112.3	94.6
<u>Other</u>	<u>222.8</u>	<u>153.8</u>	<u>220.2</u>	<u>164.0</u>	<u>(11.4)</u>
	735.2	764.5	1,040.7	812.5	825.6
<u>Expenses</u>					
Oil and Gas	170.7	178.7	146.8	103.9	129.8
Idaho Timber	306.8	341.8	433.7	351.1	343.1
Real Estate	39.9	66.0	108.0	95.6	66.0
<u>Other</u>	<u>130.7</u>	<u>127.1</u>	<u>143.4</u>	<u>58.7</u>	<u>57.2</u>
	648.2	713.6	831.9	609.3	596.0
<u>Pre-Tax Income</u>					
Oil and Gas	(20.5)	(36.7)	5.0	(8.5)	48.0
Idaho Timber	18.0	79.7	105.0	89.8	221.6
Real Estate	5,014.0	(64.9)	15.9	13.7	27.9
<u>Other</u>	<u>287.0</u>	<u>(2.7)</u>	<u>(11.5)</u>	<u>47.0</u>	<u>(124.4)</u>
	5,298.5	(24.6)	114.4	141.9	173.1

Source: Company reports, and Bloomberg.

Vitesse Energy Spin-Off

On July 19, 2022, Jefferies Financial Group Inc. (NYSE: JEF) announced plans to separate its oil and gas E&P business, Vitesse Energy, into a standalone, publicly traded company via a tax-free spin-off. The separation is expected to be completed prior to year-end 2022. The planned spin-off, along with the completed sale of Idaho Timber, and together with management's plans to merge Jefferies Group LLC into Jefferies Financial Group Inc., will allow for the need to file duplicate SEC filing requirements and eliminate the need to report Merchant Banking as a separate reportable segment. The merger part of the transaction was completed on November 1, 2022. Post-spin and sale, the legacy Merchant Banking portfolio's net book value will decline to under \$1 billion (from approximately \$1.6 billion).

From JEF's F2021 10K, Vitesse Energy is described as:

Vitesse Energy is our 97% owned consolidated subsidiary that acquires, invests and monetizes non-operated oil and gas working interests, royalties and minerals predominantly in the Bakken Shale oil field in the Williston Basin in North Dakota. Vitesse Energy's interests in flowing wells and Drilling Spacing Units ("DSUs") are operated by many of the U.S.'s leading operators. The undeveloped acreage within our DSUs is expected to be developed via new horizontal wells in the future by Vitesse Energy's operating partners. As Vitesse Energy's operators convert the undeveloped acreage into flowing horizontal wells, our working interests, royalties, and minerals in the new wells produce cash flows via the sale of oil and gas. Vitesse Energy has acquired 47,200 net acres of leaseholds and has an interest in over 5,500 producing wells (120 net wells) with current production as of November 2021 of over 10,000 barrels of oil equivalent per day (over 80% of production is oil). Vitesse Energy also has 865 gross wells (19 net wells) that are currently drilling, completing, or permitted for future drilling. Our strategic priorities for Vitesse Energy are to selectively add to our DSUs, participate

in future profitable horizontal wells with our operators, increase cash flow, maintain conservative leverage, limit the volatility of cash flows by appropriately hedging a portion of Vitesse Energy's oil production and profitably sell selective assets when appropriate. The net book value of our investment in Vitesse Energy was \$501.5 million at November 30, 2021.

Vitesse Energy was founded in 2013, with an investment of \$50 million. Since then, the investment has increased to roughly \$500 million and has generated over \$140 million in GAAP net income (according to vitesseoil.com, although we note that the information is not dated). The company is headed by CEO Bob Gerrity, who was the founder and CEO of Gerrity Oil & Gas Corp.

In October 2022, JEF management held an investor day at which management did disclose recent operating performance for Vitesse and details on its operations. According to the presentation slides, as of August 31, 2022, the company has interests in over 6,100 productive wells (133 net wells) with an average of 2.6% interest per working well, and an additional ~800 gross wells (16 net) that are drilling, completing, or have been permitted for development within its 480,000 net acres. Vitesse has completed over 120 acquisitions for over \$520 million and invested an additional \$400 million in development of oil and gas properties. Additionally, it was disclosed that as of November 30, 2021, the company had proved reserves of 42.5 million Boe (barrels of oil equivalent), with 30% of production hedged in 2023-24 at an average price of \$77.50.

Revenue is derived from the sale of oil and natural gas produced from Vitesse's properties and is dependent on volume produced, market prices, oil quality, and transportation costs. In F2021, Vitesse generated \$185 million in revenue from oil and gas and earned \$102 million in adjusted EBITDA. Despite year-over-year daily production that was roughly equivalent to F2020, 9,899 boe/d versus 9,655 boe/d in F2020, the sharp increase in oil and natural gas prices versus depressed prices during the height of the COVID pandemic resulted in a 59% rise in adjusted EBITDA. Through the first nine months of F2022, revenue totaled \$225 million, with adjusted EBITDA of \$123 million (see Exhibit 6).

Exhibit 6 Vitesse Energy: Historical Operating Results

(\$ in millions, except prices and production)

	Full Year Ended November 30,			9 mos
	<u>F2019</u>	<u>F2020</u>	<u>F2021</u>	<u>F2022</u>
Average NYMEX Oil Price (\$/Bbbl)	\$ 56.20	\$ 40.20	\$ 65.97	\$ 96.96
Average NYMEX Natural Gas Price (\$/MMBtu)	\$ 2.70	\$ 2.00	\$ 3.79	\$ 6.31
Daily Production (Boe/d)	10,724	9,655	9,899	10,048
Oil and Gas Revenue	\$ 171	\$ 97	\$ 185	\$ 225
Realized Hedging Gain/(Loss)	\$ 4	\$ 27	\$ (14)	\$ (40)
Adjusted EBITDA	\$ 109	\$ 64	\$ 102	\$ 123
Interest Expense	\$ (5)	\$ (5)	\$ (3)	\$ (3)
Drilling & Completion Capex	\$ (99)	\$ (61)	\$ (37)	\$ (37)
Acquisitions	\$ (5)	\$ (9)	\$ (6)	\$ (20)
FreeCash Flow	\$ -	\$ (11)	\$ 56	\$ 63
Net Income (Loss)	\$ 36	\$ (9)	\$ 18	\$ 56
Dividends Paid	\$ 25	\$ -	\$ 12	\$ 42
Net Debt	\$ 102	\$ 97	\$ 65	\$ 58
Net Debt/LTM Adjusted EBITDA	0.9x	1.5x	0.6x	0.4x

Source: Company reports.

The company's acreage exposure and consequently its daily production are heavily weighted toward the Williston Basin and primarily generate revenue from the sale of oil rather than natural gas (82% of revenue was from oil in 2021). Looking ahead, the company plans to pay a regular fixed dividend and continue to invest in new acquisitions of drilling interests and the conversion of undeveloped locations into income-generating assets. Year-to-date the company has spent \$20 million on new acquisitions. Given its exposure to oil and gas prices and their impact on earnings, the company will look to continue, and possibly expand, its hedging strategy to protect its planned fixed dividend. Additionally, the company expects to maintain modest leverage below 1.0x adjusted EBITDA.

VALUATION ANALYSIS

We approach our valuation under the assumption that little to no value is currently being attributed to Vitesse Energy within the current JEF stock price. Further, we view the current JEF shareholder base as unlikely to have meaningful interest in holding shares of the oil and gas entity following the distribution, as their probable reason for owning Jefferies is for the financial market exposure. Under these assumptions, we do not expect a significant move in JEF's share price following the distribution, and we anticipate significant volatility in shares of Vitesse as JEF shareholders rotate out of the distributed shares, with little to no traditional sell-side coverage being assumed in the near term. That combination of factors may present an opportunity to buy VTS at a steeply discounted price to the assets owned by the company.

Vitesse Energy

We base our fair value on estimated F2022 EBITDA. Based on the growth rate through 3Q F2022, we estimate that revenue will increase by 50% to \$277.5 million for the full fiscal year. Assuming margins remain around 55%, the company would generate \$152.6 million before interest, taxes, depreciation, and amortization. We note that the margin estimate is in line with F2021 levels but below the approximately 64% that was generated in F2019 and F2020. We compare Vitesse to a mix of small- and large-cap oil and gas E&P companies. This peer group trades on average at 4.5x the consensus 2022 EBITDA estimate. Applying the peer multiple to our \$152.6 million EBITDA estimate implies a \$687 million enterprise value for Vitesse. Accounting for net debt of \$58 million, and assuming a one-for-one distribution ratio resulting in 229 million shares outstanding, we estimate that shares of Vitesse would be valued at almost \$3 per share (see Exhibit 7). (The final share distribution ratio has not yet been set.)

Exhibit 7 Vitesse Energy: Fair Value Estimate Based on F2022E EBITDA

(\$ in millions, except per share data; shares in millions)

F2021 Revenue	\$	185.0
<u>Growth</u>		<u>50%</u>
F2022 Revenue		277.5
<u>Margin</u>		<u>55%</u>
EBITDA		152.6
<u>Multiple</u>		<u>4.5x</u>
Enterprise Value		686.8
<u>Net Debt</u>		<u>58.0</u>
Market Capitalization		628.8
<u>Shares Outstanding</u>		<u>229.0</u>
FVE \$ / Share	\$	2.75

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

As a sanity check for our EBITDA valuation exercise, investors could also look to the company's daily production and PV-10 reported measures. The company reports that average production for the nine months ended August 31, 2022, totaled 10,048 barrels of oil equivalent per day (Boe/d). Using the same peer group as above, the industry trades at approximately 68x EV-to-Boe/d. Applying that multiple to Vitesse's production implies a enterprise value of \$683 million, roughly equivalent to the valuation derived above. Additionally, the company reports PV-10 of \$601.6 million.

Risks to our Vitesse valuation primarily relate to the price of oil. In the current commodity price environment, the company is enjoying significant earnings power. However, as the company moves into 2023, visibility regarding the commodity price

environment remains unclear, as many economists are currently calling for a recession, which would significantly lower demand and prices, and the current Biden administration has assumed a “hostile” position toward the oil and gas industry.

Jefferies Financial Group: Post-Spin Valuation

Excluding Vitesse’s contribution, JEF would have generated \$8.0 billion in revenue in F2021. Based on the current revenue growth trends through 3Q F2022, we estimate post-spin JEF would report revenue of \$5.4 billion for full year F2022. Given current profitability, we estimate that JEF will operate with a blended pre-tax margin of 19.3%, resulting in pre-tax income of \$1.0 billion. We compare post-spin JEF to a basket of similar financial companies with exposure to investment banking and asset management, which currently trade at 10.5x the consensus 2022 EPS estimate and at 1.0x price to tangible book. Based on the current shares outstanding, we estimate that JEF will earn \$3.43 per share in F2022. Applying the peer multiple, shares of post-spin JEF would be fairly valued at \$36 per share (see Exhibit 8).

Exhibit 8 Jefferies Financial Group Inc.: Fair Value Estimate Based on F2022E EPS

(\$ in millions, except per share data; shares in millions)

	Revenue				
	<u>F2021</u>	<u>Growth</u>	<u>F2022</u>	<u>Margin</u>	<u>Pre-Tax</u>
Investment Banking	\$ 6,796.6	-30.0%	\$ 4,757.64	20.0%	\$ 951.53
Asset Management	\$ 336.7	-80.0%	\$ 67.34	-35.0%	\$ (23.57)
<u>Merchant Banking, ex Vitesse</u>	<u>\$ 855.7</u>	<u>-30.0%</u>	<u>\$ 599.01</u>	<u>20.0%</u>	<u>\$ 119.80</u>
Total	\$ 7,989.1	-32.1%	\$ 5,423.99	19.3%	\$ 1,047.76
F2022 Revenue	\$ 5,424.0				
<u>Pre-Tax Margin</u>	<u>19.3%</u>				
Pre-Tax Income	1,046.8				
<u>Taxes</u>	<u>272.2</u>				
Net Income	774.7				
<u>Shares Outstanding</u>	<u>229.0</u>				
EPS	\$ 3.38				
<u>Multiple</u>	<u>10.5x</u>				
FVE \$ / Share	\$ 35.52				

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Alternatively, investors could look at tangible book value per share to value post-spin Jefferies. Backing out Vitesse’s tangible book value, post-spin JEF will have a tangible book value of approximately \$36 per share (see Exhibit 9).

Exhibit 9 Jefferies Financial Group Inc.: Fair Value Estimate Based on Tangible Book Value

(\$ in millions, except per share data; shares in millions)

Tangible Book Value	\$ 8,662.0
<u>Less Vitesse</u>	<u>505.3</u>
Adjusted TBV/Share	8,156.7
<u>Shares Outstanding</u>	<u>229.0</u>
Tangible Book Value per Share	\$ 35.62
<u>Multiple</u>	<u>1.0x</u>
FVE \$ / Share	\$ 35.62

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

On a pre-spin basis, we fairly value shares of Jefferies Financial Group at \$38 per share. Given limited upside to fair value from the current market price, we rate pre-spin JEF shares at NEUTRAL.

CONCLUSION

We approach our valuation under the assumption that little to no value is currently being attributed to Vitesse Energy within the current JEF stock price. Further, we view the current JEF shareholder base as unlikely to have meaningful interest in holding shares of the oil and gas entity following the distribution, as their probable reason for owning Jefferies is for the financial market exposure. Under these assumptions we do not expect a significant move in JEF's share price following the distribution, and we anticipate significant volatility in shares of Vitesse as JEF shareholders rotate out of the distributed shares, with little to no traditional sell-side coverage being assumed in the near term. That combination of factors may present an opportunity to buy VTS at a steeply discounted price relative to the assets that the company owns.

On a pre-spin basis, we fairly value shares of Jefferies Financial Group at \$38 per share. Given limited upside to fair value from the current market price, we rate pre-spin JEF shares at NEUTRAL. Following the separation, we will reassess our recommendation and would become incrementally more positive on both spin and parent companies if they were to trade at a significant discount to peers on book and earnings valuation metrics.

Disclosures

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