

Jefferies Commodities Push Earns Praise

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NEW YORK (TheStreet) -- Jefferies Group is winning plaudits for its purchase of Prudential Bache's commodities group for \$430 million on Thursday, in what observers say is the latest sign the mid-sized investment bank is building itself into a legitimate nuisance for giants like Goldman Sachs, Morgan Stanley and JPMorgan Chase.

"While the behemoths of Wall Street are struggling with problems stemming from their size, more nimble competitors are able to take aim at their traditional markets," says George Stein, managing director of New York-based Commodity Talent LLC, a global recruiting firm focused on commodities. "Jefferies may be small relative to the Wall Street bulge brackets but they are a comer. They have been adding enough to make them a contender in investment banking, and now in commodities."

For Prudential Bache, a subsidiary of Prudential Financial, the timing was right for a sale, Stein says.

"Commodities for some time had been seen as extraneous to their core business. With the recent run-up in oil prices and most commodity units on Wall Street reporting good first quarters, this was the time to make a deal."

Analysts also praised the deal, with Ticonderoga Securities analyst Doug Sipkin noting that Prudential Bache has a presence "on all major futures and options exchanges around the world," providing both clearing and brokerage services for listed derivatives.

"This transaction improves [Jefferies'] positioning and its potential to capitalize on future regulatory changes in the derivatives arena," wrote Sipkin, who has a "buy" on the stock.

Rochdale Securities analyst Dick Bove calls Jefferies a "sleeper," that is "really moving aggressively to capture a portion of the effective trading market."

Bove is a big admirer of Jefferies CEO and Chairman Rich Handler, who at just 49 years old has run the company for 10 years.

"If you walk into his office, it's a dump. He's got this rickety old conference table that you wouldn't even put in your house, he's wearing chinos and a wrinkled shirt; the guy is 1000% committed to the growth of this organization. He's done a phenomenal job in growing it to this point. I think this is a big breakthrough. It's a big acquisition for them and I'm tremendously impressed by what they're doing."

Despite all the praise for the deal, the market didn't like it. Investors sent Jefferies shares down by 1.63% to close at \$24.71. Sandler O'Neill analyst Jeff Harte, who has a "hold" on Jefferies and wrote in a note that he saw the deal as expensive, still described the market reaction as "overly harsh," and added that he would review his rating if shares were to fall further.

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George H. Stein, CFA
Managing Director, Commodity Talent LLC
349 5th Ave., 7th Flr., New York, NY 10016
T +1 646 205-3557 M +1 917 545-9850
E ghstein@commoditytalent.com