



Global Strategy Offsite

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Chief Administrative Officer

March 2006

LEHMAN BROTHERS

Introduction

- ◆ The Road to \$150
- ◆ How We Did It
- ◆ The Road to \$150...Again

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The Road to \$150

2004-2007 Plan vs. Performance

(Fiscal year)

	Budget	Plan	Actual	CAGR/ Δ	
	2004	2007	2005	2004B-2007P	2004B-2005
Net Revenues (\$bn)	\$9.8	\$13.7	\$14.6	12%	49%
Net Income (\$bn)	\$1.8	\$2.8	\$3.3	16%	83%
EPS	\$6.09	\$10.00	\$10.87	18%	78%
BV per share	\$47.60	\$63.50	\$57.50	10%	21%
P/B	1.8x	2.4x	2.5x	0.6 Δ	0.7 Δ
P/E (First Call)	11.6x	15.0x	12.5x	3.4 Δ	0.9 Δ
Share Price	\$83	\$150	\$145	22%	32%

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Revenues by Division and Region

2004-2007 FY Revenues by Division and Region

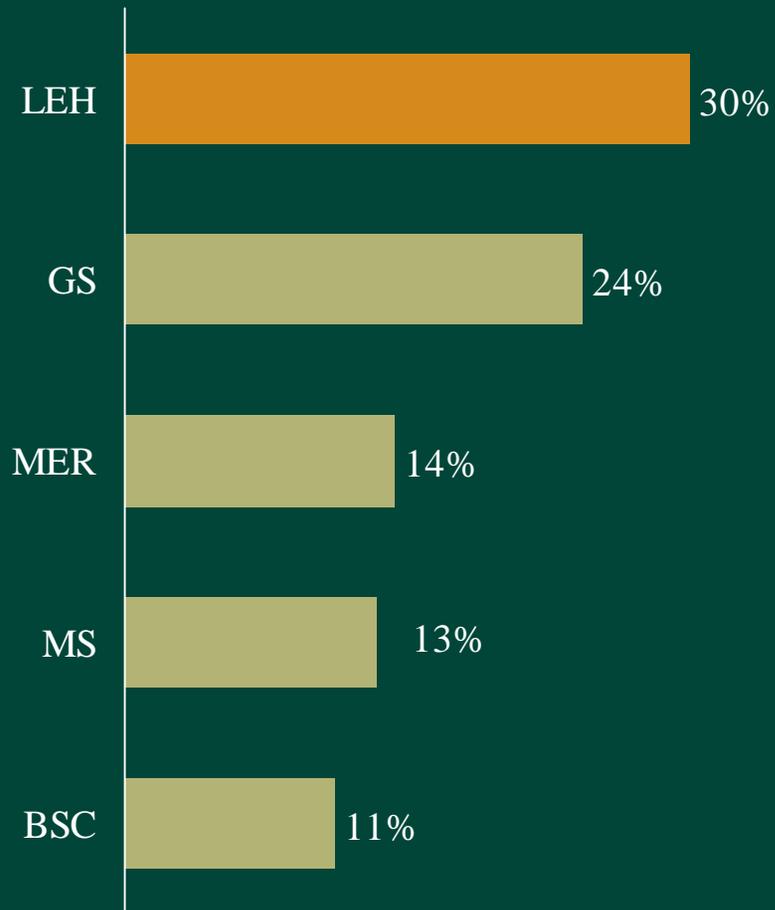
(\$ Billions)

	Budget	Plan	Actual	CAGR/ Δ	
	2004	2007	2005	2004B-2007P	2004B-2005
Fixed Income	\$4.50	\$6.00	\$8.52	10%	89%
Equities	\$2.40	\$3.20	\$3.11	10%	30%
Investment Banking	\$1.10	\$1.75	\$1.90	17%	73%
Investment Management	\$0.91	\$1.46	\$1.22	17%	34%
Non-U.S. Revenue					
Europe	\$1.97	\$2.74	\$3.16	12%	60%
Asia	\$0.72	\$1.17	\$1.53	18%	113%

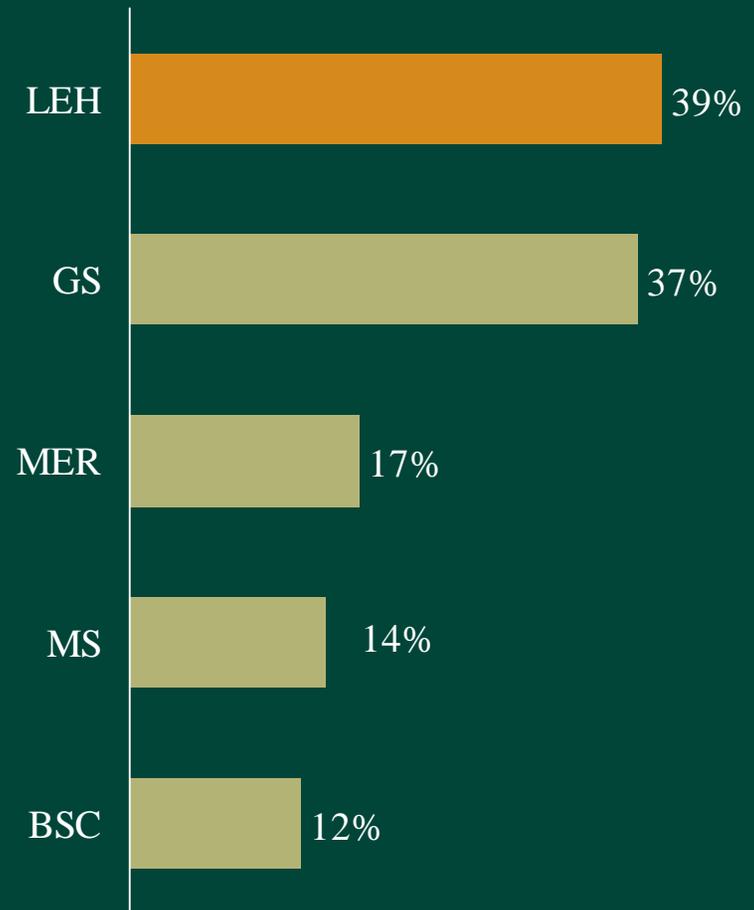
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Outperformed Peers

**Revenue CAGR
2003-2005**



**Net Income CAGR
2003-2005**



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Closing the PE and PB Gaps

Price-to-Earnings (Forward, 1999 – Current)

	1999-2001	2002-2005	Current
LEH	10.4x	11.8x	12.5x
Peers	14.4x	12.7x	12.3x
Gap to Peers	(4.0)Δ	(0.9)Δ	0.2Δ

Price-to-Book (1999 – Current)

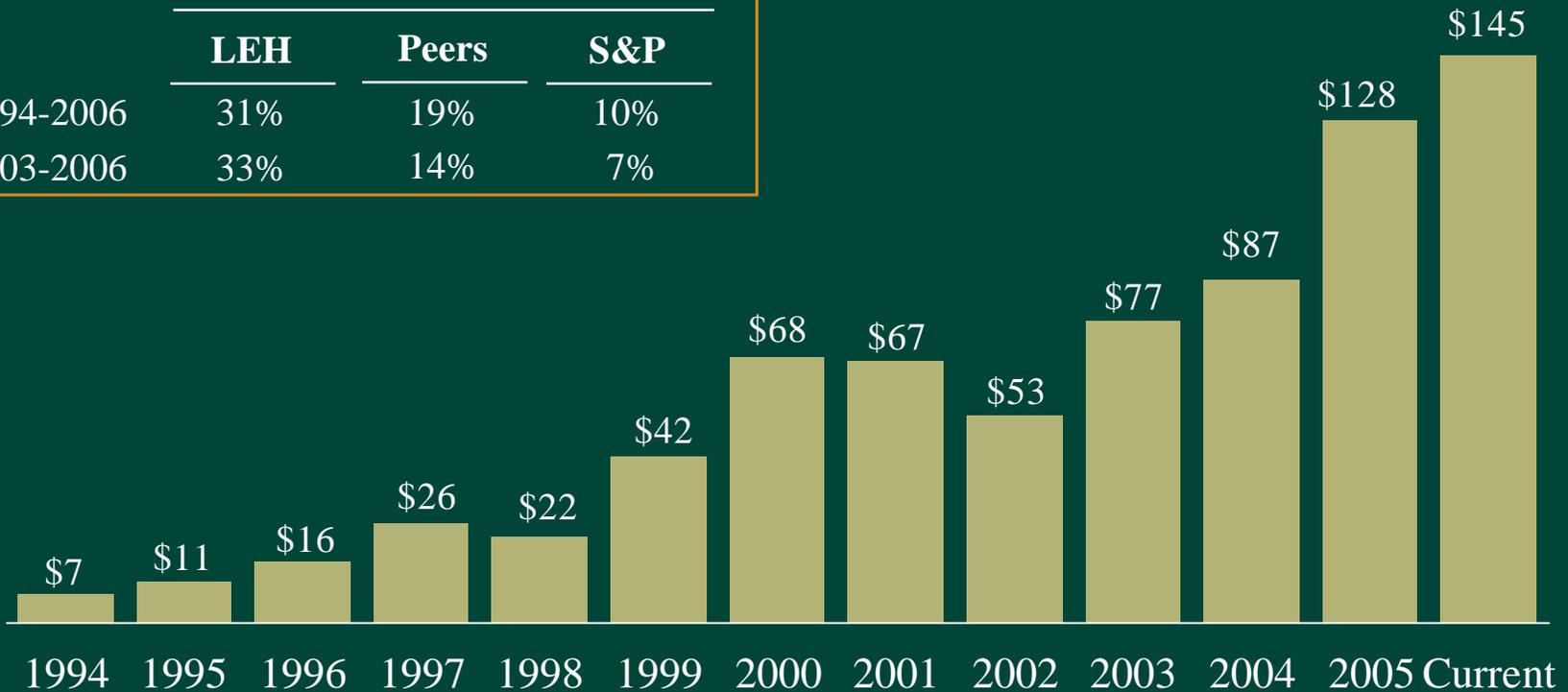
	1999-2001	2002-2005	Current
LEH	2.0x	1.8x	2.5x
Peers	3.0x	1.8x	2.1x
Gap to Peers	(1.0)Δ	(0.0)Δ	0.4Δ

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Valuation Gain / Out Performance

Year End Share Price

	CAGRs		
	LEH	Peers	S&P
1994-2006	31%	19%	10%
2003-2006	33%	14%	7%



Market

Market Cap (\$bn)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Current
Market Cap (\$bn)	\$1.6	\$2.4	\$2.9	\$5.9	\$5.7	\$9.2	\$11.7	\$15.7	\$14.2	\$19.3	\$23.0	\$34.2	\$39.0

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How We Did It:

- ◆ Successfully Executed Strategy
- ◆ Favorable Market Environment
- ◆ Attractive Industry Dynamics



Growth Firm in a Growth Industry

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Successful Execution of Our Strategy

- ◆ Continued execution of our diversified growth strategy
- ◆ Expanded global client base
- ◆ Increased market / wallet share
- ◆ Grew high margin businesses
- ◆ Effectively managed risk, capital and expenses
- ◆ Strengthened an already strong culture

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Continued Execution of Diversified Growth Strategy

Over past 2 years, we have invested \$500M+ in New Initiative dollars to continue to build our businesses and regions

Continued European and Asian build out



- Europe: Expanded capacity across FID/EQ derivatives, mortgage platforms, IBD, countries
- Asia: Grew capacity in FID/EQ derivatives, IBD, NPLs, and High Yield

Significantly Expanded Investment Management Platform



- Integrated / grew Neuberger Berman platform
- Expanded Private Equity funds
- Built out ARS business

Filled gaps in IBD footprint / broadened coverage



- Impact hires (Country, Product, Industry)
- Created Global Finance

Repositioned Equities for Accelerated Growth



- Expanded Liquid Markets capabilities
- Invested in Volatility platform
- Invested in / built IT capabilities
- Expanded Prime Brokerage

Broadened FID product and trading footprint



- Expanded derivatives / securitization capacity
- Built out structured credit products capability
- Launched Energy trading

Acquired and integrated mortgage origination platforms



- Integrated U.S. origination businesses
- Built/acquired European and Asian platforms

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Realized Strong Geographical Diversification and Growth

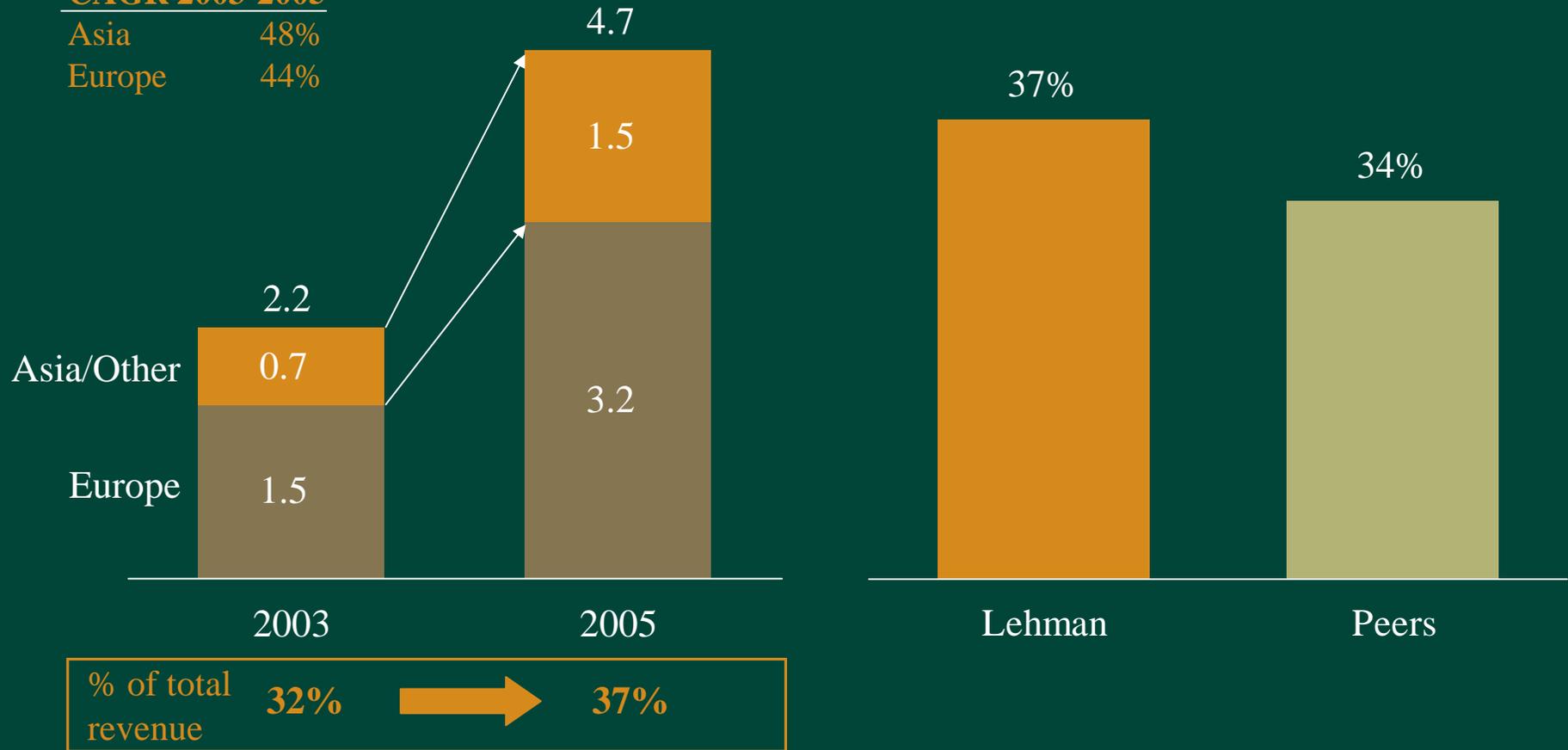
Non-U.S. Revenue

(\$ Billions)

Non-U.S. Revenue Share vs. Peers, 2005

CAGR 2003-2005

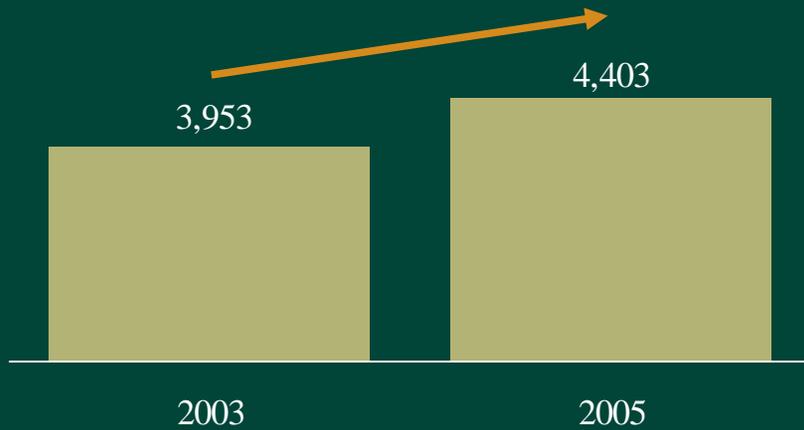
Asia	48%
Europe	44%



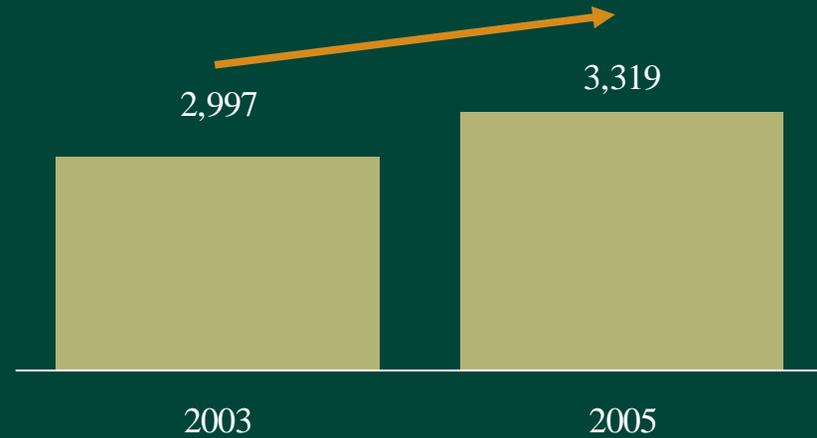
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Expanded Global Client Base

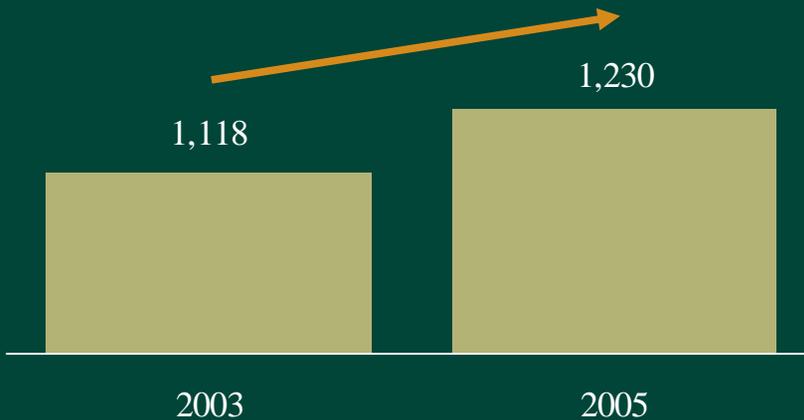
Institutional FID Clients



Institutional Equity Clients

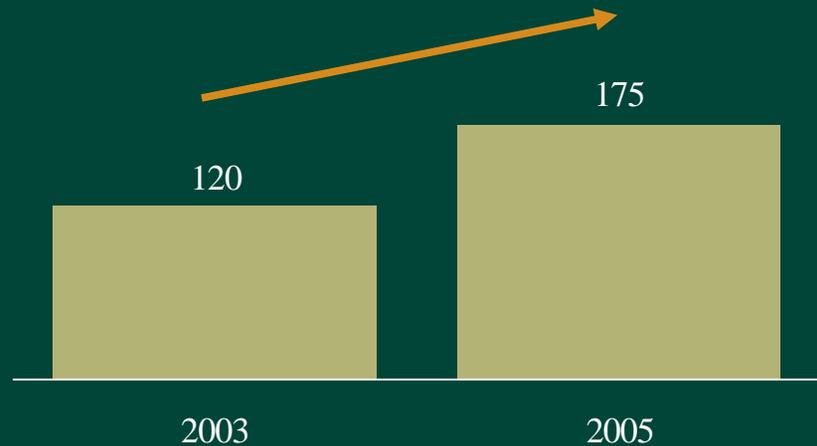


Investment Banking Clients



IMD AUM

(\$ Billions)

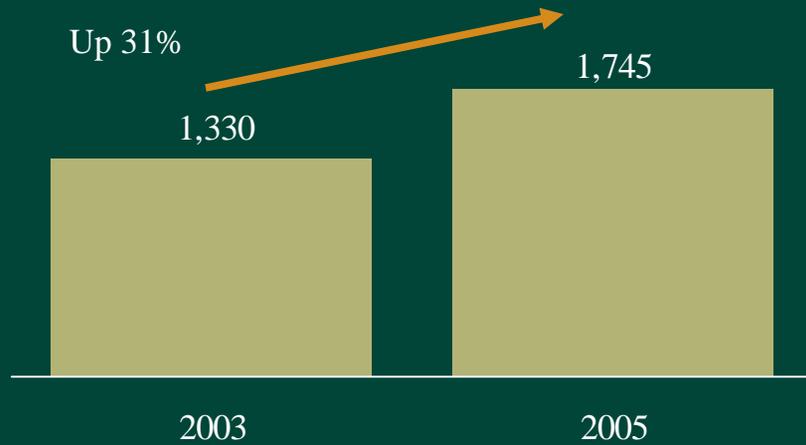


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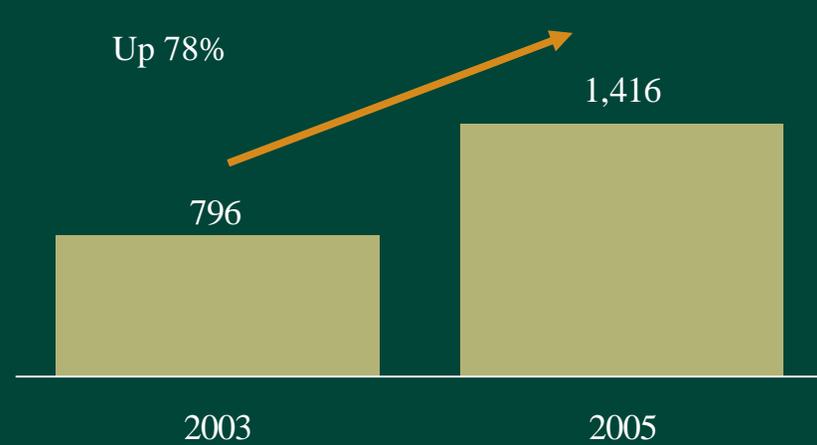
Increased Revenue per Client

(Client Revenues in \$ thousand)

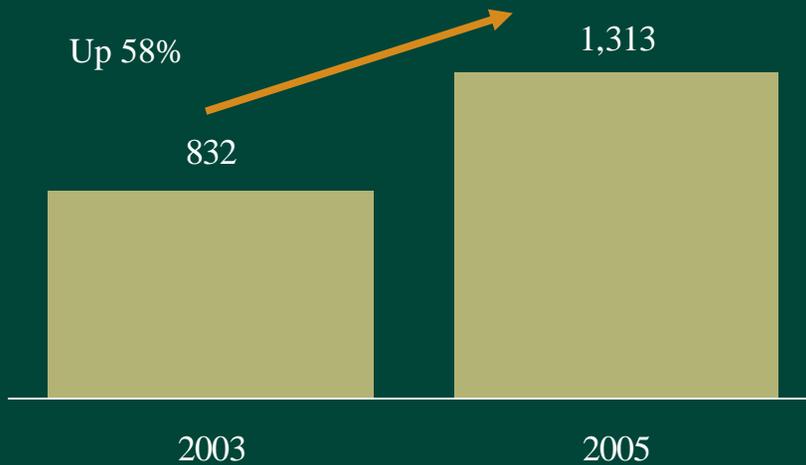
Institutional FID



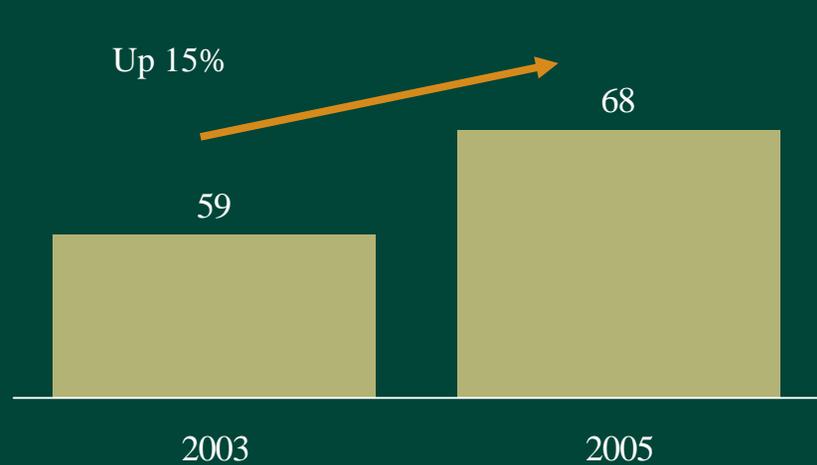
Institutional Equity



Investment Banking



High Net Worth



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Increased Market Share – FID and EQ

Fixed Income

(Greenwich)	2003		2005
U.S. Trading share	9.9%		11.5%
U.S. IR Derivatives (FIG)	9.2%		11.6%
EU Trading share	3.2%		3.4%
EU IR Derivatives (FIG)	2.7%		3.6%
Asia Trading Share	1.9%		3.7%

Equities

(McLagan)	2003		2005
Global commission share	5.9%		6.7%
U.S. commission share	6.4%		7.6%
EU commission share	5.5%		5.7%
Asia commission share	1.5%		2.7%

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Increased Market Share – IBD and IMD

Investment Banking

(Thomson fees/volumes)	2003		2005
Global Fee Share	4.7%		5.0%
Global M&A (completed)	9.1%		13.8%
Global Equity origination	3.7%		5.1%
Global Leveraged Loans	2.8%		3.5%
Global IPOs	1.0%		3.6%
Priority Accounts wallet share	6.8%		8.0%

Investment Management

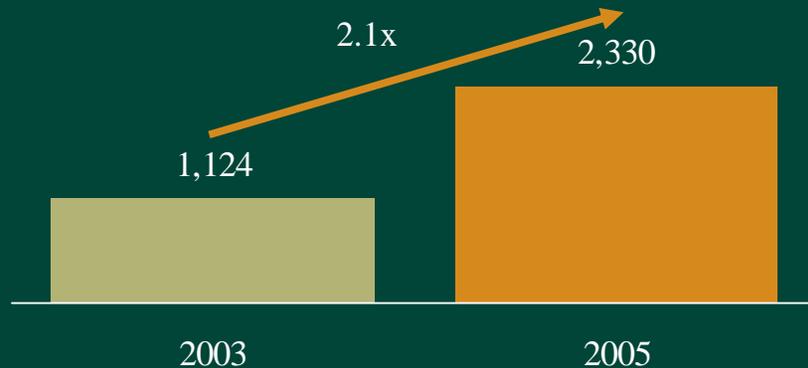
	2003		2005
Total AUM	\$120B		\$175B
Inst. Fixed Inc.& Equity AUM	\$44B		\$53B
Private Equity AUM	\$6.4B		\$10.2B
HNW Assets u/ Supervision	\$35B		\$57B
HNW wallet share	12.0%		16.7%

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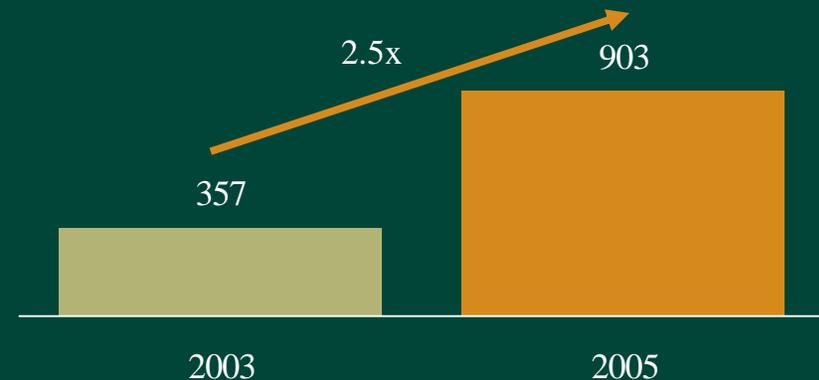
Grew High Margin Businesses

(LEH revenues in \$ Millions)

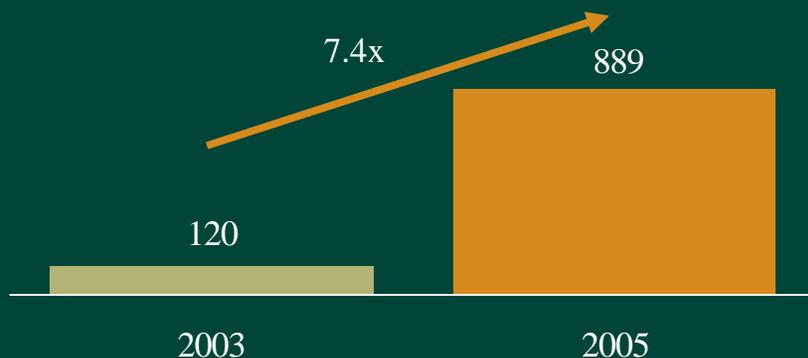
MBS Revenues*



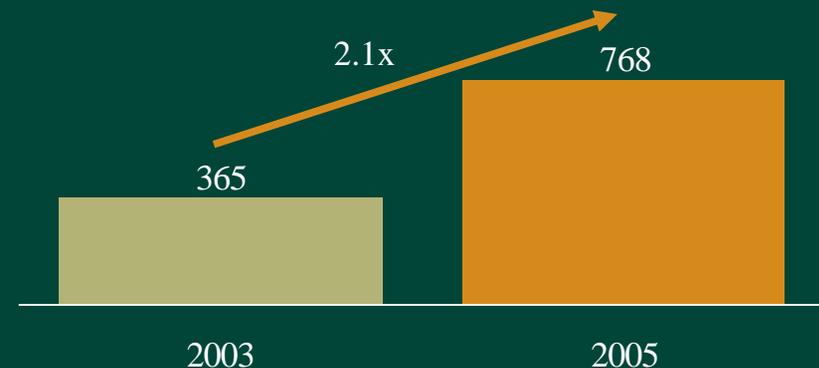
Equity Derivatives Revenues



Asset Management Revenues



M&A Revenues



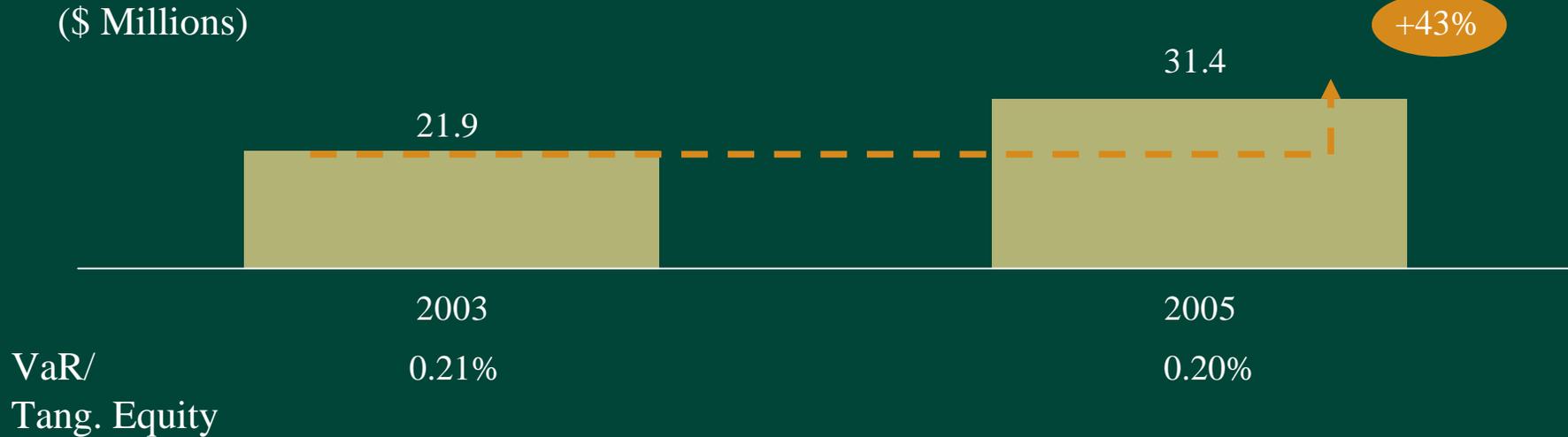
*MBS Also includes U.S. Mortgage Origination Revenues

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Effective Risk Management

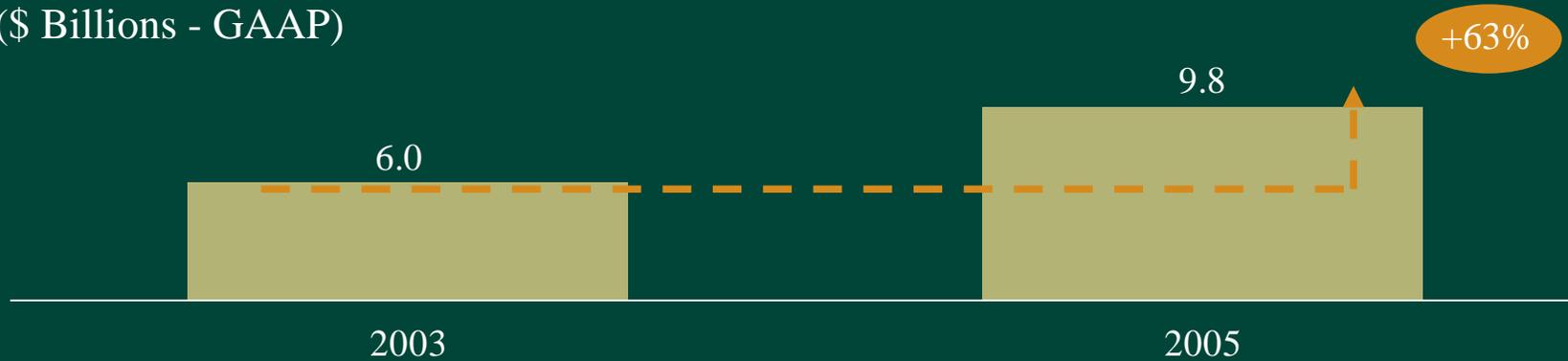
Average Revenue Volatility Value at Risk

(\$ Millions)



Capital Markets Revenues

(\$ Billions - GAAP)

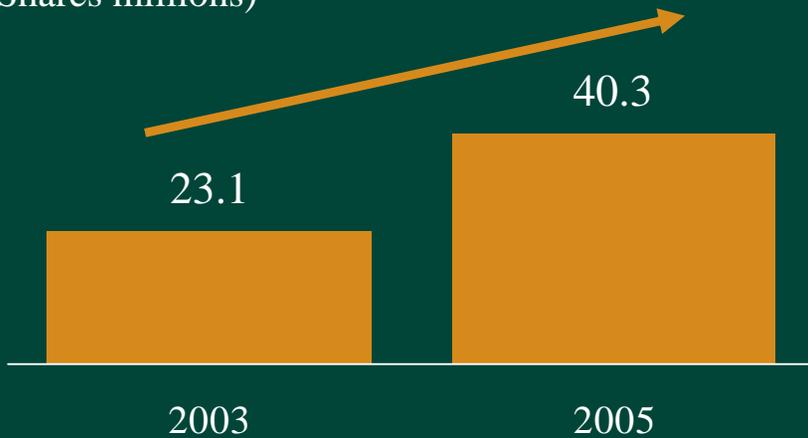


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Effective Capital Management

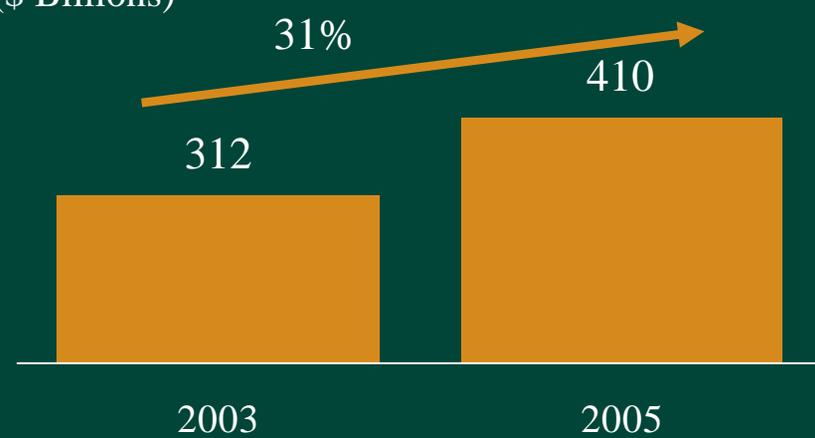
Stock Repurchases

(Shares millions)

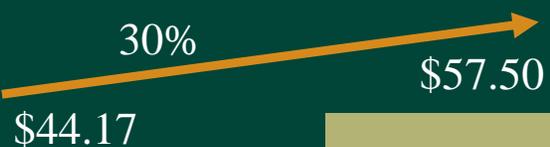


Balance Sheet

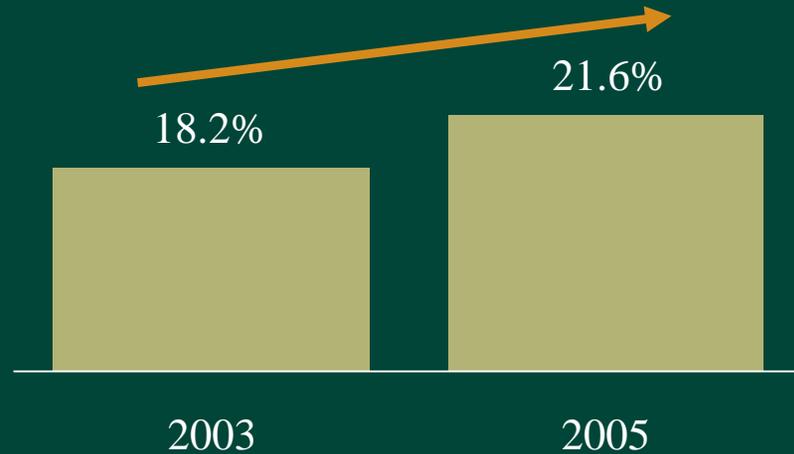
(\$ Billions)



Book Value Per Share

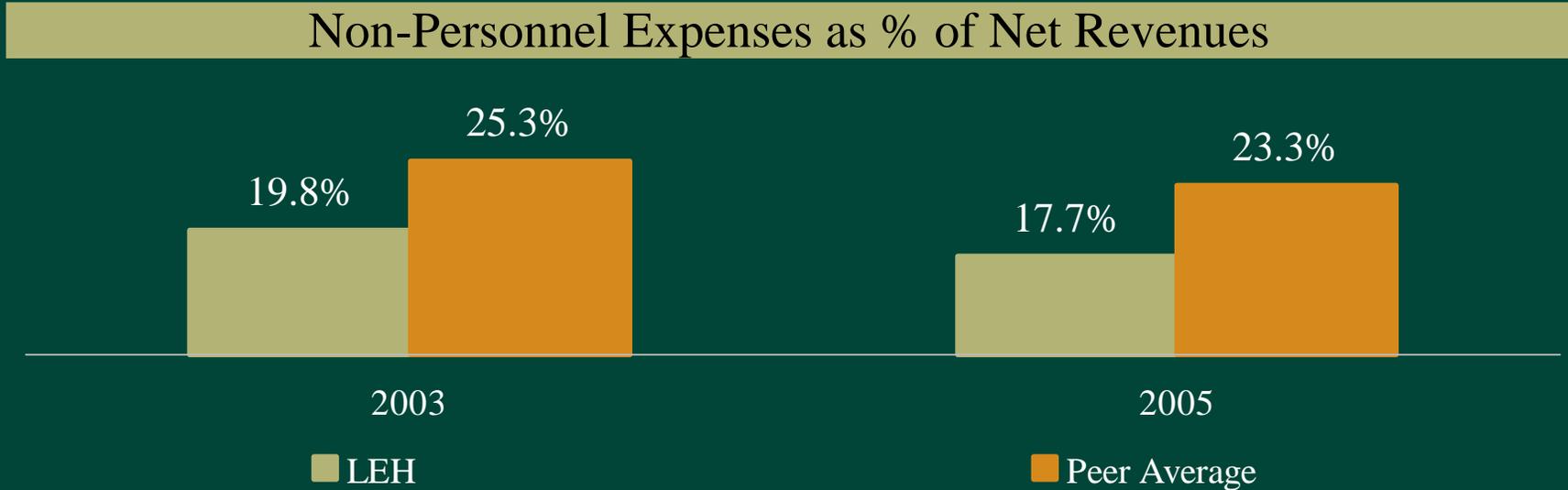
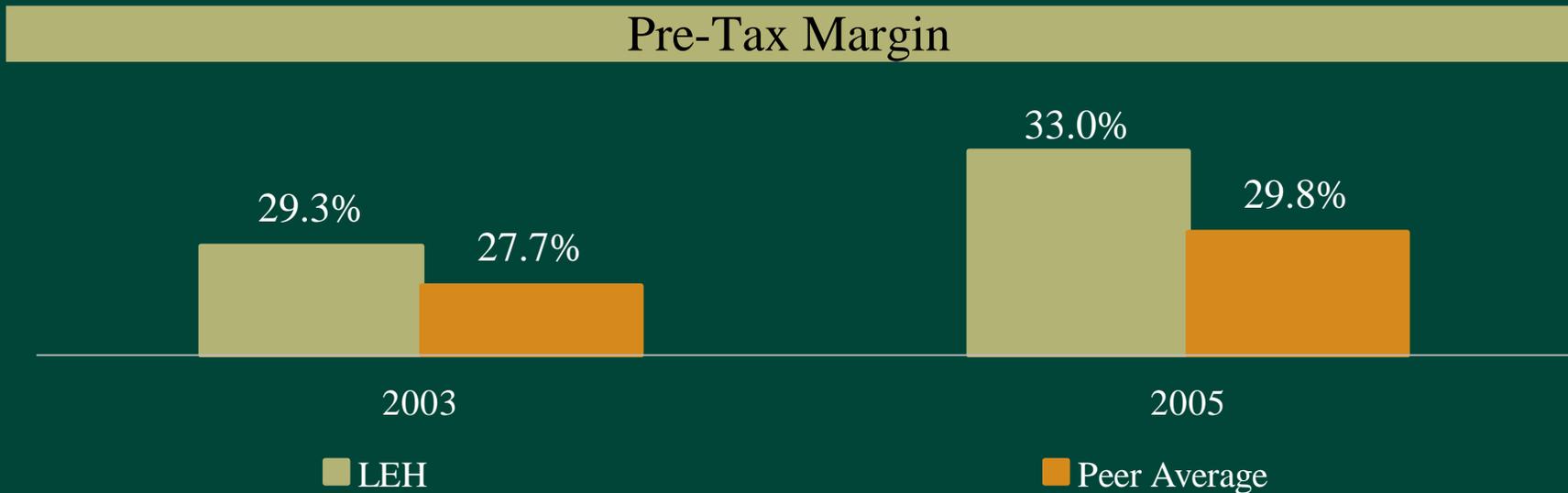


ROE



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Effective Expense Management



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Continued to Strengthen Our Already Strong Culture

Maintaining strong employee ownership

- ◆ Employee ownership over 30%
- ◆ Continued alignment of interests of employees and shareholders

Delivering the entire Firm to our clients

- ◆ Working as a team emphasizing cross divisional mindset
- ◆ 1/3 of our top 150 clients do business across FID, EQ, and IBD

Strengthening and protecting our brand

- ◆ Commitment to excellence around strong risk management, internal controls environment and infrastructure
- ◆ 90% of employees “proud to work for Lehman” and say we have “positive brand vs. competitors”

Attracting / developing the best and brightest people

- ◆ Investment of time, energy and money in making Lehman the employer of choice
- ◆ Commitment to fostering an inclusive business environment
- ◆ Over 3,300 of our people have attended sales and leadership training programs since ‘03

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That's How We Did It!!

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The Road to \$150...Again

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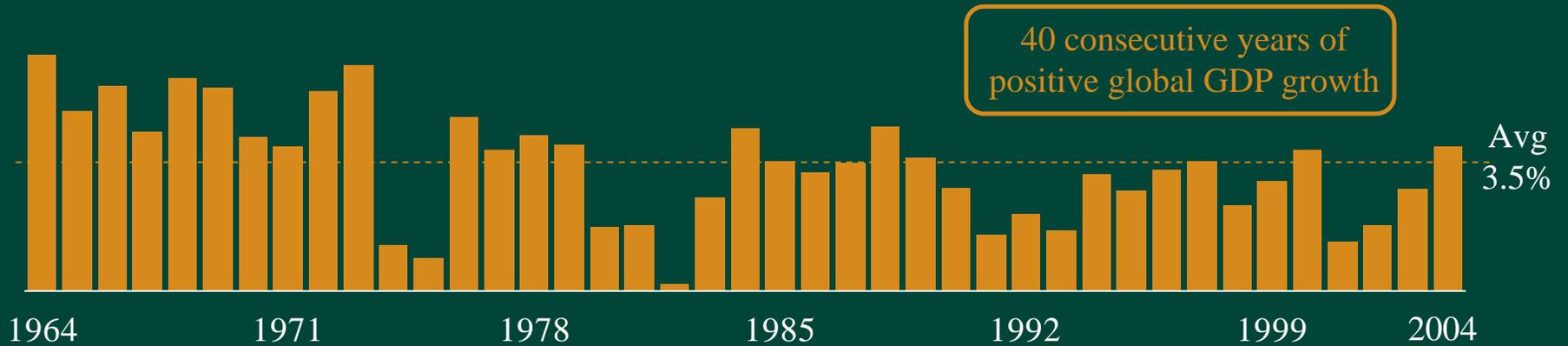
The Road to \$150...Again

- ◆ Three drivers of growth
 - Growth of the global economy
 - Growth in global capital markets
 - Growth of Firm market share

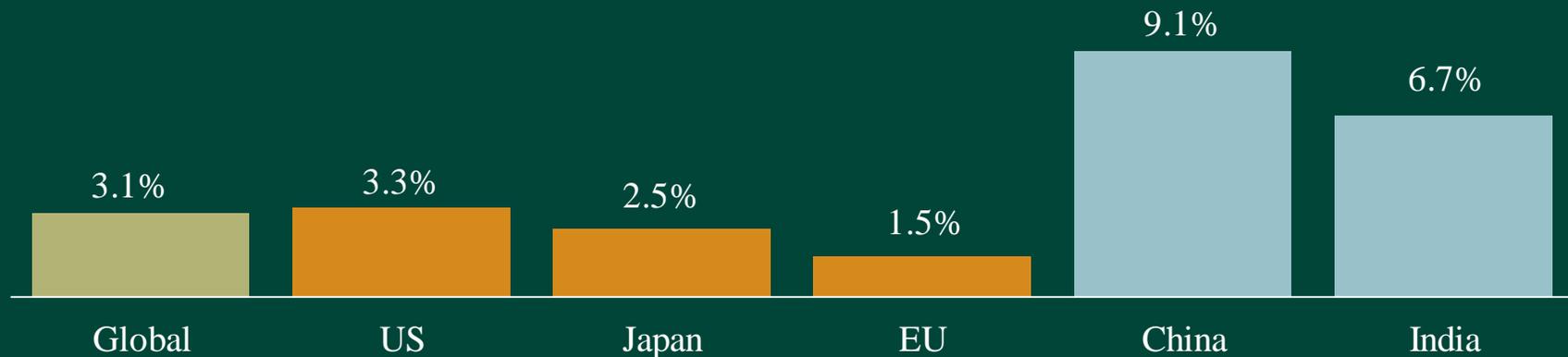
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Global GDP Growth Trends

Global Real GDP - Y/Y Growth Rate



Real GDP CAGR Forecasts (2006-09)

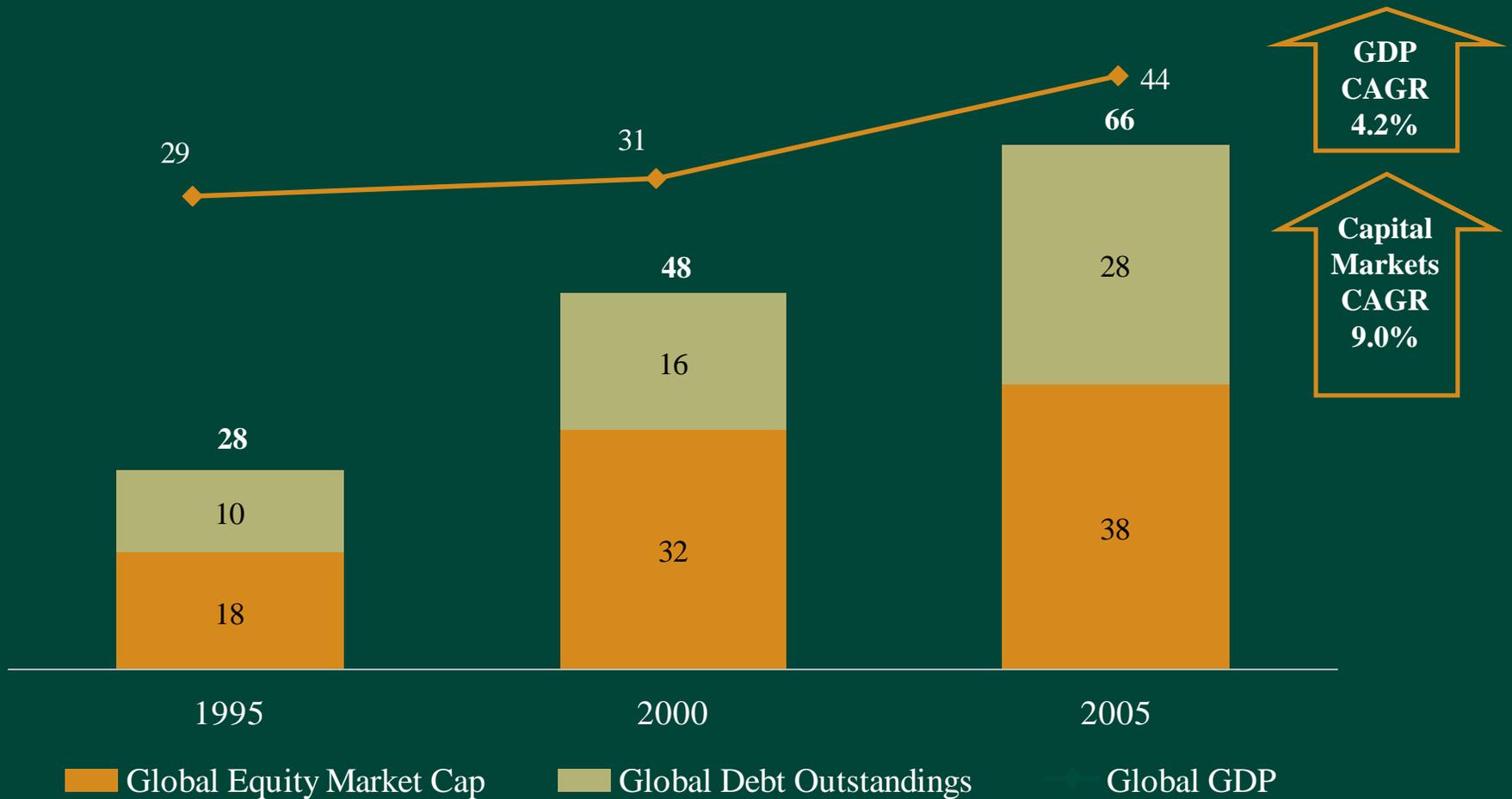


Source: Lehman Economics; Economist Intelligence Unit

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Growth in Capital Markets

Global GDP vs. Global Capital Markets (\$ Trillions)



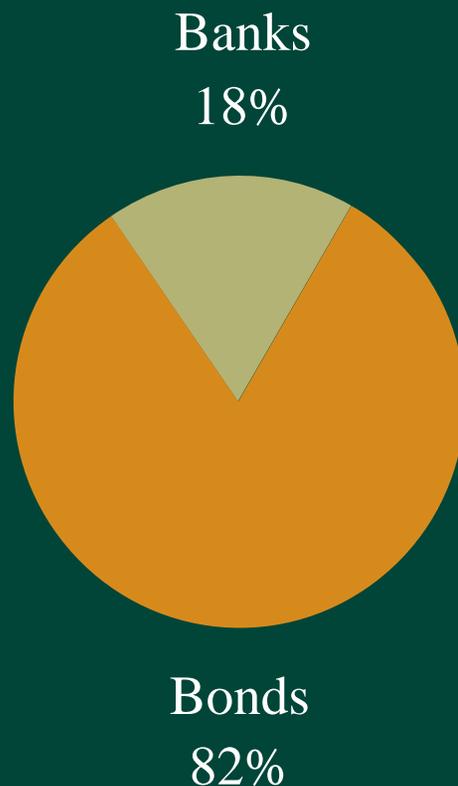
Source: IMF: World Economic Outlook

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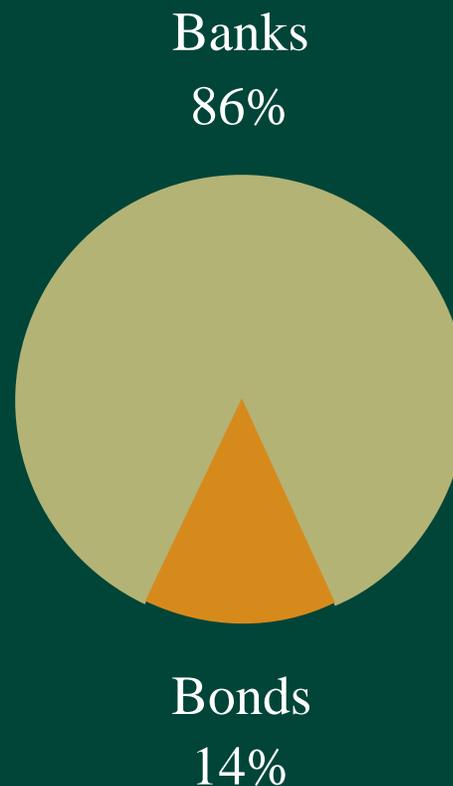
Drivers of Market Growth – Disintermediation

Bonds and Bank Loan Outstandings – Non-Financial Corporations

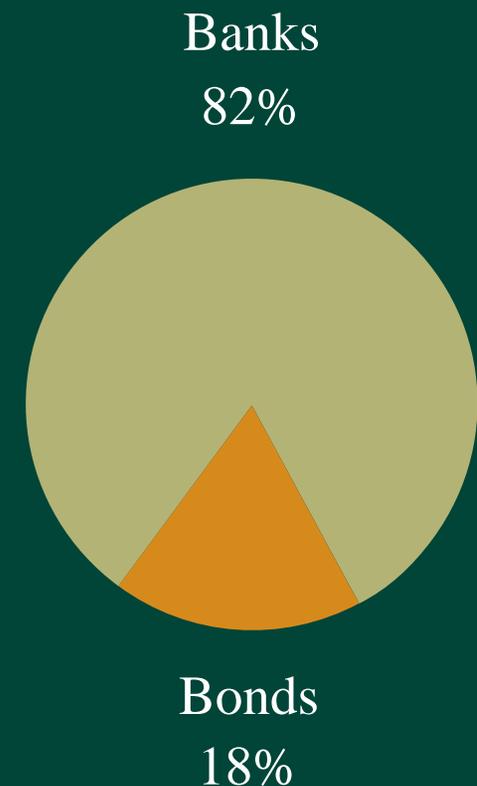
U.S. – 2005



Euro Zone – 2005



Japan – 2005

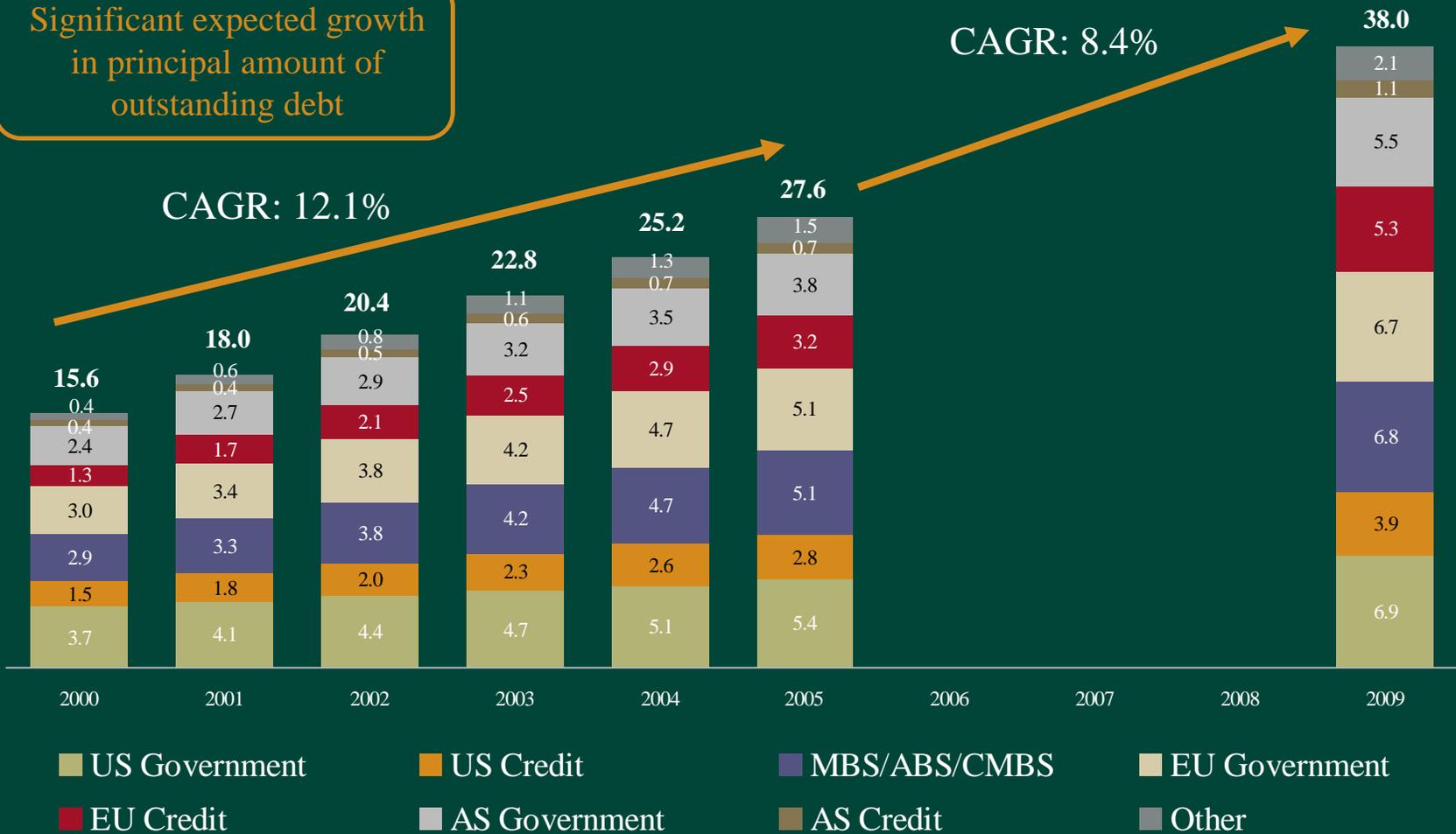


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Fixed Income Market Growth

Global Bond Market Outstandings (\$ Trillions)

Significant expected growth
in principal amount of
outstanding debt



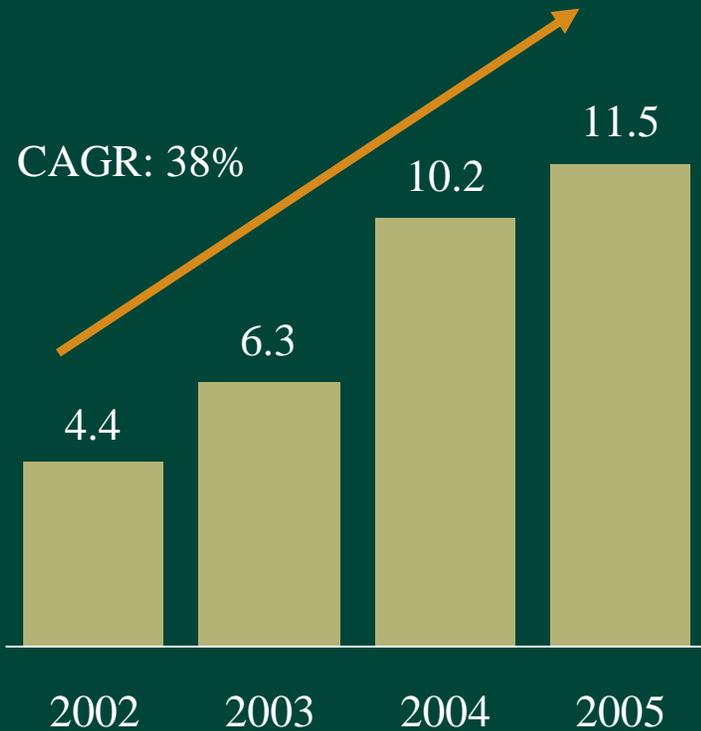
1. Source: Lehman Brothers Global Aggregate Index

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High-Growth, High-Fee Paying Client Segments – Financial Sponsors

Sponsor IB Industry Revenues

(\$ Billions)



Share of IB fees 12% 19%

Sponsor AUM Raised

(\$ Billions)

■ Equity Spent ■ Equity Raised



Net new equity uninvested \$52 \$69 \$136

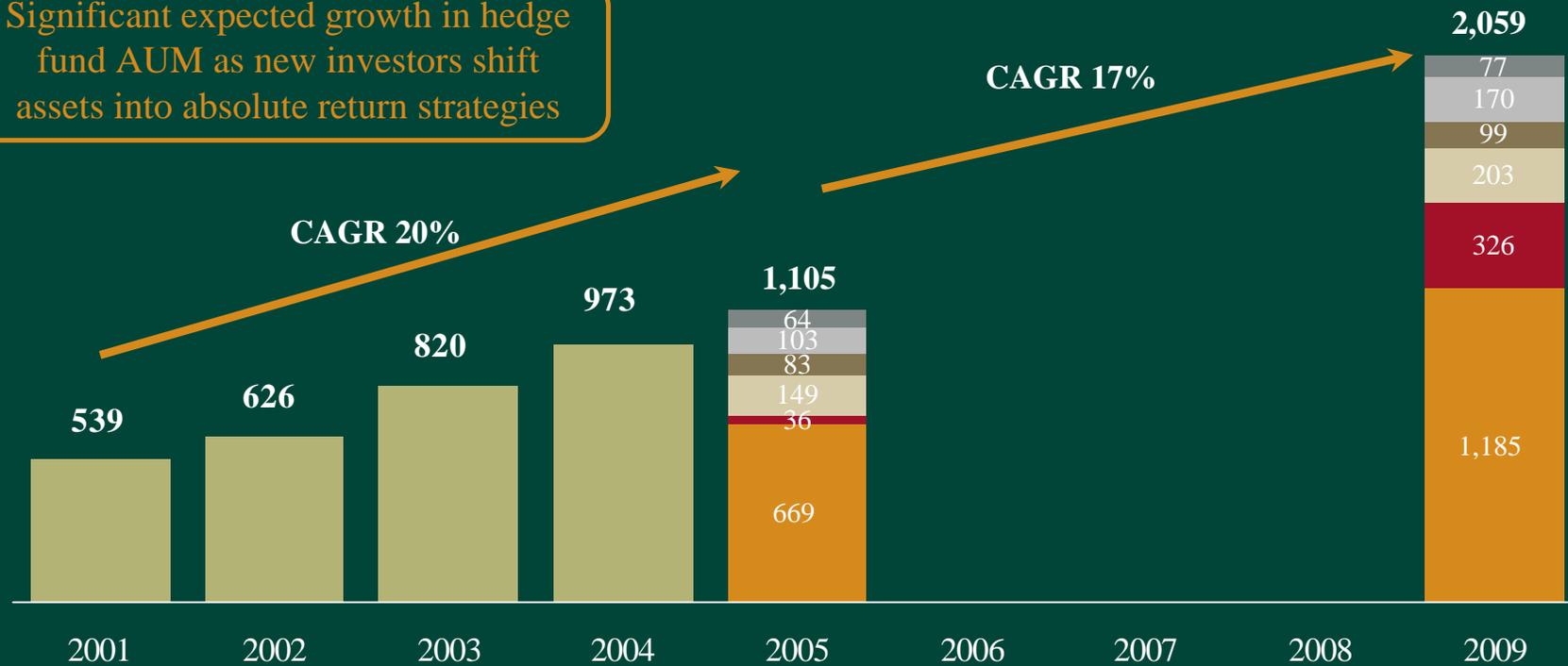
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High-Growth, High-Fee Paying Client Segments – Hedge Funds

Assets Under Management

(\$ Billions)

Significant expected growth in hedge fund AUM as new investors shift assets into absolute return strategies



HNW	1.9%	3.0%
Insurance	0.4%	3.0%
Pension funds	2.2%	3.0%
Endowments	7.5%	7.5%
Corporates	2.1%	3.0%

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Continued Growth of Firm Market Share

Continue client focus

- Lead with intellectual capital
- Deliver the whole Firm to our clients
- Develop innovative business ideas and products

Aggressively grow and diversify our franchise and strengthen our capabilities

- Make sustained new initiative investments, on a global basis
 - Over \$300 million of new initiative investments in 2006
- Deploy additional financial resources (balance sheet, capital, risk appetite) to support business growth
- Continue to do more with the resources we have
- Leadership, Sales and other training for our people
- Mentoring programs

Execute effectively

- Set high standards for each business and region
- Hold people accountable for performance

Continue to strengthen the culture

- Ensure One Firm mindset by:
 - Significant equity compensation – 30% employee ownership
 - All employees acting like owners

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The Road to \$150...Again

(\$ Billions)	2006B Budget	2009 Plan	2009 Assuming split	3-Year CAGR/ Δ Pre-split
Total Revenues	\$16.3	\$24.0		14%
Compensation	8.0	11.7		13%
Comp & Benefits Ratio	49.3%	49.0%		(0.3) Δ
Non-Personnel Expenses	2.9	3.9		10%
Net Income	\$3.6	\$5.6		16%
Key Figures and Ratios				
Earnings per Diluted Share	\$12.15	\$20.00	\$10.00	18%
Book Value per Share	\$66.45	\$100.00	\$50.00	15%
Pre-Tax Margin	32.8%	34.6%		1.8 Δ
ROE	20.8%	23.2%		2.4 Δ
Headcount	23,700	30,150		8%
Balance Sheet (\$ Billions)	\$450	\$680		15%
Risk Appetite (\$ Billions)	\$2.3	\$3.5		15%
Common Stockholder's Equity	\$18.1	\$25.0		11%
P/B	2.5x	3.0x	3.0x	0.5 Δ
Forward P/E	12.6x	14.0x	14.0x	1.4 Δ
Trailing P/E	13.6x	15.0x	15.0x	1.4 Δ
Share Price			\$150	n/a

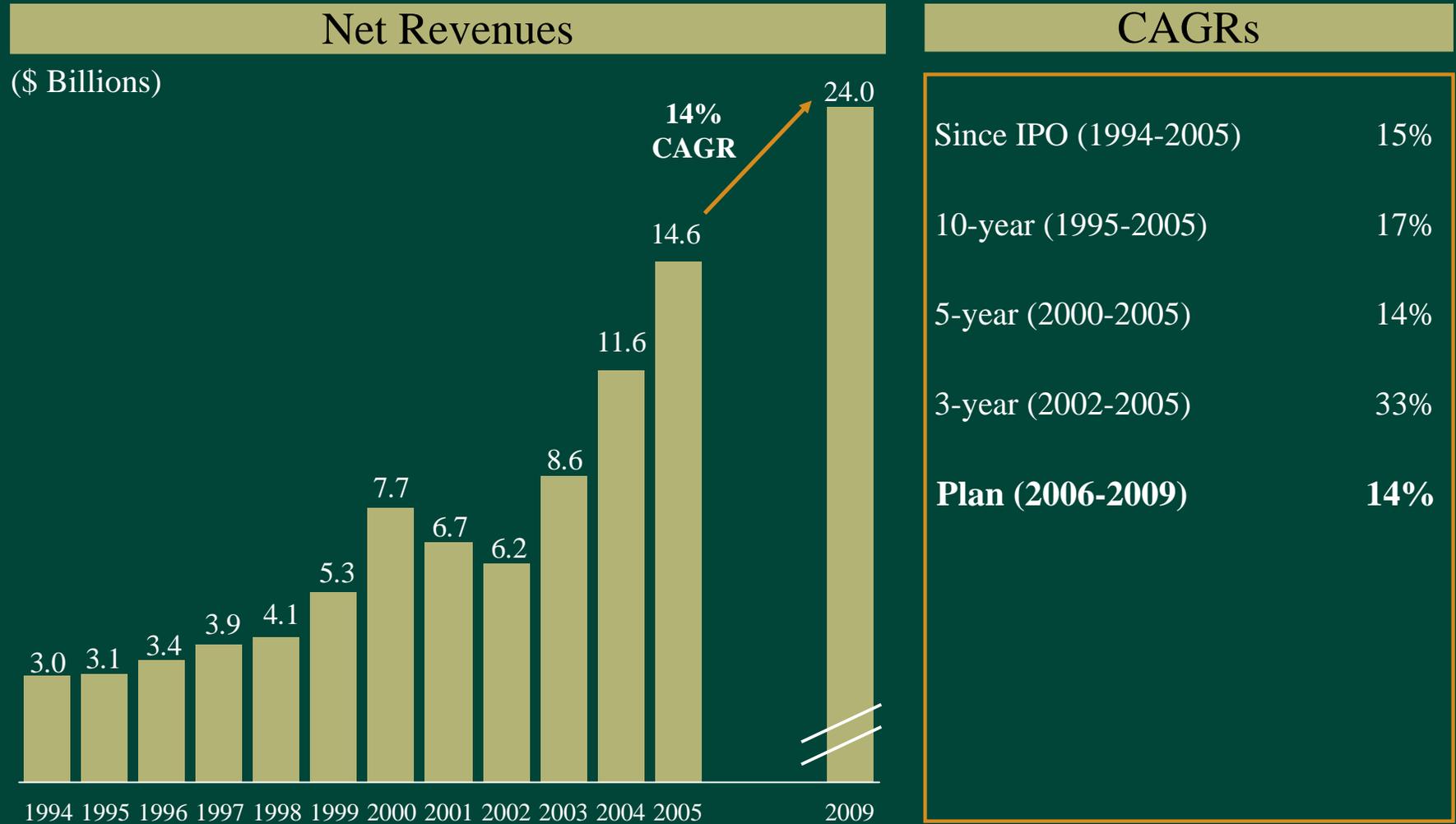
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Revenue Targets to Get to \$150...Again

(\$ Billions)	2006B	2009E	CAGR 2006B-2009	Historical CAGR 2003-2005
Fixed Income	\$8.9	\$12.7	12%	28%
Equities	3.5	5.2	14%	24%
Investment Banking	2.1	3.2	15%	43%
Investment Management	1.5	2.3	16%	155%
Risk Arb/Other	0.4	0.6	17%	n/a
Total Revenues	\$16.3	\$24.0	14%	30%
Non-U.S. Revenue				
Europe	\$3.5	\$5.5	16%	44%
Asia	1.6	2.9	21%	48%

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\$24B Revenue Target – Extremely Doable



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PE and PB Upside vs S&P 500

Price-to-Earnings (Forward, 1999 – Current)

	1999-2001	2002-2005	Current
LEH	10.4x	11.8x	12.5x
Peers	14.4x	12.7x	12.3x
S&P 500	23.7x	17.4x	17.1x
LEH gap to S&P	(13.3)Δ	(5.6)Δ	(4.6)Δ

Price-to-Book (1999 – Current)

	1999-2001	2002-2005	Current
LEH	2.0x	1.8x	2.5x
Peers	3.0x	1.8x	2.1x
S&P 500	4.5x	2.9x	2.8x
LEH gap to S&P	(2.5)Δ	(1.1)Δ	(0.3)Δ

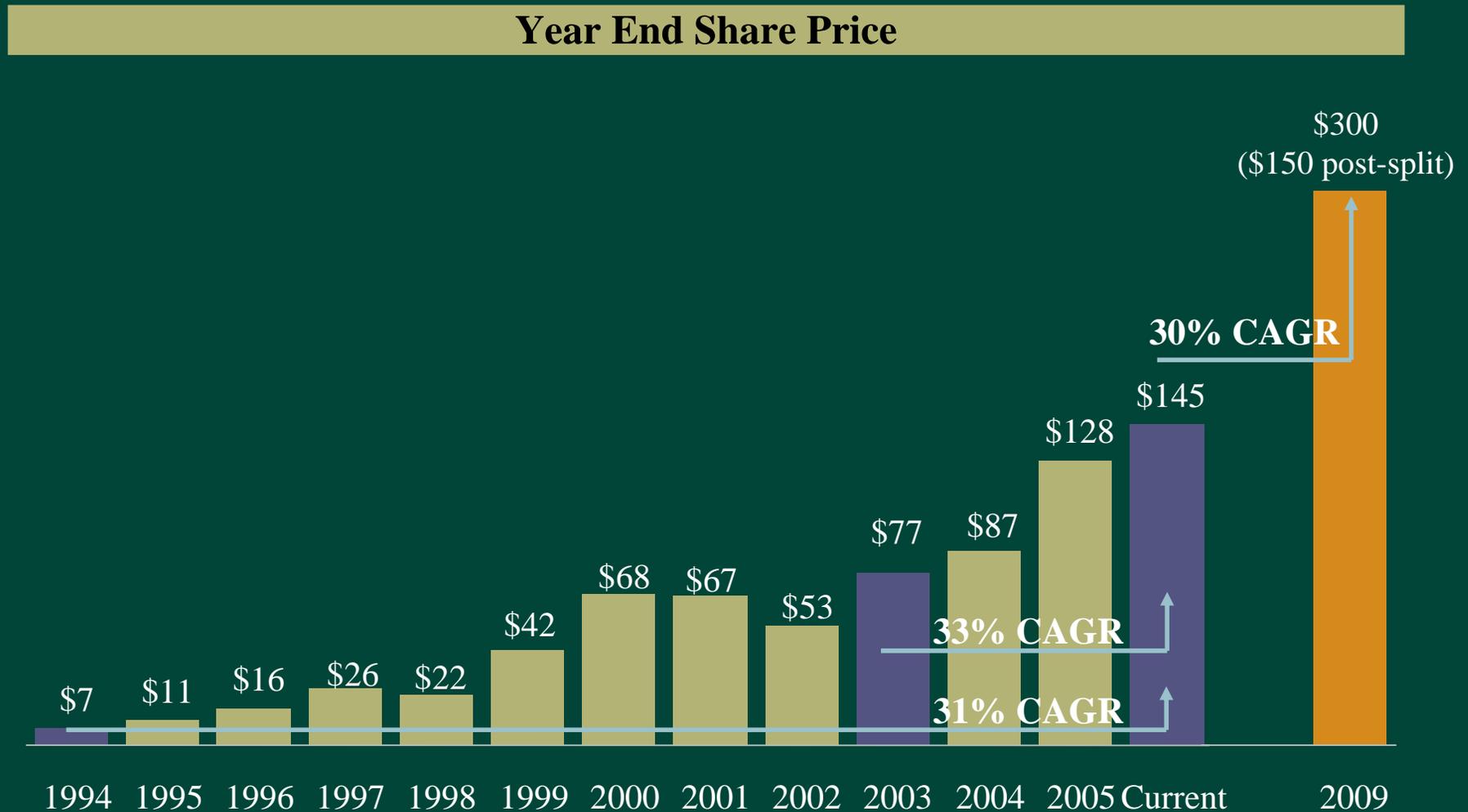
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PE and PB Upside – Closing the Gap

	Historical 5-year EPS growth	3-year avg ROE	Long-term expected Growth	Price to Book	Forward P/E
LEH – today	11.2%	19%	12.5%	2.5	12.5
Road to \$150...Again	11.2%	23%	18.0%	3.0	14.0
S&P 500 Median	10.2%	17%	11.5%	3.0	16.9
Firms with comparable 5-year EPS growth	11.2%	19%	12.1%	3.9	15.3
Firms with comparable ROE	12.5%	19%	12.2%	3.7	16.6
Firms with comparable Long-term exp. Growth	10.4%	18%	12.5%	3.0	15.1

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The Road to \$150...Again: Extremely Doable



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Today's Breakout Sessions Focused on Key Strategic Opportunities

Strategic Theme

Breakout Group Topic

Building our Global Platform



- Scaling Asia

Continuing to Grow Client Base / Wallet Share

- Effectively targeting high growth, high fee paying client segments



- Hedge Fund Strategy
- Financial Sponsors Strategy

Leveraging Our Platform

- Creating a silo-less organization
- Differentiating ourselves through intellectual capital



- Derivatives Origination Strategy
- Maximizing the Value of Research

Evaluating Other High Growth Geographic Opportunities



- GCC Region
- Russia and Emerging Europe

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