

Nasdaq fails in bid to take over London Stock Exchange

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A hostile bid by the Nasdaq Stock Market for the London Stock Exchange failed for the second time in almost a year as the majority of shareholders in the British bourse spurned the £2.7 billion offer.

Shareholders controlling just 0.41 percent of the LSE agreed to sell their stock to Nasdaq for the offered £12.43, or \$24.23, per share, the U.S. exchange said in a statement Saturday. Nasdaq already has a 29 percent stake in the LSE, the largest European equities market. Its offer for the exchange was worth \$5.3 billion.

"We are naturally disappointed at this outcome," the Nasdaq chief executive, Robert Greifeld, said in the statement. "Nasdaq will continue to pursue other opportunities to build on its existing position as the world's largest electronic equities exchange."

Since March, Greifeld had been trying to open talks with the LSE about creating the first trans-Atlantic stock exchange. Nasdaq's larger rival, NYSE Group, is poised to link stock markets in four European countries and the United States with its \$13.3 billion purchase of Paris-based Euronext, a deal that may be completed as soon as April.

Almost \$50 billion of proposed mergers have been announced among exchanges worldwide, according to Bloomberg data, as marketplaces seek to meet demand for low-cost electronic trading in securities across the world's time zones.

The London Stock Exchange chief executive, Clara Furse, who since 2004 has rejected three other offers in addition to Nasdaq's, has said the British bourse, bolstered by growth in trading, can remain independent. On Saturday, the 308-year-old exchange said Nasdaq's bid was "ill-considered" and that it would pursue "competitive, collaborative and strategic opportunities."

Investors including Samuel Heyman and Paulson & Co., a hedge fund based in New York, have both added to their stakes in the LSE on expectation of a deal at a higher price than Nasdaq offered. Together, the two investors have amassed a 16.4 percent stake in the London Stock Exchange, paying as recently as last week more than Nasdaq was offering.

"Shareholders believe there's a higher bid out there and are holding LSE stock on speculation a better offer is coming," said Bruce Weber, a professor of information management at the London Business School who follows exchanges. "London management has been playing hardball and didn't engage with Nasdaq."

Shares in the LSE have gained 23 percent since Nasdaq's first bid was disclosed March 10. The

stock had traded above Nasdaq's offer since Nov. 20, when the U.S. company decided to appeal directly to shareholders. London Stock Exchange shares closed unchanged Friday at £12.82, or 3.1 percent higher than Nasdaq was willing to offer.

Nasdaq shares have slipped 15 percent since March 10. Shares of the rival NYSE Group have advanced 24 percent during the period, while Euronext has jumped 63 percent.

"Nasdaq seems to need the LSE more than the LSE needs Nasdaq, with their cross-town rival getting bigger and expanding internationally," said Michael Pagano, a finance professor at Villanova University in Villanova, Pennsylvania. "The LSE seems to have a strong position, where they are attracting more and more order flow."

Nasdaq may either decide to hold on to its LSE stake until it can make a new offer — by law, it can do so in one year — or attempt to sell the investment for a gain, noted Richard Repetto, an analyst at Sandler O'Neill & Partners. If it manages to sell its LSE investment for more than £12, Nasdaq could boost profit this year by as much as 23 cents a share, Repetto said.

"Most of the scenarios result in generally positive outcomes with Nasdaq realizing a gain in its LSE position," Repetto said.

Nasdaq bought a 28.75 percent stake in the LSE on the open market from April through November, paying an average of £11.93 a share.

Furse said last month that new listings and a projected increase of about 40 percent in daily trading for fiscal 2008 would allow the LSE to remain independent. Nasdaq has said the LSE's forecasts are "misleading," and the exchange remains "complacent" in the face of growing competition and regulatory changes.

A group of eight investment banks, including Deutsche Bank and Goldman Sachs Group, plan to create this year an equity market to challenge European exchanges. With the plan, known as Project Turquoise, the firms seek to benefit from new European rules that take effect in November called the Market in Financial Instruments Directive, or Mifid, which is designed to stimulate competition.

The new rules could reduce the profitability of the London Stock Exchange, Nasdaq said Saturday.

"The accuracy or inaccuracy of LSE's projections can only be proven through the passage of time, and Nasdaq, as LSE's largest shareholder, will monitor with interest how the business performs going forward," Nasdaq said in the statement.

Edgar Ortega reported from New York.

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