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LSE Agrees to Buy Borsa Italiana for EU1.63 Billion

By Elisa Martinuzzi

June 23 (Bloomberg) -- London Stock Exchange Group Plc, Europe's third-largest exchange, agreed to buy Italy's Borsa Italiana SpA for 1.63 billion euros ($2.2 billion) in shares as increased competition forces equity markets to consolidate.

The U.K. exchange will offer 4.9 of its own shares for each share of the Milan-based operator of the Italian stock market, the companies said in a joint statement today. The transaction values each Borsa share at 100.70 euros, the statement said, giving the new company a market value of about 5.8 billion euros.

Rival stock exchanges worldwide have announced more than $65 billion of purchases and ventures since 2005 amid pressure from shareholders to form alliances. The LSE under Chief Executive Officer Clara Furse has rejected five takeover attempts in two years, including efforts by Nasdaq Stock Market Inc., which holds a 30 percent stake in the London exchange.

``It's a step forward for LSE," said Christopher Kummer, director of the Institute of Mergers, Acquisitions and Alliances at Webster University in Vienna. ``It puts pressure on the competition. Exchanges realize it's probably better to move first."

The takeover may make it harder for Nasdaq to buy the remainder of the LSE, and NYSE Euronext must sell its share in a joint venture with the Borsa that dominates European government bond trading. The Borsa, the closely held company that operates the Milan Stock Exchange, refused an offer to join NYSE Euronext and ended talks with Deutsche Boerse AG last year.

LSE and Borsa Italiana said they expect cost savings of about 29 million euros a year, to be reached from 2010, while similar sales synergies were forecast from 2011. The combination will boost earnings by at least 10 percent in 2009.

Milan Listing

``This merger is all about accelerating our growth through the provision of more and better products and services," Furse said in the statement. Furse, 49, will be CEO of the enlarged company.

The London Stock Exchange Group Plc will be the holding company of the merged businesses and will list its stock in Milan in addition to London. Following the merger, Borsa's shareholders, which include Italian banks UniCredit SpA and Intesa Sanpaolo SpA, will own 28 percent of the company and the remainder will be held by LSE stockholders.

LSE expects to have ``more than sufficient" shareholder support for the deal, it said in the statement. Nasdaq's stake in the LSE will fall to about 22 percent after the merger.

A call to the mobile phone of Bethany Sherman, a spokeswoman for New York-based Nasdaq, outside of office hours wasn't answered. John Wallace, an LSE spokesman, also didn't return calls to his mobile.

Fixed-Income Trading

Massimo Capuano, 52, Borsa's chief executive officer, will be the deputy CEO. Chris Gibson-Smith, chairman of LSE, will be chairman of the merged businesses and Angelo Tantazzi, chairman of Borsa, will be deputy chairman.

The Financial Services Authority, the U.K. market watchdog, will continue to oversee trading on the London Stock Exchange and its Italian counterpart, Consob, will regulate trading on Borsa.

In addition to trading stocks, the exchanges will also own the electronic fixed-income trading platform MTS SpA. Borsa Italiana earlier this month exercised an option to purchase the 51 percent of MBE Holdings it doesn't control. MBE controls MTS, the European government debt market that handles 110 billion euros of trades a day. Exercising the option helped pave the way for the LSE offer.

In February, LSE said it would cooperate with the Tokyo Stock Exchange to develop jointly traded products and to encourage access by member companies to each other's markets.

CME, CBOT

LSE's deal with Borsa Italiana also comes as the Chicago Mercantile Exchange and Intercontinental Exchange Inc. are competing to buy Chicago Board of Trade, the second-largest U.S. futures market.

The LSE will ask investors to vote on the takeover around Aug. 13, when Borsa will also hold an investor meeting to approve the transaction.

Merrill Lynch & Co. and Lehman Brothers Holdings Inc. advised the London exchange in the transaction, while Mediobanca SpA and Morgan Stanley advised Borsa Italiana.

Shares in LSE have risen 21 percent in the past 12 months amid takeover activity in the industry.

(The exchanges will hold a conference call to discuss the takeover at 9:00 a.m. London time on June 25 on +44-20-7162-0025 or +39-023-0350-9003. They will hold a press conference at Borsa Italiana's headquarters at 12:00 Milan time on that day.)

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