

Nasdaq seen playing a waiting game for LSE - U.S. exchange free to bid again in days; financing in question, *MarketWatch*, 09/29/2006



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LONDON (MarketWatch) -- The Nasdaq Stock Market is expected to sit on its hands after restrictions on a fresh bid for the London Stock Exchange expire on Monday. The Nasdaq) will be free from that day to launch a fresh bid for the London exchange (UK:LSE) , though analysts don't anticipate an immediate move.

The nearing deadline has seen the U.K stock exchange's share price creep back up towards historic highs, but analysts have questioned whether the Nasdaq can really afford to go through with a deal at this level.

The U.S. exchange bid 950-pence-a-share for the LSE in March, but pulled the offer just a few weeks later and has since built a stake equal to just over a quarter of the U.K. exchange.

Shares in the LSE have climbed around 25% since mid-June and are now hovering around 1,240 pence a share, marginally below the 1,243 pence that Nasdaq paid for much of its stake in the U.K exchange. See related LSE story.

U.K competition rules will allow the Nasdaq to bid again for the LSE after Monday, but any bid within the next six months would have to be for at least 1,243 pence.

"I don't think we should be holding our breath," said Katrina Preston, an analyst at Bridgewell Securities in London. "It will be difficult for them to get the financing together."

Andrew Mitchell, an analyst at Fox-Pitt Kelton agreed. Nasdaq is already highly leveraged, which means getting the money to buy the LSE could be tricky, he noted.

"Given that it's relatively highly geared and has a big stake already, I would have thought it would be inclined to wait," Mitchell said.

Other bidders are unlikely and, without an immediate move, support for the share price could quickly dissolve, giving Nasdaq the chance of doing the deal at a lower price, he noted.

"The price has been reasonably volatile in the past, so expectations could change quite significantly over six months."

Christopher Kummer, director of the Vienna-based Institute of Mergers, Acquisitions and Alliances, said that, generally, raising capital for a deal is not a major bottle-neck.

"Nasdaq is in a comfortable situation. With a 25% stake under control there is no need for them to rush into a deal or another bid," said Kummer.

"Overpaying is one of the frequent and main failures of mergers and acquisitions deals," he added.

Alternative bidders for the LSE have not been shy in coming forward over the last couple of years, but as deals begin to emerge elsewhere in the exchange industry, the number of alternatives is shrinking, Mitchell said.

"Most of the possible partners have problems," he added.

Euronext (FR:005777) , a previous suitor for the LSE, has tied its colors to a deal with NYSE Group Inc., which could also include Italy's Borsa Italiana.

And any possible tie-up with the merged NYSE-Euronext could face competition issues, even if the LSE could be levered into the already complex legal and regulatory structure planned for the group. Deutsche Boerse AG (DE:581005), another European exchange that has courted the LSE, would also find it hard to change direction, having repeatedly said it will continue to pursue a deal with Euronext.

U.K. inter-dealer broker Icap (UK:IAP) got as far as meeting with the LSE several times over the summer to discuss a potential merger.

A deal with Icap could have been a good move for the LSE, giving it a foothold in the lucrative derivatives market, where it has been sorely lacking since it lost out to Euronext in the battle to buy Liffe, the London derivatives exchange.

But price proved the deciding factor, with Icap's CEO Michael Spencer reportedly deciding that a move for the exchange at the current price level would sharply dilute that value of Icap's shares. See archived story.

Private equity groups have also been nipping at the heels of the London exchange. Australia's Macquarie Bank got as far as making a bid of 580 pence a share in December of 2005. That offer was swiftly dismissed as far too low by the LSE – a position that was borne out by the subsequent hike in the share price.

At current valuations, a private equity bid would struggle because the sort of cost cutting opportunities presented by a deal with another exchange simply wouldn't be there, said Fox-Pitt Kelton's Mitchell.

Which leaves Nasdaq and one dark horse -- Nordic stock market operator OMX (SE:000011016).

OMX has often been touted as a potential partner for the LSE and reportedly hired Credit Suisse in April to advise it on a possible merger with the U.K. exchange or another European operator.

But in the end the Nasdaq's 25% holding should be enough to scare off any other suitors.

"The likelihood of other bidders showing up for LSE is rather low. How could they possibly force Nasdaq to sell their stake?" said Kummer.

"And if you cannot drive them out, would any other potential bidder have Nasdaq sitting on the board?" he added. So even if a bid for the LSE proved too expensive straight away, the U.S. exchange's stake gives it the luxury of waiting for prices to fall -- a position many commentators expect it to use to its advantage.