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LSE to purchase Italian bourse

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

The UK 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 on Saturday. 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 US\$65 billion worth 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, Bloomberg New reported. 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.

"This merger is all about accelerating our growth through the provision of more and better products and services," Furse said in the statement. Furse will be chief executive officer 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.

The London bourse 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.

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