Hostile bid for London Stock Exchange from Sweden's OM Group

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The world of international finance became just that bit more cut-throat this week, after Sweden's OM Group made a hostile £808m takeover bid for the London Stock Exchange (LSE). OM's bid is the first-ever hostile move against a bourse. A similar friendly bid was rejected by the LSE last week.

OM was formed two years ago following a merger between the Stockholm exchange and derivatives markets, and is now worth £2.6bn. It provides the technology used by 20 stock exchanges. Its bid is designed to thwart the 50:50 merger of the London and Frankfurt exchanges to create the new iX exchange (International Exchanges), agreed in May.

A vote on the merger with Deutsche Börse was planned for September 14. The LSE at first insisted they had no plans to delay it, describing the Swedish bid as "less attractive" than the iX merger and offering "inadequate value" for shareholders. They were soon forced to retract their initial statement, however, and agree to a delay. The OM Group offer makes an appeal to shareholders over the heads of the London board, offering £20 in new OM shares plus £7.19 cash for each London Stock Exchange share—£3.50 more than LSE shares trading value on Friday of £23.50. LSE shareholders would also own 18.5 percent of the new combined group. OM chairman Olof Stenhammar said that its bid would safeguard rather than "squander" London's world potential as Europe's largest bourse. LSE shares had already risen to £27.50 by Tuesday.

The London-Frankfurt merger was set to create Europe's largest bourse, and possibly the third or fourth largest in the world, in order to compete effectively against Wall Street and in line with the increasingly global character of shares trading. The Tokyo Stock Exchange for example, has advanced plans to create its own 24-hour Global Equity Market (GEM) through talks with nine other exchanges, including New York, Australia, Hong Kong, Amsterdam, Brussels, Paris, Toronto, Mexico and Sao Paulo, Brazil. The ten collectively account for 60 percent of worldwide stock trade in value terms.

LSE chief executive Gavin Casey warned at the time that the "the days of national stock exchanges are numbered". Trading was moving towards 24-hour global markets rather than continuing on a country-by-country basis, he said. LSE Chairman Don Cruikshank declared, “For Europe as a whole in this area, learning to set aside national interests is quite critical."

Memoranda of understanding had been signed by iX with the Milan and Madrid bourses to pave the way for the next wave of consolidation. Blue chip stocks were to be traded in London and Hi-tech “new economy” stocks traded in Frankfurt, with both operations using German technology. The aim was for iX to become increasingly dominated by shares quoted in euros—the European single currency. There were plans for iX to link up with the US Nasdaq exchange in a joint 50:50 venture to trade in European high-tech growth markets and so prevent Nasdaq from undertaking an independent operation. Last November, Nasdaq announced plans to establish a separate pan-European market for high-growth securities in London.

Nasdaq described the agreement with iX as the first step towards a global marketplace. It already has agreements with shares markets in Japan, Hong Kong and Singapore.

But the path towards the creation of iX has been strewn with difficulties. The merger requires the backing by holders of 75 percent of shareholders and significant opposition exists in Britain. This opposition focuses on the 50:50 ownership agreement with Frankfurt that many believe undervalues the LSE's operations.

When negotiations first started, the LSE was insisting on holding 76 percent of the shares in the new iX exchange, but accepted an equal split in line with demands from the City for a more integrated European and global approach. The LSE board's acceptance of Frankfurt's merger terms has not satisfied many of its shareholders. The Guinness Peat Group (GPG), which owns almost one percent of LSE shares, is insisting on a compensation payment to shareholders for assets it believes have been undervalued. The Swiss-owned investment bank UBS Warburg, which owns more than one percent of LSE shares, is also concerned about the merger terms.

With iX's future uncertain, the plans of Frankfurt to secure a new position of dominance have suffered a serious setback. Whatever happens next, it is likely that other bids will now be made on the LSE. Euronext exchange—soon to be formed by the Paris, Brussels and Amsterdam bourses—is a possible contender, having already offered a 50:50 merger in April. Other possible contenders are Nasdaq and the New York Stock Exchange. Nasdaq has several possible options that did not exist prior to the OM Group bid, including tying in with London or Frankfurt should the iX merger fail or proceeding with its earlier plan to establish in independent operation in Europe. Deutsche Börse have indicated they would be ready to improve the terms of the merger to provide a "white knight" counterbid—with the LSE's cooperation—but there are no concrete proposals on offer as yet. All that is certain is that the stakes in the contest over control of the European stock market have been raised dramatically.