

NYSE Euronext Falls in First Day as Combined Exchange

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Shares of NYSE Euronext Inc. fell in their trading debut as Chief Executive Officer John Thain attempts to lure more customers and generate bigger profits with the first trans-Atlantic stock exchange.

The shares retreated \$3.45, or 3.4 percent, to \$97.55 in composite trading in New York. Investors sent shares of NYSE Group Inc. yesterday to their biggest gain in almost a month in anticipation of the completion of the deal. NYSE Euronext has a market value of about \$25.6 billion, eclipsing Deutsche Boerse AG as the world's largest publicly traded exchange.

“Once the fanfare is over, the question is whether these two different markets with two different sets of rules will be able to combine the best of both,” said Bruce Weber, a professor at the London Business School who has researched exchanges since 1990. “Success is lower trading costs and the ability to operate in both marketplaces seamlessly.”

The company, the product of NYSE Group's \$14.3 billion purchase of Paris-based Euronext NV, plans to boost revenue from listing fees by providing companies with an easier way to tap overseas capital. Thain, who pledged a fourfold jump in profit by next year, is betting on an increase in trading as investors take advantage of the link between exchanges in five countries.

NYSE Euronext, home to General Electric Co., France Telecom SA and Heineken NV, will list companies with a total market value of \$28.5 trillion, including 78 of the world's 100 largest firms, the exchange said today. Every day the market will handle trading of stocks worth about \$120 billion. It will also trade options contracts in the U.S. with the Chicago-based Arca exchange, and futures contracts with Euronext.Liffe, Europe's second-largest derivatives market.

Japan and China

Thain said today in an interview that it may take “a few years” to expand in Asian markets such as Japan and China. He plans to grow the U.S. derivatives business, which is more profitable than trading equities.

Thain and three top executives of the exchange opened trading in NYSE Euronext in Paris, and flew across the Atlantic to ring the closing bell at the New York Stock Exchange. Guests from brokerages and exchange employees with company-issued cow bells -- a common souvenir in the French Alps -- crowded under the balcony in the main trading room.

“The four of us, frankly, have to make sure we manage and integrate the company and deliver on both the revenue and expense synergies that we've talked about,” Thain told reporters after the ceremony. “Whether it's options or futures, we would like to grow that business.”

Diversification

Since taking the helm of NYSE in 2004, Thain has tried to diversify beyond stock trading into other assets and overseas markets. Thain, 51, completed the Euronext deal after fending off a rival bid by Deutsche Boerse AG and outmaneuvering Nasdaq Stock Market Inc., which tried to acquire the London Stock Exchange.

NYSE Group shares had surged 61 percent since May 22, when the New York-based company first announced its bid for Euronext. FTSE/Mondo Visione Exchanges index, which tracks 19 other exchanges around the world, advanced 53 percent over that period.

Last month, Thain cited shares of NYSE Euronext as an example of the services the new company can offer. NYSE Euronext trades under the ticker "NYX" in dollars on the New York Stock Exchange and euros on Euronext. The two are interchangeable, meaning investors can buy euro-denominated shares before the open of U.S. markets and sell the same stock hours after the close of European exchanges.

13-Hour Trading

"It's the beginning of a new and big adventure," said Jean-Francois Theodore, deputy chief executive officer of the combined exchange and formerly head of Euronext. "We will be one of the very few stocks in the world to be traded 13 hours a day."

Options contracts on NYSE Euronext are also listed on Euronext, Liffe and Arca. Euronext's Bclear unit will process trades on futures and options contracts that change hands privately among brokerages.

The exchange will combine its company listings business in Paris under Catherine Kinney, who was co-president of NYSE Group and who will move to Europe. Other personnel moves will include Euronext executives moving to New York and vice versa, Thain said today.

Before the end of this quarter, NYSE Euronext will have software in place that enables a customer to trade on any of its markets through a single connection, shuttling orders between the Big Board and Europe, said Sam Johnson, chief executive officer of NYSE TransactTools, a unit that sells technology to brokerages and other exchanges. The exchange also plans to make electronic access to the exchange 90 percent faster this year.

Quick Integration

"From a customer's perspective, the markets will be integrated very quickly," Johnson said in an interview. "Investors want the ability to trade in any market at any time in any currency, from anywhere. We'll provide that capability, and it will be incredibly valuable to people."

NYSE Euronext plans to generate \$100 million in new revenue within three years, primarily from increased derivative and equity trading. The company has said it will cut expenses \$275 million annually by consolidating data centers and sharing technology across exchanges in New York, Chicago, Lisbon, Paris, Brussels and Amsterdam.

Goldman Sachs Group Inc. analyst Josh Carter wrote in a February report that NYSE Euronext may cut \$340 million in costs. He has a "neutral" rating on the stock.

George Ugeux, a former managing director at the New York Stock Exchange, is less optimistic that the combined company will lower costs for investors and issuers.

"People are really not grasping the complexity of liquidity in the equity market," said Ugeux, who is now CEO of New York-based Galileo Global Advisors LLC. "This is not a move that's really driven by the need to provide global liquidity. It's all about control, it's all about power and it's all about money."

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