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## This Bud's for Who? The Battle for Anheuser-Busch

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August Busch IV, chief executive officer of Anheuser-Busch, sat at his desk in his St. Louis, Missouri, office, and considered the implications of InBev's hostile bid to buy his company. The Belgium-based InBev had recently displaced Anheuser-Busch to become the largest brewery in the world, and Carlos Brito, InBev's CEO, had made some early inquiries about buying Anheuser-Busch. After Busch IV rebuffed any idea of a merger of the two companies, Brito responded by making a public bid at \$65 per share (\$46.3 billion) on June 11, 2008.

The Budweiser brand and the company's dominance of the U.S. market were second to none, but these facts were not reflected in the share price, which had been stagnant for several years. As Busch IV considered possible responses to the bid, he needed to determine a fair value for the company. What he really needed was time, but with the threat of a hostile takeover looming, it was one luxury he did not have. Although he wasn't quite sure how to fend off InBev and preserve his family's legacy, his first order of business was simple: right now, he could really use a *Bud*.

### Growth of a Beer Economy

The development of a formal beer economy could be traced back to European monasteries in the early Middle Ages. Monasteries contributed new brewing techniques and played a key role by operating monastic pubs where beer was sold to the public. When historical events such as the Reformation and French Revolution began to threaten monasteries, the number of commercial breweries increased to fill the void.<sup>1</sup> This shift led to an exponential growth in total breweries, which reached a historical peak during the late 19th century.

National legislation played a major role in shaping patterns of consolidation and cross-border expansion. Since alcohol sales were highly regulated and subject to additional licensing and tariffs, exporting beer to foreign markets was far more complicated and expensive than for products such as carbonated drinks. These regulations affected breweries unevenly. Protectionism helped some companies, such as South African Breweries (SAB), which used near-monopolies to gain considerable scale. In other markets, most notably the United States and England, strict antitrust regulations limited growth opportunities via acquisition, which slowed consolidation and delayed the emergence of national champions. Distribution partnerships were common among major breweries; cross-brewing arrangements created a complex and tangled web of business relationships between nearly all of the major competitors, who were forced to work together for their mutual benefit.

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<sup>1</sup> Another historical event that increased public demand for beer was the Great Plague of London (1665–66): beer became preferred for health reasons over water, which was often polluted and could lead to the spread of epidemics.

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Two main scale economies existed in the brewing sector. The first, and most advantageous, occurred when costs decreased and brewers achieved a minimum efficient scale (MES) of production. The second scale economy occurred during advertising and brand building and was linked to the rise of television, which reached a wide audience cheaply through national ads while opening up new opportunities such as global event sponsorship.<sup>2</sup> The question of which scale economy had the greatest impact on the U.S. market was debatable, but the fact that Anheuser-Busch used both more effectively than any other brewer from 1960 onward helped the firm become the largest producer in the United States and possess the highest margins in the industry.

### The explosion in cross-border M&A

Despite a focus that was predominantly local, in the year 2000, Anheuser-Busch not only ranked as the largest brewer in the world but also led by a significant margin, selling over 75% more beer than the next largest company, Heineken. Strong performance in the U.S. market alone seemed to be enough to make any brewery a global power, as supported by two other American breweries ranking in the top 10 globally, Miller and Coors. Over the next five years, however, a radical change took place as cross-border acquisitions involving four of the top six breweries accelerated global consolidation.

In 2002, SAB acquired Miller to form SABMiller; the transaction combined two of the top five brewers in the world. Three years later, Coors merged with Molson, a Canadian brewery that had a 41% domestic market share, to create Molson Coors, at the time the fifth-largest brewery in the world. The biggest game changer involved a 2004 merger that combined two national champions from outside the United States, Ambev and Interbrew, to create another new powerhouse, InBev. By 2005, Anheuser-Busch had not only been dethroned as the world's largest brewer; it had also been surpassed twice by companies that had surged forward on the strength of aggressive M&A strategies. (See **Table 1** for 2007 market share data.)

Table 1. Top beer producers worldwide in 2007.

<b>Company</b>	<b>Percentage of market share</b>
SABMiller	13.1%
InBev	12.8%
Heineken	9.3%
Anheuser-Busch	8.5%
Carlsberg	6.8%
Molson Coors	3.3%
Modelo	2.9%
Other	40.4%

Data source: Market Share Reporter, vol. 1 (2008), 162.

### Anheuser-Busch Family Succession

Over a span of 150 years, Anheuser-Busch grew from a small brewery to an industrial giant responsible for producing more than half of all beer consumed in the United States. Along the way, the company became an American institution and producer of the world's leading beer brand: Budweiser, the "king of beers." Remarkably, this growth occurred organically, without the large-scale mergers and acquisitions most major international breweries used.

Thanks to a family tradition whereby newborn babies were fed their first drink of Budweiser through an eyedropper, August Busch IV first tasted the prominence Anheuser-Busch would have in his life when he was only a few minutes old. Being heir to such a large business was tremendously fortunate, but it also created significant additional pressures. When Busch IV became CEO in 2006, he did so with the knowledge that his

<sup>2</sup> Victor J. Tremblay and Carol Horton Tremblay, *The US Brewing Industry: Data and Economic Analysis*, (Boston: Massachusetts Institute of Technology, 2005), 48.

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father and grandfather had served in the same position for a collective 50-some years. Their accomplishments would be tough to follow.

Busch IV's father had a reputation for being abrasive and he intimidated his senior staff, but he also led the company through its most impressive growth period. His disinterest in markets outside the United States and failure to recognize the strategic value in acquiring foreign breweries gave smaller companies a chance to catch up and eventually surpass Anheuser-Busch. In addition, Busch III had a habit of poisoning the well with his competitors, which made any large-scale merger or collaboration somewhere between unlikely and impossible. Even in partnerships, he was often difficult to deal with and was said to despise win-win situations, only agreeing to deals in which he won and his opponent lost—mergers were out of the question. His obsessive micromanagement and mishandling of the transition that allowed his son to succeed him as CEO were legendary.<sup>3</sup>

Before he was named CEO, Busch IV worked in marketing at Anheuser-Busch, where he amassed some impressive accomplishments. He was responsible for many of the company's most successful advertising campaigns, which often debuted during the Super Bowl, including Budweiser's popular "Wassup?" and "Frogs" television spots. Yet Busch IV's transition to the CEO role was far from smooth. Even when Busch III stepped down from his role as CEO, he chose to appoint Patrick Stokes as chief executive, making him the first non-family member CEO in company history. Many saw that move as a deliberate snub and a major vote of nonconfidence in his son. When Busch IV took over in 2006, he was thrown into a major crisis almost immediately.

### **Anheuser-Busch Performance**

All of Anheuser-Busch's beer was sold to independent wholesalers (more than 600 by 2007) who then distributed to retailers. One key to Anheuser-Busch's success had been its strength in marketing and branding. The company's advertising and marketing efforts were prolific, but the leverage obtained due to its size enabled it to keep its SG&A expenses around 18% of sales, while smaller brewers often incurred costs of twice that amount. Anheuser-Busch's flagship product, Budweiser, ranked as the 30th most recognized brand in the world according to Interbrand.<sup>4</sup> Maintaining a high profile and a nearly limitless marketing budget had been fundamental parts of the culture at Anheuser-Busch. Spending was not limited to traditional media outlets, and the company had diversified into other businesses—both rarities in the brewing sector. As part of its marketing strategy, Anheuser-Busch increased its public profile through ownership of amusement parks (e.g., Busch Gardens), sports teams (e.g., Major League Baseball's St. Louis Cardinals), and food product subsidiaries (e.g., Eagle Snacks). Anheuser-Busch also spent more money on sports sponsorship than any other brewer in the United States, often paying extra to lock up exclusive rights to major global sporting events, including the Super Bowl and the World Cup.

Yet the company's philosophy of sparing no expense in its efforts to dominate the U.S. market was in direct contrast with how conservative Anheuser-Busch was with respect to international expansion. While other breweries fulfilled global expansion plans through foreign acquisitions, Anheuser-Busch opted for a less capital-intensive approach, using licensing deals to partner with foreign breweries and occasionally taking minority stakes in the business. Here deals were characterized by a desire to make Budweiser into a global brand by finding local partners who could brew and distribute Bud within their regions. The most dramatic example was

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<sup>3</sup> Susan Berfield, "Fall of the House of Busch," *Bloomberg Businessweek*, June 30, 2011, <http://www.businessweek.com/magazine/fall-of-the-house-of-busch-07012011.html> (accessed Jul. 2, 2013).

<sup>4</sup> Interbrand and *BusinessWeek*, "All Brands Are Not Created Equal: Best Global Brands 2007," [http://www.interbrand.com/Libraries/Branding\\_Studies/Best\\_Global\\_Brands\\_2007.sflb.ashx](http://www.interbrand.com/Libraries/Branding_Studies/Best_Global_Brands_2007.sflb.ashx) (accessed Jul. 5, 2013).

Anheuser-Busch's largest deal of the 1990s, in which it purchased 17.7% of Grupo Modelo, including options to increase this position.<sup>5</sup> Those options were exercised, and Anheuser-Busch paid \$1.63 billion for just over one-half of a company that would be worth \$13 billion roughly a decade later. Although the deal enabled Anheuser-Busch to export Budweiser to Mexico, it did not gain the rights to import Modelo brands. As of 2008, Anheuser-Busch owned a majority stake (50.2%) in the company.

Anheuser-Busch also began doing business in China in 1995, when it established a licensing deal for Budweiser to be brewed locally. This was followed by the purchase of a 5% stake in Tsingtao, which was increased to 27% in 2002. China represented a new global market with numerous possibilities.

Despite its close-to-home habits, between 1998 and 2003, operating profits at Anheuser-Busch grew on average by 8.5% per year as the firm experienced particularly favorable conditions.<sup>6</sup> The number of barrels sold was important for making money, because the higher the net revenue per barrel, the greater the company's gross profit dollars and gross profit margin. In 2005, Anheuser-Busch sold 148.3 million barrels of beer, earning gross profit of \$5,456.2 million on net sales of \$15,036 million. The company had introduced more than 30 new products, including fruit-flavored malt beverages, energy drinks, and organic and gluten-free beer.<sup>7</sup> This portfolio expansion allowed the firm to continue to introduce new products quickly. That environment changed in 2005, however, when, under Stokes's leadership, Anheuser-Busch felt the effects of declining sales volumes in the United States and the rising cost of hops and barley necessary to brew beer.<sup>8</sup>

One year after Busch IV took over at the end of 2007, an expanded beer portfolio, favorable pricing, and increased demand in the United States for Anheuser-Busch's high-end beer segment drove sales volumes and revenue up, earning the company gross profits of \$5,849.6 million on net sales of \$16,685.7 million, an increase of 2% year over year. (**Exhibit 1** shows key financial data.) At the same time, international sales increased by a much more robust 6%, albeit off a much lower base. (**Exhibit 2** shows data by segment as well as projections. The projections assume growth of Anheuser-Busch as a continued stand-alone entity. They also assume U.S. sales will continue to grow by approximately 2% and that international sales will grow by between 4% and 6%.) Some analysts credited improvements that Busch IV initiated around productivity and lowering costs.<sup>9</sup> That success was short lived, however, as consumer preferences changed and growth in the U.S. beer market began to signal a decline. Between 2005 and 2009, the annual average beer growth rate was forecast to be at 1.1%, while wine and spirits were projected to grow at a rate of 3.3% and 2.6%, respectively.<sup>10</sup> Given its already significant market share in the United States, coupled with changing preferences and a slowing growth rate, the future of Anheuser-Busch appeared to lie increasingly in international markets.

## InBev

The most international of the major breweries, InBev was formed after an \$11.4 billion merger between Brazil's AmBev and Belgium's Interbrew in 2004. Together they held an impressive portfolio of beer brands, including Stella Artois and Hoegaarden from Belgium, Brahma Chopp and Skol from Brazil, Beck's from Germany, and Labatt Blue and Alexander Keith's from Canada.

<sup>5</sup> Grupo Modelo's beer brands included the popular Corona Extra.

<sup>6</sup> Robert van Brugge and Peter Choi, *Black Book—Anheuser-Busch: Times Are Getting Tougher for the King of Beers*, Sanford C. Bernstein & Co., September 2004, 1.

<sup>7</sup> Datamonitor, "Anheuser-Busch Companies, Inc.," October 20, 2008, 6.

<sup>8</sup> "Anheuser-Busch Cos., Inc.," *Merger's Dividend Achievers*, vol. 2, issue 2, Spring 2005 (Hoboken, NJ: Wiley, 2005), 16.

<sup>9</sup> "Anheuser-Busch Cos., Inc.," *Merger's Dividend Achievers*, vol. 4, issue 4, Fall 2007 (Hoboken, NJ: Wiley, 2007), 14.

<sup>10</sup> Datamonitor, "Anheuser-Busch Companies, Inc.," 9.

Interbrew, the aristocrat of the brewing sector, was formed when Belgium's Piedboeuf-Interbrew merged with Artois in 1988. Not only did the company have bloodlines that linked directly to monastic brewing in the 14th century, but Interbrew had also displayed a keen eye for the future, leading the sector's first major transatlantic acquisition by acquiring Canada's Labatt in 1995. After conquering Belgium and Canada, Interbrew then set its sights on England and made two more acquisitions, of Bass and Whitbread, in 2000. The deal left Interbrew with such a strong market position that it was required to sell off assets to comply with British antitrust laws.

AmBev displayed similar ambition by gaining a 68% share of the Brazilian market and then acquiring competitors in nearby countries to become the largest brewer in South America. The company was led by a group of former investment bankers who entered the industry by buying Brazilian brewery Companhia Cervejeira Brahma (Brahma) in 1989. One decade later, a merger with Companhia Antarctica Paulista (Antarctica) combined Brazil's two largest breweries to create a South American powerhouse.

Interbrew and AmBev were an ideal fit in many respects. Their portfolios of beer brands and regional market positions were highly complementary. Furthermore, the two companies shared a common approach to doing business, including strong competencies in M&A deal making and realizing postacquisition value through cost cutting. An example of this reputation for achieving high levels of operating efficiency was when Interbrew acquired Labatt. Even though Labatt held a nearly 50% share of the Canadian market, its shares traded at a discount, in part because of significant nonbrewing assets, including ownership of sports franchises such as Major League Baseball's Toronto Blue Jays. Shortly after the deal closed, Interbrew sold Labatt's noncore assets, which not only boosted the company's valuation but also freed up cash to help finance the transaction. The new company, InBev, seemed to operate with a distinctly European sensibility—and indeed, Interbrew CEO John Brock was chosen to lead InBev, and corporate headquarters were established in Leuven, Belgium. Within one year, however, Brock was ousted and former AmBev chief executive Carlos Brito took over as the new CEO of InBev. After this transition, Brito focused his attention on a new objective: the lucrative U.S. market, which had been a conspicuous gap in InBev's global portfolio. Given InBev's interest in regional expansion and acquiring strong brands, Anheuser-Busch seemed an ideal target. Brito made little effort to hide his interest, publicly stating his admiration for Budweiser, which he referred to as “the great America in a bottle.”<sup>11</sup>

Interestingly, this was not the first time a merger of the two breweries had been discussed. In the early 1990s, Anheuser-Busch explored forming a partnership with a Brazilian brewery and held discussions with Brahma and Antarctica before deciding in 1994 to purchase a small stake in Antarctica, which would become a part of AmBev five years later and InBev five years after that. A second approach was made around the time of the AmBev deal, when Brahma chair and CEO Marcel Telles had proposed an even more ambitious deal—to merge the two Brazilian breweries with Anheuser-Busch, dominate the Americas, and “form the Coca-Cola of beer.” A smaller deal was finally struck in 2006, when Brito and Busch IV agreed to a joint-venture partnership. Although the terms seemed friendly enough, the partnership gave InBev team members an inside look at Anheuser-Busch and helped them better understand just how much room there was for improvement through strategic divestments and more efficient operations. Like Labatt, Anheuser-Busch had significant noncore assets in its entertainment and packaging businesses, which could likely be sold off to help finance any transaction. Another option for InBev would be to dispose of Anheuser-Busch's 50.2% Modelo stake.

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<sup>11</sup> “InBev Brewing up Plans to Bring Bud to the World,” *Economic Times*, July 20, 2008, [http://articles.economicstimes.indiatimes.com/2008-07-20/news/27730341\\_1\\_inbev-budweiser-carlos-brito](http://articles.economicstimes.indiatimes.com/2008-07-20/news/27730341_1_inbev-budweiser-carlos-brito) (accessed May 21, 2013).

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## The Bid for Bud

After several months of rumor and innuendo and a meeting between the two companies' CEOs, InBev made an official offer to purchase Anheuser-Busch on June 11, 2008. Since the beginning of InBev's hinted interest in the company on May 22, Anheuser-Busch's stock price (at \$53 per share) had started to soar. InBev said that its long-term plan for Anheuser-Busch was to continue to run its U.S.-based breweries; keep St. Louis, Missouri, as North American headquarters; add Anheuser-Busch to InBev's name; and offer several current Anheuser-Busch board members seats on the combined firm's board.<sup>12</sup> Brito sent Busch IV a letter outlining intentions—excerpts included:<sup>13</sup>

We believe that the best way to achieve this transformational combination for all constituents, including Anheuser-Busch's shareholders, is an all-cash acquisition of Anheuser-Busch by InBev. InBev is prepared to pay \$65 per share<sup>14</sup> in cash for all of the outstanding share of Anheuser-Busch. A price of \$65 per share would deliver to your shareholders an immediate cash premium of 35% over the 30-day average share price prior to recent market speculation and 18% over the previous all-time high achieved in October 2002.

Together we would be the leader in the industry and one of the top five consumer products companies globally, with pro forma 2007 beer volumes of 460 million hectoliters, net sales and EBITDA of \$36.4 billion and \$10.7 billion, respectively.

Busch IV had responded to InBev's initial advances with assurances that he wasn't interested in a merger. The hostile bid now placed Busch in a bind, because the market's reaction to it reflected more of an increase in stock value than Anheuser-Busch management had been able to achieve in seven years. (See **Exhibit 3** for stock price chart.) To an external investor, it was a good deal. And when compared to recent past performance and the fact that Anheuser-Busch's shares had not surpassed the \$60-per-share peak value for some time, it would certainly be attractive to shareholders. Busch IV felt strongly, however, that the current bid of \$65 was too low. Food and beverage deals in the United States over the past few years had averaged around 11× EV/EBITDA but had gone as high as 14×. Busch IV felt that the company's prospects were anything but average. Heineken had recently completed an acquisition of a "mature asset" for 11.9× EV/EBITDA.

Some on Wall Street believed that the firm had put itself in an almost defenseless position. "[Anheuser-Busch] made big missteps, but it made them two years ago when they declassified the board," one analyst said. "Once [they] did that, they were always a sitting duck."<sup>15</sup> In addition to the board action, the firm had let its poison pill expire in 2004.<sup>16</sup> If the provision were still in play, or reinstated, it would have stopped any hostile bid from buying more than 20% of Anheuser-Busch's stock.<sup>17</sup> Furthermore, the Busch family likely would have been unable to play much of a role in opposing the bid because it owned less than 4% of the shares.<sup>18</sup>

Despite those issues, Busch IV believed he might have room to decline the offer. The company had recently told "the Street" that it expected significant cost savings from both a decline in capital expenditures (CAPEX)

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<sup>12</sup> Jeremiah McWilliams, "InBev Makes Its Play for Bud \$46.3 Billion Bid," *St. Louis Post-Dispatch*, June 12, 2008, A1, via Factiva (accessed May 21, 2013); and Jessica Hall and Martinne Geller, "InBev Played Smart to Win Defenseless Anheuser," Reuters, July 14, 2008, via Factiva (accessed May 21, 2013).

<sup>13</sup> Andrew Ross Sorkin, "InBev's Offer for Anheuser-Busch: The Letter," *New York Times DealBook* (blog), June 11, 2008, <http://dealbook.nytimes.com/2008/06/11/inbevs-offer-for-anheuser-busch-the-letter> (accessed Jul. 5, 2013).

<sup>14</sup> The \$65-per-share bid included Anheuser-Busch's 50.2% ownership of Grupo Modelo SAB.

<sup>15</sup> Hall and Geller. A *declassified* board is one in which all the directors are elected at the same time and therefore all come up for reelection at the same time.

<sup>16</sup> Boards of directors often use a tactic called a *poison pill*, which makes a firm's stock too expensive to be attractive to purchase.

<sup>17</sup> McWilliams.

<sup>18</sup> Jonathan Sibun, "Who Will Bottle It First in the Battle for Anheuser?," *Sunday Telegraph*, June 1, 2008, via Factiva (accessed May 21, 2013).

and expectations for margin improvement. Whereas recently, CAPEX had been running at just over 5% of sales, the company anticipated a decline in the 3%-to-4% range over the next several years. Likewise, Anheuser-Busch had experienced a meaningful increase in cost of goods over the past few years as a result of a surge in commodity costs, specifically hops and barley. Increases in energy prices hadn't helped margins either. Despite expectations for these costs to continue to rise slightly in 2008, Busch IV felt the company was getting a better handle on things and, anticipating a better product pricing environment, felt it should begin to see margin improvement in 2009 and beyond. (See **Exhibit 4** for operating and financial projections, including some synergies Busch IV identified from a reduction in CAPEX.)

InBev would need to take on a significant amount of leverage to make the all-cash deal, and Anheuser-Busch could make it more difficult for InBev to pursue this acquisition if it required InBev to pay a lot more than originally planned. If Anheuser-Busch instituted a change in management philosophy, making cuts in staff and expenses—or divesting some assets—it might send a signal to the market that Anheuser-Busch was willing and able to manage operations in a more efficient and profitable manner. In a way, this would be stealing a page from the InBev playbook. If the margin improvements Anheuser-Busch outlined were realized, earnings-per-share growth would show significant improvement over the next several years, likely having a knock-on effect on valuation. Anheuser-Busch could also continue to accelerate its share repurchase program. Still, the bottom line was that domestic sales were growing at only about 2% per year and international growth was expected to be somewhere in the 5%-to-6% area.

### Busch IV and the Future

Time may have been short, but there were still alternative strategies, such as seeking out a white knight.<sup>19</sup> One of the firms whose name was tossed around in speculation was Diageo<sup>20</sup>—an alcoholic beverage company headquartered in London, England, and a major global spirits, beer, and wine producer. A combined Diageo-Anheuser-Busch would provide Diageo 10% of the global beer market, synergies related to the separate distribution of beer and spirits, and increased access to the U.S. market.<sup>21</sup> Another option would be to mount a Pac-Man defense in the form of a counterbid to acquire InBev. Lastly, Busch IV could try to make the acquisition more difficult for InBev by itself acquiring another brewery. If done properly, and quickly enough, this would effectively force InBev to acquire two major breweries at the same time, making financing even more difficult for InBev to secure. This option would require closing a deal fast enough to thwart InBev's bid. On the other hand, Anheuser-Busch had significant stakes in two targets that might fit the criteria—Grupo Modelo and Tsingtao. As Busch IV weighed the pros and cons of each option, he realized that a number as high as possible representing his company's value would be among the first line items to prepare.

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<sup>19</sup> A *white knight* is a friendly potential acquirer who treats its target corporation favorably by offering a fair price and often retaining the acquired company's board of directors.

<sup>20</sup> Paul Murphy, "A White Knight for Anheuser?," *FTAlphaville*, May 27, 2008, <http://ftalphaville.ft.com/2008/05/27/13319/a-white-knight-for-anheuser> (accessed Jul. 2, 2013).

<sup>21</sup> Murphy.

## Exhibit 1

**This Bud's for Who? The Battle for Anheuser-Busch**

## Anheuser-Busch Key Financials, 2004–2007

Year ended Dec. 31 (in millions, except where noted)	2004	2005	2006	2007
<b>Barrels of beer sold:</b>				
U.S.	103.0	101.1	102.3	104.4
International	13.8	20.8	22.7	24.0
Worldwide Anheuser-Busch Brands	116.8	121.9	125.0	128.4
Equity Partner Brands	19.3	26.4	31.6	33.2
Total Brands	136.1	148.3	156.6	161.6
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Gross sales	\$ 17,160	\$ 17,254	\$ 17,957.8	\$ 18,988.7
Excise taxes			\$ 2,240.7	\$ 2,303.0
Net sales	\$ 14,934	\$ 15,036	\$ 15,717.1	\$ 16,685.7
Gross profit	\$ 5,951.7	\$ 5,456.2	\$ 5,552.1	\$ 5,849.6
As a percentage of net sales	39.9%	36.3%	35.3%	35.1%
Operating income	\$ 3,361.0	\$ 2,621.0	\$ 2,719.6	\$ 2,894.0
As a percentage of net sales	22.5%	17.4%	17.3%	17.3%
Equity income, net of tax	\$ 404	\$ 498	\$ 588.8	\$ 662.4
Net income	\$ 2,119	\$ 1,744	\$ 1,965.2	\$ 2,115.3
Diluted earnings per share	\$ 2.62	\$ 2.23	\$ 2.5	\$ 2.8
Diluted weighted average shares outstanding	808.5	780.6	777	757.1
<hr/>				
Operating cash flow before the change in working capital	\$ 3,121.9	\$ 2,677.5	\$ 2,520.6	\$ 2,963.1
Common dividends paid	\$ 742.8	\$ 800.8	\$ 871.6	\$ 932.4
Per share (in dollars)	\$ 0.93	\$ 1.03	\$ 1.13	\$ 1.25
Earnings before interest, income taxes, depreciation and amortization (EBITDA)(1)	\$ 4,997.4	\$ 4,419.0	\$ 4,672.5	\$ 4,989.9
Return on shareholders equity	83.3%	61.2%	51.6%	59.7%
Return on capital employed(2)	18.4%	14.7%	15.6%	16.6%
<hr/>				
Total assets	\$ 16,173.4	\$ 16,555.0	\$ 16,377.2	\$ 17,155.0
Debt	\$ 8,278.6	\$ 7,972.1	\$ 7,653.5	\$ 9,140.3
Capital expenditures	\$ 1,089.6	\$ 1,136.7	\$ 812.5	\$ 870.0
Depreciation and amortization	\$ 932.7	\$ 979.0	\$ 988.7	\$ 996.2
Number of full-time employees	31,435	31,485	30,183	30,849
Number of registered common shareholders	54,654	53,573	51,888	49,732
Closing stock price	\$ 50.7	\$ 43.0	\$ 49.2	\$ 52.3
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Income before Income taxes	\$ 2,812	\$ 2,057	\$ 2,277	\$ 2,423

(1) EBITDA is calculated as pretax income plus depreciation and amortization expense, plus net interest cost (interest expense less capitalized interest), plus equity income on a pretax basis (equity income divided by the reciprocal of the effective tax rate).

(2) Return on capital employed is computed as net income before after-tax interest expense divided by average net investment. Net investment is defined as total assets less nondebt current liabilities.

Data source: Anheuser-Busch annual reports, 2006–2007.

## Exhibit 2

## This Bud's for Who? The Battle for Anheuser-Busch

## Anheuser-Busch Business Segments, 2007

2007	US Beer	International Beer	Packaging	Entertainment	Corporate & Eliminations	Consolidated	Total Beer	US share	Intl share
<b>Income Statement Information</b>									
Gross sales	\$ 14,158.7	1,351.70	2,632.80	1,272.70	-427.2	\$ 18,988.7	15,510.4	91.3%	8.7%
Net sales - intersegment	\$ 3.2	0.6	931.9	—	-935.7				
Net sales - external	\$ 12,106.1	1,097.50	1,700.90	1,272.70	508.5	\$ 16,685.7			
Depreciation and amortization	\$ 749.0	49.8	68.9	103	25.5	\$ 996.2			
Income before income taxes	\$ 2,784.0	93.3	175.8	262.7	-893.1	\$ 2,422.7			
Equity income, net of tax	\$ 2.3	660.1	—	—	—	\$ 662.4			
Net income	\$ 1,728.4	717.9	109	162.9	-602.9	\$ 2,115.3	2,446.3	70.7%	29.3%
<b>Balance Sheet Information</b>									
Total assets	\$ 8,142.0	5,880.80	772.6	1,548.30	811.3	\$ 17,155.0	14,022.8	58.1%	41.9%
Equity method investments	\$ 93.9	3,925.60	—	—	—	\$ 4,019.5			
Goodwill	\$ 21.2	1,343.30	21.9	288.3	—	\$ 1,674.7			
Foreign-located fixed assets	\$ 4.5	544.4	—	—	—	\$ 548.9			
Capital expenditures	\$ 554.4	59.2	72.4	169.4	14.6	\$ 870.0			

Data source: Anheuser-Busch annual report, 2007, 63.

## Selected Financial Information for Anheuser-Busch, 2007–2009

	2007A	2008E	2009P
<b>Barrels of Beer (millions)</b>			
Domestic	104.4	106.5	108.6
International	24.0	25.2	26.7
Total Barrels	128.4	131.7	135.3
<b>Sales (millions)</b>			
U.S. (\$)	15,191	16,589	17,418
International (euros)	2,601	2,706	2,815
Excise Tax	2,303	2,393	2,512
Cost of Goods Sold (\$)	10,837	11,334	11,570
Marketing, General and Admin (\$)	2,982	3,158	3,316
Depreciation	996	997	1,047
Increase in Net working Capital (\$)	(24)	40	50

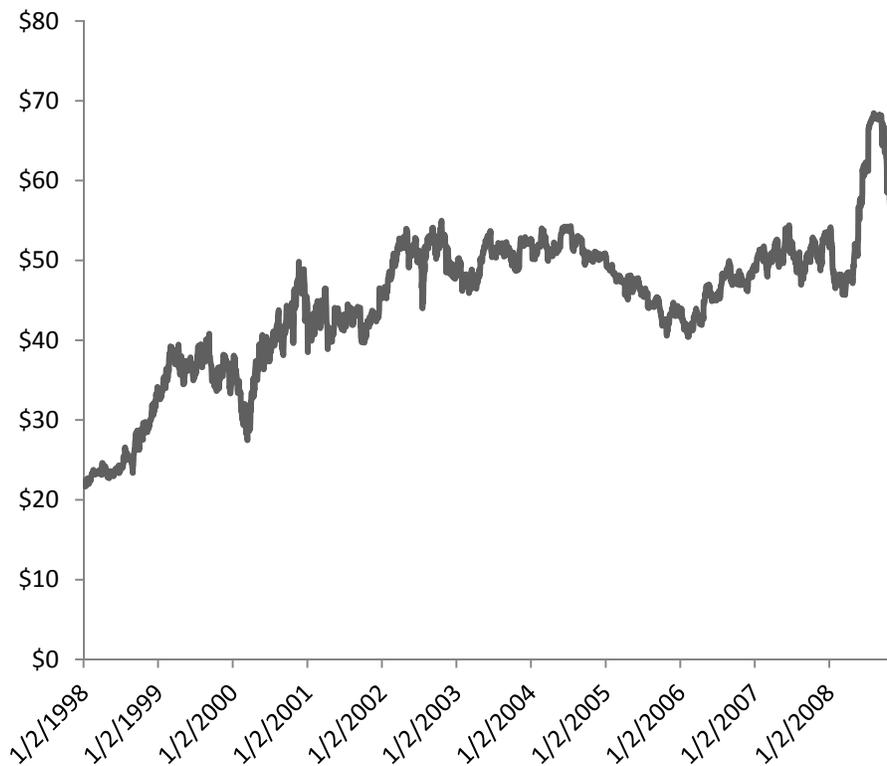
Note: Figures above do not provide for income taxes or capital expenditures. Sales are expressed in dollars and euros, respectively.

Data sources: Anheuser-Busch annual report, 2009, and case writer estimates.

Exhibit 3

**This Bud's for Who? The Battle for Anheuser-Busch**

Anheuser-Busch Adjusted Stock Price, 1998–2008



Month	Adjusted Stock Price
Jan-03	49.43
Jun-03	52.99
Jan-04	52.44
Jun-04	53.87
Jan-07	49.22
Jun-07	54.01
Jan-08	51.63
Jun-08	57.78

Note: Prices prior to 9/18/2000 adjusted due to stock split.

Data sources: ChicagoBooth CRSP Historical Indexes,  
<http://www.crsp.com/products/research-products/crsp-historical-indexes>  
 (accessed Sep. 5, 2014).

## Exhibit 4

**This Bud's for Who? The Battle for Anheuser-Busch**

## Operating and Financial Projections Associated with Operating Efficiencies

Year ended Dec. 31 (in millions, except where noted)	2007A	2008E	2009P	2010P	2011P	2012P
<b>Barrels of beer sold: (000)</b>						
U.S.	104.4	106.5	108.6	110.8	113.0	115.3
International	24.0	25.2	26.7	28.6	30.6	32.7
Worldwide Anheuser-Busch Brands	128.4	131.7	135.3	139.4	143.6	148.0
Gross sales	18,989	19,938	20,935	22,191	23,745	25,407
Excise taxes	2,303	2,393	2,512	2,663	2,849	3,049
Net sales	16,686	17,546	18,423	19,528	20,895	22,358
Cost of goods sold	10,837	11,334	11,570	12,166	12,955	13,862
As a percentage of net sales	64.9%	64.6%	62.8%	62.3%	62.0%	62.0%
Gross profit	5,849	6,211	6,853	7,362	7,940	8,496
Marketing, distribution, and administration	2,982	3,158	3,316	3,515	3,761	4,024
As a percentage of net sales	17.9%	18.0%	18.0%	18.0%	18.0%	18.0%
Operating income	2,894	3,053	3,537	3,847	4,179	4,472
As a percentage of net sales	17.3%	17.4%	19.2%	19.7%	20.0%	20.0%
Net interest expense	471	500	500	500	500.0	500.0
Pretax income	2,423	2,553	3,037	3,347	3,679	3,971.6
Tax rate	40.0%	39.5%	39.5%	39.5%	39.5%	39.5%
Income taxes	969.8	1,008	1,200	1,322	1,453	1,569
Equity income, net of tax	662	702	737	781	836	894
Equity income, pretax (for EBITDA calculation) (1)	1,105	1,160	1,218	1,291	1,381	1,478
Net income	2,115	2,246	2,574	2,806	3,062	3,297
Diluted earnings per share	\$2.79	\$3.10	\$3.55	\$3.87	\$4.22	\$4.55
Diluted weighted average shares outstanding	757	725	725	725	725	725

(1) Pretax equity income is calculated as equity income divided by the reciprocal of the tax rate. This income is related to AB's investment in Grupo Modelo and should be added back to AB's stand-alone free cash flow for valuation purposes.

Note: Analysts estimated WACC at 8.4% (William Pecoriello and Brett Cooper, "Anheuser-Busch Cos.," Morgan Stanley, June 27, 2008, 3).

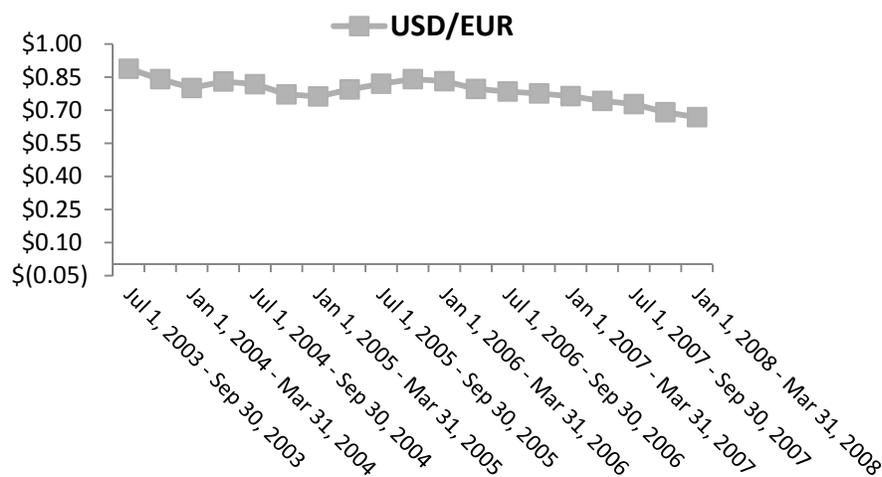
Data sources: Anheuser-Busch annual reports, 2006–2007, and case writer estimates.

Exhibit 5

**This Bud's for Who? The Battle for Anheuser-Busch**

Selected Exchange Rates, 2003–2008

Quarterly Period	USD/EUR
Jul. 1, 2003–Sep. 30, 2003	0.8878
Oct. 1, 2003–Dec. 31, 2003	0.8404
Jan. 1, 2004–Mar. 31, 2004	0.8006
Apr. 1, 2004–Jun. 30, 2004	0.8296
Jul. 1, 2004–Sep. 30, 2004	0.8178
Oct. 1, 2004–Dec. 31, 2004	0.7716
Jan. 1, 2005–Mar. 31, 2005	0.7621
Apr. 1, 2005–Jun. 30, 2005	0.7938
Jul. 1, 2005–Sep. 30, 2005	0.8195
Oct. 1, 2005–Dec. 31, 2005	0.8407
Jan. 1, 2006–Mar. 31, 2006	0.8316
Apr. 1, 2006–Jun. 30, 2006	0.7962
Jul. 1, 2006–Sep. 30, 2006	0.7843
Oct. 1, 2006–Dec. 31, 2006	0.7758
Jan. 1, 2007–Mar. 31, 2007	0.7632
Apr. 1, 2007–Jun. 30, 2007	0.7417
Jul. 1, 2007–Sep. 30, 2007	0.7278
Oct. 1, 2007–Dec. 31, 2007	0.6905
Jan. 1, 2008–Mar. 31, 2008	0.6681



Data source: OANDA Historical Exchange Rates, <http://www.oanda.com/currency/historical-rates> (accessed Jul. 8, 2013).

## Exhibit 6

**This Bud's for Who? The Battle for Anheuser-Busch**

Selected Capital Market Information, December 2007

	<b>Euro Zone (euros)*</b>	<b>USD(\$)</b>
<b>Selected interest rates</b>		
Domestic government bonds (long term)	4.38%	4.43%
3-month treasury bill rate		3.37%
<b>Spot rate of euro, end of 2007</b>		\$1.47
<b>Inflation rates: yearly, 2002–2007</b>		
2002		1.6%
2003		2.3%
2004		2.7%
2005		3.4%
2006		3.2%
2007		2.8%

\* euro-area 10-year government benchmark bond yield

Data sources: U.S. Treasury Department, European Central Bank, and U.S. Inflation Calculator.