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Next move? Inbev

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Now that Anheuser-Busch Cos. has spurned its takeover proposal, the next decision belongs to InBev and its ambitious chief executive, Carlos Brito.

The Belgian brewing giant has been silent since Anheuser-Busch rejected on Thursday its \$47.5 billion offer as "financially inadequate" and rolled out a multi-pronged plan to reduce costs and raise earnings.

InBev has clearly shown that it covets Anheuser-Busch. The question now is whether the Belgian brewer sweetens the \$65-a-share bid to keep the deal friendly or bypasses A-B's board and goes directly to shareholders.

Analysts who cover InBev say the St. Louis brewer is too inviting a target to pass up regardless of its desire to remain independent.

"There is absolutely zero doubt that they go hostile," said Rob Mann, an analyst at Collins Stewart in London. "I get the impression that InBev could bid \$80 (a share) and Anheuser would say 'no way.' To me, there is nothing in what Anheuser has said that justifies a higher price."

But a hostile takeover carries its own risks, U.S. beer industry consultants warn. There are dangers of damaging brands, alienating distributors and losing the insights of a management team that has decades of experience.

"It's not just beer, it's not just the logo," said Patrick Anderson, chief executive of the Anderson Economic Group, which provides valuation studies of beverage wholesalers. Anheuser-Busch has "people who really know the beer business and have been tremendously successful at it for a generation."

Anheuser-Busch executives were coy on Friday about what they considered an acceptable price, or whether they were open to discussions with InBev. But they said the company's board was open to proposals that would provide "full and certain value" for the company's shareholders.

"We're going to do what's in the best interest of our shareholders," August A. Busch IV, chief executive of Anheuser-Busch, told the Post-Dispatch. "We believe we're in a better position to create value for our shareholders" than InBev is.

InBev is considering A-B's reaction and "will respond in due course," said InBev spokeswoman Marianne Amssoms. InBev declined to say whether it was prepared to raise its offer.

GROWING HOSTILITY

There already are signs that a deal won't happen with grins and handshakes.

Even before Anheuser-Busch turned down its offer, InBev filed a lawsuit Thursday in a Delaware court that would pave the way for the company to remove Anheuser-Busch's entire 13-member board.

Analysts say InBev sees a golden opportunity. The U.S. dollar is weak and other large brewers appear to not be in a position to make a play for Anheuser-Busch. Some, such as Carlsberg and Heineken, are in the process of digesting big acquisitions. SABMiller and Molson Coors are merging their U.S. operations.

"This is a great opportunity for (InBev)," said Kris Kippers, an analyst at Belgian brokerage Petercam. "I don't think they would be really bothered by going hostile."

Hostile efforts to remove a company's board of directors outside of a shareholder meeting — the point of InBev's lawsuit — are relatively rare. But they can be effective, as International Business Machines Corp. proved more than a decade ago in its bid to take over software maker Lotus Development Corp.

In that case, IBM took its bid straight to Lotus shareholders. A day later, IBM sought to remove the company's board. Within a week, IBM had bumped the price it was willing to pay and Lotus had succumbed, agreeing to a \$3.5 billion takeover.

But trying to remove Anheuser-Busch's board through a shareholder solicitation — or making a direct cash offer to investors — may not be as easy for InBev.

The main risk InBev would run if it decided to go hostile would be alienating loyal Budweiser drinkers in the United States, said Joe Thompson, president of Independent Beverage Group, a consulting group based in South Carolina. Budweiser's core drinkers — older people and NASCAR fans, for example — could revolt over InBev's tactics, Thompson predicted.

"It's going to be very difficult to get them back," he said.

But Kevin Lane Keller, professor of marketing at Dartmouth College's Tuck School of Business, believes InBev can preserve the Budweiser reputation if the Belgian brewer of Beck's and Stella Artois maintains Anheuser-Busch's marketing prowess and message.

"A big part of what (InBev is) paying for is brands," said Keller. If InBev is "smart about it," the brewer would replicate Anheuser-Busch's ability to evoke its heritage, he said. If InBev starts "fooling around with things, all bets are off."

Still, the nastier the fight between Anheuser-Busch and InBev, the more InBev will have to "mend fences" with consumers, said Keller.

"There will be a lot of people that will be vicious, skeptical, angry, and they're going to be looking for any evidence that InBev is not treating the brand in the right way," he said.

A friendly combination would allow both companies to hammer out ways for Anheuser-Busch to preserve some of its identity and culture, said Tom Pirko,

president of Bevmark, a consulting firm based in California. If Anheuser-Busch's management okays the deal, the companies could reach compromises on gradual, measured cost-cutting, he said.

An amicable deal also could protect goodwill among drinkers and Anheuser-Busch employees, he added.

A hostile bid would lead InBev to "break this company down" with massive budget cuts and firings — to "turn the piggy bank upside down and shake it until there aren't any pennies left," said Pirko.

"What is it worth to do that damage at \$65, versus the damage you'd save by going to \$70?" Pirko asked. "The best thing to do right now would be to make everybody happy. Give (Anheuser-Busch) an offer that still looks like a compromise."

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