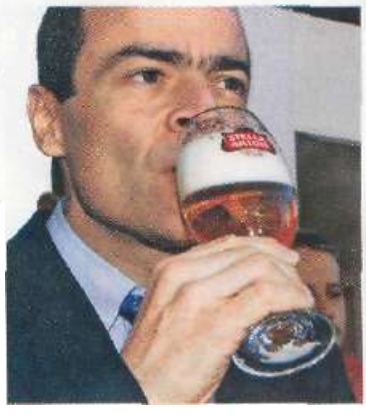
DEALS

Looks Like A Beer Brawl

After merging with Belgium's InBev, Anheuser-Busch faces a tough CEO and a mountain of debt



By Dean Foust

Within the clubby confines of the beer industry, it's an odd coupling, not unlike, say, Angelina Jolie and Billy Bob Thornton or Lyle Lovett and Julia Roberts. InBev and Anheuser-Busch—which on July 13 succumbed to InBev's hostile bid and agreed to be acquired for $52 billion—couldn't be more different.

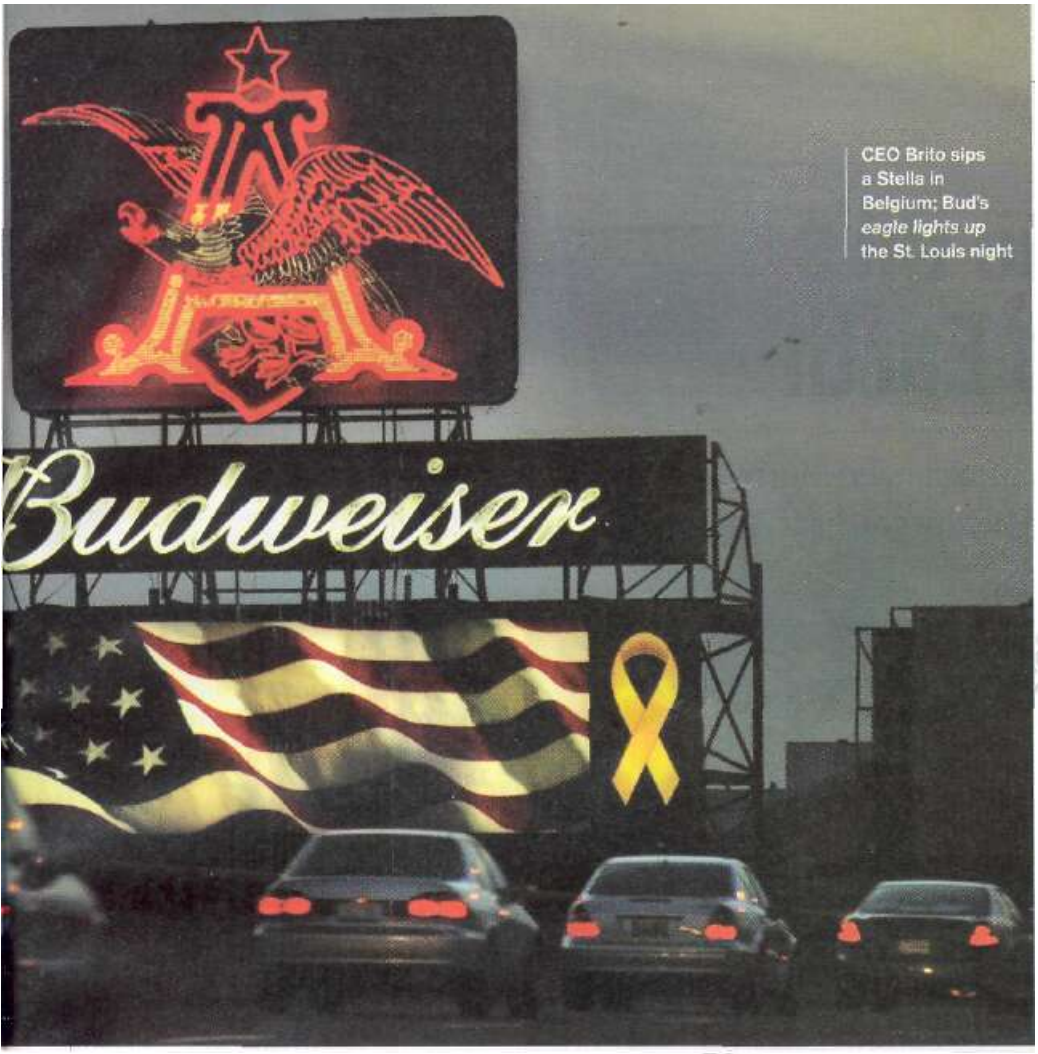
At Belgium-based InBev, Chief Executive Carlos Brito and his team have steamrolled their way through a series of acquisitions that prompted one analyst to call them "machete-wielding investment bankers." To pay for those deals, Brito cuts costs to the bone: The native of Brazil orders his executives to fly coach on most flights, is stinting with standard industry perks like company cars and free beer, and encourages employees to photocopy on both sides of each sheet of paper.

By contrast, InBev's new bride, Anheuser-Busch, conies to the marriage with expensive tastes. The company has spent lavishly on New Media ventures. There was ESPN in the 19703 and more recently the ill-fated BudTV.com. Longtime CEO August Busch III routinely made the 10-mile commute to work by helicopter and once mused whether to buy a castle in Europe for a commercial shoot. His successor and son, August IV, continues the tradition: Employees enjoy free admission to the company's theme parks and get two free cases of beer each month. "I think even the Clydesdales [stabled at Anheuser-Busch headquarters] get better treatment than your average InBev employee," jokes one industry consultant. Executives at Anheuser-Busch and InBev declined comment for this story.

STEELY LEADERSHIP

Brito clearly has a lot riding on his ability to mesh these disparate cultures and realize his vision of creating the "best beer company in a better world," as he put it in a conference call announcing the deal. This 48-year-old executive is known more as a steely operator than motivator, having made his name by developing systems that measured the productivity of everything from the company's breweries to its sales force. In a speech to Stanford MBA students last February, Brito recalled how he once chafed when given a promotion that included oversight of human resources and technology: "For me, sales was everything," he recalled, while a "touch-feely" concept like leadership "was for poets."

To make his latest deal work, Brito will need all of those tough qualities and more. Of the $52 billion he's paying for Anheuser-Busch, $45 billion is borrowed. That means the combined debt burden for the renamed Anheuser-Busch InBev will work out to a hefty 12.4 times the company's



CEO Brito sips a Stella in Belgium; Bud's *eagle lights up* the St. Louis night

combined cash flow, giving Brito little margin for error. *

Brito is confident he can export Anheuser's flagship Budweiser brand to Europe, Asia, and everywhere else consumers crave a taste of America, while selling his European and Brazilian brews through Anheuser's vast distribution network in the U. S. Yet history is against him. The global beer industry remains largely a domestic game, with only a few, mostly premium, brands such as Heineken and Guinness approaching global status.

And Brito's record at developing export markets isn't good. InBev made a hard push in 2005 to turn a popular Brazilian brew, Brahma, into a global brand, but it beat a retreat when sales failed to materialize. "We know InBev as an executor of the top line," says Gerard Rijk, an analyst for ING Wholesale Banking in Amsterdam. "They are not world champions in global branding."

Given the hefty purchase price, analysts fear Brito can't cut his way to prosperity this time. InBev can probably trim its assumed debt burden by $7 billion by selling some Anheuser assets, such as the theme parks and a separate division that makes cans and bottles. Brito has promised Wall Street he can shave an additional $1.5 billion out of Anheuser-Busch's cost structure over the next three years, partly by making the job cuts that Anheuser's management had promised investors as a counter to InBev's offer.

But those reductions only total $1 billion; scraping up the next $500 million in savings could be tough. Anheuser-Busch's breweries already are the industry's most efficient, and there's little of the market overlap between InBev and Anheuser-Busch that could create easy savings in manufacturing or transportation.

Brito may be left with few options outside of cutting Anheuser's vast marketing budget, which analysts believe topped $1.3 billion last year. That could cost the company market share against an emboldened SABMiller, which recently won government approval to combine its U.S. operations with those of Molson Coors Brewing. Analysts also expect Brito to put the squeeze on the independent distributors that carry Bud, Bud Light, and Anheuser-Busch's other brands. Creating a network of fewer, bigger, and richer distributors would give Brito the chance to shift marketing costs onto these wholesalers.

Analysts estimate the average Anheuser-Busch distributor nets roughly $1 per case of Budweiser it delivers to market, vs. the 85$ or so SABMiller pays its wholesalers. Closing that gap could net Brito roughly $20 o million a year—but create deep fissures in his relationships with distributors. "You've got distributors who've been doing business with Anheuser-Busch for 50 years, and if InBev puts the squeeze on them, there's going to be a clash," says industry consultant Joe Thompson. For Brito, that could mean the courtship of Anheuser-Busch and its many constituents has just begun. BW

- With Jack Ewing in Frankfurt and Geri Smith in Mexico City

LINKS

Making international marriages work

A landmark KPMG study from 1999 found that 83% of mergers and acquisitions were unsuccessful in creating value for shareholders—and more than half actually destroyed value. Cross-border M&A deals performed even more poorly. (Remember *DaimlerChrysler?*) Yet international acquirers that dealt with differences in corporate and national cultures early on in the integration process were 26% more successful than those that did not.

Fonte: Business Week, p. 52-53, July 28th. 2008.