

THE HOSTILE TAKEOVER OF
ANHEUSER-BUSCH,
AN AMERICAN ICON

DETHRONING
THE
KING



JULIE MACINTOSH

Dethroning the King

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*The Hostile Takeover of
Anheuser-Busch,
an American Icon*

Julie MacIntosh



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*To my husband, Micah, for his limitless support and patience,
and to Miller, for arriving at exactly the right time*

“It behooves a father to be blameless if he expects his child to be.”

—Homer

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Cast of Characters

Anheuser-Busch

Board of Directors

August A. Busch III: former Chairman, President, and Chief Executive Officer

August A. Busch IV: President and Chief Executive Officer

Carlos Fernández González: Chairman and CEO of Grupo Modelo

James J. Forese: former Chairman and CEO of IKON Office Solutions

Ambassador James R. Jones: former U.S. Ambassador to Mexico; former Chairman of the American Stock Exchange

Vernon R. Loucks Jr.: Chairman of The Aethena Group; former Chairman and CEO of Baxter International

Vilma S. Martinez: Partner, Munger, Tolles & Olson; later named U.S. Ambassador to Argentina

William Porter “Billy” Payne: Vice Chairman of Gleacher Partners; Chairman of Augusta National Golf Club

Joyce M. Roché: President and CEO of Girls Incorporated

General Henry Hugh Shelton: former Chairman of the Joint Chiefs of Staff

Patrick T. Stokes: Chairman of Anheuser-Busch, former President and CEO

Andrew C. Taylor: Chairman and CEO of Enterprise Rent-A-Car

Douglas A. “Sandy” Warner III: former Chairman of J.P. Morgan Chase

Edward E. Whitacre Jr.: Chairman Emeritus of AT&T; later named Chairman and CEO of General Motors

Executive Officers

W. Randolph “Randy” Baker: Chief Financial Officer

Robert Golden: head of Mergers and Acquisitions

Francine Katz: head of Communications and Consumer Affairs

Robert Lachky: head of Global Industry and Creative Development

Douglas Muhleman: head of Brewing Operations and Technology

David Peacock: head of Marketing

John “Jack” Purnell: former Chairman and CEO of Anheuser-Busch International

Gary Rutledge: head of Legal and Government Affairs

Thomas Santel: President and CEO of Anheuser-Busch International; head of Corporate Planning

Pedro Soares: aide to August Busch IV; former head of Anheuser-Busch Mexico

Other Key Players

Charles “Casey” Cogut: Partner, Simpson Thacher & Bartlett

Joseph Flom: Partner, Skadden, Arps, Slate, Meagher & Flom

Peter Gross: Managing Director, Goldman Sachs

Timothy Ingrassia: head of Americas Mergers and Acquisitions, Goldman Sachs

Leon Kalvaria: Global Head of Consumer and Health Care Banking, Citigroup

Kenneth Moelis; founder, Moelis & Company

Larry Rand: co-founder, Kekst & Company

Jeffrey Schackner: Managing Director, Citigroup

Paul Schnell: Partner, Skadden, Arps, Slate, Meagher & Flom

InBev

Executives and Board Members

Carlos Brito: Chief Executive Officer
Jorge Paulo Lemann: Director and key shareholder
Carlos Alberto da Veiga Sicupira: Director and key shareholder
Marcel Herrmann Telles: Director and key shareholder

Other Key Players

Francis Aquila: Partner, Sullivan & Cromwell
Douglas Braunstein: head of Americas Investment Banking,
J.P. Morgan
Steven Golub: Vice Chairman, Lazard
Steven Lipin: Senior Partner, Brunswick Group
George Sampas: Partner, Sullivan & Cromwell
Antonio Weiss: Vice Chairman of European Investment
Banking, Lazard

Grupo Modelo

Executives and Board Members

María Asunción Aramburuzabala Larregui de Garza: Vice Chairman
of the Board, granddaughter of one of the company's founders
Carlos Fernández González: Chairman and CEO of Grupo Modelo;
great-nephew of one of the company's founders
Antonino Fernández Rodríguez: Honorary Life Chairman,
former CEO

Other Key Players

Joele Frank: Managing Partner, Joele Frank, Wilkinson
Brimmer Katcher
Robert Kindler: Vice Chairman of Investment Banking,
Morgan Stanley
David Mercado: Partner, Cravath, Swaine & Moore

Author's Note

The summer of 2008 is one many people wish they could forget. In the immediate aftermath of the collapse of Bear Stearns in March, the global financial markets briefly looked as though they might stabilize. By the time legendary American brewer Anheuser-Busch received a takeover bid from foreign giant InBev in June, however, lenders Fannie Mae and Freddie Mac were teetering on the verge of insolvency and concern was mounting that U.S. taxpayers might end up holding the bag on \$5 trillion in mortgage liabilities. The government stepped in to rescue both entities; but just a few months later Lehman and AIG failed, Merrill Lynch was taken over, and Goldman Sachs and Morgan Stanley came pounding on the U.S. Federal Reserve's door in need of a life-saving favor. That New Year's Eve marked the first time I can ever recall hearing a unanimous sigh of relief that the year was over.

I'm one of the lucky few who spent that nerve-wracking summer thinking about beer. I covered InBev's takeover of Anheuser-Busch as the *Financial Times'* U.S. mergers and acquisitions correspondent, and while the newspaper industry wasn't exactly rolling in cash, I knew as the saga unfolded that I'd have a desk waiting for me in the newsroom

as long as the two brewing rivals kept duking it out. Anheuser-Busch capitulated shockingly quickly, however, and since most of the world was distracted by the implosion of the U.S. housing sector and the disintegrating global financial markets, the companies' battle in the press was short-lived. That's one of the reasons I felt it warranted further treatment here.

Authors often attest that the books they write are nothing like what they first envisioned—that in the course of reporting one story, the undercurrent of a different and more interesting tale emerged. That wasn't the case for *Dethroning the King*. As the takeover fight unfolded that summer, it seemed as though each furtive conversation I had with a source hinted at a skeleton in someone's closet, and hardly any of it went reported at the time. With so much fodder at my fingertips—notes on what went on in the boardrooms of both companies, warped tales about the Busch family, and details on the drama that unfolded behind the scenes on Wall Street—I had a strong suspicion when I pitched this book about where the story was the juiciest. I just wasn't sure whether I'd be able to unearth enough details to make for a good read. The Busch family scions—and August Busch III in particular—don't wield the paranoia-inducing power they once did in St. Louis, now that their once-proud family company has been subsumed. But I still worried that I might be cast off like a pariah once I landed in Missouri.

Those fears proved to be woefully misplaced. People were eager to talk about their experiences. Anheuser-Busch played a huge part in the lives of countless Americans, from the company's employees, distributors, board members, and Wall Street advisors all the way down to the loyal drinkers of its Budweiser beer. Many of those people saw this book as their last chance to get something off their chests, a way to attain a level of catharsis and help lay the company to rest. Several said they'd been hoping someone would document Anheuser-Busch's collapse, and a few had considered trying to write books themselves before deciding they were still too exposed to the newly merged company or to former chief executives August Busch III and August Busch IV. People close to both companies told me separately that they had already cast the movie with help from their colleagues. One former Anheuser executive had struggled to

decide whether the role of August Busch IV, tortured son and heir to the company's throne, should be played by Jonathan Rhys Meyers or Robert Downey Jr.

Former employees of Anheuser-Busch met me for breakfast, in their offices and at their local coffee shops in St. Louis, and even graciously invited me into their homes. Each interview was fascinating and colorful, but the time I spent with Anheuser's legendary marketing guru Michael Roarty tugged hardest at my heartstrings. Roarty had suffered a stroke a couple of years earlier, and I spoke with him in his living room, perched at the edge of his couch so I could hear him whispering from a reclining chair a few feet away. He labored to get the words out, but it was clear his recollections and sense of humor were as sharp as ever. After we finished, Roarty's graceful wife, Lee, patiently guided me through the lower two floors of their home so I could pore over hundreds of priceless photographs on display of the two of them standing with glitterati like Paul Newman, Frank Sinatra, Liza Minnelli, Lucille Ball, Joe DiMaggio, and former presidents George H.W. Bush and Ronald Reagan. It was an impressive display of the power big-spending Anheuser-Busch wielded in America. I drove away from Roarty's house grateful that I had decided to write this book, and remembering all the reasons I had decided to become a journalist in the first place.

Dozens of people close to both Anheuser-Busch and InBev spent as much as nine or ten hours apiece with me as I worked to form the structure of this story and to flesh out its intimate details. Some were happy to speak on the record, while others weren't comfortable seeing their names in print. I'm grateful to them all for the generous donation of their time and for their enthusiasm about the subject matter. On the way to my hotel from the St. Louis airport, my cab driver even offered to escort me to a section of the perimeter of Grant's Farm, the Busch family's ancestral country estate, where she had heard the security was weak. The popular local attraction had just closed for the season when I hit town, but she said I could probably sneak in if I wanted. I thanked her for her creativity and her eager complicity but politely declined.

My timing was slightly off in another respect as well, since I began researching this book while three months pregnant with my

first child. Pregnancy and beer don't exactly mesh—not in American culture, at least—and I wondered how many glasses of cranberry juice I'd end up swigging as brewing executives and bankers invited me to meet them at bars once they finished up at the office. I was playing against type to begin with, as a young(ish) pregnant woman writing a book about the hostile takeover of a male-dominated brewer. I'd covered other macho topics in my career as a journalist, though, including automotive companies and the futures markets in Chicago. If you can hack it as a woman on the floor of the Chicago Mercantile Exchange, I rationalized, you can certainly stay afloat at the Anheuser-Busch brewery in St. Louis. I quickly found that my pregnancy helped humanize me to some of my more cautious sources. It made me seem more relatable. And since the saying goes that writing a book is the next-closest thing to having a baby, I suppose I've nearly had two. This book was a labor of love that burgeoned on both U.S. coasts. I first put pen to paper in a rented office in Manhattan's Financial District, right across Broad Street from the headquarters of Goldman Sachs. I penned the book's last few sentences three blocks from the ocean in Santa Monica, California, after moving across the country with my husband when I was eight months along, cartons of clippings and notes in tow.

It's easy to deal in superlatives when it comes to Anheuser-Busch, and the company gladly reinforced that image. It brewed America's favorite beer, its former chief August III was the most powerful brewer in the world, and its top staffers enjoyed only the best—sumptuous hotels, private jets laden with free Budweiser, and ritualistic gatherings studded with movie stars. Anheuser-Busch dubbed its flagship brand the “King of Beers” and spent more than half a billion dollars on marketing each year to make sure it became an American institution.

Anheuser-Busch's hostile takeover, which InBev attempted to make look “friendly” in the end, added two more superlatives to the pile. It represented the largest all-cash acquisition in history, and it marked the last giant merger that was inked before the global financial markets imploded. There were already indications that disaster loomed by the time the two companies first came together, and both sides made savvy moves that kept the deal alive when