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How Much Is Too Much? The Case of the Anheuser-Busch INBEV Takeover

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Abstract: On June 11th, 2008 InBev made a $65/share bid to buy Anheuser-Busch stock and was rejected. InBev devised a plan to oust the management of Anheuser-Busch and selected another management team to take their place. This is, to date, the largest hostile bid in U.S. history. This paper extends Margrabe's (1978) stochastic option model by applying it to hostile takeovers. The model in this paper is applied to Anheuser-Busch and InBev to: (1) estimate the probability of a takeover, and (2) determine the point at which a hostile suitor needs to change strategies. The hostile premium option model demonstrates general applicability to hostile bids in the form of proxy contests or tender offers, as well as to both domestic and foreign corporations.

Keywords: Takeover, proxy contests, InBev, Anheuser-Busch, hostile bid, option pricing, tender offers, Black & Scholes.

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1. Introduction

While struggles for corporate control are not new, dating back to the 1800s, it is interesting to note that the takeover method in vogue changes from time to time. For example, historically, friendly changes in ownership were predominately accomplished through mergers while hostile changes frequently resulted in proxy contests. However, beginning in the late 1960s, tender offers began to rival that of the old mergers/proxy contest bids. By the 1990's Mulherin and Poulsen (1998) suggest a growing trend towards using tender offers and proxy contests as complementary mechanisms for taking control of a firm.

Tender offers and proxy fights determine who possesses the right to manage corporate resources. In a tender offer, the bidder makes a direct offer to the firm's shareholders to purchase their shares and consequently to capture their voting rights. In a proxy contest, insurgents conduct a campaign to persuade shareholders how to vote on contested issues and board seats. Of the two approaches, the most personal, difficult and thus costly takeover method is the proxy contest.

This paper expands the application of Margrabe's (1978) paper by applying the model to InBev's hostile bid for control of Anheuser-Bush (AB). The model presented in this paper is applicable to both tender offers and proxy contests. As such, management may use the model to provide insight into the probability of a successful takeover and the cost-level at which a new strategy should be considered by the bidder. Margrabe's (1978) model is used to place a dollar value on the right to exchange one risky asset, the value of the firm under 'old' management, for another, the value of the firm under 'new' management. While the AB-