ANHEUSER-BUSCH COMPANIES
King of Beers Retains the Throne

April 12, 2008

Anheuser-Busch Companies, Inc. (BUD)

Rating: BUY

Current Price: $48.36

Target Price: $66.00

52-Week Range: $46-$55

Market Cap: $34.58 billion

Div & Yield: $1.32 (2.73%)

	2006	2007	2008e
EPS	$2.55	$2.97	$3.00
P/E	18.7x	17.5x	20.0x

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We are initiating coverage of Anheuser-Busch Companies, Inc. (BUD) with a **BUY** rating and a 12-18 month target price of $66, which represents a 36% premium to the current market price. We believe the company is well positioned to weather a period of economic weakness. Continued diversification of its brand portfolio positions the firm to compete in all segments of the beer market. Its vertically integrated structure enables the firm to better control costs than most of its competitors. We believe the stock actually looks a great deal like a bond, and have set our price target accordingly. In addition, the price target is consistent when the stock is valued based on a multiples analysis. Our $66 price target is consistent with BUD's long-term average P/E of 20x as well as its long-term EV/EBITDA multiple of 12x. The recent pullback in BUD's stock presents a compelling buying opportunity for investors.

KEY DRIVERS:

1) Commitment to be the industry leader in all categories.
2) Sales growth consistent with BUD's long-term trends.
3) Diversified portfolio of products buffers the company against economic weakness as well as maintaining its position as industry leader.
4) Shift to defensive stocks during market tumult should benefit consumer staples such as BUD.
5) Comprehensive brewery system and independent wholesale distribution network.
6) Trade-down effect.

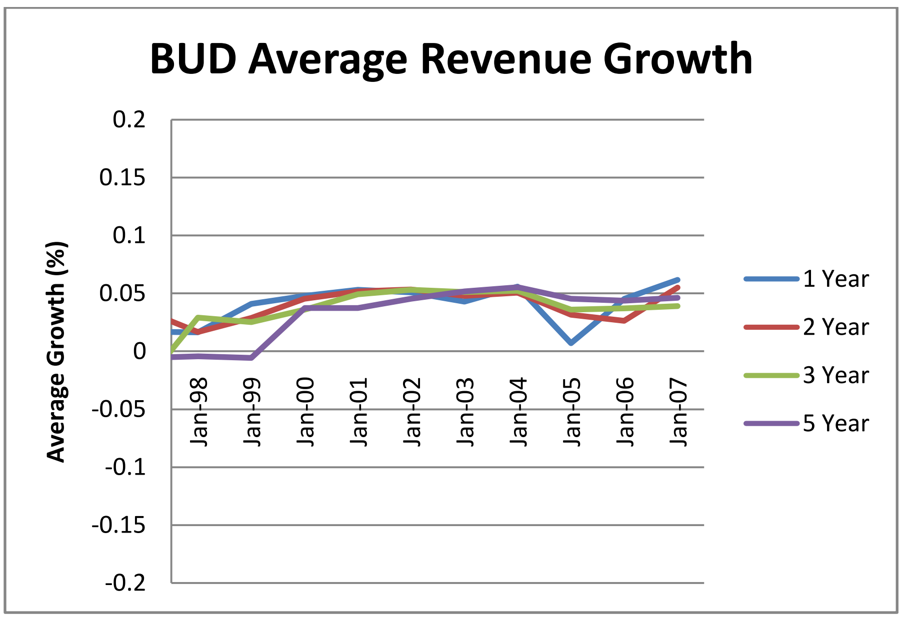
RISKS TO OUR CALL:

1) Continued growth of input costs leads to margin compression and lower EPS than expected.
2) Severe economic slowdown or recession hurts top line growth.

BUD'S STOCK LOOKS LIKE A BOND

Anheuser-Busch has a proven track record of very stable, consistent earnings and cash flows over the past 10 years. They have also maintained a consistent dividend payout and share repurchase program over the past 10 years. The company's diversified portfolio of global brands can weather periods of economic weakness and benefit from periods of economic strength.

In addition, BUD exhibits a very low cost of capital, a result of its very low beta (.6) and its A-rated credit, allowing the company to issue debt around 5.5%. The company's sales growth has also proven very steady over the past 10 years, hovering around 5%. While the company experienced low sales in 2005, it recovered quickly and when averaged over a two, three, or five-year period, the growth is significantly smoothed.



Lastly, the company is committed to its dividend policy and share-repurchase program. BUD currently pays an annual dividend of $1.32, which, at current prices, represents a 2.70% dividend yield. The company has also repurchased over $12 billion of its stock in the last 10 years, has plans to continue this program going forward.

Using the frame of BUD as a bond allows us to arrive at our $66 price target. Given that BUD is a going-concern, we applied the perpetuity growth formula (PV = C/(r-g)).[1] Therefore, PV = 1.32/(.06-.04). We used the company's WACC of 6% for (r) and the long-term growth rate of 4% for (g). This valuation is also in line with our multiples analysis based upon historical measures such as EV/EBITDA and P/E.

[1] *Ross, Westerfield, Jaffe.* Corporate Finance. *Eighth Edition, New York, NY: McGraw-Hill/Irwin, 2008.*

LOOKING CHEAP BASED ON MULTIPLES ANALYSIS

			LTM Operating Results			
Company Name	**Market Cap**	**TEV**	**TEV/Rev**	**TEV/EBITDA**	**TEV/EBIT**	**P/E**
InBev SA	55,249.9	65,450.5	2.9x	8.5x	10.9x	15.9x
Anheuser-Busch Companies Inc.	***$34,637.0***	***$43,494.1***	***2.6x***	***9.6x***	***12.3x***	***17.4x***
SABMiller plc	35,356.4	42,895.4	2.7x	9.5x	12.1x	18.6x
Scottish & Newcastle plc	15,024.4	19,040.7	3.2x	17.4x	21.3x	26.8x
Molson Coors Brewing Company	9,860.0	11,791.6	1.9x	10.7x	15.6x	19.2x
Foster's Group Ltd.	9,758.4	12,433.1	2.8x	10.1x	11.4x	13.4x
Industry Average			*2.7x*	*11.0x*	*13.9x*	*18.5x*

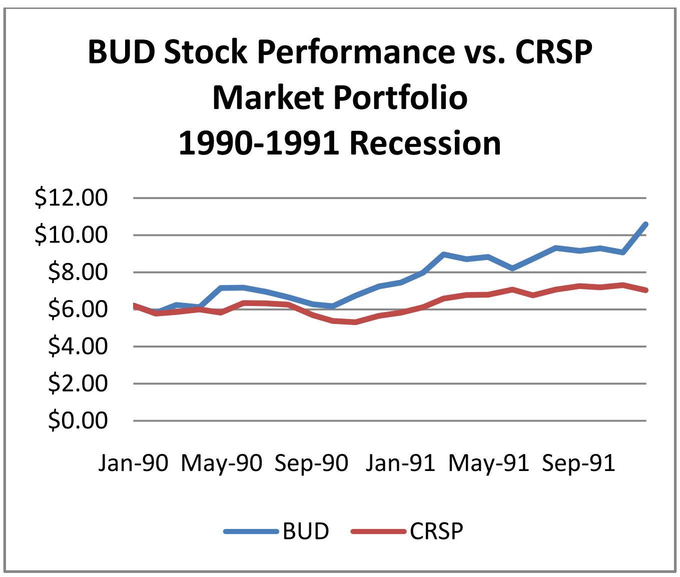
Source: Capital IQ

	Stock Price	Market Cap	Enterprise Value	EV/Sales	EV/EBITDA	EV/EBIT	P/E (LTM)	P/E (NTM)	PEG	Price/ Book	Price/ Sales
BUD (current)	***$48.21***	***$33,443***	***$42,300***	***2.5x***	***10.9x***	***14.6x***	***15.7x***	***15.7x***	***2.9***	***10.6x***	***2.0x***
5-year Average				3.0x	11.7x	15.5x	18.7x	18.6x	3.1	12.4x	2.5x
10-year Average				3.2x	12.3x	16.2x	21.3x	20.1x	2.8	11.1x	2.8x

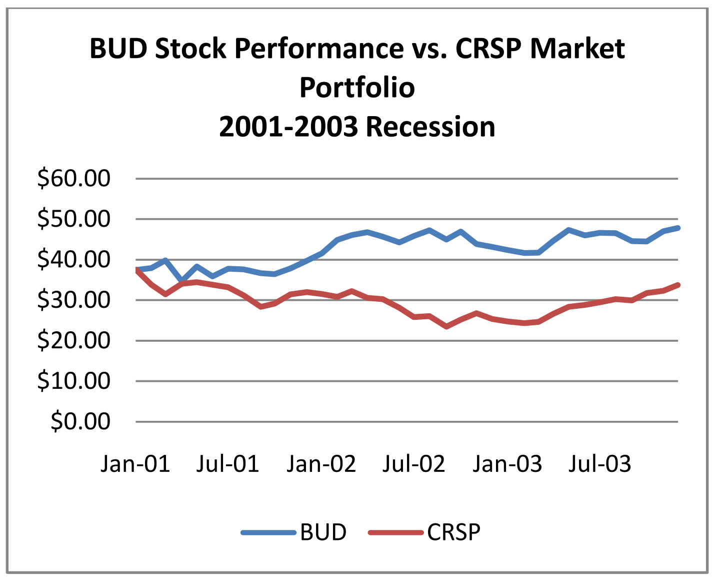
A DEFENSIVE PLAY

Overall economic growth is forecast to slow in 2008. According to The Federal Reserve, real GDP will grow just 1.3% to 2.0% in 2008.[2] Additionally, real disposable personal income is forecast to grow modestly in 2008 as a result of overall slowing in the US economy. According to economic research firm ISI Group, real disposable personal income will increase 2% in 2008, while personal consumer expenditures (consumer spending) will increase just 1.0%.[3] Continued weakening in the housing market and further problems in the financial markets could lead the U.S. into a recession or sustained period of slowing economic growth. Despite this expected slowdown in consumer spending, BUD's leading position in the beer market and broad portfolio of products makes it less sensitive to such weakness.

During previous periods of slowing economic growth or recession, BUD has fared well. We reviewed the stock's performance over the past two recessions in the U.S. from 1990-1991 and 2001-2003. As displayed below, BUD's stock has held up quite well during both periods of contraction, rising 71% from 1990 to 1991 and 27% from 2001 to 2003.



Source: Center for Research on Security Prices



Source: Center for Research on Security Prices

We also evaluated the company's multiples during the same periods of slowing or contraction. In the table below, it is clear that the company's multiples contracted only slightly during such periods. BUD's stock has been quite resilient during U.S. recessions over the past 35 years, which leads us to believe the stock will hold up during this period of slowing economic growth and potential contraction.

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[2] *The Wall Street Journal, February 21, 2008.*
[3] *ISI Group, Weekly Economic Report, February 11, 2008.*

July 1990 - March 1991	EV/Sales	EV/EBITDA	Price/ Book	Price/ Sales
Current	***2.5x***	***10.9x***	***10.6x***	***2.0x***
1989	**3.5x**	**19.0x**	**9.5x**	**3.1x**
1990	**3.7x**	**18.9x**	**9.8x**	**3.4x**
1991	**5.5x**	**26.9x**	**13.0x**	**5.3x**

Source: COMPUSTAT North America; Center for Research in Security Prices

March 2001 - November 2001	EV/Sales	EV/EBITDA	Price/ Book	Price/ Sales
Current	***2.5x***	***10.9x***	***10.6x***	***2.0x***
2000	**6.2x**	**23.0x**	**17.1x**	**5.8x**
2001	**6.4x**	**23.4x**	**19.0x**	**6.0x**

Source: COMPUSTAT North America; Center for Research in Security Prices

As the market leader in a seemingly inelastic sector of the economy with a diversified portfolio of products, the company is well positioned to once again weather the storm of slow economic growth.

USING ITS CASH FOR DIVIDENDS AND SHARE BUYBACKS

BUD puts its cash to work in a number of ways including capital expenditures, dividends to shareholders, and share repurchases. We support the company's commitment to pay dividends to its shareholders and strategy of repurchasing shares. In 2007, the firm paid a dividend of $1.32/share to common shareholders, which represents a current yield of 2.73%. We are confident in management's commitment to continuing its dividend policy. In addition to the firm's stock being currently undervalued, investors will also be rewarded with a healthy dividend that is competitive with current rates on money market funds and short-term U.S. Treasuries.

The firm is also committed to repurchasing 3% of its stock annually through share buybacks in the open market. BUD has consistently repurchased shares over the past 10 years, spending approximately $12.5 billion in the process.[4] Management remains committed to this buyback program. We believe this is a strong indication of management's belief that the stock is currently undervalued and that share buybacks further enhance the value of the firm's outstanding shares.

[4] *Anheuser-Busch Companies, Inc., 10-K, February 29, 2008.*

COMPANY BACKGROUND

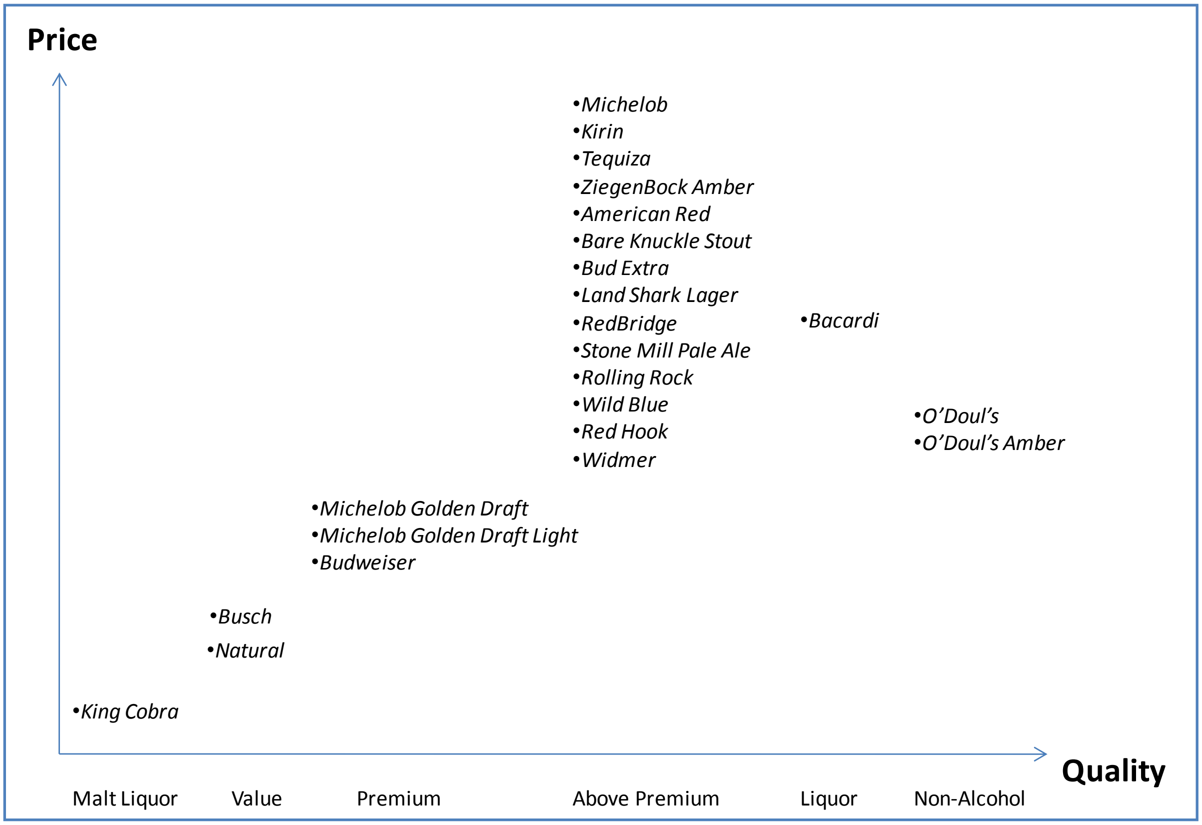
Anheuser-Busch Companies, Inc. (BUD) is a Delaware corporation that was organized in 1979 as the holding company of Anheuser-Busch, Incorporated (ABI), a Missouri corporation whose origins date back to 1875. In addition to ABI, which is the nation's leading brewer of beer, BUD also has subsidiaries that conduct various business operations outside of beer. BUD's operations are comprised of the following principal business segments: domestic beer, international beer, packaging, and entertainment. In 2007, domestic beer contributed 75% and 64%, international beer contributed 7% and 26%, packaging contributed 10% and 4%, and entertainment contributed 8% and 6% to net sales and net income, respectively.[5]

BUD's U.S. beer volume was 104.4 million barrels in 2007, as compared with 102.3 million barrels in 2006. U.S. beer volume represents produced Anheuser-Busch brands, import brands and acquired brands shipped to U.S. wholesalers. Worldwide sales of BUD's beer brands aggregated 128.4 million barrels in 2007 as compared with 125.0 million barrels in 2006. Worldwide beer volume is comprised of U.S. and international volume. International volume represents BUD brands produced overseas by company-owned breweries and under license and contract brewing agreements, plus exports from BUD's U.S. breweries.

BUD's principal product is beer, produced and distributed by its subsidiary, ABI, in a variety of containers primarily under the brand names below.

- Budweiser family (Budweiser, Bud Light, Budweiser Select, Bud Ice)
- Michelob family (Michelob, Michelob Light, Michelob ULTRA, Michelob Amber Bock)
- Busch family (Busch, Busch Light, Busch Ice)
- Natural family (Natural Light, Natural Ice)
- Specialty beers (Bud Extra, Bare Knuckle Stout, Stone Mill Pale Ale, Rolling Rock, American Red, ZiegenBock, Land Shark Lager, RedBridge)
- Non-alcohol brews (O'Doul's, O'Doul's Amber)
- Malt liquors (King Cobra, Hurricane)
- Specialty malt beverages (Bacardi)
- Alliance partner products (Coastal Brands, Redhook Ale, Widmer Brothers)
- Joint venture agreements (Kirin)
- Energy drinks ("180")

[5] *Ibid.*



Source: Anheuser-Busch

COMPREHENSIVE PRODUCTION AND DISTRIBUTION NETWORK

BUD has developed a network consisting of twelve strategically located breweries across the U.S. The company distributes the majority of its products to retailers through 600 independent wholesalers, each of which signs an Equity Agreement with the company that must be followed. This agreement specifies the brands the wholesaler can sell as well as standards they must adhere to in order to distribute BUD's products.[6] In 2007, 94% of beer sold was distributed through this network.[7] This figure suggests that BUD maintains tremendous control over its production and distribution network. This increases the company's ability to ensure quality and freshness, which has always been a distinct competitive advantage for BUD.

OPERATING LEVERAGE

It is likely that everyone remembers the Budweiser and Bud Light advertisements during the Super Bowl every year. The company remains a major player in both national and local media advertising in support of its entire portfolio of brands. BUD has been able to realize considerable economies of scale when it comes to marketing and promotion and has

[6] *Ibid.*
[7] *Ibid.*

maintained a long-term average SG&A expense as a % of sales of less than 18%. In comparison, a much smaller competitor such as Boston Beer Company, Inc. (SAM) faces SG&A expenses greater than 40% of sales.[8] This use of operating leverage is a significant advantage for BUD versus its competitors and will only become greater as the company continues to expand its portfolio.

BULKING UP THE DOMESTIC PORTFOLIO…WITH IMPORTS

Over the years, BUD has extended its line of products in order to beef up its portfolio. As displayed in the price-quality chart shown previously, BUD competes across all beer segments including the malt liquor, value, premium, and above-premium markets. They also compete against spirits with its Bacardi products. The firm continues to broaden its portfolio with the addition of successful imported brands such as Corona and Grolsch which compete in the "better beer" segment. In 2007, the company became the U.S. importer of Czechvar Premium Czech Lager as well as the exclusive U.S. importer of a number of premium European brands of InBev, a Belgium brewery company. These brands include several well-known beers such as Stella Artois, Hoegaarden, and Bass Pale Ale. Many of these beers compete in the better beer category and make BUD a formidable presence in the segment.

JOINING THE BETTER BEER PARTY

Over the past few years, Anheuser-Busch has increased its presence in the "better beer" category in order to capture gains from a shifting demand within the industry, as well as higher margins. According to one estimate, the entire beer industry grew only 1 to 2% in 2007. However, the Better Beer category, which accounts for 19% of US consumption, grew by 2 to 3%.

The company is taking a two-pronged approach to increase its presence in the segment. As part of its strategy to be a global leader in all categories of beer, BUD seeks both to develop its own brands as well as enhance its portfolio through acquisition. BUD is re-positioning its Michelob brand as a craft-style beer through the production of an assortment of Michelob brews with enhanced taste and craft characteristics. This includes products under the Michelob name including Honey Lager, Porter, Pale Ale, Lager, Amber Bock, Marzen, and Wheat. The company's strategic focus on better beer positions the company well to ride the current wave of popularity of better beers.

BUD has also invested in proven winners in the better beer segment with the establishment of a strategic interest in Grupo Modelo, purveyor of the Corona brand. Corona and Corona Light are imports that compete in the better beer space, and Corona is currently the #1 brand in the

[8] *Boston Beer Company Inc, 10-K, March 13, 2008.*

segment. As mentioned in the previous section, the company has also signed agreements to be the exclusive U.S. importer of other better beers including Bass Pale Ale and Grolsch.

The company is also bolstering its beer roster with strategic acquisitions and partnerships with small craft brewers. For example, the company has purchased a 33.7% equity interest in craft brewers Redhook Ale and Widmer Brothers. Widmer Brothers in turn maintains ownership stakes in Kona Brewing Company and Goose Island Brewing Company. These partnerships allow the small craft brewers access to BUD's vast distribution network and provides BUD with access to the fast-growing craft beer segment. According to leading craft brewer Boston Beer Company, the Craft Beer category grew by approximately 12% in 2007.[9] In the first half of 2007, growth of the craft beer industry was 11% by volume, with the fastest growth in microbreweries. Craft beer is the fastest growing segment for supermarket scan data, with 17.8% growth, stronger than all other alcoholic beverage categories. Craft beer sales share of the alcoholic beverage industry in July 2007 was 3.6% by volume and 5.4% by dollars, with sales growth of 31.5% over the last 3 years to $5 billion in annual dollar volume. As a result, we will not be surprised to see BUD continue to seek strategic acquisitions.

INCREASING ITS GLOBAL FOOTPRINT

BUD also has a considerable presence outside of the U.S. International beer volume was 24.0 million barrels in 2007, up 7% from 22.7 million barrels in 2006. BUD's international business includes wholly-owned subsidiaries, majority and minority stakes, and joint ventures in the U.K., China, Canada, Mexico, and India. The company also sells its products in over 60 countries.[10] We are optimistic about the firm's focus on emerging markets such as China and India as we believe these markets present tremendous opportunities for growth. With likely GDP growth in both countries in the high single digits to low double digits and an emerging middle class with increased discretionary income, consumption of alcoholic beverages should continue to increase.

China

The company owns and operates breweries in China, including Harbin Brewery Group. It also has a 27% equity position in Tsingtao, one of China's largest brewers and producer of the Tsingtao brand.[11]

Mexico

BUD has had a strong presence in Mexico for several years. The company has a 50% stake in Grupo Modelo, Mexico's largest brewer and producer of the Corona brand. Dividends received from Grupo Modelo rose 68% to $403.1 million in 2007 from $240 million in 2006. In Mexico,

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[9] *Ibid.*
[10] *Anheuser-Busch Companies, op. cit.*
[11] *Ibid.*

Budweiser, Bud Light, O'Doul's, and the 180 energy drink are imported and distributed by a wholly-owned subsidiary of Grupo Modelo.[12]

IT'S NOT ALL ABOUT BEER

BUD operates two businesses outside of production and sale of beer. The company's packaging business accounted for 10% of sales in 2007 and its family entertainment unit contributed 8% to 2007 sales. Packaging includes metal can and glass bottle manufacturing as well as metal and plastic recycling plants. Family entertainment includes the operation of theme parks in the U.S. These include Busch Gardens, Sea World, and other amusement parks. BUD's well-diversified portfolio protects it against any sudden weakness in its beer business. With nearly 20% of sales generated from other channels, the firm is not totally dependent on brewing, although it remains its core business.

THE TRADE-DOWN EFFECT

BUD's extensive portfolio should protect the company from any significant downturns in the economy. The firm has products across all segments of the beer market including malt liquor, value, premium, and above premium. In the event consumer spending slows and there is a move down the quality scale, BUD has offerings in every segment to satisfy its customers' tastes. While there could be margin compression, we do not envision a scenario where beer sales drop precipitously. This is the result of BUD's continuing focus on being the leader in all beer categories and maintaining a presence in all segments.

DEALING WITH RISING COGS

On the cost side, BUD faces the same headwind of higher input costs that has plagued the entire beer industry. Gross margin has steadily declined from a high of 46.5% in FY2003 to 41.0% in FY2007. COGS as a % of sales has climbed from 53.5% to 59.0% in the same time period. This has been due primarily to rising costs for raw materials such as hops and barley, as well as a surge in energy prices which is used in production as well as transport of BUD's products. We do not anticipate any relief in 2008, despite signs of a weakening economy. Therefore, in our model, we have held COGS as a % of sales steady at 59.0% for 2008 and then see it declining slowly over the subsequent few years as the company finds ways to adapt to higher input costs and adjusts prices to offset the rise.

Continuing strength in commodity and other input prices could also put pressure on BUD over the next few years. The Producer Price Index (PPI), which tracks inflation for raw materials

[12] *Ibid.*

used by the US manufacturing sector, is expected to rise 2% in 2008 according to ISI Group.[13] However, the raw materials used in the production of alcoholic beverages consists mostly of foodstuffs and feedstuffs—hops, barley, yeast, and wheat. In 2007, the PPI measure for "foodstuffs and feedstuffs" rose by 25.2% from 2006.[14] Elevated commodity, energy, transport, and packaging costs will continue to be a challenge for BUD in the near future.

Despite increased concern regarding raw material costs for brewers, BUD is well positioned to weather the storm of higher input prices. The company is highly vertically integrated which helps it contain costs. Through its subsidiary, Busch Agricultural Resources LLC, the company operates rice milling facilities, grain elevators, barley seed processing plants, and a barley research facility. Busch Agricultural Resources also owns and operates malt plants, land application farms, hop farms, and a barley purchasing office.[15] The brewing process requires vast amounts of hops, barley, rice, and corn. The company secures many of its agricultural commodity needs through its subsidiaries and contractual arrangements with third parties, however it does have some exposure to the open markets. While we believe the company has done a great job of controlling costs through its various business activities, there is always the risk of heightened commodities prices as a result of strong commodities markets.

Further highlighting the degree of BUD's vertical integration, it handles its packaging operations through its wholly-owned subsidiaries as well. This includes beverage can and lid manufacturers, a recycling plant which handles aluminum and plastics, a label plant, a crown and closure liner materials plant, and a glass manufacturing plant.[16]

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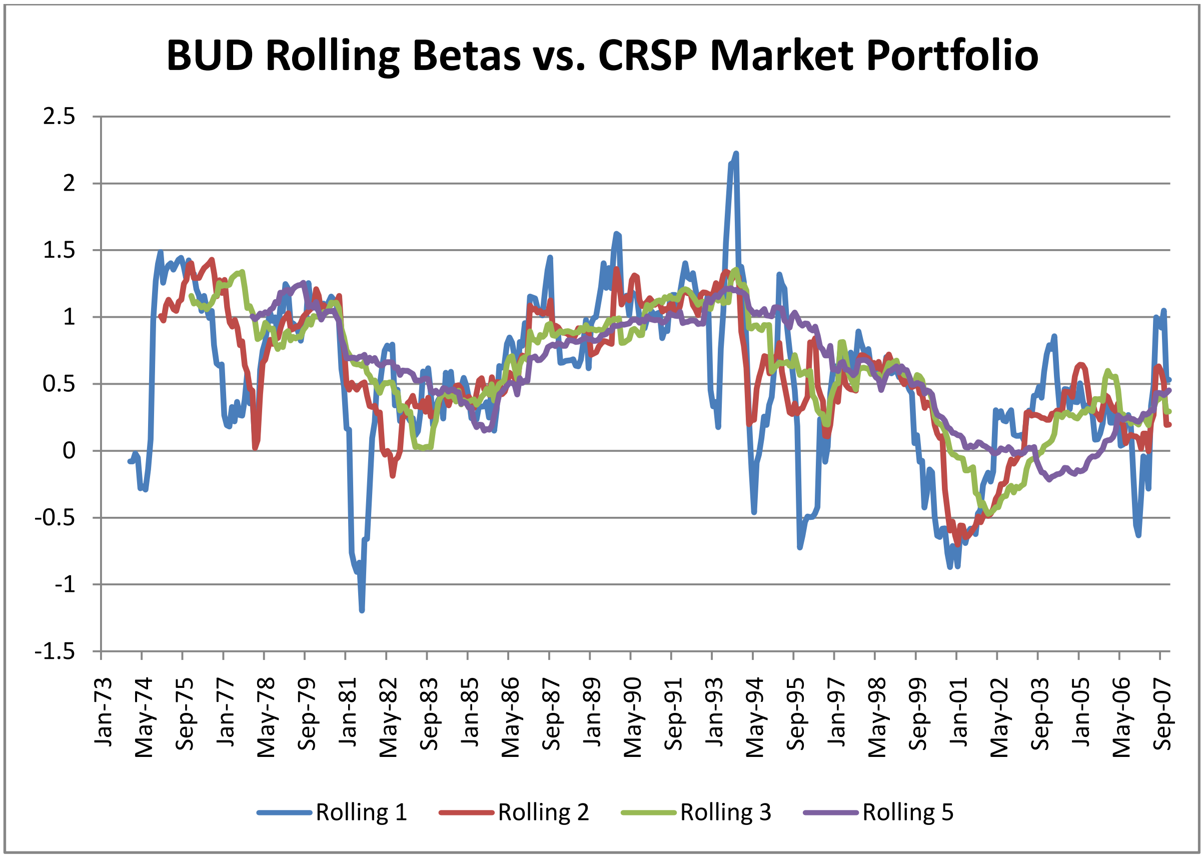
[13] *ISI Group, op. cit.*
[14] *Bureau of Labor Statistics (BLS)* Producer Price Indexes*, December 2007.*
[15] *Anheuser-Busch Companies, op. cit.*
[16] *Ibid.*

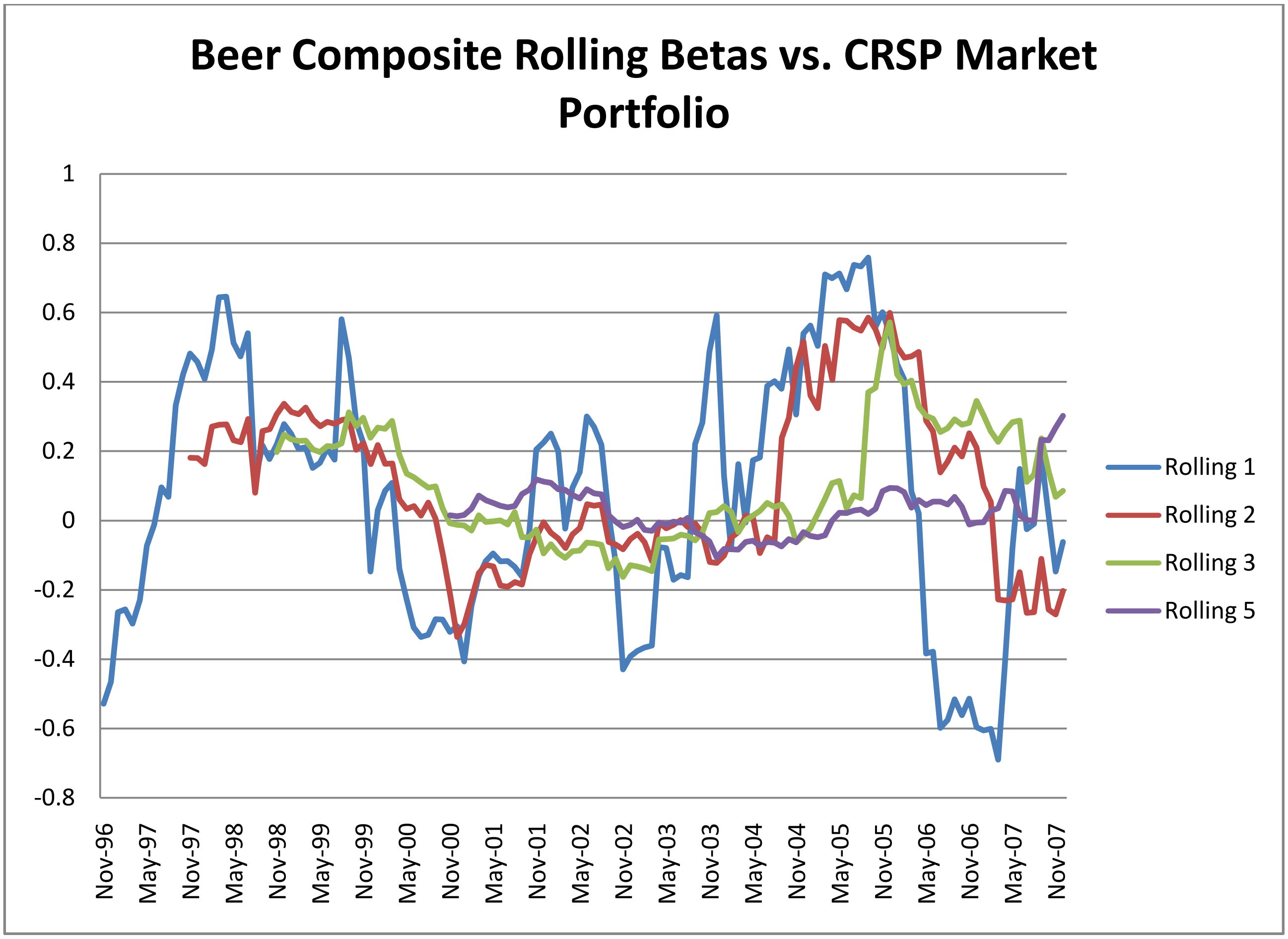
CHOOSING THE RIGHT BETA

When compared to the CRSP Market Portfolio, BUD's beta is anything but smooth. One thing is clear however, the beta is very low. This is another reason that we feel the company should be thought of more like a bond.



Source: Center for Research on Security Prices

Given the very low trend of the beta we created a composite of beer companies and measured the beta of the composite to the CRSP Market Portfolio.



Source: Center for Research on Security Prices

The beta of our composite was in-line with our beta for BUD, giving us confidence that BUD's beta was in fact acceptable. As a result, we looked at both the median and mean for each rolling period, and each was very close to .60, giving us confidence in our number.

RISKS TO OUR CALL

After a careful and thorough fundamental analysis and evaluation of BUD's business as well as macroeconomic factors, we have determined the company is currently undervalued. Below we document the potential risks to our call.

Competitive Landscape

The merger of U.S. operations of SABMiller and Molson-Coors will create a formidable competitor in the domestic beer market. The success of that merger in reducing costs and enabling the new entity to compete on price could create problems for BUD.

Changes in Consumer Lifestyle and Focus on Health

There has been a clear shift in the behavior of consumers of alcoholic beverages over the past several years. This threatens the future growth of the industry as a whole and the mainstream brewers are perhaps at the greatest risk. The shift from regular to "light" and low-carbohydrate beer reflects the underlying trend of consumer gravitation towards healthier alcoholic beverages. BUD is positioned well in this segment with the popularity of its Bud Light and Michelob ULTRA brands.

The US Economy Slips into a Recession

Should the US economy continue to weaken and ultimately slip into recession, the alcoholic beverage industry would be adversely affected to some degree. While sales typically hold up during recessionary periods, a prolonged period of weakness would dampen revenues and hurt the bottom line. This would lead to a decline in value of BUD.

Commodity Prices Continue to Rise

The surge in commodity prices over the past few years has led to significant pressure on margins for BUD. Continued strength in commodity prices could continue to weigh on BUD's bottom line.

BUD VALUATION

Method/Valuation:
After thoroughly analyzing the company, we felt the stock should be thought of more as a bond, and valued the stock using the Perpetuity Growth Formula. In addition to this we also used a more traditional approach that based on historical financial statements as well as our understanding of the company. Under this method we forecast several key financial drivers from 2008 through 2012 to create our projected financial statements for Anheuser-Busch. From the projected cash flow statement, we forecast free cash flows and terminal value. We then discounted free cash flows using a weighted average cost of capital (WACC) of 6.0%. In addition to this DCF analysis we analyzed the value of the company based on several multiples. We looked at the current stock price with respect to these ratios, as well as based upon the company's historical range of the ratios. Based on these valuation methods, we determined the company is currently undervalued.

Beta and WACC:
We used the Capital Asset Pricing Model (CAPM) to determine the cost of equity for Anheuser-Busch. For the risk-free rate (R_f), we used the current yield on the 10-year T-Bill of 3.55%[17] reduced by 1% to adjust for the risk premium that is already applied to long-term government bonds. As previously discussed, we assumed a beta of .60 for Anheuser-Busch as the historical beta has proven inconsistent. *(see Exhibit 3 for further details)*

Note to DCF Valuation:
Given the low cost of borrowing and low beta to the market, BUD's WACC is extremely low. Therefore, when using the DCF valuation method, the terminal value that is calculated is very large, distorting the PV of the cash flows. As a result of this calculation we relied on our bond analysis and multiples analysis to value the company.

[17] *Bloomberg.com, 2/20/2008.*

Key Assumptions:

BUD is a mature company and therefore we analyzed the 5-year and 10-year averages for its major financial drivers as part of our DCF valuation. For many of the key drivers, we found the two averages to be nearly identical and therefore carried those averages forward as our estimates for future growth.

Sales Growth:
For 2008 and beyond we have forecast a 4.2% growth figure. This is consistent with both BUD's 5-year and 10-year sales growth averages. BUD is a mature company with a history of consistent sales growth and we see no reason why this will not continue in the foreseeable future.

COGS Growth:
There has been a clear rise in COGS as a % of sales over the past few years as displayed in this report. BUD has seen surges in COGS throughout its history, but the company has always found ways to adjust to rising costs. We expect COGS as a % of sales to remain elevated for the next two years before the firm can fully adjust to higher input costs and return to its long-term average of 56% of sales.

SG&A
SG&A as a percent of sales has averaged 17.8% over both the past 5-year and 10-year periods. We expect the company to maintain SG&A at this level.

Depreciation & Amortization
We expect BUD to maintain depreciation and amortization expense of 10.8% of PP&E Net which is consistent with its 5-year average.

Receivables, Inventories, Non-operating Income/Expense, Special Items, Payables:
Historical averages for these categories have been consistent and we expect that to continue for the foreseeable future.

Income Taxes:
Management has indicated the company's tax rate for 2008 will be 40%, therefore we use this effective tax rate going forward.

Total Debt:
The company announced a new program to issue debt as a percentage of cash flows. The company is formally targeting 25-30% of adjusted operating cash flow.

Terminal Growth Rate:
We used a terminal growth rate of BUD's free cash flows of 4%. We believe that, long-term, BUD will grow its free cash flows in line with estimated long-term annual nominal GDP growth of 4-5%.

APPENDIX

Exhibit 1: Income Statement (Historical)

(in millions)	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
INCOME STATEMENT					
Sales (Net)	14,146.70	14,934.20	15,035.70	15,717.10	16,685.70
y/y % change	4.3%	5.6%	0.7%	4.5%	6.2%
Cost of Goods Sold	7,571.90	8,049.80	8,600.50	9,176.30	9,839.90
% of sales	53.5%	53.9%	57.2%	58.4%	59.0%
Gross Profit	**6,574.80**	**6,884.40**	**6,435.20**	**6,540.80**	**6,845.80**
Gross margin	46.5%	46.1%	42.8%	41.6%	41.0%
Selling, General, & Admin Expenses	2,498.30	2,590.70	2,730.20	2,832.50	2,982.10
% of sales	17.7%	17.3%	18.2%	18.0%	17.9%
Gain on sale of distribution rights	0.0	0.0	0.0	0.0	26.5
% of sales	0.0%	0.0%	0.0%	0.0%	0.2%
Operating Income Before Depreciation (EBITDA)	**4,076.50**	**4,293.70**	**3,705.00**	**3,708.30**	**3,890.20**
Depreciation, Depletion, & Amortiz	877.2	932.7	979	988.7	996.2
% of PP&E (net)	10.3%	10.5%	10.8%	11.1%	11.3%
Operating Income After Depreciation (EBIT)	**3,199.30**	**3,361.00**	**2,726.00**	**2,719.60**	**2,894.00**
Interest Expense	401.5	426.9	454.5	451.3	484.4
% of debt	5.5%	5.2%	5.7%	5.9%	5.3%
Non-Operating Income/Expense	365.4	436.9	507.7	597.4	685
% of sales	2.6%	2.9%	3.4%	3.8%	4.1%
Special Items	6	32.5	-89.6	0	0
% of sales	0.0%	0.2%	-0.6%	0.0%	0.0%
Pretax Income	3,169.20	3,403.50	2,689.60	2,865.70	3,094.60
Income Taxes - Total	1,093.30	1,163.20	850.4	900.5	969.8
% of pretax income	34.5%	34.2%	31.6%	31.4%	31.3%
Minority Interest	0	0	0	0	0
% of pretax income	0	0	0	0	0
Income Before Extraordinary Items & Discontinued Operations (EI&DO)	2,075.90	2,240.30	1,839.20	1,965.20	2,124.80
Extraordinary Items	0	0	0	0	0
% of pretax income	*0*	*0*	*0*	*0*	*0*
Discontinued Operations	0	0	0	0	0
Net Income (Loss)	**2,075.90**	**2,240.30**	**1,839.20**	**1,965.20**	**2,124.80**
Income Before EI&DO	2,075.90	2,240.30	1,839.20	1,965.20	2,124.80
Preferred Dividends	0	0	0	0	0
Available for Common Before EI&DO	2,075.90	2,240.30	1,839.20	1,965.20	2,124.80
Common Stk Equivalents - Savings	0	0	0	0	0
Adjusted Available for Common	2,075.90	2,240.30	1,839.20	1,965.20	2,124.80
EARNINGS PER SHARE:					
Primary - Excluding EI&DO	2.51	2.8	2.37	2.55	2.97
Primary - Including EI&DO	2.51	2.8	2.37	2.55	2.97

Exhibit 2: Income Statement (Projected)

(in millions)	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
INCOME STATEMENT					
Sales (Net)	17,387.37	18,125.24	18,887.45	19,688.97	20,516.94
y/y % change	4.2%	4.2%	4.2%	4.2%	4.2%
Cost of Goods Sold	10,258.55	10,512.64	10,765.85	11,103.90	11,570.85
% of sales	59.0%	58.0%	57.0%	56.4%	56.4%
Gross Profit	**7,128.82**	**7,612.60**	**8,121.60**	**8,585.07**	**8,946.10**
Gross margin	41.0%	42.0%	43.0%	43.6%	43.6%
Selling, General, & Admin Expenses	3,097.02	3,228.45	3,364.21	3,506.98	3,654.46
% of sales	17.8%	17.8%	17.8%	17.8%	17.8%
Gain on sale of distribution rights	0	0	0	0	0
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Income Before Depreciation (EBITDA)	**4,031.80**	**4,384.15**	**4,757.39**	**5,078.10**	**5,291.64**
Depreciation, Depletion, & Amortiz	994.4	1036.6	1080.2	1126.1	1173.4
% of PP&E (net)	10.8%	10.8%	10.8%	10.8%	10.8%
Operating Income After Depreciation (EBIT)	**3,037.37**	**3,347.52**	**3,677.16**	**3,952.03**	**4,118.22**
Interest Expense	461.8	541.9	593.6	630.4	673.0
% of debt	4.4%	4.9%	5.0%	5.0%	5.2%
Non-Operating Income/Expense	583.9	608.7	634.3	661.2	689.0
% of sales	3.4%	3.4%	3.4%	3.4%	3.4%
Special Items	0	0	0	0	0
% of sales	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax Income	3,159.45	3,414.29	3,717.90	3,982.79	4,134.26
Income Taxes - Total	1,030.32	1,113.43	1,212.44	1,298.82	1,348.22
% of pretax income	32.6%	32.6%	32.6%	32.6%	32.6%
Minority Interest	0	0	0	0	0
% of pretax income	0	0	0	0	0
Income Before Extraordinary Items & Discontinued Operations (EI&DO)	2,129.13	2,300.86	2,505.46	2,683.97	2,786.04
Extraordinary Items	0	0	0	0	0
% of pretax income	*0*	*0*	*0*	*0*	*0*
Discontinued Operations	0	0	0	0	0
Net Income (Loss)	**2,129.13**	**2,300.86**	**2,505.46**	**2,683.97**	**2,786.04**
Income Before EI&DO	2,129.13	2,300.86	2,505.46	2,683.97	2,786.04
Preferred Dividends					
Available for Common Before EI&DO					
Common Stk Equivalents - Savings					
Adjusted Available for Common					
EARNINGS PER SHARE:					
Primary - Excluding EI&DO	3.07	3.32	3.61	3.87	4.02
Primary - Including EI&DO	3.07	3.32	3.61	3.87	4.02

Exhibit 3: Beta and WACC Calculations

Beta Calculations

	BUD
Equity Beta	0.60
Credit Rating	A
Debt Beta	0.27
Value of debt at end of 2007	$9,140
Value of equity at end of 2007	$37,431
Actual Debt/Equity	24.4%
Beta Unlevered	0.52
Target Debt/MV Equity	21.3%
Tax Rate	40.0%
Relevered Beta	0.59

Discount Rate Calculation (WACC)

Value of debt at end of 2007	$9,140
Value of equity at end of 2007	$37,431
D/EV	20%
E/EV	80%
Discount rate on debt	5.5%
Equity premium	7.00%
10-year Treasury Rate	3.55%
Risk free rate	2.55%
Tax Rate	40.00%
Discount rate on equity	6.68%
WACC	6.01%

Exhibit 4: Discounted Cash Flow Analysis

Free Cash Flow	**2008**	**2009**	**2010**	**2011**	**2012**
Net Income	2,129	2,301	2,505	2,684	2,786
Depreciation & Amortization	994	1,037	1,080	1,126	1,173
CapEx	1,359	1,427	1,483	1,550	1,611
Change in Net Working Capital	(60)	8	(5)	(19)	(35)
FREE CASH FLOW	**$1,824.6**	**$1,902.1**	**$2,106.9**	**$2,279.4**	**$2,382.8**
y/y % change in FCF		*4.3%*	*10.8%*	*8.2%*	*4.5%*

Perpetuity Growth Method	
Weighted Average Cost of Capital	6.01%
Growth Rate of FCF after 2012	4.00%
Terminal Value	$123,088
Present Value of Terminal Value	$91,921
Equity Value	$100,970
LESS: Debt, Minority Interest	$9,140
# of shares outstanding	715
Equity Value	**$91,830**
Current Market Value	**$34,477**
Over/Under Value	-62.5%
(in millions)	

Discounted Free Cash Flow Analysis	**'07**	**'08E**	**'09E**	**'10E**	**'11E**	**'12E**	**TV**
FCF	$283.2	$1,824.6	$1,902.1	$2,106.9	$2,279.4	$2,382.8	$123,088.0
DCF	$283.2	$1,721.1	$1,692.5	$1,768.4	$1,804.6	$1,779.5	$91,920.8
Equity Value	$100,970.0						
2007 Total Debt	$9,140.3						
Capital Avl. To EH	$91,829.7						
Share Value	**$128.41**						
Current Price	**$48.21**						

Exhibit 5: Multiples Analysis

Company	EV/Sales	EV/EBITDA	EV/EBIT	P/E (2007)	P/E (2008)	Price/ Book	Price/ Sales
BUD (current)	***2.5x***	***10.9x***	***14.6x***	***15.7x***	***15.7x***	***10.6x***	***2.0x***
				5 Year Measures			
Average	3.0x	11.7x	15.5x	18.7x	18.6x	12.4x	2.5x
Multiple Valuation (Average) 2007	$73.1	$66.1	$65.1	$55.5	$57.1	$56.5	$60.4
Multiple Valuation (Average) 2008	$80.6	$72.9	$72.7	$57.3	$61.8	$94.6	$63.0
Range	2.7x - 3.5x	11.1x - 12.2x	14.2x - 16.5x	17.6x - 20.6x	17.0x - 21.6x	9.5x - 15.7x	2.2x - 3.0x
Multiple Valuation Range (2007 actual)	$66.2 - $85.3	$62.7 - $69.0	$59.8 - $69.6	$52.3 - $61.3	$52.1 - $66.4	$43.4 - $71.7	$53.4 - $72.8
Multiple Valuation Range (2008 estimate)	$73.4 - $93.2	$69.3 - $76.0	$67.1 - $77.4	$54.0 - $63.3	$56.4 - $71.9	$72.8 - $120.2	$55.6 - $75.8
				10 Year Measures			
Average	3.2x	12.3x	16.2x	21.3x	20.1x	11.1x	2.8x
Multiple Valuation (Average) 2007	$78.1	$69.1	$68.0	$63.3	$61.6	$50.5	$66.3
Multiple Valuation (Average) 2008	$85.8	$76.0	$75.7	$65.4	$66.7	$84.6	$69.1
Range	2.7x - 3.7x	11.1x - 14.0x	14.2x - 18.5x	17.6x - 26.4x	17.0x - 24.1x	7.4x - 15.7x	2.2x - 3.3x
Multiple Valuation Range (2007 actual)	$66.2 - $91.2	$62.7 - $79.1	$59.8 - $77.8	$52.3 - $78.7	$52.1 - $74.0	$33.7 - $71.7	$53.4 - $80.6
Multiple Valuation Range (2008 estimate)	$73.4 - $99.5	$69.3 - $86.4	$67.1 - $86.1	$54.0 - $81.3	$56.4 - $80.0	$56.4 - $120.2	$55.6 - $84.0

Source: Capital IQ, Analyst Estimates

Exhibit 6: Merger & Acquisition Activity, 2002-Present[18]

BUD:

Transaction Summary

Announced Date	Closed Date	Transaction Type	Role	Target	Buyer/Investors	Sellers	Size ($mm)
Nov-13-2007	-	Merger/Acquisition	Seller - Parent	Widmer Brothers Brewing Company	Redhook Ale Brewery Inc. (NasdaqNM:HOOK)	Anheuser-Busch, Inc.	50.03
Jul-18-2007	Jul-18-2007	Merger/Acquisition	Buyer	Icelandic Water Holdings ehf.	**Anheuser-Busch Companies Inc.**		-
Mar-02-2007	-	Merger/Acquisition	Buyer - Parent	The Old Dominion Brewing Company	Anheuser-Busch, Inc.; Fordham Brewing Company		-
Dec-20-2006	-	Buyback	Target	**Anheuser-Busch Companies Inc. (NYSE:BUD)**			-
May-19-2006	May-19-2006	Merger/Acquisition	Buyer	Latrobe Brewing Company, Rolling Rock Brands	**Anheuser-Busch Companies Inc. (NYSE:BUD)**	Latrobe Brewing Company (nka:City Brewery-Latrobe)	82.0
Jun-01-2004	Jul-12-2004	Merger/Acquisition	Buyer	Harbin Brewery Group Ltd.	**Anheuser-Busch Companies Inc.**	SABMiller plc (LSE:SAB)	602.83
Mar-26-2003	May-31-2007	Buyback	Target	**Anheuser-Busch Companies Inc. (NYSE:BUD)**			-
Feb-01-2000	Jun-30-2003	Buyback	Target	**Anheuser-Busch Companies Inc. (NYSE:BUD)**			-
Dec-01-1999	Dec-01-1999	Merger/Acquisition	Seller - Parent	Gourmet House	Riviana Foods Inc.	Busch Agricultural Resources	4.5
Sep-1989	-	Merger/Acquisition	Seller - Parent	Ballygowan Ltd.	Mercury Private Equity (nka:HgCapital)	Anheuser-Busch, Inc.	-

* denotes proprietary relationship information.

[18] *Source: Capital IQ*

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