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Potential Icahn Threat Lingers at Sandridge

Sandridge Energy succumbed to shareholder pressure this week and scuttled plans to buy Bonanza Creek Energy — but the US independent likely hasn't heard the last of its chief critic and majority shareholder, Carl Icahn.

The billionaire activist investor told the Wall Street Journal that he and other shareholders still have "grave concerns about many of the things that the board has permitted to happen at this company."

The deal came as both Sandridge and Bonanza Creek are still finding their footing after emerging from bankruptcy. The terms of the now-canceled $746 million cash-and-stock merger included payment to Bonanza Creek's shareholders of $36 per share, representing a premium of more than 17% when the deal was announced (OD Nov.16'17).

Following the revelation that the deal wasn't going to happen (OD Dec.29'17), Bonanza Creek shares tumbled on Friday. Sandridge fared significantly better, gaining more than 10% on its share price.

Sandridge management had pitched the deal as an opportunity that would diversify its asset base in the Niobrara Shale in Colorado's Denver-Julesburg (DJ) Basin, as well as other oily plays. Icahn and other hedge fund managers disagreed, saying the price was too steep for what Bonanza Creek had to offer (OD Nov.21'17).

Between Icahn's 13.5% stake and roughly 12.5% in shares held by other opponents, Sandridge likely would have had a hard time convincing a majority of shareholders to approve the merger, said Chris Hewitt, a corporate lawyer in the Cleveland office of Tucker Ellis.

Icahn could still challenge the so-called "poison pill" that Sandridge's board of directors adopted to halt further acquisitions of its shares and prevent communication between investors (OD Nov.28'17). Hewitt told Oil Daily the provision that would preclude investors from talking about the deal was a first — and one unlikely to hold up under scrutiny.

Also, if Icahn successfully invalidates the poison pill, he will be poised to initiate a proxy contest to replace the board, certain directors or Sandridge's entire management team, Hewitt said.

"It's like being the manager of a sports team that's failing," Hewitt added. "At some point, someone is going to be the scapegoat."

It didn't have to be this way. Often, corporations with a concentrated stockholder base will connect with shareholders — after they sign a confidentiality agreement — to gauge investor sentiment on big plans, Hewitt said. If resistance is present, there's an opportunity to rethink the deal, the price or whether to do the deal at all. But the Sandridge-Bonanza Creek proposal had made such progress that Sandridge is stuck with a bill worth up to $3.7 million to pay for Bonanza Creek's transaction fees.

"They could have possibly avoided that, plus going forward and being publicly embarrassed by Icahn and [others opposing shareholders], and then pulling the plug on the deal with their tail between their legs," he said. "You can't get over the fact that's what it looks like at this point."

Analyst Mike Kelly at Seaport Global Securities said Bonanza Creek's DJ Basin and Niobrara assets would have added mature asset visibility to Sandridge's portfolio, which is currently laden with undeveloped acreage in the North Park Niobrara and northwestern Stack plays.

"However, we believe investors were more concerned with [Sandridge] maintaining its cheap valuation, as opposed to paying up to acquire a more delineated inventory footprint," he said in a note to investors. "We expect [Sandridge's] operational focus will shift back toward delineating its relatively immature North Park Niobrara and northwest Stack assets to replace the development visibility that would have been added from the [Bonanza Creek] acquisition."

Deon Daugherty, Houston