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Insiders: Sandridge Poised to Accept Midstates' Offer

The abrupt resignation of its CEO and CFO suggests Sandridge Energy is ready to accept an offer from its chief US Midcontinent rival or otherwise sell out, several industry insiders say.

The embattled exploration and production (E&P) company has had a complicated relationship with its investors, particularly since declaring bankruptcy in 2016. Angry shareholders accused the company of understating its value and the ensuing court challenge threatened to derail its reorganization. A November 2017 proposal to acquire a similarly situated post-bankruptcy E&P went down in flames once billionaire activist investor Carl Icahn got involved (OD Jan. 2'18).

As such, the departure of CEO James Bennett and CFO Julian Bott may have been in the offing, but the failure of the Bonanza Creek Energy acquisition might have sealed their fate (NGW Feb. 12'18).

"You knew that the management and the board were unlikely to survive after the Bonanza Creek acquisition attempt failed," Mizuho analyst Timothy Rezvan told *Oil Daily*. "The largest shareholders gave a pretty clear message they were not in favor; once it collapsed, I think the writing was on the wall."

What's left for Sandridge to do — with interim management and an investment banker just added to the board — may be simply to go along with Midstates Petroleum's reverse merger proposal. The offer is supported by Icahn as well as Fir Tree Partners, a New York hedge fund with a major stake in both companies (OD Feb. 7'18).

Neither Sandridge nor Midstates has commented on what's next. "The language was pretty clear from Midstates that the focus was on free cash flow generation, [little] production growth and returning cash to shareholders — and those were the key points of concerns from shareholders that were against the Bonanza Creek acquisition," Rezvan said. "The bigger concern is if investors will have any interest in an upstream company with no

production growth in a subpar resource play that is focused on free cash flow instead of production growth."

Sandridge is now poised to be sold, said Christopher Hewitt, a corporate lawyer in the Cleveland office of Tucker Ellis who advises companies on takeover preparedness and defense.

"In these situations, it is very common for the board just to sell the company rather than find new management, especially when there are available suitors like Midstates. I doubt very highly that the board will actively look for new management," Hewitt told *Oil Daily*. "I would have said all this without Fir Tree and Icahn lurking. Given that they are in the background, I find it almost inconceivable that the board is considering a real executive search."

Following bankruptcy, it's common for new management to take over at the executive and board levels. While those at the top of several of post-bankruptcy E&Ps remain in place, that's likely to change, said Brock Hudson, a veteran adviser to distressed oil and gas companies. But these things take time, and hedge funds typically aren't very patient.

"I think you're going to continue to see management teams flipping over," Hudson, managing director at Carl Marks Advisors, told *Oil Daily*. "I anticipated [during the wave of bankruptcy filings] that there would be an 'M&A-a-thon' with a bunch of pretty active asset divestitures or corporate acquisitions that would occur just as people tried to sort it out."

In the near-term, that could make for a fair amount of "dislocation," he said.

"With these companies — Bonanza had just come out of bankruptcy, Sandridge has just come out of bankruptcy, Midstates has come out of bankruptcy — you end up with these drunks holding each other up, so we'll see how it all works out," Hudson said.

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