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Sandridge Concocts 'Poison Pill' as Activist Investors Gain Influence

Sandridge Energy's board of directors has adopted a shareholder rights plan — a so-called "poison pill" mechanism generally used to ward off various corporate threats — in response to a billionaire investor's newfound interest in the company.

The plan essentially blocks one or a group of investors from securing more than 10% of Sandridge's common stock.

"It was not adopted in response to any specific takeover bid," the Oklahoma City-based oil and natural gas producer said.

The day before Thanksgiving, Carl Icahn — a billionaire investor who is considered a corporate raider by many — notified the US Securities and Exchange Commission that he now holds a 13.5% stake in Sandridge, making him the company's largest shareholder.

He also revealed that he opposes Sandridge's plan to acquire Bonanza Creek Energy, a sentiment shared by Fir Tree Partners, another major investor in Sandridge.

Just two days before Icahn's purchase, Fir Tree notified Sandridge that it disapproves of the proposed $746 million cash-and-stock merger with Bonanza Creek (OD Nov.21'17). Fir Tree owns an 8.3% stake in Sandridge and said the deal makes no economic or strategic sense.

Sandridge and Bonanza Creek have emerged from the wave of bankruptcies that claimed more than 100 exploration and production (E&P) companies in North America during the commodity price downturn.

Upstream companies that have returned to the public markets after bankruptcy have struggled to gain "mindshare" among E&P investors, said Tim Rezvan, managing director for Americas research at Mizuho Securities.

"We believe [gaining investor attention] is a secondary driver of what Sandridge's management is doing. You create a bigger enterprise, you have more liquidity, you've created an event that could change over the shareholder base to more of a traditional equity shareholder base," he told Oil Daily. "I guess there's differing views on whether that's an appropriate strategy."

The size of the deal itself surprised many investors, who probably anticipated a first deal would be closer to $200 million, allowing Sandridge to retain some cash and limit its borrowing, he said. If the opposition succeeds in squashing the Bonanza Creek deal, Sandridge may investigate smaller acquisitions that could allow it to grow production and liquidity — a challenge to be accomplished organically, Rezvan said.

Chris Hewitt, a corporate attorney at the law firm Tucker Ellis, said he expects Icahn will challenge the legality of Sandridge's poison pill.

"It looks like he's got a pretty good chance of challenging this thing," Hewitt told OD. "I have not seen a pill used to stop someone from acquiring stock and then talk to other shareholders to vote down a deal.

"For what Icahn has been doing recently — buying a foothold stake in the company and agitating for change — a lot of times pills don't work in that context because the acquirer doesn't have the intention of acquiring the whole company or going over the pill threshold," he added.

Active in a variety of business pursuits, Icahn generally keeps an interest in oil and gas. In August, Icahn resigned his position as an adviser to President Donald Trump following controversy over whether he — a majority owner of independent CVR Energy — was using his position to influence government policy (OD Aug.22'17).

Although he's built a reputation across decades as a masterful investment strategist, his company, Icahn Enterprises, a public master limited partnership that Icahn founded in 2004, has floundered in recent years.

Meanwhile, his activism has yet to wane. In 2016, mining company Freeport-McMoRan sold its onshore oil and gas assets in a $742 million deal that marked a further retreat from the oil and gas industry, as well as a reduction of its debt burden.

Icahn was the third-largest shareholder of Phoenix-based Freeport and pressured the company to reduce its net debt of $18.8 billion and boost its stock market valuation. Icahn was also an activist investor involved in BHP Billiton's decision to offload its oil and gas assets — and some mining assets — to pay down debt (EIF Aug.30'17).

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