

# Energy-Focused Activism

**February 2016**

# An Overview of Energy-Focused Activism

- Over 270 reported shareholder activism campaigns in 2013
- Over 340 reported shareholder activism campaigns in 2014
- Over 370 reported shareholder activism campaigns in 2015
- 50 reported shareholder activism campaigns YTD 2016
- Shareholder activists have broadened their appeal among the general public and, more importantly, among institutional investors
  - Focusing on governance reforms
  - Enhancing shareholder value
- The energy industry has not been immune to this trend and the number of activists targeting the energy industry appears to be increasing

# Energy-Focused Activism: What are Activists Seeking?

- Many energy-focused shareholder activists are advocating for asset rationalization, as opposed to sales of the entire company or wholesale changes in management
  - Although activists will resort to other tactics if ignored or if they believe that progress is being made too slowly
- Increasing shareholder value through different types of monetization strategies
  - Spin-offs
  - Sales of non-core assets
- Increasing use of MLPs
- Shareholder activism in the energy space is likely to continue for the foreseeable future, and M&A activity could increase as a result

# Energy-Focused Activism: Recent Campaigns

COMPANY	ANNOUNCED	ACTIVIST	DEMANDS
VAALCO Energy, Inc.	December 2015	Kornitzer Capital Management, Inc.	<ul style="list-style-type: none"> <li>• Board representation</li> </ul>
Hyperdynamics Corporation	December 2015	EMPower Capital Ltd. James Wilson	<ul style="list-style-type: none"> <li>• Board representation</li> <li>• Plan to unlock value for shareholders</li> <li>• Acquisition of low cost assets</li> <li>• Merger and acquisition opportunities</li> <li>• Board representation (increased board size Jan. 2016)</li> <li>• Sr. Management hiring</li> <li>• Executive compensation</li> <li>• Maximize shareholder value per share</li> </ul>
ENSERVCO Corporation	November 2015	Cross River Management LLC	<ul style="list-style-type: none"> <li>• Board representation</li> </ul>
Westmoreland Coal Company	October 2015	Venor Capital Management LP	<ul style="list-style-type: none"> <li>• Board representation</li> </ul>
Resolute Energy Corporation	October 2015	John C. Goff	<ul style="list-style-type: none"> <li>• Divestiture of assets to reduce debt</li> </ul>
VAALCO Energy, Inc.	September 2015	BLR Capital Partners LP	<ul style="list-style-type: none"> <li>• Increase shareholder value (sale of the company, hiring a new Management team, reducing overhead expense, and ensuring discipline in development and exploration spending)</li> <li>• Shareholder rights plan</li> <li>• Board representation</li> </ul>
Sanchez Production Partners LP	September 2015	Investment Partners Asset Management, Inc.	<ul style="list-style-type: none"> <li>• Acquisition of midstream assets to increase market value</li> <li>• Cost reduction plan</li> <li>• Board representation</li> <li>• Sale of company at \$31/share</li> <li>• Buyback program</li> <li>• Board representation</li> </ul>
Westmoreland Coal Company	July 2015	Charles Frischer	<ul style="list-style-type: none"> <li>• Divestiture of assets to reduce debt</li> </ul>
CONSOL Energy Inc.	July 2015	Southeastern Asset Management, Inc.	<ul style="list-style-type: none"> <li>• Divestiture of assets to reduce debt</li> </ul>
Penn Virginia Corporation	June 2015	Lone Star Value Management, LLC	<ul style="list-style-type: none"> <li>• Strategic alternatives (Hired advisors Jan. 2016)</li> </ul>
Pioneer Natural Resources Company	June 2015	Greenlight Capital, Inc.	<ul style="list-style-type: none"> <li>• Greenlight Capital, Inc.'s criticized Pioneer Natural Resources Company as a value-destroying business with an overvalued stock. After the announcement, the company's stock dropped 2.6% to \$167.13.</li> </ul>
Chevron Corporation	May 2015	As You Sow	<ul style="list-style-type: none"> <li>• Increase capital distribution to shareholders</li> <li>• Increase was proposed and did not pass (May 2015)</li> </ul>
Gran Tierra Energy Inc.	April 2015	West Face Capital, Inc.	<ul style="list-style-type: none"> <li>• Board representation</li> </ul>
Cubic Energy, Inc.	April 2015	Anchorage Capital Group LLC	<ul style="list-style-type: none"> <li>• Restructuring alternatives (Filed Chapter 11 Dec. 2015)</li> </ul>
Callon Petroleum Company	March 2015	Lone Star Value Management, LLC	<ul style="list-style-type: none"> <li>• Board representation</li> </ul>
T-Rex Oil, Inc.	March 2015	Allen Heim	<ul style="list-style-type: none"> <li>• Board representation</li> </ul>
Jones Energy, Inc.	February 2015	JVL Advisors LLC	<ul style="list-style-type: none"> <li>• Assets and strategic alternatives</li> </ul>

# Overview of Roles and Responsibilities

	PRIMARY RESPONSIBILITY	KEY WORKSTREAMS / ACTIVITIES
<b>Board</b>	<ul style="list-style-type: none"> <li>– Determine strategic orientation and ensure implementation</li> <li>– Validation of proxy defense / battle strategy</li> <li>– Review Activist nominees (Nominating Committee)</li> </ul>	<ul style="list-style-type: none"> <li>– Selection of Board candidates</li> <li>– Shareholder meetings</li> <li>– Proxy advisor (e.g. ISS) meeting</li> <li>– Activist nominee interviews (Nominating Committee)</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>– Business plan development and execution</li> <li>– Internal and external Communication</li> </ul>	<ul style="list-style-type: none"> <li>– Shareholder meetings</li> <li>– Meetings / calls with buy-side / sell-side analysts</li> <li>– Media representation</li> <li>– Proxy advisor meeting</li> </ul>
<b>Financial advisor</b>	<ul style="list-style-type: none"> <li>– Coordination</li> <li>– Develop story</li> <li>– Strategic financial analysis</li> <li>– Financing strategy</li> </ul>	<ul style="list-style-type: none"> <li>– Key themes / scripts (with all other advisors)</li> <li>– Roadshow presentation</li> <li>– Daily market update</li> </ul>
<b>Legal advisor</b>	<ul style="list-style-type: none"> <li>– Corporate governance</li> <li>– Legal aspects</li> </ul>	<ul style="list-style-type: none"> <li>– Review of Activist filings</li> <li>– Proxy statement</li> <li>– Timeline (meeting / record dates, etc.)</li> <li>– Background checks</li> </ul>
<b>PR firm</b>	<ul style="list-style-type: none"> <li>– Communication</li> </ul>	<ul style="list-style-type: none"> <li>– Response letter</li> <li>– Press releases</li> <li>– Fight letters</li> <li>– Daily press update</li> </ul>
<b>Proxy advisor</b>	<ul style="list-style-type: none"> <li>– Shareholder feedback</li> <li>– Shareholder solicitation</li> </ul>	<ul style="list-style-type: none"> <li>– Analysis of shareholder profile</li> <li>– Calls to shareholders</li> <li>– Log of shareholder communication</li> <li>– Shareholder “grid” (ISS influence and vote probability)</li> </ul>

# Questions Every Company Should Ask

TOPIC	QUESTIONS
<b>Company vulnerabilities</b>	<ul style="list-style-type: none"> <li>Is the Company vulnerable to an activist approach?</li> <li>For example, does the Company have an undervalued stock price, internal dissention, business lines and assets that are particularly attractive or poor performance versus its peers?</li> <li>How is the Company addressing vulnerabilities?</li> </ul>
<b>Potential activist strategies</b>	<ul style="list-style-type: none"> <li>What might an activist identify as a potential strategy?</li> <li>For example, are there structural or other changes that the Company should consider to drive shareholder value?</li> <li>What are the merits and risks of each type of approach?</li> </ul>
<b>Significant shareholders</b>	<ul style="list-style-type: none"> <li>Who are the Company's significant shareholders?</li> <li>How supportive are they of current corporate leadership and strategy?</li> </ul>
<b>Strategic direction</b>	<ul style="list-style-type: none"> <li>Does the Company clearly explain its strategic direction in its public documents?</li> </ul>
<b>Activist ownership</b>	<ul style="list-style-type: none"> <li>Do any known activists own stock?</li> <li>Is Management monitoring acquisitions of Company stock (for example, through a proxy solicitor or public filings)?</li> </ul>
<b>Takeover defenses</b>	<ul style="list-style-type: none"> <li>What takeover defenses are in place at the Company?</li> <li>Does the Company have a shareholder rights plan in place or on the shelf?</li> <li>How are shareholders and their proxy advisors likely to react if a shareholder rights plan is implemented, and how could implementation be managed?</li> </ul>
<b>Alerting the board</b>	<ul style="list-style-type: none"> <li>Is there a clear understanding between the Board and Management about the need to inform and involve the board at the earliest opportunity of an unsolicited approach or an activist's accumulation of stock or other threat?</li> </ul>
<b>Handling an approach</b>	<ul style="list-style-type: none"> <li>Is there a plan in place for handling an unsolicited approach or an activist threat?</li> <li>Has the Company identified the team that would play a role should an activist approach the Company, including key officers and directors and other advisors, such as public relations firms, legal counsel or proxy solicitors?</li> </ul>
<b>Communications policies</b>	<ul style="list-style-type: none"> <li>Does the Company have a well-articulated communications policy and an appointed Company spokesperson?</li> </ul>