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THE RACE FOR ANADARKO

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Abstract

This case looks into Occidental Petroleum's acquisition of Anadarko Petroleum, one of the latest energy megadeals. It presents an overview of the bidding process between the two potential acquirers, Occidental and Chevron, the rationale and arranged financing structure behind Occidental's bids, as well as Warren Buffett's preferred stock investment and the opposition of activist investor Carl Icahn. The supporting teaching note provides an analysis of several topics related to corporate finance, particularly, acquisition payment types and financing sources, distinct valuation techniques and the roles of the buyer and the seller's management and board of directors in M&A.

Keywords: Oil, Acquisitions, Corporate Governance

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The Race for Anadarko

On April 12, 2019, Vicki Hollub, President, Director and CEO of Occidental Petroleum stood restless at the window of her office at the company's headquarters in the Greenway Plaza in Houston, Texas, as Chevron Corporation and Anadarko Petroleum announced the execution of a merger agreement. Hollub had been pursuing Anadarko for nearly two years, and was now fighting head-to-head with Michael K. Wirth, Chairman and CEO of Chevron, in an intense bidding war that turned out to be the most high-profile public contest in the oil and gas exploration and production sector since the 1980s.

The saga began in July 2017 when Vicki Hollub approached Al Walker, Anadarko's then Chairman, President and CEO, to discuss the potential benefits of a merger between the two companies. An Occidental-Anadarko alliance would culminate in the creation of a global energy leader with a substantial presence in the Permian Basin, the oil field that turned the United States into the world's top oil producer in 2018[1]. The initial offer by Occidental Petroleum was made on September 27, 2017. Anadarko's Board rejected the deal arguing the offer left too much risk for its shareholders, and later jumped into negotiations with Chevron after it had made its own acquisition proposal in 2019. The fierce bidding war that ensued between Occidental and Chevron drew CEO Vicki Hollub and longtime activist investor Carl Icahn into a corporate governance standoff. The trigger was a controversial and expensive deal struck with Warren Buffett's Berkshire Hathaway Inc. that allowed Hollub to avoid a shareholder vote on Anadarko's takeover. Buffett's investment empowered Occidental to outbid Chevron and finally declare victory.

The largest energy merger in recent years closed on August 8. Once again, a governance battle picked up as Icahn ran a proxy fight to oust Hollub and her Board. The outrage was prompted by his loss of confidence in their ability to secure the best interests of Occidental shareholders, after what he considered to have been a failed "massive $57 billion levered bet on the price of oil"[2].

[1] The New York Times
[2] Carl Icahn's Open Letter to Occidental Petroleum Stockholders

The American Oil and Gas Industry

In 1870, John D. Rockefeller and Henry Flagler established the Standard Oil Company to enter the thriving oil industry after borrowing funds to take control of what had become the largest refinery in Cleveland. The oil firm expanded its business through horizontal integration with the acquisition of rival refineries across the United States and rapidly gained control over the production, refining, distribution and marketing segments, until it accounted for 90% of U.S. oil supply in the late 1890s. In 1911, Rockefeller's monopoly was hit by a formal lawsuit, and ordered by the Supreme Court to be broken up into 34 independent firms[i]. The dismantlement of the oil monopoly stimulated competition in the American oil industry and, by 1945, the United States had become the largest oil producer in the world, responsible for more than half of global oil production.

With a declining rate of oil field discoveries in national territory and a soaring demand triggered by World War II, the United States turned to foreign petroleum reserves in rich oil-producing Persian Gulf nations, where a few multinational companies owned vast concessions. Amongst these corporations were the "Seven Sisters", comprised of Texaco, Gulf Oil, Anglo Persian Oil Company and Royal Dutch Shell and Standard Oil descendants, Standard Oil of New Jersey, Standard Oil of New York and Standard Oil of California. This multinational oil consortium established valuable partnerships with local Middle Eastern governments, and eventually took control of prices and production in the global oil industry. Meanwhile, the discontentment of oil-producing states over the monopolistic power of the Seven Sisters led to their retaliation through the establishment of the Organization of the Petroleum Exporting Countries (OPEC), formed by the oil ministers of Saudi Arabia, Venezuela, Iran, Iraq and Kuwait. The Middle Eastern group slowly gained territory in the industry through negotiations with the U.S. companies and implemented measures to prevent abrupt cuts in the price of oil, including production slashes.

However, despite the apparent collaboration between the two oil producing regions, the escalating Arab-Israel conflict gave rise to a global oil crisis in 1973 that proved to be the turning point for the Seven Sisters and the United States' clear industry dominance. As OPEC, led by Saudi Arabia, condemned the U.S. for its support of Israel by launching a full embargo and setting up unilateral price increases, the Seven Sisters were forced to disintegrate into seven individual companies after losing large concessions in the Middle East. With the end of what was considered the "Golden

Age of Oil", the United States focused on domestic production to rely less on foreign oil supply and reduce its exposure to geopolitical clashes[ii].

A New Era for the United States

When the global energy crisis severely hit the United States, a critical source of the commodity used to stabilize the domestic market was the Permian Basin, a sedimentary system of thick shale rock deposits covering an area of 75,000 square miles that spans parts of Southeast New Mexico and Western Texas (**Exhibit 1A**). The region has unique geological features as it contains multiple layers of rock that result from around 320 million years of sedimentation, enabling one well to produce both oil and natural gas[iii]. As drilling became less profitable due to the dramatic decrease in crude oil prices from international conflicts, production in the Permian Basin fell considerably. Meanwhile, new extraction techniques developed significantly including hydraulic fracturing, or fracking, which consists in shooting a mixture of water, sand and chemicals at extremely high pressure to fracture the rock and release the oil and gas trapped underneath. In the 2000s, horizontal drilling became common in the Permian Basin, allowing producers to target multiple formations from a single location at the surface with wells stretching for large distances. These two techniques were particularly effective in the Delaware Basin given its thick layers of rock and extended depth relative to other sub-basins of the Permian (**Exhibit 1B**).

In the 2010s, the combined use of the two methods set the stage for the shale revolution that turned the United States into a crude oil superpower and put the Permian Basin in the heartland of the U.S. shale boom. In the supply glut of 2014, crude prices in the United States plunged 50% (**Exhibit 2A**) and, while many oil producers in the Permian Basin scaled back their production to prevent further losses, the ones that pulled through were well-positioned to drive the Permian to new heights. In 2018, the United States finally surpassed Saudi Arabia and Russia to become the world's leading oil producer (**Exhibit 2B**) driven by the Permian Basin's then-daily production of over 3 million barrels[iv]. As the New Mexico-Texas basin became the pot of gold for drillers across the country, several companies began competing fiercely to expand their presence in region.

The dwindling prices in the end of 2018 hit the valuation of exploration and production ("E&P") companies, which were trading at 10-year lows. With fragile balance sheets, weak cash flow generation and deteriorating credit ratings, smaller oil drillers struggled to raise capital for further expansion in the Permian Basin[v]. The ambition for larger areas with drilling rights to better manage production logistics and maximize well utilization in the region led to a consolidation trend to achieve efficiencies and synergies[vi], favoured by the modest prices of struggling oil drillers.

Occidental Petroleum Corporation

Background

Occidental Petroleum was founded in 1920 in Los Angeles and it remained a small and nearly bankrupt oil driller until Armand Hammer invested $50,000 into two wells owned by the company in 1956. After the discovery of a rich crude oil deposit in Southern California and a large natural gas field in Northern California, Hammer rapidly acquired a controlling stake in the company and expanded its business globally. Occidental vaulted into its prime time in the international oil industry when Hammer secured major oil concessions in the Middle East, particularly in Libya in 1966, where it held the largest domestic oil drilling concession[vii].

In the 1980s, as tensions rose between the United States and the Middle East, Occidental announced the divesture of one-fourth of its Libyan oil-producing assets, two weeks following the all-cash sale of its Colombia holdings to Royal Dutch Shell for $1 billion[viii]. The company sought to decrease the risk embedded in its foreign operations where demand was shrinking and political tensions intensified. As such, in a considerable change to its traditional business, Occidental turned to the North Sea and North America. In 1982, it entered the natural gas pipeline segment with the acquisition of the Cities Service Company, holder of 2.5 trillion cubic feet of gas reserves in Kansas and Oklahoma, drifting away from its pure-play oil driller status. Later in 1986, the firm acted as a “white knight” for Midcon Corporation in the hostile takeover bid by WB Partners and gained access to its 30,000 miles long natural gas pipelines, the largest in the United States. This extensive gas pipeline system would allow Occidental to put its previously acquired reserves from the Cities Service Company to full use and unlock new earnings and cash flow[ix].

In 1990, Ray R. Irani took over as Chairman and CEO. After Hammer’s 30-year leadership, Occidental now owned far-flung holdings that spanned across coal mining, the manufacturing of fertilizers, chemicals and plastics, the processing and marketing of meat and horse breeding. The company had diversified its activity in order to reduce its exposure to the oil industry and had become a conglomerate of unrelated business entities. Irani’s era at Occidental was marked by the transformation of the firm into one of the largest oil and gas companies by equity capitalization in the United States, as he strengthened Occidental’s chemicals and oil and gas activities by selling operations across other industries including the previously acquired Midcon's meat business. In October 2010, after an annual shareholder meeting, Irani informed the board of directors of his intention to step down from his role as CEO. Consequently, in May 2011, Stephen Chazen was designated Occidental's President and Chief Executive Officer, while Irani became Executive Chairman and was given full responsibility for the firm's operations in the Middle East[x].

For the following two years, Chazen tried to shift Occidental's focus to domestic oil fields to take advantage of the shale oil boom and reiterated his long-standing view to split the firm's activities by divesting the Middle Eastern operations, which accounted for 40% of its oil and 35% of its gas production in 2012. The rationale for this strategic move relied on Occidental's underwhelming share price performance, with the stock tumbling 5% in the twelve months up to April 29, 2013 (**Exhibit 3**). Chazen believed that valuing the United States portion separately would allow Occidental's stock to trade at closer multiples to its peer group. On the other hand, Irani, who had been developing the firm's business in the Middle East, strongly disagreed. In a shareholder meeting in May 2013, the two-year boardroom struggle between Ray Irani and Stephen Chazen culminated in Irani's early retirement and exit from Occidental's board, while Chazen remained CEO until the end of 2014[xi].

In Stephen Chazen's final year at the helm of Occidental, the firm failed to sell a 40% stake in its Middle Eastern assets to a consortium of three state-owned firms in the Persian Gulf, in a transaction that aimed to raise at least $8 billion for drilling and share buybacks[xii]. The deal, which resulted from a restructuring plan, would contribute to the firm's strategic objective of streamlining operations and boosting profitability essentially by divesting low margin and return oil and gas assets, and investing in the high margin operations in the thriving Permian Basin.

Building a Permian Leader

In April 2016, as part of Occidental's corporate governance commitment to change the chairman every five years and to prohibit former chief executives from serving as chairmen, Vicki A. Hollub succeeded Stephen I. Chazen as President and CEO, becoming the first woman to run a major American oil company. Hollub had a long tenure at Occidental, having joined the company in 1982 when it acquired Cities Services, and had been serving as Chief Operating Officer prior to the promotion. During her time as COO, Vicki was responsible for wells in Texas and other states, which generated $12 billion in sales in 2014, and also led the company's expansion in the Permian Basin that, eventually, became one of the most relevant profit sources for Occidental[xiii].

Vicki had committed to the firm's strategy to focus on the Permian Basin, and in the first two years as CEO, Hollub oversaw the sale of non-core operations in the Middle East and North Africa, and non-operated properties and midstream assets in South and South Central Texas, as well as the acquisition of 35,000 net acres in the Permian Basin and interests in other Permian Enhanced Oil Recovery (EOR) properties. As of December 31, 2018, domestic operations, focused on the Permian Basin, accounted for close to 57% of total production, while 5% derived from its properties in Colombia, and the remaining 38% resulted from activities in Oman, Qatar and the UAE[xiv].

Anadarko Petroleum Corporation

With Occidental seeking to become the leading producer in the Permian Basin, CEO Vicki eyed Anadarko as a way to propel the company's dominance in the region. Anadarko engages in the exploration, development, production and sale of oil, natural gas and natural gas liquids ("NGLs") from operations in the United States, accounting for 90% of its proved reserves, onshore and deepwater Gulf of Mexico, as well as other regions including Algeria, Ghana and Colombia (**Exhibit 4**). In Mozambique, together with other partners, Anadarko developed one of the largest greenfield liquefied natural gas ("LNG") facilities worldwide with the construction of a $20 billion gas liquefaction and export terminal with an annual capacity of 12.88 million tonnes. In addition to its upstream oil and gas operations, Anadarko gathers, processes, treats and transports its own and third-party oil, natural gas and NGLs, as well as gathers and disposes produced water through the assets owned in subsidiary Western Midstream Partners, LP and its Other Midstream segment[xv]. According to Reuters, at the end of 2018, Anadarko owned proved reserves of more than 1 billion barrels-equivalent, making it one of the largest independent E&P firms (**Exhibit 5**).

Within its principal position in the Delaware Basin, Anadarko operated close to 750 wells and owned interests in 450 non-operated wells in 2018. Through the extraction of oil and gas using horizontal drilling techniques, the firm has benefitted from an optimized cost structure and superior production delivery. In the DJ Basin in Colorado where liquids and natural gas are abundant in the Niobrara and Codell formations, Anadarko held a premier position of 460,000 net acres, operating 3,400 vertical wells and 1,700 horizontal wells, as of the end of 2018. Throughout the year, the firm managed to generate sales from 278 of operated wells in the region and improved its footage driller per rig-day in 30%[xvi].

Al Walker joined Anadarko in 2005 when he was named Senior Vice President, Finance and Chief Financial Officer ("CFO") after serving as a Managing Director for the Global Energy Group of UBS Investment Bank. He was appointed CEO in 2012 while working as Anadarko's chief operating officer following the resignation of previous CEO Jim Hackett who became the firm's Executive Chairman[xvii]. When he assumed the leadership of the company, Walker stated that he would resume Anadarko's long-term strategy to "deliver a competitive and sustainable rate of return to shareholders"[3] through production ramp-ups and growing exploration of off-shore drilling, which enabled the firm to more than double oil sales from 2016 to 2018 (**Exhibit 6**). As Anadarko divested its non-core assets over the past three years, the company was able to focus on the expansion of its high margin operations in oil-rich basins, which required them to incur further debt for the development of WES midstream infrastructure (**Exhibit 7** and **8**).

The Bidding War

The Initial Attempt

In July 2017, Vicki Hollub contacted Al Walker to express Occidental's interest in pursuing an acquisition of Anadarko. Hollub believed the combination of the two firms' assets would create a global energy leader with dominance in shale development within the Permian and DJ basin in the United States. Anadarko could leverage Occidental's expertise in shale development to extract more oil from its fields, and the combined company had the potential to generate high impact synergies in respect to capital expenditure efficiency and domestic cost-cutting, particularly in procurement and supply chain logistics. On September 27, Occidental's management sent a letter to Walker proposing to acquire Anadarko in an all-stock transaction offering $61.22 per share of Anadarko, at an exchange ratio of 0.9500 (**Exhibit 9**). In the proposal, Hollub outlined the rationale for the merger and stated that, upon the closing of the proposed transaction, Occidental aimed to maintain its dividend policy and undertake a significant share repurchase.

Following a regular meeting of Anadarko's Board in November, Occidental's offer was unanimously rejected. Despite the 23% premium offered, Anadarko's directors questioned the

[3] Anadarko 2018 Annual Report

strategic rationale of the acquisition, as the distinct and disparate strategies and asset profiles of the two companies would complicate post-merger integration and value optimization for shareholders. The size of the transaction could likely impact the sustainability of Occidental's pro-forma dividend policy and, thus, require the combined company to go through significant asset disposals. Anadarko's Board also contested the proposed payment method, since the 100% stock merger compensation would notably expose Anadarko's shareholders to downward movements in Occidental's share price from the announcement to the closing of the deal, ultimately affecting its shareholders' stake in the combined company. As such, Anadarko's Board found that it would be illogical and against its fiduciary duties to accept Occidental's proposal.

On January 19, 2018, Hollub made a cash-and-stock offer, upping its bid to $38 billion from the previous $31 billion, offering no more than 50% in cash. Once again, Anadarko's Board turned down the proposal given its confidence in the firm's future prospects as a standalone company and unwillingness to the take the risks involved in a transaction with a considerable stock consideration.[xviii]

Enter the Rival Chevron

On February 6, 2019, Chevron joined Occidental in its pursuit of Anadarko as CEO Michael Wirth sent a letter to Al Walker offering $64 per share at a 31% premium in a 25% cash and 75% common stock transaction. At the end of 2018, oil prices had taken another dive and Chevron took advantage of the opportunity to launch an offer for Anadarko, which had suffered a 27% drop in share price in December (**Exhibit 10**). Through the $47 billion combination with Anadarko, Chevron expected to boost its acreage in the Permian Basin, with the integration of Anadarko's 240,000 net acres in the Delaware Basin, enabling the firm to extract more oil from its wells and realize significant reductions in its cost per barrel. Furthermore, the transaction offered Chevron a 55% stake in Western Midstream Partners, expanding the buyer's presence in the midstream segment of the oil and gas industry, in which it had not been as well-established.

For Anadarko, the complementarity of Chevron's assets in the Permian Basin, its track record in the effective integration of acquired companies, and experience across large LNG projects would facilitate the transaction and the expected value creation, including the materialization of $1 billion in run-rate cost synergies and capital spending reductions of $1 billion in 2020 [xix]. As such, and taking into account its fiduciary duties, Anadarko's Board decided to explore a deal with Chevron.

Later in March, Hollub and Walker ran into each other at the American Petroleum Institute Conference and informally conveyed Occidental's enduring interest in a merger with Anadarko. Walker decided to take advantage of Occidental's willingness to resume merger talks and managed to impel Wirth to push up Chevron's purchase price to $65 per share. In an attempt to rekindle negotiations with Anadarko, on March 23, Occidental's CEO Vicki Hollub sent a letter to Al Walker proposing to acquire the company for $19 in cash plus 0.8737 shares of Occidental common stock, valuing Anadarko at $76 per share. Hollub also stated that the proposed acquisition would not be restricted to any financing condition, thus, eliminating one of Anadarko's main concerns in previous bids.

While evaluating Occidental's proposal, Anadarko's Board highlighted that the equity portion offered brought up the same issues from earlier proposals regarding the significant uncertainties attached to a stock transaction and inherent to Occidental's poor performance in the market. It further noted that, unlike Chevron's proposal, Hollub's offer would require the approval of Occidental shareholders of two majority votes on the acquisition, and reliance on third-party financing. Despite the concerns over a combination with Occidental, Anadarko's Board determined that the price embedded in Occidental's proposal could yield superior value to Anadarko's shareholders. With Wirth refusing to increase Chevron's purchase price, Anadarko entered into a mutual non-disclosure agreement ("NDA") with Occidental and kicked off the due diligence process.

Nevertheless, negotiations between the two oil drillers soon started falling apart as Hollub and Walker were unable to reach a consensus on the terms of a draft merger agreement. On March 30, Occidental sent a first draft to Anadarko outlining the structure of the deal under a fixed exchange ratio with no collar or other value protection mechanisms. In addition, it stated that the transaction would be subject to the majority approval of Occidental shareholders of the issuance of new shares and a majority shareholder vote in favour of the Occidental Charter Amendment ("OCA"), an amendment on the firm's certificate of incorporation to raise its capital stock in order to issue the amount of shares contemplated by the transaction.

Given the high threshold of shareholder approval required for the two votes, and seeking to protect Anadarko from a disapproval outcome, which would jeopardize a deal with Chevron, Walker included several provisions in a revised draft merger agreement such as an Acquiror Vote-Down Payment equal to 7.5% of Occidental's pre-transaction equity value. Furthermore, in what was called an Initial Closing Certainty Proposal, Anadarko advocated for an increase in the cash component of the merger consideration, in case Occidental failed to obtain stockholder approval for the OCA. The higher amount of cash would reduce the amount of the new shares to be issued in connection to the transaction so that the OCA would no longer be required to ensure the execution of the merger. Vicki Hollub felt that the OCA did not present any meaningful risk to Anadarko and rejected the Initial Closing Certainty and Acquiror Vote-Down Payment. With Hollub's reluctance in accepting Anadarko's conditions for the merger and, in order to mitigate the risk of a no-transaction scenario, Anadarko's legal advisor, Wachtell Lipton, turned to Chevron to confirm whether its offer was still at the table and later began discussing the terms of a merger agreement.

On April 8, Vicki Hollub sent an e-mail to Michael Walker containing a revised proposal with a 40-60 split between cash and stock at the cost of a lower purchase price of $72 per share. Although the larger cash consideration eliminated the need for shareholder approval of the OCA, it still required the majority vote on the issuance of Occidental common shares, according to rules of the New York Stock Exchange ("NYSE"), where Occidental's stock was listed.

While Occidental was still showing some resistance in accepting Anadarko's terms, Chevron seemed to be more flexible and open for discussion of contractual terms, having decreased the termination fee to from $1.5 to $1 billion, or from 3.25% to 3% of Anadarko's equity value implied by the transaction. In this light, going forward with Occidental's proposal would imply losing the possibility of a transaction with Chevron and accepting the high risk of not obtaining the approval of Occidental shareholders of the share issuance vote. Furthermore, Anadarko would have to bear the uncertainty regarding the impact of a transaction announcement on Occidental's share price and how it would harm Anadarko shareholders given the high equity portion on its offer.

Anadarko's management and advisors deliberated on the course of action to take regarding the two bidders and concluded that Anadarko should focus its efforts on bringing the Chevron transaction to fruition. The decision focused on the strategic benefits of the deal, which included the complementarity of both companies' portfolio, Chevron's expertise in operating LNG projects and offshore assets, its low post-transaction leverage resulting in a lower cost of capital and fewer asset sales from the combined entity. As such, Al Walker believed that Chevron would create greater short- and long-term value for Anadarko shareholders and provide certainty of execution and completion[xxi].

The Push from Warren Buffett

Although on April 12 Chevron and Anadarko had issued a press release announcing the execution of a merger agreement, Vicki Hollub still had Anadarko in her sight. On April 24, Occidental publicly disclosed that it had sent a revised proposal to Anadarko's Board offering $76, half in cash and half in stock at an exchange ratio of 0.6094. This time, Hollub had increased the bid's cash consideration, providing greater immediate value and making the offer more appealing to Anadarko shareholders, pledging substantial cost savings and a stable dividend payout. As a counterbid from Chevron was yet a possible outcome, pressure mounted on Occidental's management to effectively lock in the acquisition of Anadarko. While the April 24 Revised Proposal yielded superior value compared to Chevron's last bid, and failure to engage in such transaction would question the management and board's fiduciary duties towards shareholders, Anadarko's concerns regarding the closing certainty of the deal had not yet been fully tackled. Despite offering a larger cash portion than previous offers, Occidental shareholders' majority vote on the issuance of new shares was still required for the transaction to go forward[xxii].

Under the Delaware General Corporation Law ("DGCL"), which applies to both Occidental and Anadarko, when the shares issued as part of a takeover offer constitute no more than 20% of the acquiring company's outstanding common shares, the buyer's board no longer requires the approval of shareholders on the respective acquisition[xxiii]. If Vicki Hollub could restructure the payment method offered to be compliant with the DGCL in this matter, the vote from Occidental shareholders on the transaction would no longer be required, and Occidental could finally clinch a deal with Anadarko. In the April 24 Revised Proposal, the issuable shares represented close to 40% of Occidental's outstanding common stock, which required Hollub to resort to external financing to raise the cash consideration in a brand-new bid to lower the equity share below 20%.

Given the vulnerability of oil prices and their exposure to its fluctuations, oil and gas companies tend to present low debt ratios. With the incurrence of new indebtedness of $21.8 billion in bank loans to finance the merger's cash consideration, and the assumption of Anadarko's and Western Midstream Partners' short- and long-term debt of $11.9 and $7.3 billion, respectively, Occidental was expected to have close to $40 billion of net debt pre-asset sales lying on its balance sheet[xxiv]. Adding further debt to this substantial amount of leverage was not a viable option as it would likely result in a steep downgrade of Occidental's credit rating from A to triple-B, second-lowest high-grade S&P rating, and rise its then-current cost of debt of 4.34%, according to Bloomberg.

While looking for financing alternatives, Vicki Hollub went to Omaha, the city home to billionaire investor Warren Buffett, where the two discussed Occidental's takeover of Anadarko. In just 90 minutes, Hollub managed to convince Buffett to provide financial support of the deal. On April 30, Occidental announced that Buffett's Berkshire Hathaway had committed $10 billion in cash to finance the acquisition of Anadarko in exchange for 100,000 shares of Occidental preferred stock returning 8% annually, close to four times larger than the return on the S&P500 index. With a cash pile of $112 billion and struggling to find multibillion-dollar deals, or "elephants" as Buffett would call them, Occidental Petroleum was an attractive investment. Apart from the yearly payment of $800 million on Occidental preferred stock, Buffett received warrants worth $1.2 billion[xxv] to purchase 80 million Occidental common shares at $62.50 a share, above its then-current price of $58.88. With the expectation that Occidental's price was set to climb above the warrants' exercise price in the coming years, Berkshire could become the owner of approximately 10% of Occidental's outstanding common stock at a considerably lower cost[xxvi,xxvii, xxviii].

Fortunately for Hollub and Occidental's Board, Buffett's endorsement of the deal provided tailwind to Occidental's proposal. On May 5, Occidental revealed it had set forth a revised proposal offering $59 and 0.2934 shares of Occidental common stock for each common share of Anadarko, maintaining last bid's purchase price of $76, which the Anadarko Board accepted on the following day. The transaction value of the acquisition would make it the largest amongst exploration and production since 2015 (**Exhibit 11**). Through Berkshire Hathaway's capital injection, Vicki Hollub paved the way toward winning the backing of Anadarko's Board and seeing off its rival Chevron. With the new larger amount of cash, Hollub managed to lower the equity portion offered to 19.58% of Occidental's outstanding common stock and eliminated the Occidental shareholders' vote on the share issuance, under the DGCL, relieving Anadarko's fears of running into resistance.

In the new proposal, Hollub reiterated the complementarity of Anadarko's assets with Occidental's, particularly in the Delaware Basin (**Exhibit 12**) which, combined with substantial scale in other locations, could result in annual primary synergies of $2 billion and $1.5 billion in capital reduction (**Exhibit 13**). The combined entity would be approximately 60% larger, as measured by revenues in the first quarter of 2019 of $6.5 billion, compared to Occidental's standalone sales of $4.0 billion (**Exhibit 14A**). Between Buffett's backing and Occidental's last bid, Hollub also flew to France and agreed to sell Anadarko's business operations, assets and liabilities in Algeria, Ghana, Mozambique and South Africa to the French energy company Total for a total of $8.8 billion. The proceeds from the divesture of these non-core assets to Occidental would be used to retire part of its debt outstanding of $42.93 billion on Occidental's pro forma balance sheet (**Exhibit 14B**), along with other planned $10-15 billion asset sales[xxix].

Carl Icahn's Activist Response

Throughout the endless bidding war with Chevron, as Hollub increased the purchase price for Anadarko, contracted $21.8 billion of further bank debt and other expensive financing, such as Warren Buffett's preferred stock investment, there was lack of input from Occidental shareholders. As the holder of 5% of Occidental's common shares as of May 30, valued at $1.6 billion[xxx], activist investor Carl Icahn was a vocal critic of Occidental's deal to acquire Anadarko. On July 22, in a letter to remaining shareholders, Icahn publicly expressed his outrage over the negligence of the Board and Hollub to go ahead with what he considered to have been a high-risk, transformational merger, without a stockholder vote[xxxi].

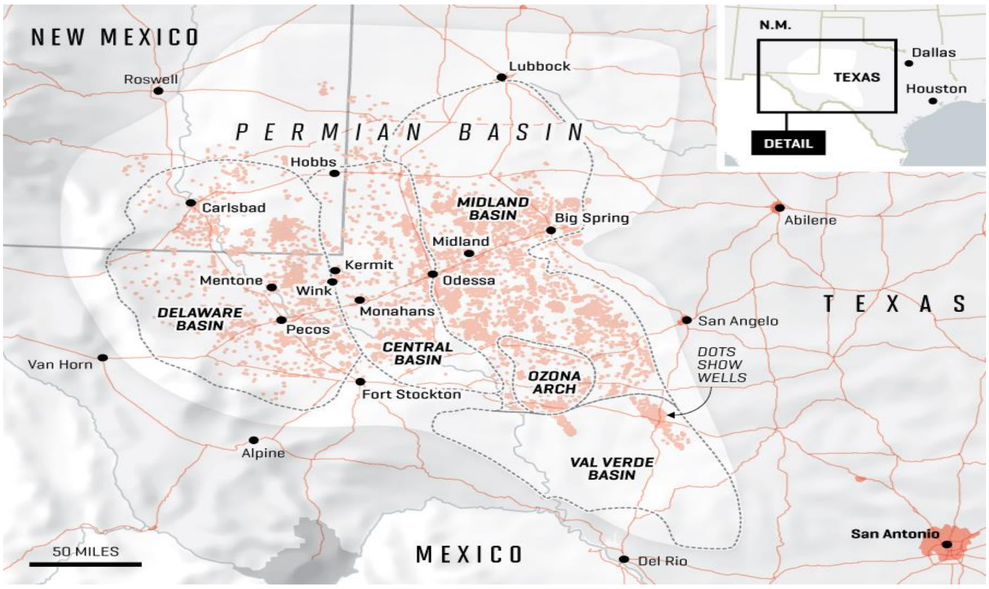
Although Occidental's management had pledged not to engage in high-risk M&A and maintain a prudent balance sheet, it had broken this commitment, in his view, at the expense of shareholder rights. Icahn believed that the Anadarko deal was a poison pill to grow considerably and prevent a hostile takeover from an industry rival, given its weakened market performance during the year, allowing Hollub and the directors in Occidental's Board to retain their jobs. In order to avoid further breaches of the board and management's fiduciary duties towards himself and other Occidental shareholders, Icahn sued Hollub and her Board and opened a proxy fight to oust her and four board members. As his war against Occidental escalated, Icahn proposed to cut the Board even further by firing all of its 10 members.

"Owning this company, and being at the mercy of a board and CEO who have already shown they are willing to take inordinate risks and gamble stockholders money to further their own agendas, is extremely dangerous for an investor."

- Carl Icahn

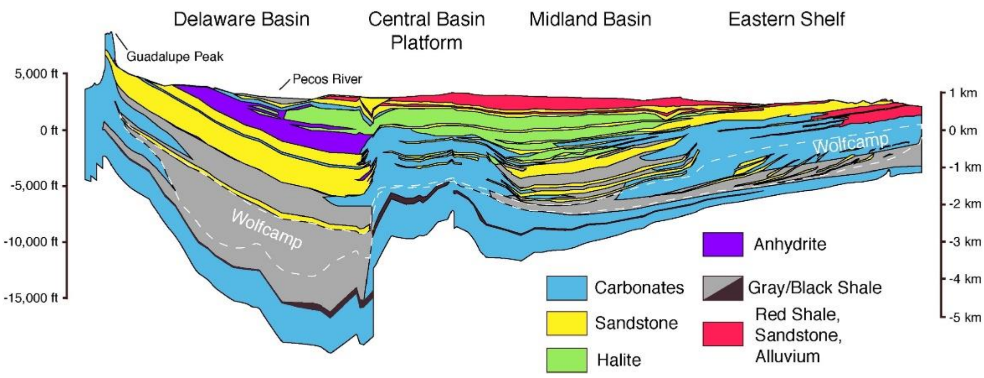
Despite having sold 10 million shares of Occidental, Icahn still owned a significant amount of 23 million shares, valued at $900 million as of November 8, 2019. While he condemned the heightened exposure of the new combined company to oil price changes and monstrous balance sheet debt as consequences of the Anadarko purchase, Icahn still acknowledged that Occidental owns distinguished assets, particularly in the Permian Basin, and pays a flattering dividend. Instead of closing his position in Occidental entirely, Icahn used his activist investor status to force changes to the company's corporate governance in the hopes of lifting its long-term value[xxxii].

Exhibit 1A: Geographical Location of the Permian Basin



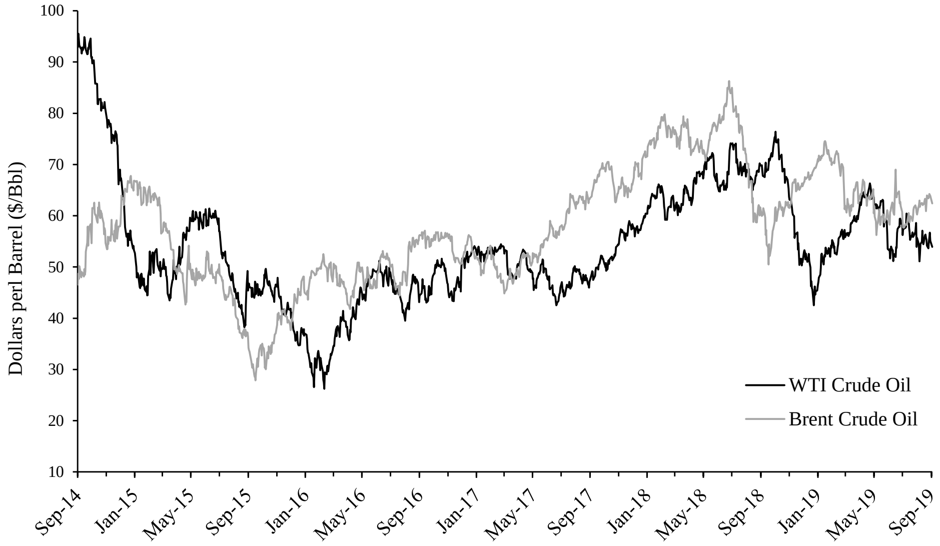
Source: U.S. EIA, Bureau of Economic Geology, U.S. Geological Survey

Exhibit 1B: Geologic Cross-Section of the Permian Basin



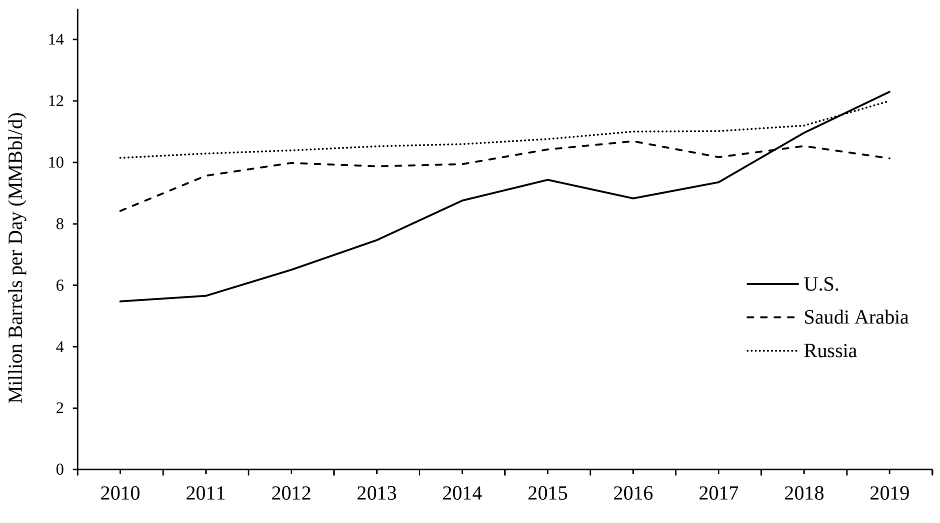
Source: Engle, Mark et al. 2016. "Geochemistry of formation waters from the Wolfcamp and 'Cline' shales: Insights into brine origin, reservoir connectivity, and fluid flow in the Permian Basin, USA*." Chemical Geology, 425: 76-92.*

Exhibit 2A: Historical WTI and Brent Crude Oil Prices, 2014-2019



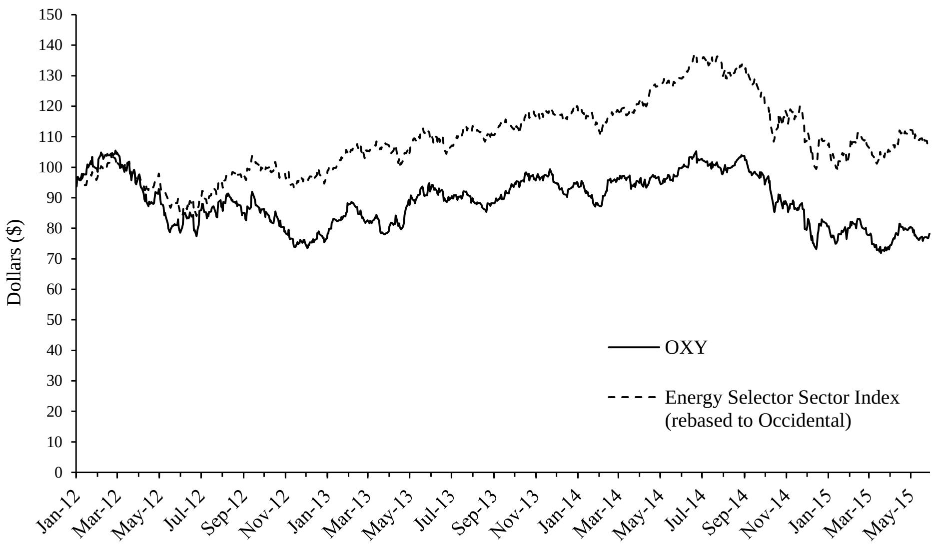
Source: Bloomberg

Exhibit 2B: Top 3 Largest Oil Producers, 2010-2018



Source: BP Statistical Review of World Energy 2019, International Energy Agency

Exhibit 3: Share Price Comparison of Occidental and Energy Select Sector Index



Source: Capital IQ

Exhibit 4: Anadarko's Exploration and Production Properties and Activities

Source: Anadarko Annual Report 2018

Exhibit 5: Selected Financial Data on Comparable Companies

All values in $ thousands, except Reserves	**Pioneer Natural Resources Co.**	**Concho Resources Inc.**	**Hess Corp.**	**Devon Energy Corp.**	**Apache Corp.**	**Anadarko Corp.**	**Occidental Corp.**
Stock Market Data as of 03/31/2019							
Ticker	PXD	CXO	HES	DVN	APA	APC	OXY
Shares Outstanding	169,499	200,257	291,435	450,000	374,696	489,400	749,390
Stock Price ($)	151.27	111.15	62.63	30.74	34.73	46.65	66.07
Market Value of Equity	25,639,311	22,257,936	18,251,753	13,832,748	13,011,557	22,828,222	49,509,495
Net Debt	1,016,000	4,353,000	3,978,000	3,533,000	7,490,000	15,122,000	7,284,000
Equity Beta Over Latest 6 Months	1.22	1.23	1.47	1.34	1.16	—	1.05
Financial Data as of 03/31/2019							
Trailing Twelve Months							
Sales	8,817,000	3,933,000	6,326,000	11,654,000	7,293,000	12,837,000	17,824,000
EBITDA	2,912,000	3,374,000	2,420,000	3,576,000	3,792,000	6,328,000	9,507,000
EBIT	1,378,000	1,896,000	537,000	1,780,000	1,387,000	2,074,000	5,530,000
EBITDAX	3,375,000	2,937,000	2,304,000	2,092,000	4,863,000	7,656,000	9,624,000
Operating Metrics as of 12/31/3018							
Proved Reserves of Oil, LNG and NatGas (MBOE)	863,629	803,926	952,690	1,214,607	874,005	1,002,221	2,217,204

Note: EBITDAX defined as earnings before interest, tax, depreciation, amortization and exploration expense.

Source: Bloomberg, U.S. Securities and Exchange Commission

Exhibit 6: Anadarko's Historical Consolidated Income Statement, in $ Millions

	2016	**2017**	**2018**	**03/31/2019**
Revenues and Other				
Oil Sales	4,668	6,552	9,206	2,096
Natural-Gas Sales	1,564	1,348	1,005	320
Natural-Gas Liquids Sales	921	1,069	1,271	240
Gathering, Processing, and Marketing Sales	1,294	2,000	1,588	470
Gains (Losses) on Divestitures and Other, net	(578)	939	312	92
Total	7,869	11,908	13,382	3,218
Costs and Expenses				
Oil and Gas Operating	807	988	1,153	289
Oil and Gas Transportation	1,002	914	878	222
Exploration	944	2,535	459	49
Gathering, Processing, and Marketing	1,083	1,552	1,047	256
General and Administrative	1,223	994	1,084	267
Depreciation, Depletion and Amortization	4,301	4,279	4,254	1,081
Production, Property, and Other Taxes	536	582	826	199
Impairments	227	408	800	—
Other Operating Expense	118	221	262	21
Total	10,241	12,473	10,763	2,384
Operating Income (Loss)	**(2,372)**	**(565)**	**2,619**	**834**
Other (Income) Expense				
Interest Expense	890	932	947	253
(Gains) Losses on Early Extinguishment of Debt	155	2	(2)	—
(Gains) Losses on Derivatives, net	286	135	130	313
Other (Income) Expense, net	126	54	59	6
Total	1,457	1,123	1,134	572
Income (Loss) Before Income Taxes	**(3,829)**	**(1,688)**	**1,485**	**262**
Income Tax Expense (Benefit)	(1,021)	(1,477)	733	166
Net Income (Loss)	**(2,808)**	**(211)**	**752**	**96**
Net Income (Loss) Attributable to Noncontrolling Interests	263	245	137	111
Net Income (Loss) Attributable to Common Stockholders	**(3,071)**	**(456)**	**615**	**(15)**

Source: Adapted from Anadarko SEC Filing for March 31, 2019

Exhibit 7: Anadarko's Historical Consolidated Balance Sheet, in $ Millions

	31-Dec-16	31-Dec-17	31-Dec-18	31-Mar-19
ASSETS				
Current Assets				
Cash and Cash Equivalents	3,184	4,553	1,295	2,026
Accounts Receivable				
Customers	1,007	1,222	1,491	1,553
Others	721	607	535	512
Other Current Assets				
Inventories	313	316	235	254
Other	41	64	239	84
Total	5,266	6,762	3,795	4,429
Property and Equipment				
Property and Equipment, gross	69,013	65,050	67,518	66,841
Accum. Depreciation, Depletion and Amortization	36,845	37,599	38,903	37,905
Properties and Equipment, net	32,168	27,451	28,615	28,936
Other Assets	226	2,211	2,336	3,006
Goodwill and Other Intangible Assets	5,904	5,662	5,630	5,622
Total Assets	**43,564**	**42,086**	**40,376**	**41,993**
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts Payable				
Trade	1,617	1,894	2,003	1,946
Other	303	266	161	165
Short-Term Debt - Anadarko	42	142	919	21
Short-Term Debt - WES and WGP	—	—	28	2,000
Current Asset Retirement Obligations	129	294	252	277
Other Current Liabilities	1,237	1,310	1,295	1,340
Total	3,328	3,906	4,658	5,749
Long-Term Debt				
Long-Term Debt - Anadarko	12,162	12,054	10,683	10,695
Long-Term Debt - WES and WGP	3,119	3,493	4,787	5,208
Total	15,281	15,547	15,470	15,903
Other Long-Term Liabilities				
Deferred Income Taxes	4,324	2,234	2,437	2,624
Asset Retirement Obligations	2,802	2,500	2,847	2,876
Other	4,332	4,109	4,021	4,308
Total	11,458	8,843	9,305	9,808
Stockholders' Equity	15,497	13,790	10,943	10,533
Total Liabilities and Equity	**45,564**	**42,086**	**40,376**	**41,993**

Exhibit 8: Anadarko's Cash Flow from Investing Activities, in $ Millions

Cash Flows from Investing Activities	**2016**	**2017**	**2018**	**03/31/2019**
Additions to Properties and Equipment	(3,505)	(5,031)	(6,183)	(1,389)
Acquisition of Businesses	(1,740)	25	—	—
Divestitures of Properties and Equipment and Other Assets	2,356	4,008	417	7
Other, net	147	(32)	(216)	(146)
Net Cash from Investing Activities	**(2,742)**	**(1,030)**	**(5,982)**	**(1,528)**

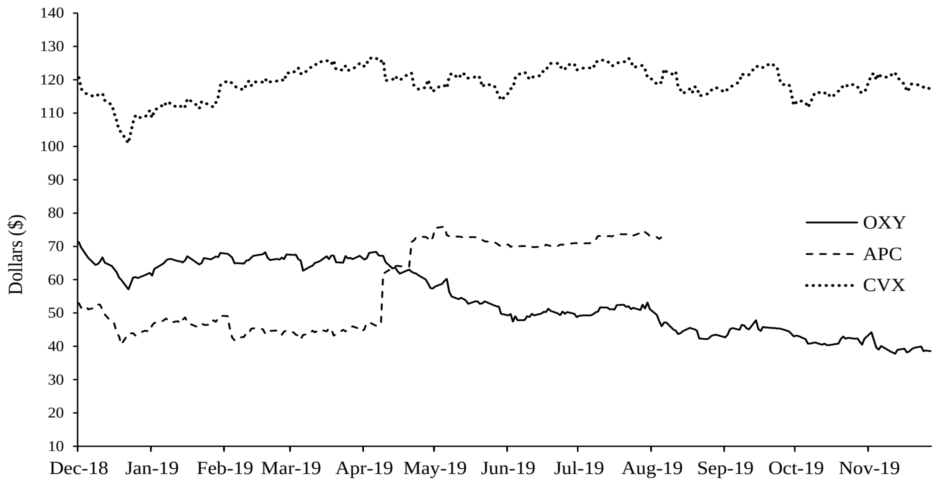
Source: Adapted from Anadarko SEC Filing for March 31, 2019

Exhibit 9: Occidental's Acquisition Bids for Anadarko

	Initial Offer 27 September 2017	**Accepted Offer 23 March 2019**	**Second Offer 8 April 2019**	**Revised Offer 24 April 2019**	**Final Offer 5 May 2019**
Purchase Price per Share ($)	61.22	76.00	72.00	76.00	76.00
Premium Over Day Prior (%)	22.73	75.80	53.16	18.77	4.51
Payment Type	Stock	Cash and Stock	Cash and Stock	Cash and Stock	Cash and Stock
Cash Consideration Per Share ($)	-	$19,00	28.80	38.00	59.00
Exchange Ratio (%)	0.9500	0.8737	0.7076	0.6094	0.2934
Occidental's Final Ownership (%)	n.a.	n.a.	n.a.	71%	84%
Anadarko's Final Ownership (%)	n.a.	n.a.	n.a.	29%	16%
Restricted to Financing Conditions	Yes	No	No	No	No
Subject to Occidental Shareholder Votes	Yes	Yes	Only Share Issuance	Only Share Issuance	No

Source: SEC Filing - Proxy Statement on the Acquisition of Anadarko

Exhibit 10: Share Price Comparison of Occidental, Chevron and Anadarko in 2019



Source: Bloomberg

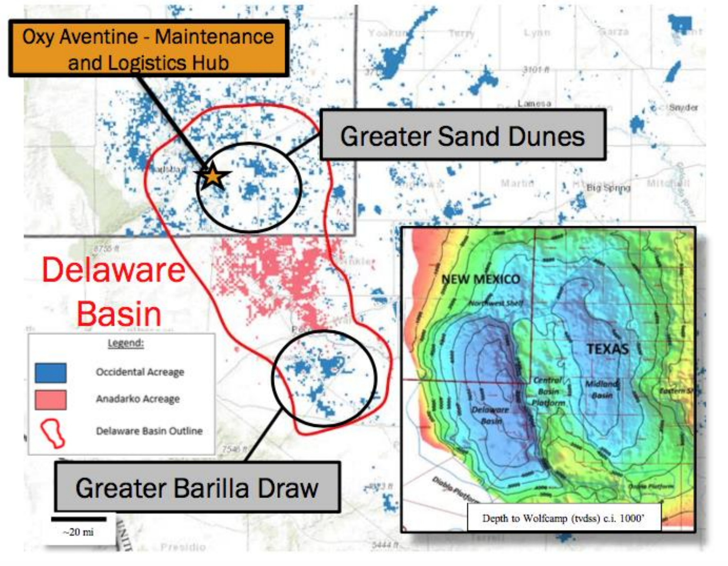
Exhibit 11: Selected Financial Data on Comparable Transactions

Announcement Date	**Target**	**Buyer**	**Transaction Value ($ millions)**	**Transaction Value to Sales (TV/Sales)**	**Transaction Value to EBITDA (TV/EBITDA)**
05/09/2019	Anadarko Petroleum Corp	Occidental Petroleum Corp	55,162	4.22x	8.05x
01/11/2018	Newfield Exploration Co	Encana Corp	8,151	3.55x	5.83x
14/08/2018	Energen Corp	Diamondback Energy Inc	9,145	7.20x	11.25x
28/03/2018	RSP Permian Inc	Concho Resources Inc	9,204	11.25x	17.46x
08/04/2015	BG Group Ltd	Royal Dutch Shell PLC	79,308	—	—
16/12/2014	Repsol Oil & Gas Canada Inc	Repsol SA	12,949	2.57x	5.88x
05/12/2012	Plains Exploration & Production Co	Freeport-McMoRan Inc	10,173	4.60x	6.98x
Median				**4.60x**	**6.98x**
Average				**5.83x**	**9.48x**

Notes: (i) selected transactions are takeovers of oil and gas exploration and production companies completed between 01/01/2010 and 01/09/2019, with a deal size in the range $5-100 billion. (ii) median and average values exclude Occidental's acquisition of Anadarko.

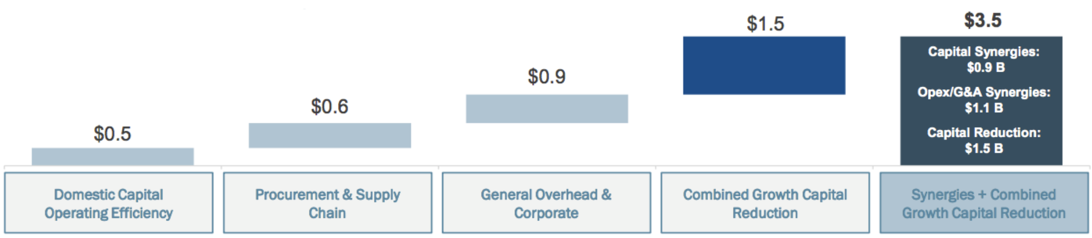
Source: Bloomberg

Exhibit 12: Occidental and Anadarko's Complementarity Acreage in the Delaware Basin



Source: Revised Occidental Proposal to Acquire Anadarko on May 6, 2019

Exhibit 13: Expected Pre-Tax Annual Synergies and Capital Reduction, in $ Billions



Source: Revised Occidental Proposal to Acquire Anadarko on May 6, 2019

Exhibit 14A: Occidental's Historical and Pro Forma Income Statement, in $ Millions

	2017	2018	03/31/2019	Pro Forma
Revenues				
Net Sales				
Oil and Gas	7,870	10,441	4,004	6,517
Chemical	4,355	4,657		
Midstream and Marketing	1,157	3,656		
Eliminations (a)	(874)	(930)		
Total	12,508	17,824	4,004	6,517
Interest, Dividends and Other Income	99	136	78	92
Gain on Sale of Assets and Equity Investments, net	667	974	7	33
Total	13,274	18,934	4,089	6,642
Costs and Other Deductions				
Cost of Sales	5,594	6,568	1,345	2072
Purchased Commodities	—	—	365	365
SG&A and Other Operating Expenses	1,424	1,613	140	239
Other Operating and Non-Operating Expenses	—	—	238	606
Taxes Other Than on Income	311	439	111	217
Depreciation, Depletion and Amortization	4,002	3,977	973	2050
Asset Impairments and Related Items	545	561	—	—
Exploration Expense	82	110	36	83
Interest and Debt Expense, net	345	389	98	516
Total	12,303	13,657	3,306	6,148
Operating Income (Loss)	**971**	**5,277**	**783**	**494**
Other (Income) Expense				
Income from Equity Investments	357	331	73	137
Total	357	331	73	137
Income (Loss) Before Income Taxes	1,328	5,608	856	631
Benefit (Provision) for Domestic and Foreign Income Taxes	(17)	(1,477)	(225)	(205)
Net Income (Loss)	**1,311**	**4,131**	**631**	**426**
Preferred Stock Dividend	—	—	—	200
Net Income (Loss) Attributable to Noncontrolling Interests	—	—	—	100
Net Income (Loss) Attributable to Common Stockholders	**1,311**	**4,131**	**631**	**126**

Source: SEC Filing – Proxy Statement on the Acquisition of Anadarko

Exhibit 14B: Occidental's Historical and Pro Forma Balance Sheet, in $ Millions

	31-Dec-16	31-Dec-17	31-Dec-18	03/31/2019	Pro Forma
Current Assets					
Cash and Cash Equivalents	2,233	1,672	3,033	1,752	3,804
Trade Receivables, net	3,989	4,145	4,893	5,310	7,188
Inventories	866	1,246	1,191	1,484	2,069
Assets Held for Sale	—	474	—	—	—
Other Current Assets	1,340	733	746	724	806
Total Current Assets	8,428	8,270	9,863	9,270	13,867
Investments					
Investments in Unconsolidated Entities	1,401	1,515	1,680	1,725	3,104
Property, Plant and Equipment					
Oil and Gas Segment	54,673	53,409	58,799		
Chemical Segment	6,930	6,847	7,001		
Midstream and Marketing Segment	9,216	9,493	8,070		
Corporate	474	497	550		
	71,293	70,246	74,420		
Accumulated Depreciation, Depletion and Amortization	(38,956)	(39,072)	(42,983)		
	32,337	31,174	31,437	31,900	90,291
Operating Lease Assets	—	—	—	684	1,166
Intangible Assets	—	—	—	—	3,168
Goodwill	—	—	—	—	6,475
LONG-TERM RECEIVABLES AND OTHER ASSETS, NET	943	1,067	874	801	1147
TOTAL ASSETS	43,109	42,026	43,854	44,380	119,218
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	—	500	116	116	2,125
Current Lease Liabilities	—	—	—	240	473
Accounts Payable	3,926	4,408	4,885	5,261	7,107
Accrued Liabilities	2,436	2,492	2,411	1,920	2,948
Total Current Liabilities	6,362	7,400	7,412	7,537	12,653
LONG-TERM DEBT, NET	9,819	9,328	10,201	10,203	40,809
DEFERRED CREDITS AND OTHER LIABILITIES					
Deferred Domestic and Foreign Income Taxes, net	1,132	581	907	918	10,256
Asset Retirement Obligations	1,245	1,241	1,424	1,430	4,152
Pension and Post-Retirement Obligations	963	1,005	809	816	1,686
Environmental Remediation Reserves	739	728	762	755	839
Lease Liabilities	—	—	—	465	732
Other	1,352	1,171	1,009	1,020	4,347
	5,431	4,726	4,911	5,404	22,012
STOCKHOLDERS' EQUITY					
Common Stock	178	179	179	179	208
Treasury Stock	(9,143)	(9,168)	(10,473)	(10,653)	(10,752)
Additional Paid-in Capital	7,747	7,884	8,046	8,083	25,071
Retained Earnings	22,981	21,935	23,750	23,795	23,326
Accumulated Other Comprehensive Loss	(266)	(258)	(172)	(168)	(168)
Noncontrolling Interests	—	—	—	—	6,059
Total Equity	21,497	20,572	21,330	21,236	43,744
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**43,109**	**42,026**	**43,854**	**44,380**	**119,218**

Note: "The selected unaudited pro forma combined financial statements […] have been adjusted to reflect (i) the completion of the merger, (ii) Occidental's incurrence of $21.8 billion of new indebtedness to finance a portion of the cash merger consideration, (iii) the Berkshire Hathaway investment (but excluding the exercise of the warrant issued pursuant to the Berkshire Investment) and (iv) the Total transaction".

Source: SEC Filing – Proxy Statement on the Acquisition of Anadarko

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