Case Study: Hess

Key Takeaways

- In contrast to Hess's contention that Elliott's investment was motivated only by a "short-term agenda," as of June 30, 2016, Elliott held 18,800,000 shares in Hess, valued at over $1 billion, making it the company's second largest shareholder.
- The New York Times' Steven Davidoff Solomon: "The Hess example shows that sometimes labeling shareholders short-termers is more a defensive tactic than a real argument." (The New York Times, 7/9/13)

The Facts

- 1/29/2013: Elliott Management announced that it acquired a 4% stake in the company's common stock and would seek substantial strategic changes to bolster the share price.
- In a letter to shareholders, Elliott recommended a number of changes to achieve its goal: (1) A vote on a slate of five independent directors; an operational review to maximize shareholder value (2) greater discipline to capital allocation (3) and a refocus on Hess's core exploration and production portfolio, including divestment of its downstream assets holdings and a streamlining of its international portfolio.
- To pursue a more accountable and independent board, Elliott noted the higher-than- average tenure and often personal or financial relationships that many board members were experiencing. During an internal review of corporate governance, there was particular concern to the shareholders that not a single board member had oil and gas industry experience.
- In April 2013, Elliott Management convened a town hall meeting for Hess Corp. investors, analysts and the media to facilitate a conversation about its critiques of historic underperformance and introduce its independent shareholder nominees for the board. Additionally, throughout the restructuring of Hess, Elliott Management used a website, Reassess Hess, to articulate the argument for structural reforms, including helpful internal documents. Influential proxy voting advisory firms Glass Lewis and Institutional Shareholder Services (ISS) both recommended that shareholders side with Elliott's slate of directors, citing a lack of oversight and accountability at the board level.
- On May 10, 2013, six days before the shareholders meeting was to begin, Hess agreed to split the roles of chairman and chief executive. John Hess, the son of the company's founder, agreed to give up the chairmanship following the annual meeting. Days later, Hess and Elliott expressed interest in a construction resolution, and on May 16, Hess announced an agreement that included holding more frequent board elections. Additionally, Hess took steps to address Elliott's argument about refocusing its efforts, and streamlined its non-core businesses. Hess divested assets abroad and sold its energy marketing business and North American terminal network assets, allowing Hess to return capital to shareholders and divert capital into its core production areas. After refocusing its efforts Hess's stock price surged, increasing more than 50% by the end of 2013 compared to the end of 2012.

Crucial Metrics

- 1/29/2013: Shares in Hess Corporation opened at $67.83 per share.
- 4/26/2013: Forbes' energy industry reporter, Christopher Helman, recommended that investors vote for Elliott's board slate, noting a lack of oversight and accountability in corporate governance and on the board. Helman specifically cited the $800 million loss in the Eagle Ford shale, where a dozen companies had prospered, as Hess's most concerning mistake.
- 5/16/2014: Shares in Hess Corporation opened at $88.04 per share.