

T. BOONE PICKENS, legendary oilman and dealmaker, tells Brunswick's **STEVE LIPIN** and **CHRYSTA CASTAÑEDA** that the seeds of his career were sown in the risk-taking culture in which he was raised, where the status quo was rarely acceptable

FINDING THE LAGNIAPPE

"That's a term folks in my part of the country use for a bonus or a fringe benefit"



IN THE LIFE AND TIMES OF A FINANCIAL swashbuckler, there is often a seminal moment that defined the direction his career would take. In the case of T. Boone Pickens, Texas-Oklahoma oilman and life-long dealmaker, there was a series of such moments on the road to becoming a risk-taker extraordinaire. An essential part of his foundation was clearly his parents: “I got the best traits of both of my parents,” he wrote in *Forbes* magazine in 2012. “My dad was a risk-taker ... My mother was the opposite. She was very analytical and an excellent bridge player. She didn’t believe in sticking her neck out for anything.”

In his autobiography, *The First Billion is the Hardest*, Pickens wrote of another turning point. After qualifying as a geologist and getting a job in the 1950s at Phillips Petroleum, where his father had worked later on in his career, Pickens was married with a child and “the master plan was simply to get everybody fed.” However, the bureaucracy at the Bartlesville, Oklahoma headquarters of Phillips, then one of the largest oil companies in the world, was stifling. (“Things were pretty rigid,” he wrote. “They rang a bell to dismiss us all for lunch, then rang another to get us back to work. Then they rang a bell at 5pm to tell us to go home.”) Pickens just couldn’t accept the status quo, so instead he rolled the dice and became a wildcatter, founding the company that would later become Mesa Petroleum, an innovative deal-making machine that helped to define American finance in the 1980s.

Yet another key point was an encounter with W. Dow Hamm, a highly respected geologist and board member of oil company ARCO. Pickens wrote in *The First Billion* that Hamm told him at a crucial moment, “Boone, you will spend just as much time on a big deal as on a little deal. In big deals, there’s always serendipity. You’ll find a lot of *lagniappe*,” which, Pickens explains, is “a term folks in my part of the country use for a bonus or a fringe benefit. ‘There’s so much in a big deal that nobody can evaluate,’ Dow told me. ‘Once you get in there you’ll find out what I’m talking about.’”

Pickens took that lesson to heart and put his career into overdrive in the late 1960s by launching a bid for a company, Hugoton, that was 30 times the size of Mesa. The basic premise and strategy for Mesa was to find companies that were substantially undervalued – and as Pickens recalls, it was easier back then to find

oil on Wall Street than by drilling holes in the Gulf of Mexico – take a run at them, and either force existing management to enhance the value of the company for shareholders or take them over and do it themselves.

Pickens helped to define the era of the activist shareholder (or “corporate raider,” as they were usually depicted), investors who take strategic stakes in companies and then appeal directly to the shareholder base to force change or a company’s sale. He gained national prominence taking on “Big Oil” – Gulf, Phillips, Unocal – in a series of groundbreaking “raids” that netted Mesa billions.

Pickens says that it was never his intention to shake up the industry, but rather to make money for Mesa shareholders. Nonetheless, he is still committed to the idea that shareholders of public companies should have a strong voice and influence over their strategic direction.

We met Pickens for coffee in his BP Capital office in north Dallas, Texas, which is festooned with portraits of former Presidents and images of his beloved Mesa Vista Ranch. Various aides and assistants (and at least one dog) ran in and out.

Lively, sharp, and throwing out questions about who coached which college football team in the 1960s, recollections of CEOs he had frightened, and deals struck on duck hunts, Pickens exudes Texas charm. A one-hour meeting became almost two hours as we were regaled with tales from arguably the first shareholder activist.

“You must come down to the ranch,” he said at the end of the meeting.

Some of the things you were saying in the early 1980s, you see a lot of these young activists saying the same things today. Do you think there is a crisis in corporate America?

The irony of activism is that you’re actually working for the owners. The owners are the stockholders. It used to drive them crazy at the business roundtables when I’d ask management if they were doing a good job for the owners when the stock was worth \$50 but selling for \$25. I’d ask them whether they were serving the true owners, and it would just about kill them to acknowledge that they were only employees and the shareholders were the true owners. →

Do you think that has changed much in the intervening decades?

I was asked by *The New York Times*, I think it was in 1987, “What would you do if you could change corporate America – change one thing – what would it be?” And I said: have a board of directors elected by the stockholders. They said, “Well, that’s the way it is now.” I said, no, actually the management picks their bosses and board and there is something that’s not right about that. In some cases, I’d get up and say, ‘Now, where did this guy come from? He’s got 100 shares of stock. Do you think he’s looking after shareholders? Hell no, he’s doing whatever the management wants him to do.’ But you’ve got a lot of directors today that are better qualified than they were back at that time. Yeah, I think it’s a lot better today than it was then.

So, you think that some boards are more sensitive to shareholders’ rights and shareholders’ issues?

I would like to see a board of directors that is staggered. Let’s say you have nine seats on the board and you have three that are coming up – now, if the management of the company wanted to submit a person or two for the board, that would actually go to the headhunters, and the proposed board members have to be qualified, meet certain parameters – ownership would be one of them, say 20,000 shares. But that is the only place I see you can fix anything further in corporate America. Then you just have to let the market work.

What do you think of all the newer shareholder activists – what they used to call “corporate raiders”

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They used to file lawsuits against me and I’d say, “With my money you’re suing me? I’m just a shareholder trying to get value.” What I said made sense but I couldn’t get the media to buy in. They were convinced I was some kind of a raider. Well, that certainly has changed.

Turning to energy policy, you have been outspoken about the policies followed by both recent administrations, haven’t you?

Right. They have been afraid to embrace the oil and gas industries. Why? “You’ve made enough.” What does that mean? “You’re not paying your fair share.” What does that mean? What’s enough? When does the next industry, whether it be tech or anything else, when will it have made enough?

What you are missing right now is the same component that was missing in corporate America back in the 1980s: leadership. Here we sit with more

– that we’re seeing?

Well, you’ve got people who believe these assets are worth more than they’re selling for. So, they come in, do the same thing that I did and the same thing that Carl [Icahn] has done. Hell, I was doing it back in the 1980s; Carl’s still doing it. He came in behind me at Phillips, called me on the phone and said, “I think you should have stayed in there.” He was exactly right. We were closer than we thought. There was so much we didn’t know about what we were trying to do.

Do you think companies are more willing to engage with activist investors now? Do you think some of the stigma has gone away?

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T. BOONE PICKENS

STRATEGY OF A DEALMAKER

- In a 10-step outline entitled “How T. Boone Pickens Built His Empire” in *The Wall Street Journal* in December 2013, the first step was, “At the age of 10 in Oklahoma, agrees to mow his grandma’s lawns but grossly underestimates their size. ‘It was a very bad deal,’ he says, ‘but



she made me stick with it.” Grandma was a big influence: Pickens also wrote in his autobiography how she taught him the value of inventory management with a toothpaste anecdote.

The final step reflected on Pickens’ ill-fated venture into wind farms. The hugely ambitious “Pickens Plan” envisioned massive wind power investment and conversion

natural gas than anybody else in the world – and coming up very fast on oil [in December 2013, the government’s Energy Information Agency projected US oil production to rise by more than 800,000 barrels a day through 2016, to reach 9.6 million barrels a day, nearly equivalent to the country’s peak production in the early 1970s]. What you need is a leadership that says, “Hey, do we really have to be in the Middle East?” We’ve spent more than \$2 trillion in Iraq and Afghanistan, 8,000 dead, 40,000 injured and we don’t have a damn thing to show for it.

The Canadian “tar sands” oil and the Keystone pipeline to run it south to US markets have been controversial on environmental grounds, but you’re a strong advocate for it, aren’t you?

Here you have 250 billion barrels that they’re asking you to take [that is, Canada’s estimated tar oil reserves], and another 250 billion barrels you’re getting 10 percent of [estimated Saudi reserves] and providing all the protection and everything else. What is the cost of that? On those kind of things I say, well, hell, we’re the best operator. The United States is the best. You say, well, you can be better. Okay. We’ll be better. Can you be 100 percent? No. Hell, no, you can’t. You’re always going to have something that’ll spring a leak sometime, but, man, we don’t mess up the environment in this country. You go to other countries and it’s unbelievable.

You don’t want the Keystone pipeline to ever turn west out of Fort McMurray [where Canada’s tar sands are concentrated]. Then it is headed to China is where it is going to go. You’d be a fool to give up that oil.

“The guy’s a goddamn change advocate is what he is.’ That’s exactly what I am – change will do more good than bad”



Has there been some benefit for the US in keeping the world oil trade flowing?

You know how much oil comes through the Strait of Hormuz every day? Seventeen million barrels, okay. Who is it that protects that? That’s right, the Fifth Fleet, based in Bahrain. And how much of the 17 million barrels comes to us in the United States? Ten percent. We’re protecting the Chinese and Europe. Does anybody ask them to pay for anything? Hell, we’re the people that keep the oil moving.

I want off OPEC; I want to make that break. See, I want to change things and if you get down to it, if you knew me from policy, you’d say, “The guy’s a

goddamn change advocate is what he is.” That’s exactly what I am. Change will do more good than bad – change corporate America, change what we do.

And your passion for change hasn’t diminished?

I still want to change things. Older people tend not to like change because they think they’re going to get changed out of the picture. Young people love change because they think, “Change will get the old guys out and I got an opening.” They like change, but the man on the street thinks it’s a little scary. He doesn’t know what you’re going to change. He may say, “I don’t like where I am now, but it could get worse.” But I’m convinced things get better with change. ♦

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to natural gas in transport, but Wall Street’s financial crisis stalled the scheme. As he recently tweeted, while wind costs are coming down fast, wind is “still challenged by damn cheap natural gas.” twitter.com/boonepickens

- An online industry membership group, PrivateEquity.com, wrote of Pickens’



dealmaking style in the 1980s, “His favored strategy was the leveraged buyout, wherein one company buys another with little cash and lots of debt. This is a high-risk investment that has the ability to produce huge gains in a bull market and huge losses in a bear. Either way, the core of Pickens’ investment philosophy was on display: knowing when to strike and when to play big.”