EVERGREEN RESOURCES INC
Form DEFA14A
June 08, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

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Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o	Definitive Proxy Statement
o	Definitive Additional Materials
ý	Soliciting Material Pursuant to §240.14a-12

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(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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On June 1, 2004, Evergreen Resources, Inc. (the Company) participated in a conference with analysts held in San Francisco during which some of the terms of the proposed merger of the Company with a wholly owned subsidiary of Pioneer Natural Resources Company were discussed. Set forth below are the slides presented at the conference.

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[GRAPHIC]

EVERGREEN RESOURCES, INC.

San Francisco

June 1, 2004

Pioneer Natural Resources **Evergreen Resources**

Forward Looking Statements

This presentation contains forward-looking statements within the meaning of federal securities laws, including statements regarding, among other things, the company s growth strategies; anticipated trends in the company s business and its future results of operations; market conditions in the oil and gas industry; the ability of the company to make and integrate acquisitions; and the impact of government regulations. These forward-looking statements are based largely on the company s expectations and are subject to a number of risks and uncertainties, many of which are beyond the company s control. Actual results could differ materially from those implied by these forward-looking statements as a result of, among other things, a decline in natural gas production, a decline in natural gas prices, incorrect estimations of required capital expenditures, increases in the cost of drilling, completion and gas collection, an increase in the cost of production and operations, an inability to meet projections, and/or changes in general economic conditions. In light of these and other risks and uncertainties of which the company may be unaware or which the company currently deems immaterial, there can be no assurance that actual results will be as projected in the forward-looking statements. These and other risks and uncertainties are described in more detail in the company s most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Transaction Terms

Transaction Consideration:	Evergreen s common shareholders will receive: 0.58175 shares of Pioneer stock, plus $19.50 per share in cash, plus Cash equal to the greater of: $0.35 per share (~$15 million) as a consideration from Pioneer for the Kansas properties Net proceeds from the sale of the Kansas properties to a third party
Purchase Price per Share:	$39.35 (assumes Pioneer retains Kansas properties) $40.00+ (assumes KS properties sold for >$48 million)
Transaction Structure:	Tax-free (Section 368a) Reorganization
Estimated Closing:	September / October
Conditions:	Pioneer shareholder approval Evergreen shareholder approval Hart Scott Rodino approval
Termination Fee:	$35 million

Transaction Value

Transaction Value: ($ Millions)

Cash (1)	$	897
Common Shares (2)		890
Minority Interest		5
Net Debt (3)		300
Total	$	2,092

(1) Includes $30 million of estimated transaction costs

(2) Includes after-tax market value of in-the-money options

(3) Increased for estimated market value of convertible debt of $56 million and net of cash on hand of $56 million

Relative Stock Price Performance

[CHART]

Strategic Implications

Pioneer Strategy		Evergreen Model
Moderate low-risk growth from onshore, long-lived foundation assets	[GRAPHIC]	Best long-lived onshore gas platform in North America with excellent growth potential
Lower maintenance capital needed to preserve stable production and reserve base	[GRAPHIC]	Maintenance capital requirements among lowest in upstream sector
Deploy portion of free cash flow to high impact, high return exploration and acquisitions	[GRAPHIC]	Exceptional full cycle economics provide strong free cash flow available for reinvestment
Harvest portion of cash flow from exploration successes to rebalance portfolio with additional long-lived assets	[GRAPHIC]	Reserve profile strongly complements diversified portfolio foundation
Grow through consolidation of core areas	[GRAPHIC]	Substantial Rockies acreage position in key growth basins with significant consolidation potential
Strengthen expertise and improve ability Strengthen expertise and improve ability to leverage other plays	[GRAPHIC]	Preeminent CBM platform providing ability to leverage expertise with Statistic plays Fracture stimulation technology Low pressure gas gathering systems

Evergreen Asset Base

[GRAPHIC]

Proved reserves	1.5 TCFE
% operated	~100%
% natural gas	~100%
% North America	100%
2003 net average production	127 MMCFE/D
Current net daily production	150 MMCFE/D
R/P ratio	32 years
PDP R/P ratio	20 years
Net acreage position	1.8 million
Probable reserves (96% Raton)	~900 BCFE
Identified drilling locations	1,500+

Evergreen Reserve and Production Growth

Proved Reserves

[CHART]

Production

[CHART]

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Future Growth Potential

[GRAPHIC]

Large low-risk drilling inventory in Raton Basin

Less than 50% drilled

~1,500 undrilled locations

Over 360,000 net acres

Only $30 to $40 million CAPEX per year needed to replace production

Upside value in Piceance and Uintah basins and in Canada

220,000 net acres in Piceance and Uintah

100,000 net acres in Canada

5 year average reserve replacement over 800%

Industry leader in F&D cost (source: Wachovia)

5 year average F&D - $2.96 per BOE

5 year average organic F&D - $1.98 per BOE

Industry s best recycle ratio (cash-on-cash return)

3 year average → 4.4X (source: Wachovia)

Impact to Pioneer

Adds 2.4 TCFE of proved and probable North America gas reserves at acquisition cost plus future development costs of $1.22 per MCFE

Adds 1.5 TCFE of proved reserves at an acquisition finding cost of $1.40 per MCFE

Adds ~900 BCFE of low-risk probable reserves

Adds 2,000+ low-risk drilling locations

Adds eight years of low-risk production growth from identified drilling locations

Provides additional possible reserves and drilling locations, infill and extension

Accretive to free cash flow per share in 2005

Increases North America reserves from 81% to 86%

Increases natural gas reserves from 46% to 59%

Creates new core area onshore U.S.

Creates operating efficiencies and economies of scale

Provides Denver office to access Rockies opportunities

Enhances Canadian asset portfolio

Reloading Lower-Risk Onshore Base

(MBOE/D)

[CHART]

Over time, production profile shifts to more risky projects

[CHART]

Rebalances production profile adding low-risk growth to base

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Pro Forma Production & Reserves*

Pro Forma Reserve Split 12/31/03

[CHART]

Pro Forma Production Split 2004E

[CHART]

[GRAPHIC]

- **1,038 MMBOE or 6.2 TCFE of proved reserves**
- **Over 2 BBOE of unrisked net potential**
- **~$7 billion enterprise value**
- **86% North America**
- **59% natural gas**
- **16 year R/P ratio**

[GRAPHIC]

***NSA audited over 90% of combined reserves**

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Pro Forma Production Growth

[GRAPHIC]

***Assumes 09/30/04 Closing**

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Proved Reserves*

(MMBOE)

[CHART]

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* As of 12/31/03, pro forma for acquisitions and divestitures. Peer group data compiled by J.P. Morgan Securities Inc.

Total Reserves/Production Ratio*

(Years)

[CHART]

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* As of 12/31/03, pro forma for acquisitions and divestitures. Peer group data compiled by J.P. Morgan Securities Inc.

PDP Reserves/Production Ratio*

(Years)

[CHART]

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* As of 12/31/03, pro forma for acquisitions and divestitures. Peer group data compiled by J.P. Morgan Securities Inc.

Conventional Gas vs. CBM Production

	Conventional Gas	CBM
Gas Quality	Gas typically associated with NGLs: ~ 80% methane	Gas typically dry: ~ 99%+ methane, H_2S not present
Drilling	500 to 15,000 feet	500 to 5,000 feet
Water Production	Usually brine; rates may increase during production life, water is typically re-injected	Rates typically decrease during production life, numerous options for disposal; water may be usable at surface
Reservoir	Gas reserves and production are closely tied to initial pressure	Gas adsorbed onto the coal and produced when pressure decreased
Production Mechanism	Reservoir pressure maintenance	Reservoir desorption and dewatering
Compression	Fewer stages required	More stages required
Well Drilling Pattern	Initially, 1 to 2 wells per section, but density may be increased	4 to 8 wells per section
Gas Production	Gas can be shut-in and reactivated with little problems	CBM well may need dewatering reinstated if not continually produced
Production Profile	[CHART]	[CHART]

Raton Basin Well Profile

[CHART]

Approximately 45% of reserves are produced in first 5 years

Evergreen s historical drilling success rate is 99%

Oldest well in area is 9 years old and has produced 55% of estimated ultimate reserves

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U.S. Conventional vs. Unconventional Gas Resource Potential (Tcf)

[GRAPHIC]

Source: Energy Information Administration, Office of Integrated Analysis and Forecasting (as of 1999)

[CHART]

Source: Cambridge Energy Research Associates
(Updated February 2004)

US Coal Bed Methane Resources

[GRAPHIC]

[GRAPHIC]

Expected U.S. CBM Production

	Average Well Depth (feet)	Capacity Outlook (Bcf per day) 2000	2002	2003	2004	2005	2007	2010
San Juan	2,600	2.70	2.50	2.40	2.30	2.20	2.00	1.75
Powder River	700/1,500	0.35	0.89	0.95	1.00	1.05	1.30	1.50
Raton	1,500	0.10	0.20	0.23	0.27	0.30	0.35	0.40
Uintah	3,500	0.20	0.23	0.27	0.31	0.35	0.40	0.55
Black Warrior	1,800	0.31	0.31	0.31	0.31	0.31	0.29	0.25
Others (a)		0.10	0.20	0.25	0.30	0.35	0.50	0.75
Subtotal		**3.76**	**4.33**	**4.41**	**4.49**	**4.56**	**4.84**	**5.20**
Alaska							0.01	0.05
Total US		**3.76**	**4.33**	**4.41**	**4.49**	**4.56**	**4.85**	**5.25**
% of Total US Gas Production		6.8%	7.8%	8.0%	8.2%	8.3%	8.9%	9.9%

Source: Cambridge Energy Research Associates (Updated February 2004)

(a) Includes Arkoma, Appalachian, Cherokee, Forest City, Hanna and Illinois Basins.

Evergreen Asset Review

EVG Acreage Position
(thousands of acres)

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Raton	224	205	189	161	413	367
Piceance/Uintah 53	48	192	176	245	223	
Canada	87	45	71	60	159	105

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Vertically Integrated Operations

[GRAPHIC]

[GRAPHIC]

[GRAPHIC]	[GRAPHIC]
[GRAPHIC]	[GRAPHIC]

Raton Basin Comparative Well Economics

	Vermejo Coal Well	Raton Coal Twin Well
Well Cost	**$ 400,000**	**$ 200,000**
Reserves	**~ 1.15 Bcf**	**~ 1.0 Bcf**
Finding Cost	**$ 0.35 / Mcf**	**$ 0.20 / Mcf**
$4.00 per Mcf Nymex		
Payout	**~ 4.0 years**	**~ 4.0 years**
ROI	**> 6.5:1**	**> 8:1**
Rate of Return	**> 40%**	**> 50%**
$5.00 per Mcf Nymex		
Payout	**~ 4.0 years**	**~ 4.0 years**
ROI	**> 8:1**	**> 10:1**
Rate of Return	**> 50%**	**> 60%**

Raton Basin

[GRAPHIC]

Working Interest	75% - 100%
Operator	EVG
Proved Reserves 12/31/03 (Bcfe)	1,393
% PUD	38%
% Gas	100%
Current Production (MMcfe/d)	133
R/P (Years)	31
Net Developed Acreage	205 K
Net Undeveloped Acreage	161 K
Total Net Acreage	367 K

Raton Basin Geology

[GRAPHIC]

Multiple intervals developed in new wells and existing wells through state-of-the-art recompletions

The coals and tight sands of the Raton and Vermejo formations are primary objectives

Extensive in-fill drilling opportunities in current gas price environment ($4.00/Mcf or greater)

Vermejo coals: development, extensions & infill drilling. (~1,000 locations)

Raton coals:
twin wells. (~400 locations)

Opportunities in deep fractured shales and Raton sands

Piceance & Uintah Basins

[GRAPHIC]

Average Working Interest	84%
Operator	EVG, et al
Proved Reserves 12/31/03 (Bcfe)	65
% PUD	49%
% Gas	94%
Daily Production Since Acquisition (MMcfe/d)	6
R/P (Years)	37
Net Developed Acreage	48 K
Net Undeveloped Acreage	176 K
Total Net Acreage	223 K

Piceance & Uintah Opportunities

- Development drilling
- Stepout drilling
- Infill drilling
- Exploration drilling
- Recompletions of existing zones
- New zone additions

[GRAPHIC]

Potential Upside in Piceance/Uintah

CBM Potential

Douglas Creek Arch

Mesa Verde Cameo Coals

15 ft to 30 ft net coal thicknesses

< 1,500 ft drilling depths

Active economic production pilot

250 possible locations (2 projects)

200 Bcf natural gas reserve potential

Castlegate Field Uintah Basin

Remedial and recompletion potential (coiled tubing unit fracs)

~ 80 ft coal thicknesses with 400+ Scft/Ton gas content

~ 200 potential drilling locations (EVG-owned gathering system)

Deepest pure CBM field in Rockies

0.5 Tcf natural gas reserve potential

Rulison Field Recompletion Potential   Piceance Basin

Multi-zone potential in Wasatch formation

Bypassed pay behind pipe in existing wellbores

Coiled tubing unit conveyed fracture stimulation technology

EVG-owned gas gathering system in place

100+ remedial candidates

Mancos   B   Recompletion Potential

Wellbores with 1970 vintage frac jobs exhibiting low EUR   s

~ 100 remedial candidates

Gas gathering system in place

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