HESS CORP
Form 424B5
February 04, 2016
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-202379

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 4, 2016

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus Dated February 27, 2015)

Hess Corporation

25,000,000 Shares

Common Stock

This is an offering by Hess Corporation (Hess) of shares of its common stock, par value $1.00 per share. All of the 25,000,000 shares of common stock are being sold by Hess.

Concurrently with this offering, we are making a public offering of 10,000,000 depositary shares, representing ownership interests in our % Series A Mandatory Convertible Preferred Stock, par value $1.00 per share, which we refer to as the mandatory convertible preferred stock (or up to 11,500,000 depositary shares if the underwriters in that offering exercise their option to purchase additional depositary shares in full), pursuant to a separate prospectus supplement and accompanying prospectus. We cannot assure you that the offering of depositary shares will be completed or, if completed, on what terms it will be completed. The offering of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus is not contingent upon the closing of our depositary shares offering, and the concurrent offering of our depositary shares is not contingent upon the closing of the offering of shares of our common stock hereunder.

Shares of our common stock trade on the New York Stock Exchange, or NYSE, under the symbol HES. On February 3, 2016, the last sale price of the shares as reported on the NYSE was $42.99 per share.

See Risk Factors beginning on page S-8 of this prospectus supplement and on page 14 of the Annual Report on Form 10-K incorporated by reference herein to read about important facts you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount[(1)]	$	$
Proceeds, before expenses, to Hess	$	$

(1) See the section titled Underwriting for a description of the compensation payable to the underwriters.

To the extent that the underwriters sell more than 25,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 3,750,000 shares from Hess at the public offering price less the underwriting discount.

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2016.

Goldman, Sachs & Co.

Prospectus Supplement dated , 2016.

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Prospectus Supplement

Prospectus

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part, the prospectus supplement, including the documents incorporated by reference therein, describes the specific terms of this offering and certain matters relating to us. The second part, the accompanying prospectus, including the documents incorporated by reference therein, provides more general information, some of which may not apply to this offering. The accompanying prospectus was filed as part of our registration statement on Form S-3ASR (Registration No. 333-202379) with the Securities and Exchange Commission (the SEC) on February 27, 2015, as part of a shelf registration process. Under the shelf registration process, we may sell any combination of debt securities, warrants, common stock, preferred stock, depositary shares, purchase contracts and units in one or more offerings. Generally, when we refer to this prospectus supplement, we are referring to both parts of this document combined. We urge you to read carefully this prospectus supplement, the accompanying prospectus, the information incorporated by reference herein and therein, and any free writing prospectus that we authorize to be distributed to you before buying any of the securities being offered under this prospectus supplement. This prospectus supplement may supplement, update or change information contained in the accompanying prospectus. To the extent that any statement that we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus or any documents incorporated by reference therein, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus and such documents incorporated by reference therein.

Neither we nor the underwriters have authorized anyone to provide you with information that is different from that contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus or in any free writing prospectus we may authorize to be delivered or made available to you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement. We are not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information provided by this prospectus supplement, the accompanying prospectus or the documents incorporated by reference herein or therein is accurate as of any date other than the respective dates of such documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

Before you invest in our common stock, you should carefully read the registration statement described in the accompanying prospectus (including the exhibits thereto) of which this prospectus supplement and the accompanying prospectus form a part, as well as this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein. The documents incorporated by reference into this prospectus supplement are described under Incorporation of Certain Documents by Reference.

In this prospectus supplement, we, us, our, the Company and Hess refer to Hess Corporation and its direct and indirect subsidiaries, as the context requires.

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FORWARD-LOOKING INFORMATION

Some statements contained in this prospectus supplement and the accompanying prospectus, including information incorporated by reference, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are intended to be covered by the safe harbor created by those sections. In particular, such statements are included in references to our future results of operations and financial position, liquidity and capital resources, capital expenditures, asset sales, oil and gas production, tax rates, debt repayment, hedging, derivatives, market risk and environmental disclosures, off-balance sheet arrangements and contractual obligations and contingencies. Words such as expect(s), feel(s), believe(s), will, may, anticipate(s), estimate(s), plan(s), should, intend(s), forecast(s), guidance, could, would and simila intended to identify forward-looking statements. Our forward-looking statements are based on our current understanding and assessment of relevant factors and reasonable assumptions about the future. They are subject to known and unknown risks and uncertainties, including commodity risks related to the change in price of crude oil and natural gas, as well as to changes in market conditions, interest rates, foreign currency values, tax rates, government regulations and other factors, including those described in Risk Factors included or incorporated by reference herein, which could cause actual results to differ materially from future results expressed or implied by those forward-looking statements.

Given these uncertainties, investors are cautioned not to place undue reliance on our forward-looking statements. Investors are also urged to carefully review and consider the various disclosures we make, which attempt to advise interested parties of the factors that affect our business, including the Risk Factors included or incorporated by reference herein and the reports we file with the SEC from time to time, specifically our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. Except to the extent otherwise required by federal securities laws, we disclaim any intent or obligation to update publicly any forward-looking statements set forth in this prospectus supplement, the accompanying prospectus, or incorporated by reference herein or therein, whether as a result of new information, future events or otherwise.

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OUR COMPANY

We are a global Exploration and Production (E&P) company that explores for, develops, produces, purchases and sells crude oil, natural gas liquids, and natural gas with production operations primarily in the United States (U.S.), Denmark, Equatorial Guinea, the Joint Development Area of Malaysia/Thailand, Malaysia, and Norway. Our Bakken Midstream operating segment, which was established in the second quarter of 2015, provides fee-based services including crude oil and natural gas gathering, processing of natural gas and the fractionation of natural gas liquids, transportation of crude oil by rail car, terminaling and loading crude oil and natural gas and the storage and terminaling of propane, primarily in the Bakken shale play of North Dakota.

We are a Delaware corporation. Our principal executive offices are located at 1185 Avenue of the Americas, New York, New York 10036, our operating headquarters are located at 1501 McKinney Street, Houston, Texas 77010 and our telephone number is (212) 997-8500. We maintain a website at http://www.hess.com where general information about us is available. We are not incorporating the contents of the website into this prospectus supplement.

To find more information about us, please see the sections entitled Where You Can Find More Information and Incorporation of Certain Documents by Reference.

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RECENT DEVELOPMENTS

On January 27, 2016, we issued a press release reporting our estimated fourth quarter results, including an adjusted net loss, which excludes items affecting comparability, of $396 million or $1.40 per common share, for the fourth quarter of 2015, compared with adjusted net income of $53 million or $0.18 per share in the fourth quarter of 2014. Lower realized selling prices reduced adjusted net income by approximately $420 million compared with the prior-year quarter. On an unadjusted basis, we reported a net loss of $1,821 million for the fourth quarter of 2015 compared with a net loss of $8 million in the fourth quarter of 2014. Fourth quarter 2015 results included noncash goodwill and other impairment related charges totaling $1,359 million after tax. The after-tax results by major operating activity were as follows:

	Three Months Ended December 31, (unaudited)		Year Ended December 31, (unaudited)	
	2015	2014	2015	2014
	(In millions, except per share amounts)			
Net Income (Loss) Attributable to Hess Corporation:				
Exploration and Production	$ (1,713)	$ 83	$ (2,717)	$ 2,086
Bakken Midstream	11	8	86	10
Corporate, Interest and Other	(111)	(96)	(377)	(404)
Net income (loss) from continuing operations	(1,813)	(5)	(3,008)	1,692
Discontinued operations	(8)	(3)	(48)	625
Net income (loss) attributable to Hess Corporation	$ (1,821)	$ (8)	$ (3,056)	$ 2,317
Net income (loss) per share (diluted)	$ (6.43)	$ (0.03)	$ (10.78)	$ 7.53
Adjusted Net Income (Loss) Attributable to Hess Corporation:				
Exploration and Production	$ (328)	$ 138	$ (866)	$ 1,544
Bakken Midstream	11	8	86	10
Corporate, Interest and Other	(79)	(93)	(333)	(330)
Adjusted net income (loss) from continuing operations	(396)	53	(1,113)	1,224
Discontinued operations				84
Adjusted net income (loss) attributable to Hess Corporation[1]	$ (396)	$ 53	$ (1,113)	$ 1,308
Adjusted net income (loss) per share (diluted)	$ (1.40)	$ 0.18	$ (3.93)	$ 4.25
Weighted average number of shares (diluted)	283.2	289.0	283.6	307.7

(1) We refer to the term adjusted net income (loss) in this prospectus supplement. Adjusted net income (loss) is a non-GAAP (as defined herein) financial measure, which we define as reported net income (loss) attributable to Hess Corporation excluding items identified as affecting comparability of earnings between periods. A reconciliation of the differences between adjusted net income (loss) and the most comparable financial measure calculated and presented in accordance with accounting principles generally accepted in the United States of America (GAAP) is below under *Reconciliation of U.S. GAAP to Non-GAAP Measures.* Management believes that this non-GAAP financial measure provides an additional means of analyzing our results. However, it should be viewed in addition to, and not as a substitute for, our reported results prepared in accordance with GAAP and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. Management uses this supplemental non-GAAP financial measure internally to understand, manage and evaluate our financial performance and make operating decisions.

Exploration and Production:

The Exploration and Production adjusted net loss in the fourth quarter of 2015 was $328 million compared with adjusted net income of $138 million in the fourth quarter of 2014. On an unadjusted basis, Exploration and

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Production had a net loss of $1,713 million in the fourth quarter of 2015, compared with net income of $83 million in the fourth quarter of 2014. Our average worldwide crude oil selling price, including the effect of hedging, was down 42 percent to $43.73 per barrel in the fourth quarter of 2015 from $75.34 per barrel in the fourth quarter of 2014. The average worldwide natural gas liquids selling price was $9.61 per barrel, down from $22.37 per barrel in the year-ago quarter while the average worldwide natural gas selling price was $3.44 per mcf in the fourth quarter of 2015 compared with $5.24 per mcf in the fourth quarter a year ago.

Excluding production from assets sold and Libya, pro forma net production in the fourth quarter of 2015 was 358,000 barrels of oil equivalent per day (boepd), up 4 percent from 343,000 boepd in the fourth quarter of 2014. Production growth at the Utica shale play (17,000 boepd), the Bakken shale play (7,000 boepd) and the Gulf of Mexico (5,000 boepd) was offset by lower production from the Joint Development area of Malaysia/Thailand (10,000 boepd) and Denmark (5,000 boepd). Our Algeria operations, which had production of 10,000 boepd in the fourth quarter of 2015 (9,000 boepd in the fourth quarter of 2014) were sold in December. We expect 2016 net production to be lower than 2015 net production. In addition, selling prices have declined thus far in 2016.

Oil and Gas Reserve Estimates:

Oil and gas proved reserves were 1,086 million barrels of oil equivalent (boe) at December 31, 2015, compared with 1,431 million boe at December 31, 2014. Lower crude oil prices and reduced drilling plans resulted in negative revisions to proved reserves of 282 million boe. Proved reserve additions and other technical revisions added 84 million boe in 2015, primarily from Bakken drilling activity in 2015. Proved developed reserves at December 31, 2015 were 795 million boe, up from 762 million boe at December 31, 2014.

Bakken Midstream:

Our Bakken Midstream segment had net income of $11 million in the fourth quarter of 2015 compared to $8 million in the prior-year quarter.

Capital and Exploratory Expenditures:

Exploration and Production capital and exploratory expenditures were $943 million in the fourth quarter of 2015 down from $1,575 million in the prior-year quarter reflecting reduced activities primarily in the United States, Norway and Equatorial Guinea. Full year 2016 E&P capital and exploratory expenditures are forecast to be $2.4 billion or 40 percent lower than 2015.

Bakken Midstream capital expenditures were $103 million in the fourth quarter of 2015 and $133 million in the year-ago quarter. In 2016, the Bakken Midstream capital budget is $340 million up from full year 2015 capital expenditures of $296 million.

Liquidity:

Cash provided by operating activities was $623 million in the fourth quarter of 2015, compared with $1,074 million in the fourth quarter of 2014. At December 31, 2015, cash and cash equivalents, excluding Bakken Midstream, were $2,713 million compared with $2,444 million at December 31, 2014. Total debt, excluding Bakken Midstream, was $5,920 million at December 31, 2015 compared with $5,987 million at December 31, 2014. Our debt to capitalization ratio, excluding Bakken Midstream, at December 31, 2015 was 24.4 percent. The debt to capitalization ratio at December 31, 2014 was 21.2 percent.

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Reconciliation of U.S. GAAP to Non-GAAP Measures:

The following table reconciles reported net income (loss) attributable to Hess Corporation and adjusted net income (loss):

	Three Months Ended December 31, (unaudited)		Year Ended December 31, (unaudited)	
	2015	2014	2015	2014
	(In millions)			
Net income (loss) attributable to Hess Corporation	$ (1,821)	$ (8)	$ (3,056)	$ 2,317
Less: Total items affecting comparability of earnings between periods	(1,425)	(61)	(1,943)	1,009
Adjusted net income (loss) attributable to Hess Corporation	$ (396)	$ 53	$ (1,113)	$ 1,308

Items Affecting Comparability of Earnings Between Periods:

The following table reflects the total after-tax income (expense) of items affecting comparability of earnings between periods:

	Three Months Ended December 31, (unaudited)		Year Ended December 31, (unaudited)	
	2015	2014	2015	2014
	(In millions)			
Exploration and Production	$ (1,385)	$ (55)	$ (1,851)	$ 542
Bakken Midstream				
Corporate, Interest and Other	(32)	(3)	(44)	(74)
Discontinued operations	(8)	(3)	(48)	541
Total items affecting comparability of earnings between periods	$ (1,425)	$ (61)	$ (1,943)	$ 1,009

Fourth quarter 2015 Exploration and Production results contained noncash charges of $1,359 million resulting from the low commodity price environment, including a nontaxable goodwill impairment charge related to the E&P segment of $1,098 million that was allocated in our financial results to U.S. and international operations. In addition, exploration costs include charges totaling $178 million after tax ($271 million pre tax) for the write-off of previously capitalized gas wells in Ghana, three previously capitalized wells in Australia that are not included in the most recent development concept, and the impairment of certain leasehold costs in the Gulf of Mexico. We also recognized an asset impairment charge of $83 million after tax ($133 million pre tax) associated with our legacy conventional assets in North Dakota.

Corporate, Interest and Other fourth quarter results include after tax charges of $41 million ($66 million pre tax) for our estimated liability resulting from HOVENSA LLC s bankruptcy settlement.

Our estimated fourth quarter results are subject to completion of audit procedures which could result in revising the information provided above.

Concurrent Transactions

Concurrent Offering of Depositary Shares

Concurrently with this offering, we are offering, by means of a separate prospectus supplement, 10,000,000 of our depositary shares (or 11,500,000 depositary shares, if the underwriters in the depositary shares offering

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exercise their option to purchase up to an additional 1,500,000 depositary shares in full) for cash. We estimate that the net proceeds from the concurrent depositary shares offering, after reflecting the underwriting discount and estimated offering expenses, will be approximately $ million (or $ million if the underwriters exercise their option to purchase additional depositary shares in full). There can be no assurance that the concurrent depositary shares offering will be completed.

The offering of common stock pursuant to this prospectus supplement and the accompanying prospectus is not contingent upon the closing of our concurrent depositary shares offering, and the concurrent offering of our depositary shares is not contingent upon the closing of the offering of common stock hereunder.

This prospectus supplement is not an offer to sell or a solicitation of an offer to buy any depositary shares being offered in the concurrent depositary shares offering.

Concurrent Capped Call Transactions

In connection with the depositary shares offering, we expect to enter into capped call transactions with one or more of the underwriters for such offering or their affiliates (the option counterparties). The capped call transactions will cover, subject to certain anti-dilution adjustments, the number of shares of our common stock underlying the mandatory convertible preferred stock in which the depositary shares reflect a fractional interest, based on the minimum conversion rate for converting the mandatory convertible preferred stock into our common stock. The capped call transactions are separate transactions entered into by us with the option counterparties, and are not part of the terms of the depositary shares or the mandatory convertible preferred stock.

Credit Ratings

Due to recent significant decreases in crude oil and U.S. natural gas prices, credit rating agencies are currently reviewing many companies in the industry, including us. On February 2, 2016, our corporate credit rating was downgraded by Standard & Poor s Ratings Services to BBB- (stable) from BBB (stable) and we anticipate that Moody s Investor Services, Inc. and Fitch Ratings are also likely to review our ratings and may decrease our ratings and outlook in the near term. Any rating downgrades will likely increase our future cost of financing and have a negative effect on the value of our indebtedness.

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THE OFFERING

Issuer	Hess Corporation
Common stock offered	25,000,000 shares
Underwriters option	We have granted the underwriters a 30-day option to purchase up to 3,750,000 shares of additional common stock, at the public offering price, less the underwriting discount.
Common stock outstanding after this offering	shares
Related party purchases	John B. Hess, our Chief Executive Officer, and certain Hess family trusts have indicated their intention to purchase in the aggregate shares of our common stock for an aggregate purchase price of $ million in this offering, and to purchase in the aggregate of our depositary shares for an aggregate purchase price of $ million in the concurrent depositary shares offering.
Use of proceeds	We expect to receive net proceeds from this offering of approximately $ million, or $ million if the underwriters exercise their option to purchase additional common stock in full, after deducting the underwriting discounts and estimated offering expenses. The net proceeds from this offering, as well as the remaining net proceeds from the concurrent depositary shares offering after paying the cost of the capped call transactions in connection with the depositary shares offering, will strengthen our balance sheet and will be used for general corporate purposes, including funding our longer term capital needs. See Use of Proceeds and Recent Developments Concurrent Transactions.
Concurrent offering of depositary shares	

Concurrently with this offering, we are also making a public offering of 10,000,000 depositary shares pursuant to a separate prospectus supplement. In that offering, we have granted the underwriters of that offering an option to purchase up to an additional 1,500,000 depositary shares. Each depositary share represents a 1/20th interest in a share of our % Series A Mandatory Convertible Preferred Stock, par value $1.00 per share, which we refer to as the mandatory convertible preferred stock. The shares of mandatory convertible preferred stock will be convertible into an aggregate of up to shares of our common stock (up to shares of our common stock if the underwriters in that offering exercise their option to purchase additional shares in full), in each case, subject to anti-dilution, make-whole and other adjustments. The closing of our offering of the common stock is not conditioned upon the closing of the concurrent offering of our depositary shares, and the closing of

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the concurrent offering of our deposi