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# Letko Brosseau Reiterates it Will Vote AGAINST Encana's Proposed Exit from Canada

Montreal, Quebec, November 28, 2019 – Letko, Brosseau & Associates Inc. ("Letko Brosseau"), which exercises control or direction over approximately 4.0% of the outstanding shares of Encana Corporation ("Encana" or the "Company"), reiterates it will vote against Encana's proposed exit from Canada to the U.S.

We object to the proposed Encana transaction for the following reasons:

- Encana's primary justification for re-domiciling is its claim the move will widen its shareholder base. Below, we demonstrate this to be highly unlikely. Instead, we find it far more likely that the net effect of re-domiciling would be a structural reduction in the Company's long-term shareholder base, something that should be deeply concerning to all current shareholders.
- Upon leaving Canada, approximately 100 million shares currently held by Canadian index funds would need to be sold with a further 86 million shares to come out of global indexed funds for a total supply of close to 186 million shares. The Company speculates a billion dollar plus demand equivalent to 250 million shares over the following year from US index funds. However, the take up would not be immediate and it is not clear that Encana shares would qualify for these US indices. The most important is the S&P 400 which would represent half the new demand or about 125 million shares. This would not be known until the end of 2020 while the sales would be required as the proposal is agreed upon.
- Importantly, the potential sell-off is not limited to Canadian index funds. Canadian taxable investors who qualify for advantageous tax treatment of Encana dividends might reassess their holdings. As a foreign company, dividends would no longer qualify. It is estimated that Canadian taxable shareholders hold approximately 100 million shares, and they may prefer to dispose of their shares in favour of alternate Canadian shares.
- In addition, the Company could lose parts of its Canadian institutional shareholder base. Canadian institutional shareholders typically have a disproportionate allocation to Canadian shares. As a foreign company, Encana would no longer qualify as a Canadian investment and be relegated to the foreign equity portfolios of these institutions. It is highly speculative that they would decide that Encana shares should be held in these portfolios when compared to the large number of alternate holdings available in the international markets. Canadian institutional shareholders currently hold approximately 155 million shares of Encana.
- In summary, the potential loss of 186 million shares held by index funds and the possible loss of both 100 million Canadian taxable investor shares and 155 million institutional shares sums to a potential negative impact of up to 441 million shares, far in excess of the potential 250 million shares from the company's estimated billion dollar incremental demand.
- Encana shares have declined by approximately 70% since September 2018. Assuming the current WTI price of $58 per barrel, Encana trades at 1.4X our estimate of 2020 cash flow, a valuation well under that of its peers. The timing of forcing or motivating a sale is far from ideal. More disturbing, in forcing some shareholders to sell, the Company is violating its fiduciary duty to protect the value of all shareholders equally.
- Nothing in the proposed plan to move the Company decreases costs, or improves revenues, cash flows, profits or growth.
- Failing any improvement in the financial outlook of the Company, it is highly speculative that the value of the Company would be improved in any way by the simple fact that US index funds decide to buy the shares. There is

already a large contingent of US shareholders and the basin of potential shareholders has not been limited in any demonstrable way.

- To argue that the shares would be worth more if held by US index funds without any improvement in the financial metrics of the Company means that US index funds have lower return requirements than Canadian index funds and other Canadian shareholders. This is highly speculative and not supported by any evidence.
- Clearly, the proposed move by Encana should not be of concern solely to Canadian index investors but to all shareholders. Further, it reflects a profound absence of concern for the protection and enhancement of shareholder value. Encana has not taken or even appear to have considered any steps to mitigate the adverse consequences to the Company or its Canadian investors.

In the end, the Company's shares have underperformed as a result of strategic decisions, such as last year's Newfield acquisition – not due to the makeup of its investor base. This proposal confuses that reality, diverting attention away from the more pressing issue of ensuring that good corporate governance leads to enhanced shareholder value.

As a result of the above arguments we strongly oppose the proposal to change the situs of incorporation to the United States seeing no benefit in doing so while forcing Canadian holders to sell their shares at a loss. We see this proposal as bad corporate governance.

Letko Brosseau is a Canadian independent investment manager founded in 1987. The firm manages approximately $27 billion in assets for institutional investors and private clients.

**DISCLAIMER**



FOR ADDITIONAL INFORMATION, PLEASE CONTACT:

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|---|---|
| Peter Letko | Daniel Brosseau |
| (514) 499-1200 | (514) 499-1200 |
| peter@lba.ca | daniel@lba.ca |