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A Financial Analysis of John Wood Group Plc

M. B. Suleiman
Federal Polytechnic, Mubi Nigeria

S. A. Opio
Office of the Auditor General of Uganda, Kampala

J. Ariko
Office of the Auditor General of Uganda, Kampala

E. Ssali
Office of the Auditor General of Uganda, Kampala

ABSTRACT

This report focuses on the financial analysis of John Wood Group Plc. It was aimed at analysing the company's risk profile with regards to business risk, systematic risk, financial risk, and trend and comparative analysis. Furthermore, it also aimed at evaluating four approaches to company valuation, and the past and possible future agency problems in the company. The report used the company's annual accounts from 2010 to 2013 and for comparative purpose, two peers were considered. It was observed from the analysis that the business risk and systematic risks were high while the financial risk was low. On the company valuations, the Dividend Valuation Model (DVM) was selected among other models because the DVM computed value of the company was closest to the market value. More so, it was also observed based on the analysis that agency problems existed in the past and could possibly occur in the future. The report recommended that the company's business risk could be minimised by maintaining high operating leverage during boom and low operating leverage during recession. In doing this, it suggested the need for trade-off between financial leverage and operating leverage. Furthermore, the reported recommended various measures the company could mitigate and avert possible occurrence of agency problem.

INTRODUCTION

This report focused on John Wood Group Plc, an international energy service company with operations in more than 50 countries. The Group has three businesses– Wood Group Engineering, Wood Group PSN and Wood Group GTS – providing a range of engineering, production support, maintenance management and industrial gas turbine overhaul and repair services to the oil & gas, and power generation industries worldwide (Wood Group's Annual Report and Accounts 2013). Amec Foster Wheeler Plc and WS Atkins Plc were considered as peers to Wood Group Plc (ft.com 2015). The report analysed the risk profile of Wood Group in comparison to its peers. It also considered the various approaches for company valuation, and then selected the model that gave the value closer to the market value. Furthermore, the report critically analysed the past and future agency problems in Wood Group and finally concluded.

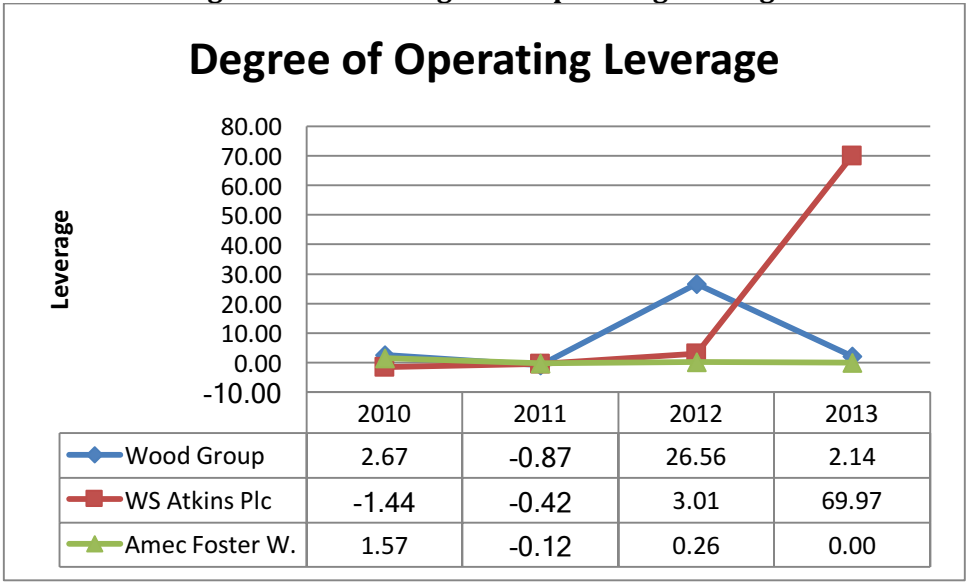
RISK PROFILE ANALYSIS

This section covered risk profile analysis of Wood Group (WG) using accounting and market-based risk measures (Appendix i). It covered analysis of business risk, systematic risk, financial risk, and a trend and comparative analysis of key ratios.

Business Risk Analysis

Business risk shows degree of risk of company's operations. Business risk of a firm can be determined using degree of operating leverage. Wood Group's Degree of Operating Leverage (DOL) in 2012 and 2013 was 26.56 and 2.14 respectively. In comparison to its peers, Wood Group's DOL seems to be higher as shown in figure 1. Generally, a DOL above 1 is considered to be high implying that fixed costs may be higher than variable costs (Vernimmen et. al 2009). The high operating leverage could be due to volatility of revenue, costs of revenue and EBIT as shown in figure 2. The volatility in cost of sales could be due to increase in depreciation and amortisation costs. These could be as a result of acquisitions such as PSN, Elkhom leading to increase in fixed assets. Furthermore, increase employee costs may be due to additional number of staff in the year 2012 and 2013 by 5,631 and 1,995 respectively (Annual Reports and Accounts 2012, 2013). However, during economic boom, a high operating leverage could be an opportunity for the company and at recession a threat.

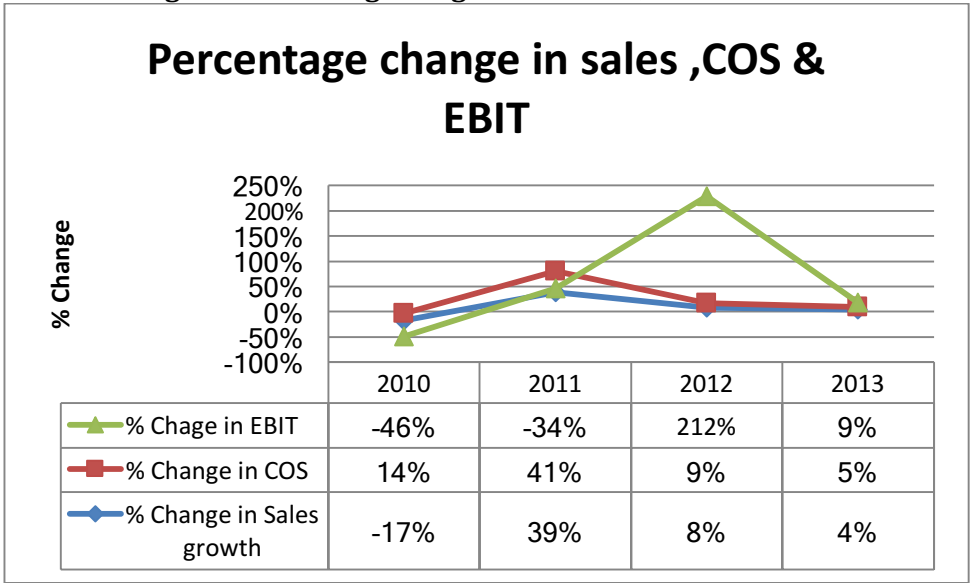
Figure 1: Shows Degree of operating leverage



	2010	2011	2012	2013
Wood Group	2.67	-0.87	26.56	2.14
WS Atkins Plc	-1.44	-0.42	3.01	69.97
Amec Foster W.	1.57	-0.12	0.26	0.00

Source: Authors

Figure 2: Showing change in Revenue, COS and EBIT



	2010	2011	2012	2013
% Chage in EBIT	-46%	-34%	212%	9%
% Change in COS	14%	41%	9%	5%
% Change in Sales growth	-17%	39%	8%	4%

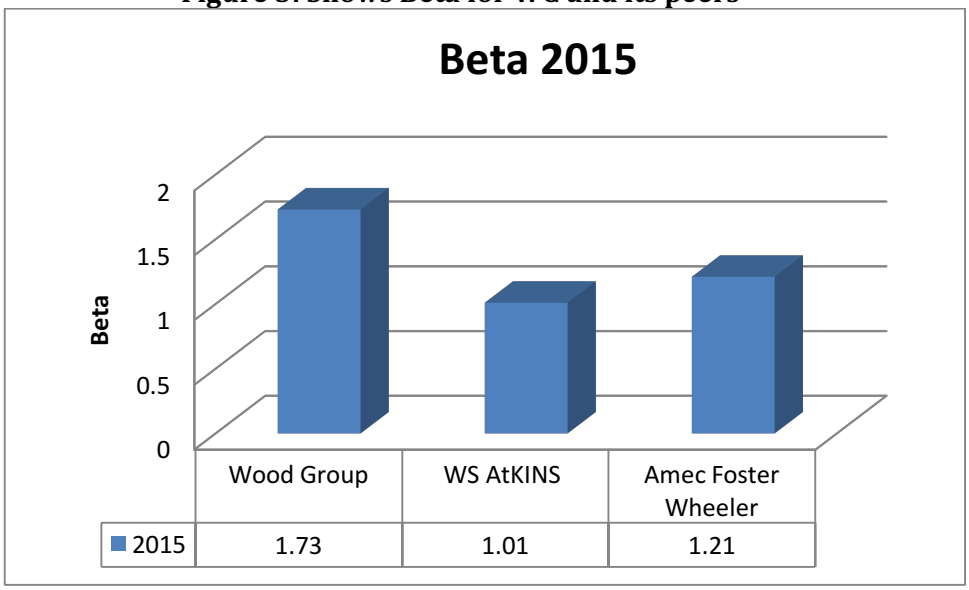
Source: Authors

In order to reduce the risk, management may take decision based on future forecast to determine the optimum capital structure. The fixed costs could be reduced by outsourcing non-core services (Arellano and Scofield 2014).

Systematic Risks

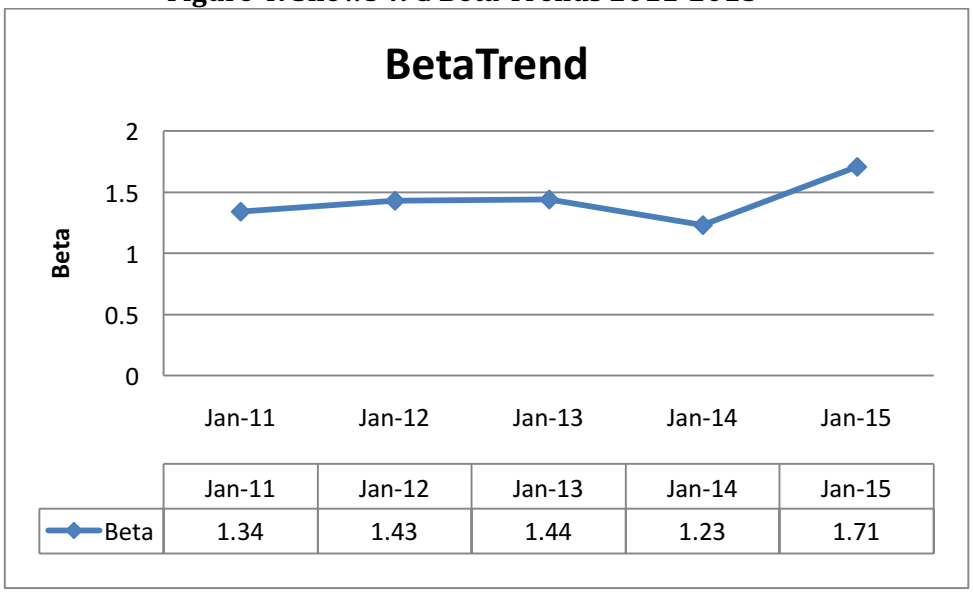
Systematic risk is measured by beta (β) representing the sensitivity of a company's returns compared to the market's returns. Beta greater than 1 tends to aggravate the volatility of returns to market movements, and beta of less than 1 indicates that the company's volatility moves in the same direction with the market (Brealey, Myers and Allen 2014). Wood Group's Beta is 1.73 (ft.com 21 March, 2015), while the beta of its peers, Amec Foster Wheeler Plc 1.21 and WS Atkins Plc 1.01 (ft.com 6 April 2015) as shown in figure 3. Therefore, WG's systematic risk appears to be high compared to the market. Figure 4 shows that during 2011 to 2013 Wood Group's beta seemed stable while in 2014 and 2015 it was volatile. This could be as a result of changes in oil and gas prices, interest rates and exchange rates, and inadequate information provided by the company to the market. Furthermore, the high beta values could have been due to high operating leverage which may have resulted to earnings variability as illustrated in figure 2.

Figure 3: Shows Beta for WG and its peers



Source: Authors

Figure 4: Shows WG Beta Trends 2011-2015



	Jan-11	Jan-12	Jan-13	Jan-14	Jan-15
Beta	1.34	1.43	1.44	1.23	1.71

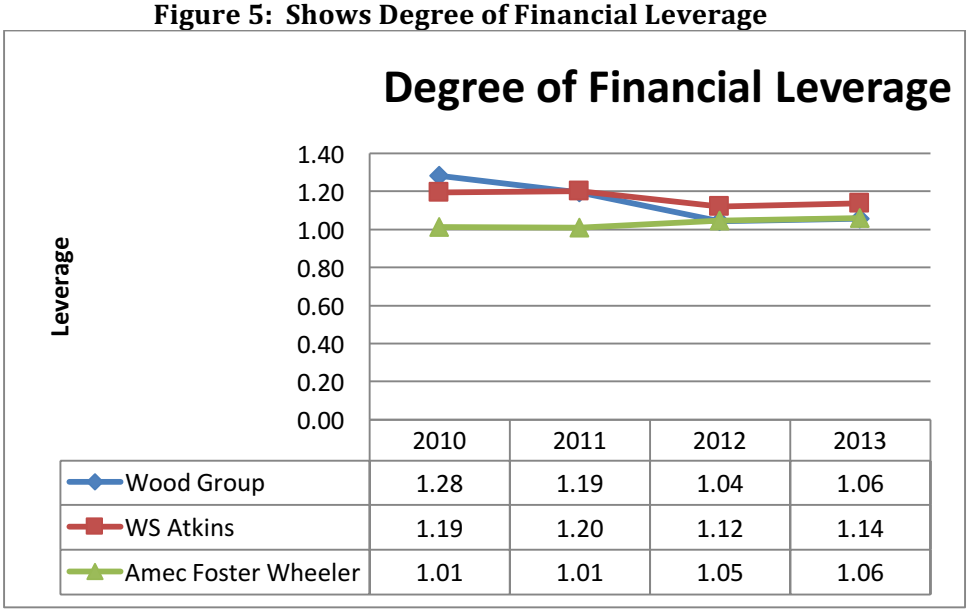
Source: Authors

However, management may mitigate the risk by maintaining low financial leverage and adequate disclosure of information.

Financial Risk of the company

Financial risk is determined by the degree of financial leverage (DFL). An increase in debt would lead to high financial leverage (Ghosh and Jain 2000). Wood Group's degree of financial Leverage is 1.06 while for its peers Amec Foster Wheeler Plc and WS Atkins Plc are 1.06 and 1.14 respectively. WG and its peers seem to have low financial risk since their DFL is close to 1, as shown in Figure 5. Similarly Wood Group's proportion of Debt in its capital structure for the last five years has been below 26%, indicating that the company is not highly geared. Therefore WG may not borrow additional funds due to high operating leverage and the current slump in oil prices which may reduce the demand for its services.

Figure 5: Shows Degree of Financial Leverage



	2010	2011	2012	2013
Wood Group	1.28	1.19	1.04	1.06
WS Atkins	1.19	1.20	1.12	1.14
Amec Foster Wheeler	1.01	1.01	1.05	1.06

Source: Authors

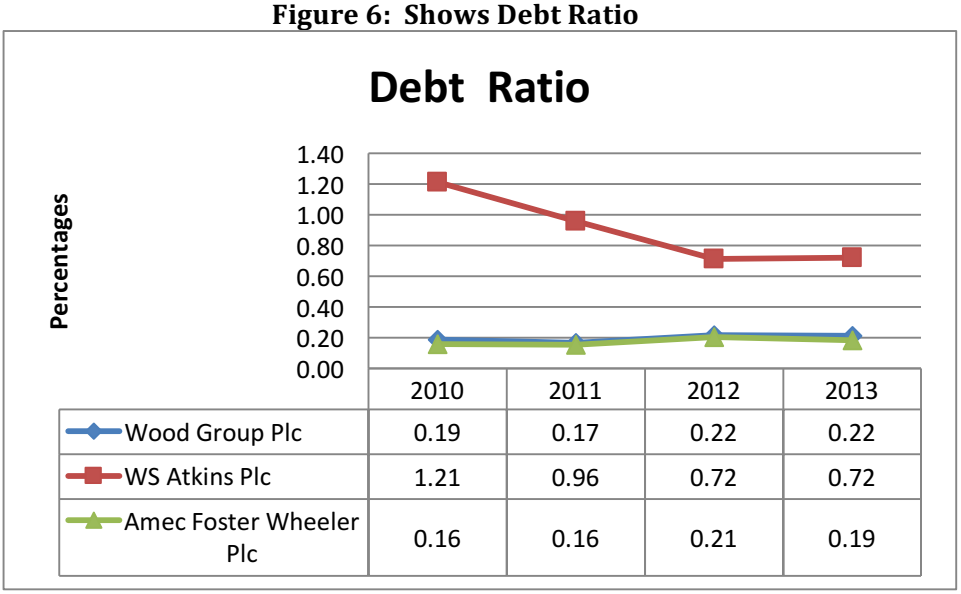
Trend and Comparative analysis of Key Ratio

This section covered a trend and comparative analysis of key ratios that highlight any key aspects of risk in Wood Group and its peers.

Debt Ratio and Interest cover.

Wood Group's Debt ratio has been stable since 2010 to 2013 in the range of 19% to 22%, similarly Amec Foster Wheeler Plc Debt ratio is stable within the ranges of 16% to 21%, while WS Atkins Debt ratio is higher within the ranges of 72% to 120% (figure 6). The high debt ratio of 120% in 2010 was a result of retained loss of £156.7m (WS Atkins Annual Report 2010). Furthermore, Wood Group and its peers have the capacity to pay their finance costs based on the Interest cover ratio which is above 3times (figure 7). Since Wood Group maintains a low debt ratio, it can raise additional funds through debt during periods of boom.

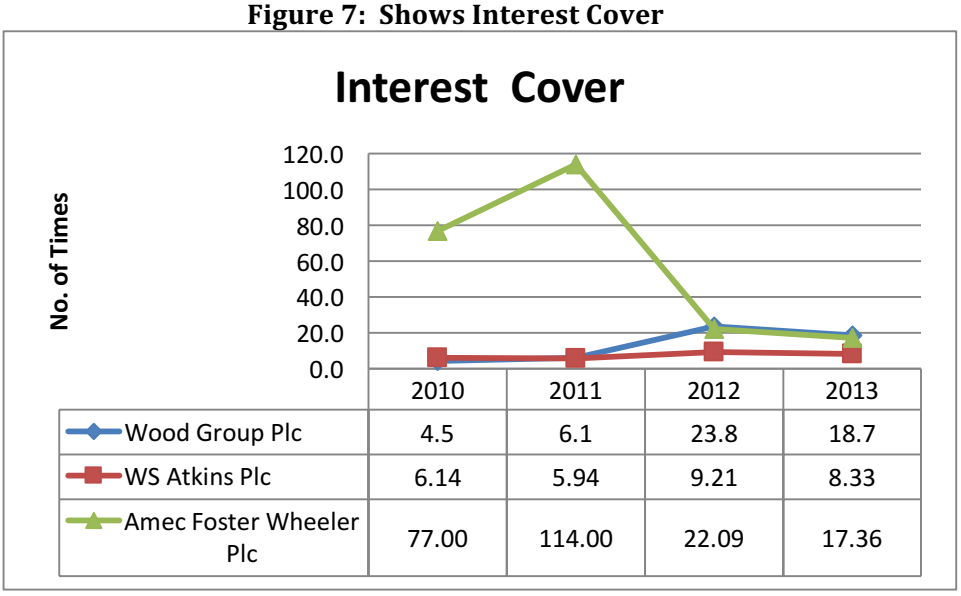
Figure 6: Shows Debt Ratio



	2010	2011	2012	2013
Wood Group Plc	0.19	0.17	0.22	0.22
WS Atkins Plc	1.21	0.96	0.72	0.72
Amec Foster Wheeler Plc	0.16	0.16	0.21	0.19

Source: Authors

Figure 7: Shows Interest Cover



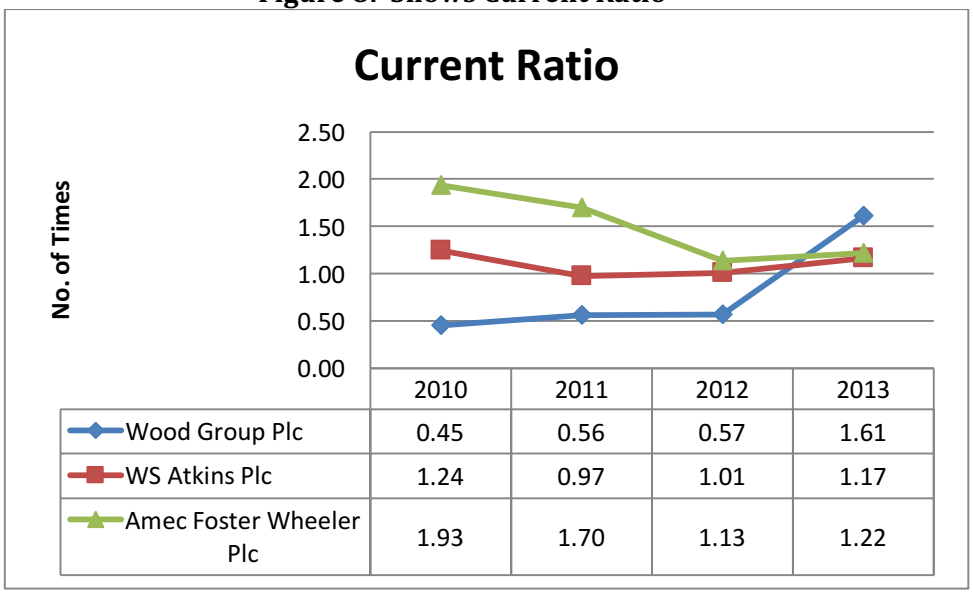
	2010	2011	2012	2013
Wood Group Plc	4.5	6.1	23.8	18.7
WS Atkins Plc	6.14	5.94	9.21	8.33
Amec Foster Wheeler Plc	77.00	114.00	22.09	17.36

Source: Authors

Liquidity ratio- Current Ratio

Wood Group's current ratio has been below 1 from the year 2010 to 2012, however there was improvement to 1.61 in 2013. In comparison, Wood Group's ratio was below its peers from 2010 to 2012. In 2013, it was above its peers Amec Foster Wheeler Plc 1.22 and WS Atkins 1.17 (figure 8). Wood Group's current ratio is above 1 implying that it would be able to finance its short-term obligations (Vernimmen et. al 2009).

Figure 8: Shows Current Ratio



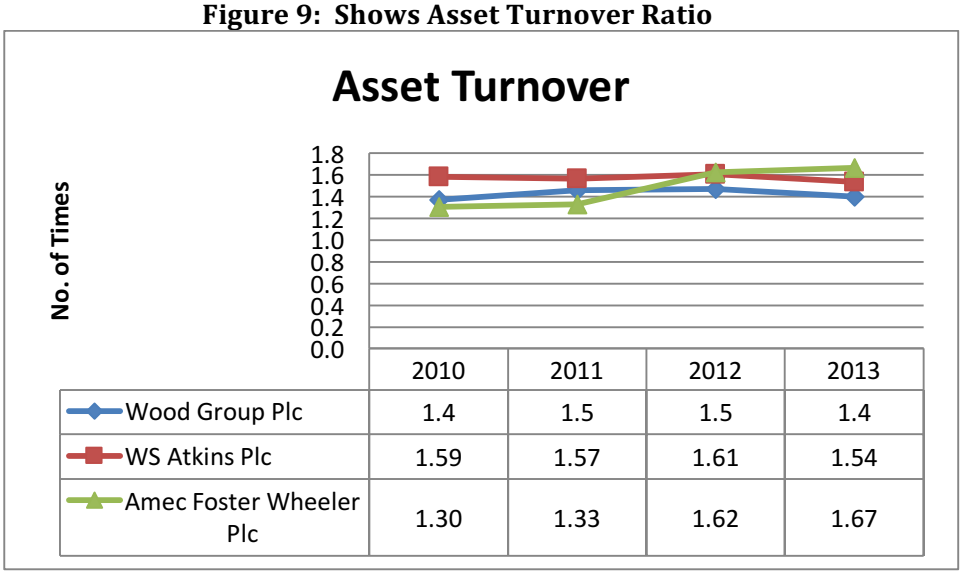
	2010	2011	2012	2013
Wood Group Plc	0.45	0.56	0.57	1.61
WS Atkins Plc	1.24	0.97	1.01	1.17
Amec Foster Wheeler Plc	1.93	1.70	1.13	1.22

Source: Authors

Efficiency Ratio- Asset Turnover

A high asset turnover ratio implies that a company is able to efficiently utilise its assets to generate revenues, which may reduce business risk (Fairfield and Yohn 2001). Wood Group's assets turnover seems stable with an average ratio of 1.45 between 2010 and 2013. In comparison with its peers, the asset turnover ratio is within the range of 1.35 and 1.6 (figure 9). Therefore, WG's ratio of 1.45 indicates that the company has the capacity to turn its assets into cash.

Figure 9: Shows Asset Turnover Ratio



	2010	2011	2012	2013
Wood Group Plc	1.4	1.5	1.5	1.4
WS Atkins Plc	1.59	1.57	1.61	1.54
Amec Foster Wheeler Plc	1.30	1.33	1.62	1.67

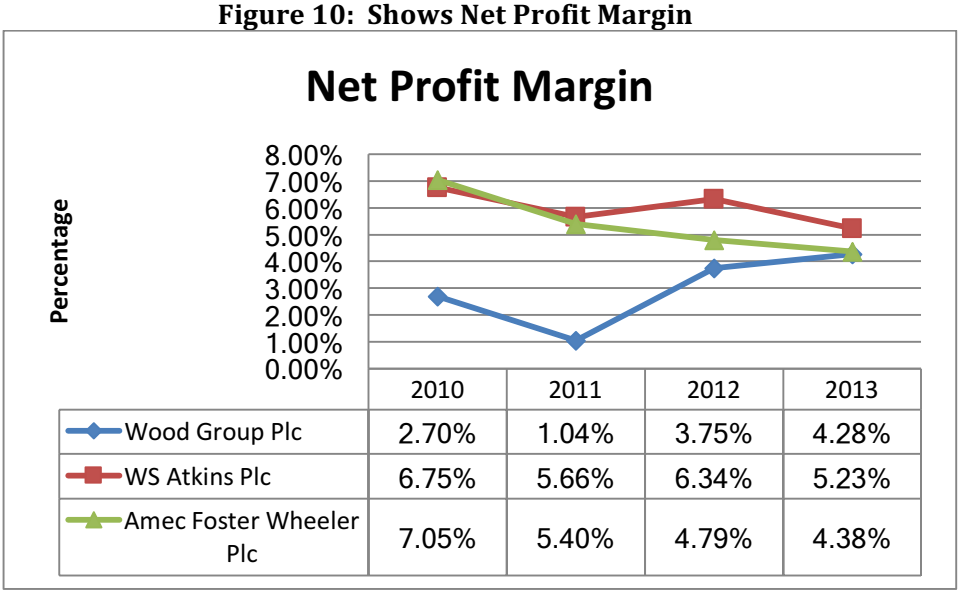
Source: Authors

Profitability Ratios

i. Net Profit Margin

The Net Profit Margin of Wood Group improved from 1.04% in 2011 to 4.28% in 2013 indicating a growth of 311%. While the peers appear to have higher margin but they are declining as shown in figure 10 below. This implies that WG's results gives confidence to shareholders compared to the peers.

Figure 10: Shows Net Profit Margin



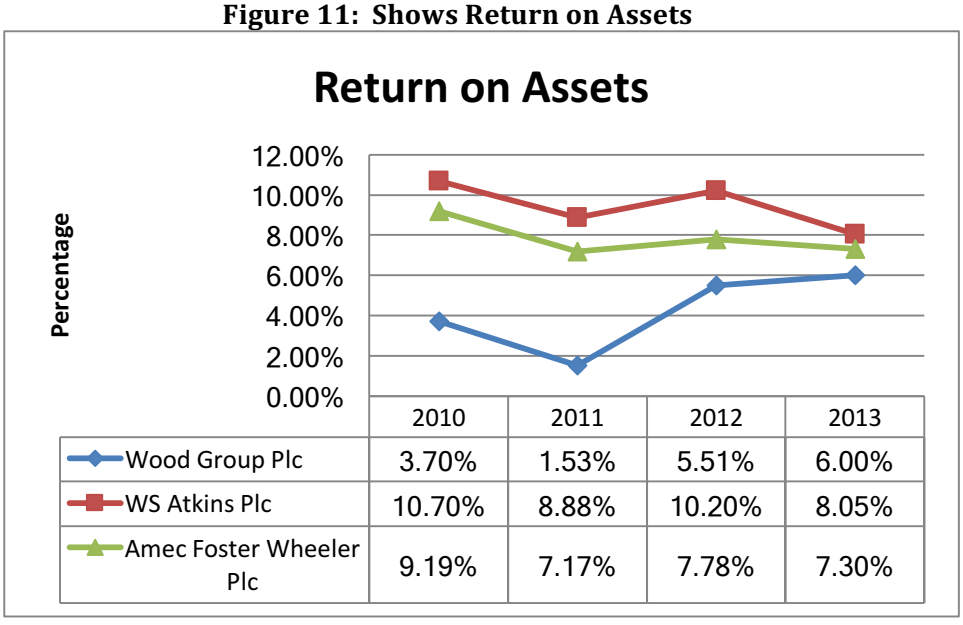
	2010	2011	2012	2013
Wood Group Plc	2.70%	1.04%	3.75%	4.28%
WS Atkins Plc	6.75%	5.66%	6.34%	5.23%
Amec Foster Wheeler Plc	7.05%	5.40%	4.79%	4.38%

Source: Authors

ii. Return on Assets (ROA)

Wood Group's ROA improved from 3.7% in 2010 to 6% in 2013 meaning that the amount available to debt and equity investors per dollar of firm's assets improved over the years. In contrast, the ROA of its peers seem to be higher. The investors for WG may perceive that its peers have better return on assets. Hence vulnerable may divest their shares from WG.

Figure 11: Shows Return on Assets



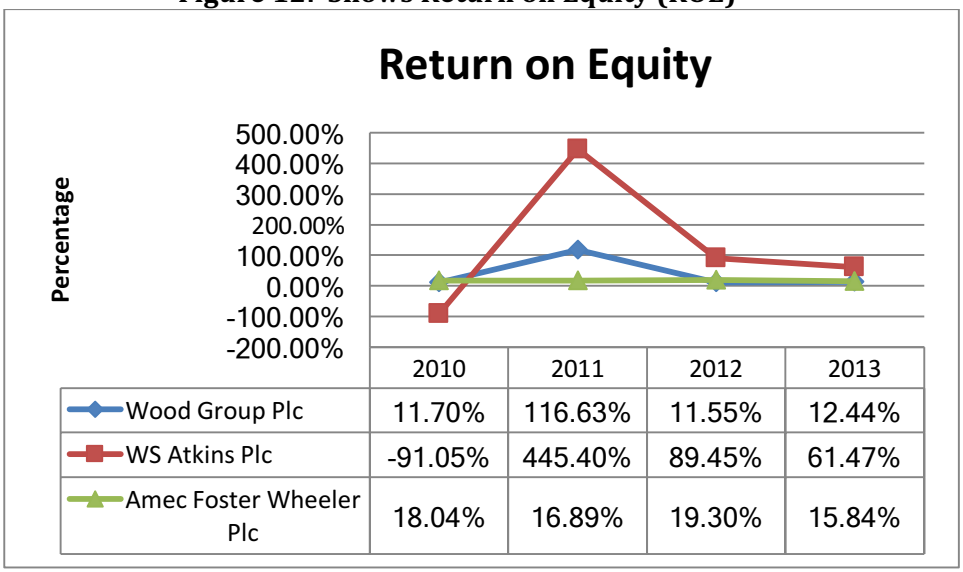
	2010	2011	2012	2013
Wood Group Plc	3.70%	1.53%	5.51%	6.00%
WS Atkins Plc	10.70%	8.88%	10.20%	8.05%
Amec Foster Wheeler Plc	9.19%	7.17%	7.78%	7.30%

Source: Authors

iii. Returrn on Equity (ROE)

Return on equity of WG shows a stable increase between 11% and 12% except in 2011 where it recorded an unsual increase of 116% due to income from discontinued operations of Well Support division and GTS Aero engine overhaul business (Wood Group's Annual Report and Accounts 2011 pg 21). WG's ROE is below the ROE of its peers (Figure 12), its shareholders may divest due to low returns.

Figure 12: Shows Return on Equity (ROE)



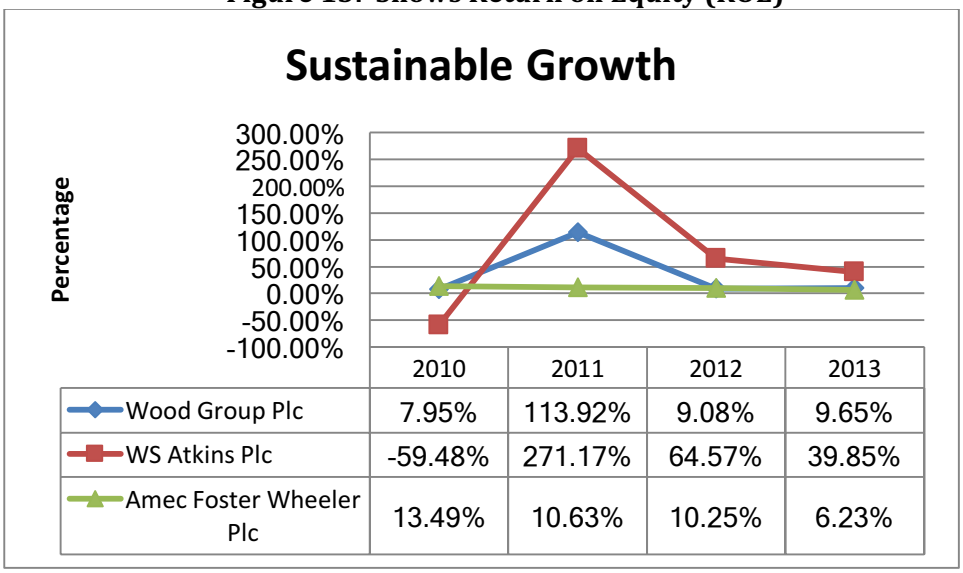
	2010	2011	2012	2013
Wood Group Plc	11.70%	116.63%	11.55%	12.44%
WS Atkins Plc	-91.05%	445.40%	89.45%	61.47%
Amec Foster Wheeler Plc	18.04%	16.89%	19.30%	15.84%

Source: Authors

Sustainable Growth

Wood Group's Sustainable growth ratio has been in the range of 7.95 % to 9.65%, except in 2011 an unusual growth was noted due to discontinued operations. Compared to its peers, Wood Group sustainable growth has been low, but the growth of the peers has been declining (figure 13). Therefore, WG's sustainable growth rate indicates that it can attain a 9% growth without external sources, however, growth above 9% may require outside funding.

Figure 13: Shows Return on Equity (ROE)



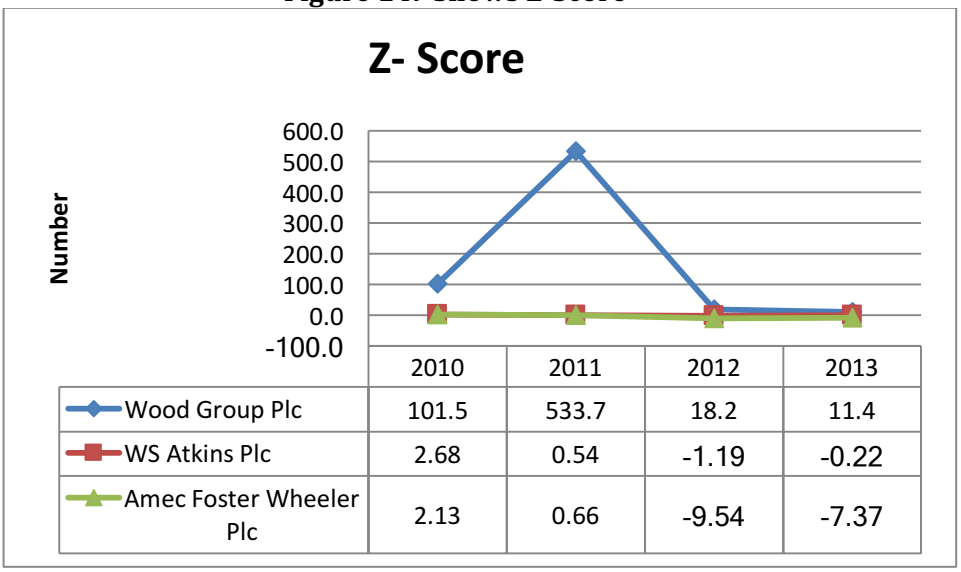
	2010	2011	2012	2013
Wood Group Plc	7.95%	113.92%	9.08%	9.65%
WS Atkins Plc	-59.48%	271.17%	64.57%	39.85%
Amec Foster Wheeler Plc	13.49%	10.63%	10.25%	6.23%

Source: Authors

Z-Score

Wood Group's Z-score is above 2.6, which is the benchmark for a healthy company from 2010 to 2013. However, its peers appear to have maintained a z-score below 1.1 and may be prone to corporate failure (figure 14). WG seems to be healthier than its peers and its not at risk of bankruptcy (Vernimmen et. al 2009).

Figure 14: Shows Z-Score



	2010	2011	2012	2013
Wood Group Plc	101.5	533.7	18.2	11.4
WS Atkins Plc	2.68	0.54	-1.19	-0.22
Amec Foster Wheeler Plc	2.13	0.66	-9.54	-7.37

Source: Authors

COMPANY VALUATION MODELS

This section highlighted the various models of valuing Wood Group Plc.

Net Asset Value Approach

This approach indicates Wood Group's value is $2546 while its market capitalisation is $3656.62; it implies that Wood Group has been overvalued by 44% (Appendix ii). The difference in value may be as a result of historical costs which do not recognise inflation, excludes internally generated intangible assets such as trademarks, brands and goodwill. However, the market capitalisation value may be affected by new information such as oil prices volatility. The overvaluation is good for WG but not favourable for investors.

The Dividend Valuation Model

This model gives WG a value of 912.12 cents, while the stock market price is 946.15 cents at a premium of 4% this means that Wood Group is overvalued (Appendix ii). The difference could be due to difficulty in estimating dividend growth rate and sometimes companies do not pay dividends. However, the current stock price may be affected by information available in the market and possibly positive investors' sentiments.

The Price-Earnings Ratio approach

This Approach gives the company a value of 1181.86 cents, while the current stock value is 946.15 cents at a discount of 20% (appendix ii). This implies that Wood Group is undervalued. The difference may be as a result of new information in the market that affects the current stock price. However, the overvaluation may be due to use of sector average which includes companies in the same sector that may not be similar in size, performance and policies.

Rappaport's Shareholder Value Model

This model revealed company's value of $1455 against the market capitalisation of $3656.62 resulting to a premium of 151.28% (Appendix iii). Wood Group is overvalued by the market. Hence, selling at premium is beneficial to WG but is not desirable to the buyer.

Table 1: Sensitivity & Scenario Analysis

Value drivers for Wood Group	Base Case	Sensitivity Analysis: Change in Revenue Growth Rate	Sensitivity Analysis: Change in Operating Profit Margin	Scenario Analysis	What is market Factoring?
Annual Growth Rate in Revenue %	0.1092	0.530	0.1092	Increased Revenue	0.22
Operating Profit Margin %	0.055	0.055	0.1	Increased Operating Margin	0.09
Tax Rate	0.28	0.28	0.28		0.28
Incremental Fixed Capital Investment %	0.026	0.026	0.026		0.026
Incremental Working Capital Investment %	0.120	0.120	0.120		0.120
Planning Horizon	5 years	5 years	5 years		5 years
Required Rate of Return %	0.1954	0.1954	0.1954		0.1954
Rappaport's Shareholder Value	**1455**	**3642**	**3630**		**3629**
Market Capitalisation	**3656.6**	**3656.62**	**3656.62**		**3656.62**
Premium/Discount	**151%**	**0.4%**	**0.7%**		**0.8%**

The above table 1 indicates that a change in annual revenue growth rate from 10.92% to 53% resulted into a company value increase from $1455 to $3642 respectively, leading to a premium of 0.4%. However, a change in operating profit margin from 5.5% to 10% resulted into company value of $3630 yielding a premium of 0.7%. Additional multi-variant sensitivity analysis indicates that a change in revenue growth rate to 22% and operating profit margin to 0.9% resulted into a value of $3629 and a premium of 0.8%. The Rappaport model of company valuation seems to be more sensitive to slight change in the operating profit margin than the annual revenue growth rate. The model assumes a smooth change in various cash flow drivers from one year to another. However, the market is not stable as market participants react differently to information available in the market, for example, changes in oil price and changes in senior management (Arnold 2013). More so, if used for target setting, managers can misuse it by pursuing short term cash flow objectives and avoid any investment which may result into long term cash flow. Nevertheless, it can be mitigated by setting both long term and short term cash flow targets (Arnold 2013).

Selection of the Optimum Approach

Among the models discussed above, the Dividend model gives the company a value of 912.12 cents, which is closer to the stock market price of 946.15 cents. The model seems to be to be forward looking in regards to its assumptions such as the dividend growth rate; it also considers time value for money through the discount rate. However, the challenge with the

model is that forecasting future dividends is not straightforward and the growth does not occur as assumed, some companies use share buyback schemes which may not be reflected in the market, while other companies may not pay dividends in case of growing companies.

However, the other models did not give value closer to the market value possibly due to their assumptions. Net Asset value model uses historical costs and excludes internally generated intangible assets such as goodwill. Furthermore, the P/E multiple based valuation model may have been over valued due to use of sector average. Finally, the Rappaport Shareholder Value model assumes constant growth in cash flows and no growth in revenue after planning horizon.

AGENCY RELATIONSHIP IN A FIRM

Managers of a firm might sometimes take actions to benefit themselves at the expense of the firm's investors. Firms have put in place variety of mechanisms to mitigate agency problem (Edgerton 2012).

Debt ratio

Wood Group's average debt ratio of 22% seems to be low and this may lead to managers pursuing their own interest rather than shareholders' interests since there is no external pressure to pay fixed finance costs. WG seems to have the same debt ratio with Amec Foster Wheeler Plc but WS Atkins Plc has a higher debt ratio of 72% in 2013 (Figure 6). The agency problem in WG may be mitigated by increasing its leverage by the use of debt, as debt imposes discipline to mangers on its own, this may push them to be more efficient (Vernimmen et. al 2009).

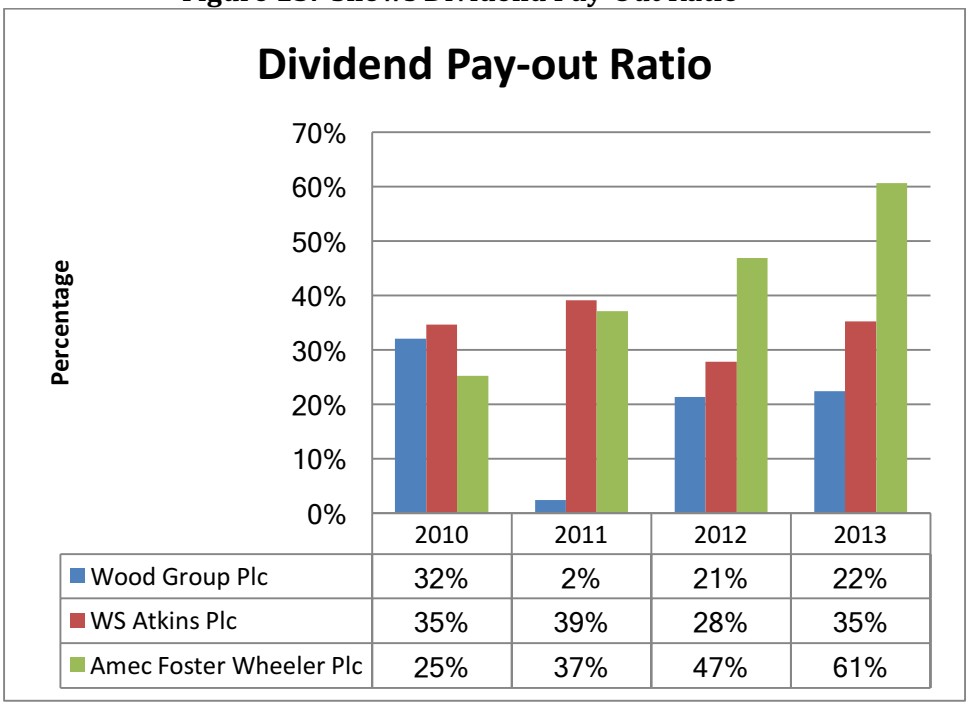
Investments

WG's investments include acquisitions of Duval and Mittchell in 2012, in 2013, the company made strategic acquisitions of $276m including Elkhom in the US Shale market (WG's Annual Report 2013). These acquisitions could be influenced by the company's strategic objectives of rewarding and retaining executives. This is achieved by giving performance based incentives to managers to encourage creation of shareholders' value in the long-run. However, the fixed salary payments and bonuses may cause agency problems (Brealey, Myers and Allen 2014).

Dividend Growth Policy

Wood Group's dividend pay-out ratio in 2013 was 22% which is below it peers of between 35% to 61% in 2013 (Figure 15). This could lead to agency problem as the management retains 78% of the year's earnings. Therefore, to reduce the problem, possibly, management could increase the dividend pay-out ratio, on the other hand this could also lead to conflict between the shareholders and the creditors when the dividend paid out is significant (Vernimmen et. al 2009)

Figure 15: Shows Dividend Pay-Out Ratio



	2010	2011	2012	2013
Wood Group Plc	32%	2%	21%	22%
WS Atkins Plc	35%	39%	28%	35%
Amec Foster Wheeler Plc	25%	37%	47%	61%

Source: Authors

Cash Management

Wood Group holds $183.5m of cash at bank and in hand in 2013 which represent 20.6% of the total working capital, too much cash at the management disposal leads to agency problem. Holding cash may be affected by inflation and saving excess cash yields the lowest return. The cash could have been invested in short term marketable securities, which could generate a return to the shareholders.

Revenue Growth Rate

Wood Group's revenue growth rate declines from 38% in 2011 to 4.27% in 2013 (figure 2) This may be an agency problem as continuous decline in the growth rate may result into uncertainty of shareholders returns, hence conflict between shareholders and management. This could be mitigated by improving the revenue growth through increasing market share, acquisitions and advertising. (Arnold 2013).

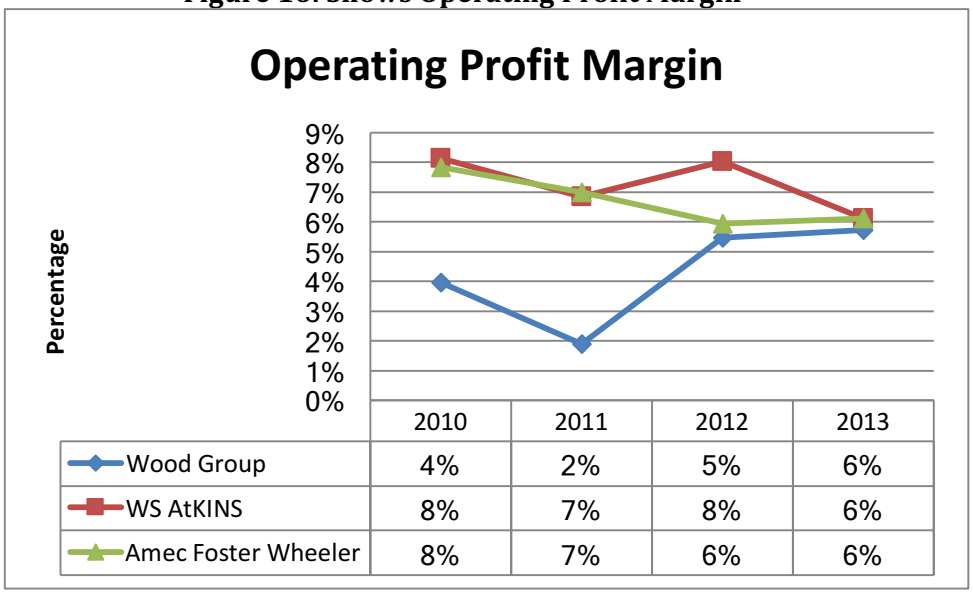
Operating Profit Margin

Wood Group's operating profit margin seems unstable for the last 3 years from 2010 to 2012 and below its peers, However in 2013 the company's operating profit is similar to its peers at 6% as shown in figure below

A low operation profit margin is an indicator of business risk and this causes concerns for Investor and may result into agency problems.

Management may mitigate this problem by improving its revenue and reducing costs.

Figure 16: Shows Operating Profit Margin



Source: Authors

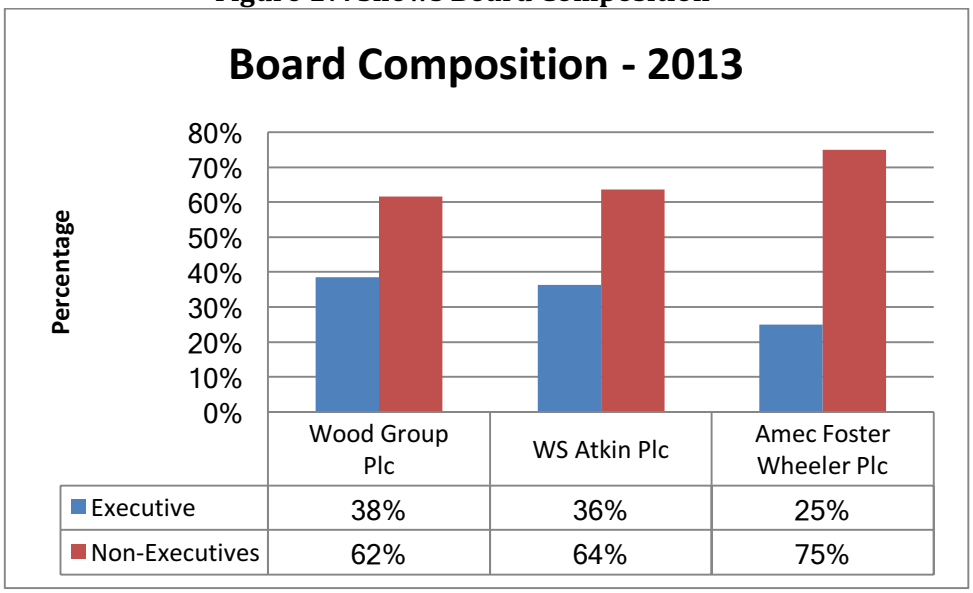
Asset Utilisation

Wood Group's Asset turnover has been stable in the past 3years in the ranges of 1.5, however in 2013 it declined to 1.4%, in comparison to its peers WG's asset utilisation has been below over the 4 years as shown in figure 9. This may cause Agency issues in a firm as management may be perceived by shareholders as not utilising assets efficiently. Management may consider identifying underperforming assets and disposing them off.

Composition of the Board of Directors

Shareholders expect management to champion their interests, but sometimes managers may focus on their own interests. WG is composed of 13 board members out of these 8 (62%) are non-executive directors and 5 (38%) are executive directors. This is below its competitors as shown in figure 17. Having a low number of non-executive directors may result to agency problem, as opposed to the Sarbanes-oxley Act that requires corporations to increase the number of non-executive directors to three-quarters of the total number of directors (Brealey, Myers and Allen 2014).

Figure 17: Shows Board Composition



Source: Authors

Empire Building

Managers may prefer controlling large businesses by expanding the company beyond its optimal size, with an intention to obtain personal utility, power and prestige (Chen, Lu and Sougiannis 2012). For example Wood Group made a number of acquisitions such as PSN in 2011, Duval and Mittchell in 2012, and Elkhom in 2013 (WG's Annual Report 2013). This may create future Agency problems between managers and shareholders. This problem could be resolved by constituting strong corporate governance practice. Managers could be encouraged to invest in convertible bonds which give them part of ownership of the company.

CONCLUSION

In conclusion this report considered Wood Groups risk profile analysis, company valuation and agency issues. From the above report WGs business risk and systematic risk were high while its financial risk was low. Furthermore the report found that the dividend valuation model value was closest to the market value. Finally it also analysed the past and possible future agency problems.

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APPENDICES

Appendix i

WOOD GROUP	**Risk Profile (Accounting Based)**				
	2009	**2010**	**2011**	**2012**	**2013**
	$ (mn)	$ (mn)	$ (mn)	$ (mn)	$ (mn)
Revenue	4927.1	4085.1	5666.8	6118.4	6379.7
Growth in Sales		-17.09%	38.72%	*7.97%*	*4.27%*
Cost of Sales	3870.1	3332.5	4713.1	5118.5	5351.9
Operating Profit	298.5	162.1	107.5	335.0	365.6
E.B.I.T (Same as operating profit)	298.5	162.1	107.5	335.0	365.6
Interest Paid	36.2	35.8	17.5	14.1	19.6
Taxes	100.6	51.7	48.3	105.7	92.6
Net Income (million) $	164.2	165.8	2302.8	258.2	300.5
EPS (cents) Annual Report	31.20	31.30	513.00	69.0	79.2
Retained Earnings	877.60	1007.60	1469.80	1640.7	1856.6
Dividends (million) $	50.3	53.1	53.4	55.2	67.4
Inventory	618.9	663.8	404.5	439.5	101.1
Trade and other Receivables	987.40	1052.0	1320.9	1392.5	1365.1
Cash and cash Equivalents	208.6	180.1	226.6	172.3	183.5
Current Assets	1850.7	1921.1	2007.1	2029.3	2356.0
Non Current (Fixed) Assets	1003.8	1059.4	1873.9	2131.8	2192.0
Total Assets (million) $	2854.5	2980.5	3881.0	4161.1	4548.0
Current Liabilities	1137.1	1230.7	1605.2	1303.4	1466.5
Trade and other Payables	1061.8	1139.8	1286.2	1155.8	1123.0
Non-Current Liabilities	436.4	332.6	401.3	622.4	665.2
Total Liabilities	1573.5	1563.3	2006.5	1925.8	2131.7
Net Debt	87.9	15.1	3.9	154.5	309.5
Shareholders Funds (Equity)	1281.0	1417.2	1974.50	2235.3	2416.3
Volatility Measures					
% Change in Sales		**-17.09%**	**38.72%**	**7.97%**	**4.27%**
% Change in EBIT		**-45.70%**	**-33.68%**	**211.63%**	**9.13%**
% Change in EPS		**0.32%**	**1538.98%**	**-86.55%**	**14.78%**
Key Risk Indicators					
Degree of Operating Leverage		**2.67**	**-0.87**	**26.56**	**2.14**
Degree of Financial Leverage DFL={EBIT/(EBIT-Interst)}		**1.28**	**1.19**	**1.04**	**1.06**
Degree of Total Leverage		**-0.02**	**39.75**	**-10.86**	**3.46**

Capital Structure and Financing Risk					
Debt Ratio	0.25	0.19	0.17	0.22	0.22
Debt Service or Interest Cover (times)	**8.2**	**4.5**	**6.1**	**23.8**	**18.7**
Current Ratio	**0.43**	**0.45**	**0.56**	**0.57**	**1.61**
Working Capital	**713.60**	**690.40**	**401.90**	**725.90**	**889.50**
Activity Indicators					
Inventory Turnover (times)	**6.3**	**5.0**	**11.7**	**11.6**	**52.9**
Asset Turnover (times)	**1.7**	**1.4**	**1.5**	**1.5**	**1.4**
Profitability Ratios					
Return on Assets (ROA)	6.93%	3.70%	1.53%	5.51%	6.00%
% Change in ROA		-0.47	-0.59	2.61	0.09
Net Profit Margin	4.02%	2.70%	1.04%	3.75%	4.28%
Operating profit Margin	6%	4%	2%	5%	6%
DuPont Analysis					
DuPont ROA	6.93%	3.70%	1.53%	5.51%	6.00%
Return on Equity (ROE)	12.82%	11.70%	116.63%	11.55%	12.44%
Net Profit Margin	4.02%	2.70%	1.04%	3.75%	4.28%
Asset Turnover (times)	1.73	1.37	1.46	1.47	1.40
Leverage Ratio	2.23	2.10	1.97	1.86	1.88
Debt Burden	0.82	0.68	0.70	0.94	0.93
DuPont ROE	12.62%	5.26%	2.11%	9.63%	10.49%
Plowback Ratio	**69%**	**68%**	**98%**	**79%**	**78%**
Dividend Pay-out ratio	31%	32%	2%	21%	22%
Z-Score	**18.6**	**101.5**	**533.7**	**18.2**	**11.4**
SUSTAINABLE GROWTH Rate	**8.89%**	**7.95%**	**113.92%**	**9.08%**	**9.65%**

Appendix ii

Wood Group plc	March-31-2015
Current Stock Price (cents) digitallook.com	**946.15**
Latest annual EPS (cents) (digitallook.com 31/3/2015)	98.9
Wood Group's P/E Ratio digitallook.com 31/3/15	10.5
Sector Average (See details on WG sector average worksheet)	11.95
P/E multiple based Valuation	**1181.86**
Discount/Premium	**-20%**
Last Dividend (cents) (digitallook.com) 31/3/2015	27.5
Required Rate of Return on WG's Equity (using CAPM)	19.93%
Dividend Growth Rate (ft.com)	16.42%
Dividend Growth Model based Valuation	**912.12**
Discount/Premium	**4%**
Total Assets ($ million) ft.com	4387
Total Liabilities ($ million) ft.com	1841
Market Capitalisation ($ million) (ft.com)	3656.62
Net Asset Value Model based Valuation	**2546**
Discount/Premium	**44%**

Appendix iii

Wood Group Plc							
Rappaport Shareholder Value Model							
Value drivers for Wood Group							
Annual Growth Rate in Sales %	0.1092						
Operating Profit Margin %	0.055						
Taxes %	0.28						
Incremental Fixed Capital Investment %	0.026						
Incremental Working Capital Invstment %	0.120						
Planning Horizon	5 years						
Required Rate of Return (Appendix iv)	0.1954						
Other details							
Current Sales (2014) ($m)	6574.1						
Current Value of Marketable Securities ($m)	183.5						
Net Debt ($m)	309.5						
Forecasted Cash Flows ($m)		**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**A.P. Horizon**
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Sales	6574.1	7292	8088	8972	9951	11038	11038
Operating Profit		401.1	444.9	493.4	547.3	607.1	607.1
Taxes		112.5	124.8	138.4	153.5	170.3	170.3
Incremental Fixed Capital Investment		18.7	20.7	23.0	25.5	28.3	0
Incremental Working Capital Invstment		86.1	95.6	106.0	117.6	130.4	0
Operating Free Cashflows		183.8	203.8	226.1	250.8	278.1	436.8
Present Value of Perpetuiy (after P. Horizon)							2235.4
Discount Factor		0.84	0.70	0.59	0.49	0.41	0.41
Discounted Operating Free Cash Flows		153.71	142.63	132.35	122.80	113.95	915.77
Present Value of the Free Cash Flows Within the Planning Horizon							665.44
Present Value of the Free Cash Flows After the Planning Horizon							915.77
Present Value of Free Cash Flows from Operations							1581.21
Rappaport's Shareholder Value							**1455**
Market Capitalisation (March 2015)							**3656.62**
Premium/Discount							**151.28%**

Appendix iv

Wood Group Plc WACC		
Cost of Equity		
WG Beta (21 March 15) source: FT.com	**1.73**	
FTSE-All Return (long-term Average)	**0.12**	
Risk-free Rate (5-year Gilt) %, source:FT.com 28 March 2015	**0.0114**	
Required rate of Return or Cost of WG's equity using CAPM	**0.199**	19.93%
Cost of Debt		
Cost of Debt %	**0.066**	
Corporate Tax rate	**28.05%**	
After tax Cost of Debt	**0.047487**	**4.75%**
Market Values of Debt and Equity		
Market Value of Debt Long term borrowing 2013 (Million)	**96.80**	
Market Value of Equity (Market Capatalization) (digitallook.com) million	**3665.04**	
Capital Structure		
Proportion of Debt	**0.03**	
Proportion of Equity	**0.97**	
Weighted Average Cost of Capital (%)	**0.195**	19.54%

Appendix v

Date	FTSE All	FTSE All Return	WG.L Equity	W.G. L. Return
02/01/2015	3621.81	0.025213	555.04	-0.04275
01/12/2014	3532.74	-0.01686	579.83	0.008453
03/11/2014	3593.32	0.025649	574.97	-0.1065
01/10/2014	3503.46	-0.00862	643.5	-0.12837
01/09/2014	3533.93	-0.02902	738.27	-0.03187
01/08/2014	3639.54	0.015038	762.57	0.057744
01/07/2014	3585.62	-0.00405	720.94	-0.07005
02/06/2014	3600.19	-0.015	775.25	0.024772
01/05/2014	3655.01	0.009719	756.51	0.004461
01/04/2014	3619.83	0.018067	753.15	0.041817
03/03/2014	3555.59	-0.03029	722.92	0.005242
03/02/2014	3666.66	0.048663	719.15	0.186618
02/01/2014	3496.51	-0.03134	606.05	-0.06268
02/12/2013	3609.63	0.017241	646.58	-0.13819
01/11/2013	3548.45	-0.01028	750.26	-0.0197
01/10/2013	3585.32	0.041079	765.34	0.012475
02/09/2013	3443.85	0.009799	755.91	-0.00435
01/08/2013	3410.43	-0.02835	759.21	-0.09774
01/07/2013	3509.94	0.066945	841.45	0.113648
03/06/2013	3289.71	-0.053	755.58	-0.04932
01/05/2013	3473.82	0.024671	794.78	0.098703
02/04/2013	3390.18	0.002822	723.38	-0.09155
01/03/2013	3380.64	0.00933	796.28	0.128259
01/02/2013	3349.39	0.018863	705.76	-0.04715
02/01/2013	3287.38	0.062704	740.68	0.109434
03/12/2012	3093.41	0.00917	667.62	-0.065
01/11/2012	3065.3	0.013523	714.03	-0.08534
01/10/2012	3024.4	0.008517	780.65	0.057247
03/09/2012	2998.86	0.008824	738.38	-0.02072
01/08/2012	2972.63	0.015496	754	0.057963
02/07/2012	2927.27	0.012388	712.69	0.136395
01/06/2012	2891.45	0.044943	627.15	-0.02071
01/05/2012	2767.09	-0.0729	640.41	-0.10372
02/04/2012	2984.67	-0.00603	714.52	0.107628
01/03/2012	3002.78	-0.01351	645.09	-0.05474
01/02/2012	3043.91	0.037846	682.45	0.15197
03/01/2012	2932.91	0.026254	592.42	0.026529
01/12/2011	2857.88	0.007772	577.11	-0.01688
01/11/2011	2835.84	-0.00875	587.02	0.054161
03/10/2011	2860.86	0.077788	556.86	0.166981
01/09/2011	2654.38	-0.05218	477.18	-0.10849
01/08/2011	2800.51	-0.07452	535.25	-0.10394
01/07/2011	3026.02	-0.02283	597.34	-0.197
01/06/2011	3096.72	-0.0078	743.89	0.030233
03/05/2011	3121.07	-0.01076	722.06	-0.09828
01/04/2011	3155.03	0.028458	800.76	0.100005
01/03/2011	3067.73	-0.01251	727.96	-0.0341
01/02/2011	3106.58	0.020468	753.66	0.20659
04/01/2011	3044.27	-0.00607	624.62	-0.02146
01/12/2010	3062.85	0.070324	638.32	0.197509
01/11/2010	2861.61	-0.02539	533.04	0.071868
01/10/2010	2936.15	0.023912	497.3	-0.00253

01/09/2010	2867.58	0.063358	498.56	0.207138
02/08/2010	2696.72	-0.00686	413.01	0.01594
01/07/2010	2715.36	0.067581	406.53	0.142067
01/06/2010	2543.47	-0.04852	355.96	-0.06198
04/05/2010	2673.17	-0.06642	379.48	-0.10097
01/04/2010	2863.35	-0.0161	422.1	0.022009
01/03/2010	2910.19	0.063355	413.01	0.019325
01/02/2010	2736.8	0.028683	405.18	0.054827
04/01/2010	2660.49	-0.03633	384.12	0.104269
01/12/2009	2760.8	0.042429	347.85	0.003259
02/11/2009	2648.43	0.0247	346.72	-0.04142
01/10/2009	2584.59	-0.01905	361.7	0.055904
01/09/2009	2634.79	0.045278	342.55	0.023546
03/08/2009	2520.66	0.07104	334.67	0.118363
01/07/2009	2353.47	0.08351	299.25	0
01/06/2009	2172.08	-0.03576	299.25	-0.05235
01/05/2009	2252.64	0.036621	315.78	0.177624
01/04/2009	2173.06	0.095198	268.15	0.080684
02/03/2009	1984.17	0.028201	248.13	0.157431
02/02/2009	1929.75	-0.07175	214.38	-0.00261
02/01/2009	2078.92	-0.05901	214.94	0.031877
01/12/2008	2209.29	0.035286	208.3	-0.11411
03/11/2008	2133.99	-0.02276	235.13	-0.11552
01/10/2008	2183.69	-0.12078	265.84	-0.29024
01/09/2008	2483.67	-0.13421	374.55	-0.28816
01/08/2008	2868.69	0.04346	526.17	0.127064
01/07/2008	2749.21	-0.03729	466.85	-0.14459
02/06/2008	2855.69	-0.07351	545.76	0.108727
01/05/2008	3082.26	-0.0057	492.24	0.038415
01/04/2008	3099.94	0.059066	474.03	0.05919
03/03/2008	2927.05	-0.02853	447.54	-0.01609
01/02/2008	3013.02	0.004307	454.86	0.092993
02/01/2008	3000.1	-0.08719	416.16	-0.1247
03/12/2007	3286.67	0.001768	475.45	0.054798
01/11/2007	3280.87	-0.05016	450.75	-0.01675
01/10/2007	3454.12	0.041373	458.43	0.05362
03/09/2007	3316.89	0.017301	435.1	0.098294
01/08/2007	3260.48	-0.00871	396.16	0.110594
02/07/2007	3289.12	-0.03379	356.71	-0.03841
01/06/2007	3404.14	-0.01005	370.96	0.090193
01/05/2007	3438.7	0.024765	340.27	0.107506
02/04/2007	3355.6	0.022049	307.24	0.04835
01/03/2007	3283.21	0.026555	293.07	0.005627
01/02/2007	3198.28	-0.00422	291.43	0
02/01/2007	3211.84	-0.00297	291.43	0.020056
01/12/2006	3221.42	0.032556	285.7	0.116059
01/11/2006	3119.85	-0.00657	255.99	-0.00211
02/10/2006	3140.47	0.029514	256.53	0.022806
01/09/2006	3050.44	0.014274	250.81	0.005976
01/08/2006	3007.51	0.001075	249.32	-0.0076
03/07/2006	3004.28	0.012367	251.23	-0.01281
01/06/2006	2967.58	0.017392	254.49	0.004302
02/05/2006	2916.85	-0.0512	253.4	-0.15825
03/04/2006	3074.26	0.008629	301.04	0.098806

01/03/2006	3047.96	0.031068	273.97	0.065285
01/02/2006	2956.12	0.009411	257.18	-0.02664
31/01/2006	2928.56		264.22	