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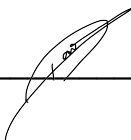


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DATE:

EIU Paris City Campus

Address: 59 Rue Lamarck, 75018 Paris, France | **Tel:** +33 144 857 317 | **Mobile/WhatsApp:** +33607591197 | **Email:** paris@eiu.ac

EIU Corporate Strategy & Operations Headquarter

Address: 12th Fl. Amarin Tower, 496-502 Ploenchit Rd., Bangkok 10330, Thailand | **Tel:** +66(2)256923 & +66(2)2569908 |
Mobile/WhatsApp: +33607591197 | **Email:** info@eiu.ac

Table of Contents

Introduction.....	3
Purpose.....	3
Scope.....	3
KCA DEUTAG Case Study.....	3
KCA DEUTAG Financial Statements.....	4
Income Statement	4
Consolidated Statement of Changes in Shareholder's Equity	5
Consolidated Balance Sheet.....	5
Consolidated Cash Flow Statement	6
Notes to the Quarterly Financial Statements	8
Segment reporting (Note 2).....	8
Net finance costs (Note 3).....	8
Exceptional items included in operating profit (Note 4)	9
Reconciliation of net debt (Note 5)	9
Tangible fixed assets (Note 6).....	10
Intangible assets (Note 7).....	10
Trade and other receivables (Note 8)	11
Trade and other payables (Note 9)	11
Cash generated from operating activities (Note 10).....	11
Saipem acquisition (Note 11).....	11
Financial Statement Analysis.....	12
Income Statement Analysis.....	12
Balance Sheet Analysis.....	13
Cash Flow Statement Analysis	14
Profitability	15
EBITDA Margin	15
Net Profit Margin	15
Return on Assets (ROA)	15
Return on Equity (ROE).....	16
Efficiency	16
Asset Turnover	16
Inventory Turnover	16
Receivables Turnover	17
Working Capital Management	17
Short term solvency (Liquidity)	18
Current Ratio.....	18
Quick Ratio	18
Cash Ratio	18
Long term solvency.....	19
Debt-to-Equity Ratio (D/E).....	19

Interest Coverage Ratio	19
Debt-to-Assets	20
Market-Based Ratio	20
Earnings per Share (EPS)	20
Cash Earnings Per Share (CEPS)	20
<i>Improvement Suggestions.....</i>	<i>21</i>
Improve Inventory Management	21
Enhance Debt Management.....	21
Improve Cost Management	21
<i>Possible New Investment Potential.....</i>	<i>22</i>
Net Present Value (NPV)	22
Weighted Average Cost of Capital (WACC).....	22
<i>Should the company pay the return earnings?</i>	<i>23</i>
Debt Management Concerns	23
Liquidity and Working Capital Management	23
<i>References</i>	<i>23</i>

Introduction

The financial statement communicates a company's financial health through a balance sheet, income statement, cash flow statement, and notes. Decision-makers, investors, shareholders, and stakeholders rely on it to assess financial performance, profitability, stability, and creditworthiness. Employees also review it to understand the company's financial position and performance which can impact their job security and incentives.

Purpose

In preparation for decision-making purposes, I will analyze KCA DEUTAG's financial statements to assess its performance and make informed decisions.

Scope

By the end of this analysis, we will be able to achieve the following:

1. Create a performance evaluation by analyzing the following performance measures:
 - 1.1. Profitability
 - 1.2. Efficiency
 - 1.3. Short-term solvency
 - 1.4. Long-term solvency
 - 1.5. Market-based ratios
2. Suggest recommendations for improving KCA DEUTAG business based on the results
3. Recommend one new investment project to KCA DEUTAG.
4. Recommend whether it is a good idea or not if the company wants to expand its business through an investment project. However, it can only capitalize 40% through its capital.
5. Decide whether or not the company should pay return earnings or not.

KCA DEUTAG Case Study

KCA DEUTAG is a leader in drilling, engineering, and technology, committed to a sustainable energy future. With over 135 years of experience, the company operates in 26 countries with a

workforce of over 11,000 employees. They own and operate 167 drilling rigs across various regions.

KCA DEUTAG is a leader in drilling, engineering, and technology, committed to a sustainable energy future. With over 135 years of experience, the company operates in 26 countries with a workforce of over 11,000 employees. They own and operate 167 drilling rigs across various regions in this industry. [The KCA DEUTAG's official website \(n.d.\)](#)

KCA DEUTAG Financial Statements

Here, we are going to study the financial statement of KCA DEUTAG at the end of Q3 2023. [KCA DEUTAG official website \(2023\)](#)

Income Statement

An income statement, also known as a P&L statement or earnings statement, shows a company's revenues, expenses, and overall profitability over a specific period, usually quarterly or annually. [BDC.ca website \(n.d.\)](#)

		Q3 2023 YTD	Restated Q3 2022 YTD	Q3 2023	Restated Q3 2022
	Note	\$m	\$m	\$m	\$m
Sales	2	1,176.3	738.8	413.1	250.0
Operating costs		(902.9)	(611.9)	(313.3)	(203.9)
EBITDA	2	273.4	126.9	99.8	46.1
Depreciation/Amortisation		(139.4)	(82.1)	(48.5)	(26.5)
Operating profit (pre-exceptional)		134.0	44.8	51.3	19.6
Exceptional items, net operating credits (costs)	4	11.6	0.6	(4.3)	2.7
Operating profit (post-exceptional)		145.6	45.4	47.0	22.3
Net finance costs	3	(118.1)	(10.9)	(32.6)	3.2
Profit (loss) before tax		27.5	34.5	14.4	25.5
Taxation		(32.0)	(19.5)	(13.3)	(7.1)
Profit (loss) from continuing operations		(4.5)	15.0	1.1	18.4
Profit (loss) from discontinued operations		8.9	(197.2)	-	(108.5)
Profit (loss) for the quarter		4.4	(182.2)	1.1	(90.1)
Attributable to the owners of the KCAD Group		(6.9)	(192.5)	(2.9)	(94.3)
Attributable to non-controlling interests		11.3	10.3	4.0	4.2
		4.4	(182.2)	1.1	(90.1)

Consolidated Statement of Changes in Shareholder's Equity

The statement of shareholders' equity summarizes changes in a company's share capital, accumulated reserves, and retained earnings over a specific period. It includes important items such as profits or losses from operations, dividends paid, issuance or buyback of shares, revaluation reserves, and other elements that affect accumulated other comprehensive income. It also covers the non-controlling interest attributed to other individuals and organisations, providing a comprehensive view of the company's equity position. [Wikipedia \(n.d.\)](#)

	Share capital	Share premium	Retained earnings	Other reserves	Non-controlling interest	Total
	\$m	\$m	\$m	\$m	\$m	\$m
At 1 January 2023	-	-	312.4	100.6	16.4	429.4
Comprehensive income (expense)						
Profit (loss) for the period	-	-	(6.9)	-	11.3	4.4
Other comprehensive income (expense)						
Fair value movement on cash flow hedges	-	-	-	(0.9)	-	(0.9)
Exchange differences on foreign operations	-	-	-	(9.9)	-	(9.9)
Remeasurements on defined benefit pension schemes	-	-	(3.2)	-	-	(3.2)
Remeasurements on value of investment			(2.4)			(2.4)
Total other comprehensive income (expense)	-	-	(5.6)	(10.8)	-	(16.4)
Total comprehensive income (expense)	-	-	(12.5)	(10.8)	11.3	(12.0)
Transactions with owners						
Dividend to minority shareholders	-	-	(0.5)	-	(10.3)	(10.8)
At 30 September 2023	-	-	299.4	89.8	17.4	406.6
At 31 December 2022	-	-	312.4	100.6	16.4	429.4

Consolidated Balance Sheet

A consolidated balance sheet combines the financial information of a parent company and its subsidiaries, providing a comprehensive view of the entire group's financial position. [Verified metrics website \(n.d.\)](#)

		Q3 2023	Q3 2022	Audited Q4 2022
	Note	\$m	\$m	\$m
ASSETS				
Non-current assets				
Property, plant and equipment	6	942.3	383.5	841.0
Right of use leased asset		99.3	88.6	121.1
Goodwill		371.5	479.8	391.1
Intangible assets	7	34.7	15.0	49.5
Investments		4.0	10.0	6.3
Deferred tax assets		72.5	65.8	60.4
		1,524.3	1,042.7	1,469.4
Current assets				
Inventories and work-in-progress		203.6	120.4	163.4
Trade and other receivables	8	380.6	252.1	320.4
Amounts owed by parent company		11.2	5.2	3.7
Financial assets - derivative financial instruments		-	2.0	0.4
Cash at bank		221.4	177.5	230.7
		816.8	557.2	718.6
Total assets		2,341.1	1,599.9	2,188.0
Liabilities				
Current liabilities				
Trade and other payables	9	(406.1)	(262.7)	(335.4)
Tax liabilities		(34.6)	(19.7)	(21.6)
Financial liabilities - derivative financial instruments		(1.5)	(0.5)	(1.8)
Financial liabilities - borrowings		(1.6)	(0.1)	-
Lease liabilities - current		(53.6)	(37.2)	(54.0)
Provisions and other payables		(0.6)	(0.6)	(0.9)
		(498.0)	(320.8)	(413.7)
Non-current liabilities				
Deferred income		(8.0)	(10.0)	(10.2)
Financial liabilities - borrowings		(863.8)	(494.9)	(834.6)
Payables to parent company		(349.5)	-	(267.9)
Deferred tax liabilities		(61.0)	(5.2)	(55.7)
Retirement benefit obligations		(97.3)	(105.2)	(99.9)
Lease liabilities - non current		(55.0)	(58.5)	(74.8)
Provisions and other non-current liabilities		(1.9)	(2.0)	(1.8)
		(1,436.5)	(675.8)	(1,344.9)
Total liabilities		(1,934.5)	(996.6)	(1,758.6)
Net assets (liabilities)		406.6	603.3	429.4
Capital and reserves				
Share capital		-	-	-
Other reserves		89.8	84.8	100.6
Retained earnings surplus (deficit)		299.4	500.9	312.4
Total shareholders' surplus (deficit)		389.2	585.7	413.0
Equity non-controlling interest		17.4	17.6	16.4
Total Equity		406.6	603.3	429.4

Consolidated Cash Flow Statement

Consolidated cash flow statements are essential for providing a comprehensive overview of a company's cash inflows and outflows. They consolidate multiple cash flow statements into a single document, offering a more efficient way to understand the company's overall financial position. This enhances financial transparency and empowers decision-makers to make more precise projections of the company's future financial performance. [Talentia software website \(2023\)](#)

		Q3 2023 YTD \$m	Q3 2022 YTD \$m	Q3 2023 \$m	Q3 2022 \$m
Cash flows from operating activities					
Cash generated from operations	10	194.4	77.7	87.3	27.0
Tax paid		(21.6)	(24.8)	(6.8)	(6.5)
Net cash in flow from operating activities		172.8	52.9	80.5	20.5
Cash flows from investing activities					
Acquisition of subsidiary, net of cash acquired		(63.5)	-	-	-
Capital expenditure		(71.9)	(40.6)	(43.9)	(15.4)
Proceeds from sale of property, plant and equipment		0.2	18.0	(0.3)	0.1
Purchase of intangible assets		(2.0)	(3.0)	(0.7)	(2.1)
Investment in or acquisition of shares in an unconsolidated entity		(0.1)	(9.8)	-	-
Interest received		4.7	0.9	1.7	0.5
Net cash outflow from investing activities		(132.6)	(34.5)	(43.2)	(16.9)
Cash flows from financing activities					
New loans from Parent in respect of PIK Notes		50.0	-	-	-
Drawdown of Oman debt		28.2	-	13.0	-
Interest paid, including capitalised interest		(61.4)	(27.9)	(5.9)	(0.7)
Lease payments		(52.7)	(34.9)	(20.3)	(11.3)
Dividend paid to minority shareholders		(10.7)	(5.0)	(6.2)	(4.5)
Net cash outflow from financing activities		(46.6)	(67.8)	(19.4)	(16.5)
Effect of foreign exchange rate changes on cash and bank overdrafts		(2.9)	8.1	1.4	4.1
Net cash in (out) flow		(9.3)	(41.3)	19.3	(8.8)
Cash and cash equivalents at start of period		230.7	218.8	202.1	186.3
Cash and cash equivalents at end of period		221.4	177.5	221.4	177.5

Notes to the Quarterly Financial Statements

Segment reporting (Note 2)

	Q3 2023 YTD \$m	Q3 2022 YTD \$m	Q3 2023 \$m	Q3 2022 \$m
Revenues				
Land Drilling	688.4	285.8	245.5	100.7
Offshore Services	428.5	414.1	142.0	140.0
Kenera	89.0	50.5	51.5	16.5
Corporate costs/other	0.4	0.4	0.1	0.1
Elimination on consolidation	(30.0)	(12.0)	(26.0)	(7.3)
Continuing operations	1,176.3	738.8	413.1	250.0
Discontinued operations	-	184.7	-	15.6
Group total	1,176.3	923.5	413.1	265.6
EBITDA (pre-exceptional)				
Land Drilling	219.0	75.6	79.1	25.4
Offshore Services	67.5	65.0	23.8	27.0
Kenera	4.2	(3.8)	3.4	(0.7)
Corporate costs/other	(17.3)	(9.9)	(6.5)	(5.6)
Continuing operations	273.4	126.9	99.8	46.1
Discontinued operations	-	47.8	-	3.0
Group total	273.4	174.7	99.8	49.1

¹Eliminations on consolidation principally relate to sales from Kenera to Land Drilling and to support the Group's capital expenditure programme.

Net finance costs (Note 3)

	Q3 2023 YTD \$m	Q3 2022 YTD \$m	Q3 2023 \$m	Q3 2022 \$m
Interest payable to immediate parent company	(22.6)	-	(8.7)	-
Interest payable on Senior Secured Notes	(63.0)	(37.0)	(21.3)	(12.2)
Interest payable on revolving credit facility	(8.4)	-	(3.0)	-
Finance costs on leases	(8.5)	(7.5)	(2.7)	(2.4)
Amortisation of arrangement fees	(3.0)	(1.0)	(1.0)	(0.4)
Other finance costs	(13.0)	(2.2)	(2.8)	(0.5)
Finance costs	(118.5)	(47.7)	(39.5)	(15.5)
Finance income	4.4	0.9	1.5	0.5
Exchange gains (losses)	(4.0)	41.7	5.4	16.6
Finance costs – net	(118.1)	(5.1)	(32.6)	1.6

Exceptional items included in operating profit (Note 4)

	Q3 2023 YTD \$m	Q3 2022 YTD \$m	Q3 2023 \$m	Q3 2022 \$m
Reorganisation costs ¹	(1.0)	(2.5)	0.2	(0.9)
Saipem integration and transaction costs ²	(14.2)	-	(4.4)	-
Saipem goodwill release ³	26.0	-	-	-
Other ⁴	0.8	-	(0.1)	-
Supplier dispute ⁵	-	(0.4)	-	-
IT exceptional costs ⁶	-	(1.6)	-	(0.2)
Gain (loss) on disposal of Nigeria business and assets ⁷	-	1.3	-	-
Mexico guarantee recovery ⁸	-	3.8	-	3.8
Exceptional operating items from continuing operations	11.6	0.6	(4.3)	2.7
Exceptional operating items from discontinued operations ⁹	8.9	(121.0)	-	(102.3)
Exceptional operating items for the quarter	20.5	(120.4)	(4.3)	(99.6)
Tax effect on exceptional operating items	-	0.1	-	-
Exceptional operating items, net of tax	20.5	(120.3)	(4.3)	(99.6)

¹ Reorganisation costs primarily relate to the Group's cost reduction, restructuring, redundancy expenditure and COVID-19 expenditure along with professional fees associated with the Group's strategic activities looking at potential mergers and acquisitions.

² Integration and transaction costs of \$14.2 million are associated with the purchase of the Saipem Onshore Drilling business.

³ On completion of the LATAM phase of the Saipem transaction, there has been a release of \$26.0 million to the Income Statement relating to negative goodwill on the combined Saipem acquisition (see Note 11).

⁴ Included within other costs is a gain of \$1.0 million recognised in relation to the cash generated from the sales of Senior Secured Notes which have gone unclaimed since the Group debt restructuring completed in 2020.

⁵ In 2022 the Group booked an additional charge of \$0.4 million in Kenera relating to a dispute with suppliers, together with certain other related costs.

⁶ In 2022 a cost of \$1.6 million was recorded in respect of costs involved in responding to a cyber-attack which restricted access to a number of the Group's back-office systems. These were predominantly costs involved in the restoration of system access.

⁷ On 30 December 2021 the Group entered into an agreement with Geoplex Drillteq Limited to sell several rigs and associated inventory in Nigeria with the intention to exit the Nigerian land drilling business. Approval for the transaction was given during March 2022 with \$1.3 million representing the gain on the sale of the Nigerian business and assets.

⁸ In August 2022, the Group recovered \$3.8 million of funds in Mexico which had previously been consigned with a third party under a performance security, following the expiry of a time limit applicable to any client claim against those funds.

⁹ During Q2 2022, the Group recorded provisions against Russian Land Drilling inventory balances of \$15.4 million and against an intercompany balance of \$3.3 million. The \$3.3 million intercompany provision was released in Q2 2023. During Q2 2023 there was also \$5.6 million release of the exchange reserves in respect of the abandoned Russia business.

Reconciliation of net debt (Note 5)

	Q3 2023 YTD \$m	Q3 2022 YTD \$m	Q3 2023 \$m	Q3 2022 \$m	Audited Q4 2022 \$m
Opening net debt per balance sheet	(619.3)	(281.2)	(649.2)	(308.3)	(275.2)
Net cash in (out) flow	(9.3)	(41.3)	19.3	(8.8)	11.9
Repayment (drawdown) of debt	(28.2)	-	(13.0)	-	(350.0)
Other non-cash movements	12.8	5.0	(1.1)	(0.4)	9.4
Closing net debt per balance sheet	(644.0)	(317.5)	(644.0)	(317.5)	(603.9)
Capitalised arrangement fees	(12.9)	(5.1)	(12.9)	(5.1)	(15.4)
Closing net debt	(656.9)	(322.6)	(656.9)	(322.6)	(619.3)

Tangible fixed assets (Note 6)

	Land and buildings freehold	Drilling rigs and equipment	Plant, machinery and vehicles	Total Tangible fixed assets
	\$m	\$m	\$m	\$m
Cost				
At 1 January 2023	38.2	1,746.1	83.9	1,868.2
Additions arising on acquisition	-	114.7	1.5	116.2
Additions at cost	2.7	65.7	3.5	71.9
Disposals	-	(0.9)	-	(0.9)
Exchange adjustments	-	(1.3)	(4.5)	(5.8)
At 30 September 2023	40.9	1,924.3	84.4	2,049.6
Accumulated depreciation				
At 1 January 2023	9.4	1,013.2	4.6	1,027.2
Charge for the period	1.4	81.4	3.2	86.0
Disposals	-	(0.6)	-	(0.6)
Exchange adjustments	-	(0.9)	(4.4)	(5.3)
At 30 September 2023	10.8	1,093.1	3.4	1,107.3
Net carrying amount				
At 30 September 2023	30.1	831.2	81.0	942.3
Net carrying amount				
At 31 December 2022	28.8	732.9	79.3	841.0

Intangible assets (Note 7)

	Customer relationships and contracts	Trade name	Technology	Total
	\$m	\$m	\$m	\$m
Cost				
At 1 January 2023	287.8	176.3	50.0	514.1
Additions	1.3	-	-	1.3
Additions arising on acquisition	-	-	2.0	2.0
Reclassification to goodwill ¹	(11.6)	-	-	(11.6)
Exchange	-	-	(0.1)	(0.1)
At 30 September 2023	277.5	176.3	51.9	505.7
Accumulated amortisation				
At 1 January 2023	254.8	168.6	41.2	464.6
Charge for the period	-	-	6.4	6.4
At 30 September 2023	254.8	168.6	47.6	471.0
Net carrying amount				
At 30 September 2023	22.7	7.7	4.3	34.7
Net carrying amount				
At 31 December 2022	33.0	7.7	8.8	49.5

¹ Reclassification of a balance arising on the acquisition of Saipem Land Drilling assets previously allocated to Intangible Assets now treated as Goodwill.

Trade and other receivables (Note 8)

	Q3 2023	Q3 2022	Audited Q4 2022
	\$m	\$m	\$m
Trade receivables	293.9	194.6	243.6
Other receivables	33.8	17.3	21.1
Prepayments and accrued income	38.5	21.1	38.2
Contract assets	14.4	19.1	17.5
Total	380.6	252.1	320.4

Trade and other payables (Note 9)

	Q3 2023	Q3 2022	Audited Q4 2022
	\$m	\$m	\$m
Trade payables	81.6	70.4	92.2
Other tax and social security	20.8	13.7	18.1
Other payables	36.1	12.7	28.3
Accruals	237.5	139.0	170.6
Payments received on account	4.6	0.2	1.5
Deferred income	25.5	26.7	24.7
Total	406.1	262.7	335.4

Cash generated from operating activities (Note 10)

	Q3 2023 YTD	Q3 2022 YTD	Q3 2023	Q3 2022
	\$m	\$m	\$m	\$m
Profit (loss) for the period	4.4	(182.2)	1.1	(90.1)
Adjustments for:				
Tax charge	32.0	17.1	13.3	0.1
Depreciation ¹	133.0	89.5	45.6	26.6
Amortisation of intangible assets	6.4	2.7	2.9	0.9
Net impairment gains (losses) of other non-current assets	-	122.1	-	13.6
Loss (gain) on sale of property, plant and equipment	(0.2)	(1.3)	-	(0.1)
Saipem negative goodwill release	(26.0)	-	-	-
Net movement in provisions, other liabilities and retirement benefit obligations	(2.5)	(8.3)	(5.2)	(4.2)
Net finance cost	118.1	5.1	32.6	(1.6)
(Increase) decrease in inventories and work in progress	(28.5)	28.6	(0.2)	31.0
(Increase) decrease in trade and other receivables	(67.7)	30.2	(14.9)	76.7
Increase (decrease) in trade and other payables	36.8	(34.3)	14.4	(22.8)
Exchange differences from operating activities	(11.4)	8.5	(2.3)	(3.1)
Cash generated from operating activities	194.4	77.7	87.3	27.0

¹ YTD depreciation includes \$47.0m (Q3 2022 YTD \$28.0m) of depreciation for right of use assets.

Saipem acquisition (Note 11)

Once regulatory approvals and other local administrative processes are finalised, only 6 rigs remain to be acquired as part of the Saipem acquisition.

Purchase consideration

	2022 Phase 1	Fair Value adj	Kuwait Phase 2	LATAM Phase 3	All Phases
	\$m	\$m	\$m	\$m	\$m
Cash	469.5	(4.2)	44.5	44.7	554.5
Cash acquired	(8.6)	-	-	(6.4)	(15.0)
Shares issued, at fair value	92.5	-	-	-	92.5
Deferred consideration payable	-	-	-	2.2	2.2
Total consideration	553.4	(4.2)	44.5	40.5	634.2

The provisional fair value of the acquisition

	2022 KSA & ROW	Fair Value adj	Kuwait Phase 2	LATAM Phase 3	All Phases
	\$m	\$m	\$m	\$m	\$m
Net assets					
Property, plant and equipment	485.1	-	43.4	72.8	601.3
Right of use assets	8.2	-	-	-	8.2
Intangible assets	33.1	-	1.3	-	34.4
Inventories and work in progress	34.0	(4.6)	3.5	12.7	45.6
Trade and other receivables	92.9	-	-	15.4	108.3
Deferred tax asset	5.3	0.9	0.5	6.5	13.2
Trade and other payables	(82.6)	(0.1)	(1.4)	(5.0)	(89.1)
Deferred income	-	(2.9)	-	(4.5)	(7.4)
Tax liabilities	(1.2)	-	-	-	(1.2)
Deferred tax liability	(52.7)	-	(0.4)	-	(53.1)
Total identifiable net assets	522.1	(6.7)	46.9	97.9	660.2
Goodwill arising on acquisition	31.3	2.5	(2.4)	(57.4)	(26.0)
Purchase consideration transferred	553.4	(4.2)	44.5	40.5	634.2

Cumulative negative goodwill arising on the acquisition, totalling \$26.0 million, was credited to the Income Statement in Q2 2023.

Financial Statement Analysis

Income Statement Analysis

1. Sales revenue grew by \$437.5 million in 2023 up to the end of quarter 3, marking a 59.2% increase from 2022.
2. In Q3 2023, sales revenue increased by \$163.1 million, a 65.2% rise from Q3 2022.
Operating costs increased by \$291.0 million (47.6%) compared to 2022 until the end of Q3, with a 53.7% increase in Q3 2023.
3. The increase in sales percentage surpassed the increase in operating costs percentage, indicating improved operating performance and effective cost control.
4. EBITDA in Q3 2023 rose by \$146.5 million (115.45%), contributing to a Gross Profit Margin of 23.24%, up from 17.18% in 2022.

5. This reflects KCA DEUTAG's improved profitability through higher sales revenues and reduced operational expenses.

Balance Sheet Analysis

1. Throughout the third quarter of 2023, the company saw a significant increase in its assets from \$1,469.4 million at the end of 2022 to \$ 1,524.5 million at the end of Q3 2023.
2. This resulted from the increase in property, plant, and equipment, which rose from \$841 million to \$942 million since the end of 2022 till the end of Q3 2023.
3. This was primarily due to capital expenditure and the acquisition of Saipem (as shown in Note 6)
4. Meanwhile, intangible assets experienced a decrease from \$49.5 million to \$34.7 million during the same period, mainly attributed to the reclassification of a balance from intangible assets to goodwill connected to the Saipem acquisition (refer to Note 7)
5. The total liabilities rose from \$1,344.9 million at the end of 2022 to \$1,934.5 million by the end of Q3 2023.
6. Inventories and work-in-progress assets increased from \$163.4 million by 2022 to \$203.6 million by the end of Q3 2023.
7. This is due to the increase in non-current assets resulting from the additional units acquired in the Saipem acquisition.
8. Trade and other receivables also grew, going from \$320 million to \$380 million, which aligns with the company's higher revenues.
9. Current liabilities rose from \$413.7 million in 2022 to \$498.0 million by the end of Q3 2023.
10. This was due to the increase in trade and other payables, which rose from \$335.4 million at the end of 2022 to \$406.1 million at the end of Q3 2023.
11. This was mainly due to the accruals*, which increased from \$170 million at the end of 2022 to \$237.5 million at the end of Q3 2023 (30 September 2023), as referred to in Note 9.

*Accruals are a key concept in accounting. They involve recording revenues earned, or expenses incurred, even if the cash hasn't been received or paid yet. This means that the financial impact of these transactions is recorded in a company's financial statements before any actual cash

exchange takes place. Accruals are important for fully understanding a company's financial performance and position because they cover non-cash assets and liabilities. [Alicia Tuovila \(2024\)](#)

Cash Flow Statement Analysis

1. In the third quarter of 2023, the company's cash flow from operating activities increased to \$172.8 million from \$52.9 million in the third quarter of 2022. This improvement was driven by enhanced efficiency and profitability.
2. The increase in cash generated from operations, from \$77.7 million in Q3 2022 to \$194.4 million in Q3 2023, played a significant role in achieving this improvement, along with a decrease in taxes paid.
3. However, the company experienced a higher net cash outflow, which rose from \$34.5 million in Q3 2022 to \$132.6 million in Q3 2023. This increase was primarily due to expenses related to the Saipem acquisition totaling \$63.5 million and investments in capital assets to support expansion.
4. The company's capital expenditure, representing long-term asset investments, notably increased from \$40.6 million in the first nine months of 2022 to \$71.9 million in the same period of 2023, highlighting the company's commitment to strategic investments for enhancing and expanding its asset base.
5. During the first nine months of 2023, the company repaid \$28.2 million of debt related to the Oman newbuild rigs.
6. The company's net cash showed a negative trend, increasing from \$8.8 million in 2022 to \$9.3 million in Q3 2023, indicating challenging cash control. However, the company's cash and cash equivalents showed positive growth, increasing from \$177.5 million in Q3 2022 to \$221.4 million in Q3 2023, demonstrating strong cash generation.
7. The company's net debt grew from \$332.6 million in Q3 2022 to \$656.9 million in Q3 2023 due to the rise in cash offset by the debt drawdown for the Oman new-build rigs.

In conclusion, In Q3 2023, KCA DEUTAG's financial statements show strong operational and financial performance, with notable improvements in revenues and profitability. The Group's strategic initiatives, such as the Saipem acquisition, advance well and positively impact the improved results. Despite the decrease in the cash outflow, cash management still needs more

focus as the net cash is still negative (outflow) due to the Saipem acquisition and related assets required.

Profitability

Based on the financial statements, KCA DEUTAG's profitability has improved significantly in Q3 2023 compared to the previous year:

EBITDA Margin

The EBITDA margin measures a company's earnings before interest, tax, depreciation, and amortization as a percentage of the company's total revenue.

EBITDA margin = (earnings before interest and tax + depreciation + amortization) / total revenue. [Evan Traver \(2024\)](#)

In conclusion: KCA DEUTAG's EBITDA margin has increased from 17.2% in Q3 2022 to 23.24% in Q3 2023, indicating improved operational efficiency and profitability

Net Profit Margin

From the income statement, the quarter's profit (net profit) increased to \$4.4 million by the end of the first nine months of 2023 (Q3 2023) from a loss equal to \$182.2 million in the same period in 2022.

In conclusion, : The net profit margin increased from -25% in Q3 2022 to 0.4% in Q3 2023; this is an indication of improved operational efficiency and expense control.

Return on Assets (ROA)

The return on assets (ROA) measures the efficiency of asset management strategies in generating revenue. It is calculated by dividing the net profit by the total assets. To calculate KCA DEUTAG's ROA, I will divide the operating profit (pre-exceptional) by the total assets. The result shows an increase in the ROA from 2.8% at the end of Q3 2022 to 10% at the end of Q3 2023.

In conclusion: The previous evaluation indicates an improvement in KCA DEUTAG's asset management strategies.

Return on Equity (ROE)

Return on equity is a metric that measures the efficiency of the investment to generate results in the net (total) profit (income) [Jason Fernando \(2024\)](#)

The return on equity (ROE) is calculated by dividing the net income (total profit) by the total equity. In the case of KCA DEUTAG's financial statement, the net profit increased to \$4.4 million at the end of 2023 Q3 from a loss of \$182.2 million at the end of 2022 Q3. When looking into the balance sheet, the total equity decreased from \$603.3 million at the end of 2022 Q3 to \$406.6 million at the end of 2023 Q3, resulting in an ROE of 1.1% at the end of 2023 Q3, compared to -30% at the end of 2022 Q3. This indicates better investment decisions that have increased the ROE margin.

In conclusion, : The financial statements show that KCA DEUTAG's profitability has improved significantly, with the company achieving stronger EBITDA and operating profit margins. However, higher finance costs have impacted the net profit margin, indicating an area that the company will need to focus on in the future.

Efficiency

To evaluate the efficiency of KCA DEUTAG, I will analyze the key efficiency metrics based on the information provided in the financial statements.

Asset Turnover

In Q3 2023, the asset turnover ratio was 0.503 ($1,176.3 / 2,341.1$), and in Q3 2022, it was 0.462 ($738.8 / 1,599.9$). Asset turnover is calculated as total sales revenue divided by total assets.

In conclusion, : An increase in asset turnover indicates that the company is generating more revenue per unit of assets, suggesting improved asset utilization.

Inventory Turnover

KCA DEUTAG's inventory turnover is calculated by dividing operating costs by inventories and work in progress.

At the end of 2023 Q3, operating costs totalled \$902.9 million, and inventories and work in progress totalled \$203.6 million.

At the end of 2022 Q3, the operating costs were \$611.9 million, and the inventories and work in progress amounted to \$120.4 million.

The inventory turnover at the end of 2023 Q3 was calculated as $902.9/203.6 = 4.44$, while the inventory turnover at the end of 2022 Q3 was $611.9/120.4 = 5.1$.

In conclusion: Based on this analysis, inventory management shows a slight decline and needs improvement.

Receivables Turnover

The receivables turnover ratio is a measure of the efficiency of collecting cash against operational revenue. It is calculated by dividing the revenue by the average trade receivables. In Q3 2023, the receivables turnover ratio was 4.2 ($413.1 / 293.9$), while in Q3 2022, it was 2.6 ($250.0 / 194.6$).

In conclusion: The increase in the receivables turnover ratio indicates that KCA DEUTAG is becoming more efficient in collecting its outstanding receivables.

Working Capital Management

Working capital management involves overseeing a company's current assets and liabilities to ensure it maintains enough liquidity to meet short-term obligations and operational needs. This includes monitoring and optimizing cash levels, inventory, accounts receivable, and accounts payable to maintain a balance between liquidity and profitability. Effective working capital profitability.

Working capital is calculated as current assets minus current liabilities. At the end of Q3 2023, the working capital was \$318.8 million ($816.8 - 498.0$), compared to \$305.0 million ($718.6 - 413.7$) at the end of Q3 2022. The increase in working capital suggests that the company effectively manages its short-term liquidity and operations.

In conclusion, the available data shows that KCA DEUTAG has improved how it uses its assets and manages its working capital. This is clear from the higher asset turnover and receivables turnover rates. However, the increase in inventory levels may mean that further improvements are needed in this area. The company's efforts to make its operations more efficient are paying off.

Short term solvency (Liquidity)

Short-term solvency (or liquidity) shows the ability of KCA DEUTAG to meet its short-term debts and financial obligations. [Adam Hayes \(2024\)](#)

To evaluate the short-term solvency of KCA DEUTAG, I will analyze the following key liquidity ratios:

Current Ratio

The current ratio measures the ability of KCA DEUTAG to pay off its current liabilities (within one year) and it is calculated by dividing current assets by current liabilities.

As of the end of Q3 2023, the current ratio was 1.64 ($816.8 / 498.0$).

At the end of Q3 2022, the current ratio was 1.73 ($718.6 / 413.7$).

In conclusion, The current ratio above 1.0 indicates that the company has enough current assets to cover its short-term obligations, which suggests good short-term liquidity. Yet the ratio declines, which means that current liquidity is decreasing.

Quick Ratio

The quick ratio is the ability of KCA DEUTAG to meet its short term obligations. It is calculated as (current assets - inventories) divided by current liabilities. As of the end of Q3 2023, the quick ratio was 1.23, calculated as $((816.8 - 203.6) / 498.0)$. At the end of Q3 2022, the quick ratio was 1.22, calculated as $((718.6 - 163.4) / 413.7)$.

In conclusion, The quick ratio is above 1.0, indicating that the company has sufficient liquid assets (excluding inventories) to cover its short-term liabilities, further strengthening its short-term solvency position.

Cash Ratio

Please note the following information about KCA DEUTAG's cash ratio:

- The cash ratio measures KCA DEUTAG's ability to cover its current liabilities with available cash. It is calculated as cash and cash equivalents divided by current liabilities.
- As of the end of Q3 2023, the cash ratio was 0.44 ($221.4 / 498.0$).
- At the end of Q3 2022, the cash ratio was 0.43 ($177.5 / 413.7$).

In conclusion, Although the cash ratio is below 1.0, indicating that the company does not have enough cash to cover all its current liabilities, KCA DEUTAG still has a significant amount of cash and cash equivalents compared to its current liabilities. This suggests that the company is well-equipped to meet its short-term obligations.

Summary: KCA DEUTAG's analysis suggests that the company is in a favourable position to meet its short-term financial obligations. This indicates that the company's liquidity and ability to manage short-term debts are sound, which can be reassuring for stakeholders and potential investors.

Long term solvency

Long-term solvency refers to KCA DEUTAG's ability to meet its long-term liabilities. [Adam Hayes \(2024\)](#)

To assess this, I will analyze the following key ratios:

Debt-to-Equity Ratio (D/E)

The debt-to-equity ratio is calculated by dividing total liabilities by total equity.

As of the end of Q3 2023, the debt-to-equity ratio was 4.77 (1,934.5 / 406.6).

At the end of Q3 2022, the debt-to-equity ratio was 4.11 (1,758.6 / 429.4).

In conclusion: The increase in the debt-to-equity ratio suggests that the company has become more leveraged, which could increase its financial risk.

Interest Coverage Ratio

The interest coverage ratio measures KCA DEUTAG's ability to meet the interest expense on its debt. It is calculated as EBITDA divided by net interest expense.

At the end of Q3 2023, the interest coverage ratio was 2.3 (273.4 / 118.1(from the income statement and net finance costs tables)).

At the end of Q3 2022, the interest coverage ratio was 24.9 (126.9 / 5.1 (from the income statement and net finance costs tables)).

In conclusion: A massive decrease in the interest coverage ratio suggests that the company's ability to cover its interest payments has declined, which could be a concern for long-term solvency.

Debt-to-Assets

The debt to assets (DTA) ratio measures the percentage of KCA DEUTAG's total assets that have been financed with debts. The higher the ratio, the higher the degree of leverage. It is calculated by dividing the total debt by the total assets.

At the end of Q3 2023, the DTA ratio was 0.28 (656.9/2341.1), while at the end of Q3 2022, the DTA ratio was 0.2 (322.6/1599.9).

In conclusion, As KCA DEUTAG's DTA (Debt-to-Assets) ratio increases, it reflects an increase in the degree of leverage.

Summary: The analysis of KCA DEUTAG's long-term financial stability shows that the company has taken on more debt, which could make it harder to repay. This could affect the company's ability to handle its long-term finances. The company needs to keep a close watch on this situation.

Market-Based Ratio

Market value ratios are financial metrics that measure and analyze stock prices. They are used to compare market prices with those of competitors and against other facts and figures. These ratios track the financial performance of public companies to understand their position in the market.

[Deskera Content Team \(n.d.\)](#)

Earnings per Share (EPS)

EPS (Earnings Per Share) is calculated using the formula (Net income—Preferred dividends) / Number of equity shares outstanding. In 2023 Q3, the number of equity shares outstanding was unavailable, so the EPS could not be determined.

Cash Earnings Per Share (CEPS)

Cash earnings per share, also known as operating cash flow, is a ratio used to evaluate a company's financial performance by comparing its cash flow to the number of shares outstanding, the number of shares outstanding is not known, therefore, the CEPS cannot be determined.

Without the necessary information on the company's shares and share price, the analysis of the market-based ratios is limited. The financial statements do not contain the data to calculate these essential market-based metrics.

Improvement Suggestions

After reviewing KCA DEUTAG's financial performance and position, the following recommendations are suggested to help improve the company's business:

Improve Inventory Management

Remember: It's a good opportunity to improve inventory management and ensure you have the right stock. By improving how you predict demand, manage stock levels, and make inventory processes.

Enhance Debt Management

The company's future financial stability is at risk because the amount of money it owes compared to the money it has or has invested is growing too high. This is a big problem that needs attention. KCA DEUTAG needs to find ways to reduce how much the company owes, like getting new loans with better terms, changing the way it owes money, or raising money by selling shares. This will make it easier for the company to manage its debt in the long term. Also, it needs to make sure the way the company owes money and its plan to pay it back to match its cash flow and how it runs the business.

Improve Cost Management

While KCA DEUTAG has shown improved operational efficiency, as seen in the higher EBITDA and operating profit margins, there may still be more opportunities to reduce costs. Conduct a thorough review of the company's cost structure and find areas where costs can be saved, such as optimizing the workforce, renegotiating supplier contracts, and streamlining operations.

By addressing these areas, KCA DEUTAG can fortify its financial position, enhance operational efficiency, and bolster its long-term competitiveness and growth potential, ultimately generating more value for its shareholders and stakeholders.

Possible New Investment Potential

KCA DEUTAG capital by the end of Q3 2023 is \$406.6 million, it is proposed to use 40% of the total capital in new investment which is \$162.64 million

Net Present Value (NPV)

Net Present Value (NPV) is the total value of all future cash flows (positive and negative) discounted to the present. NPV analysis is widely used in finance and accounting to determine the value of a business, investment security, capital project, or any initiative involving cash flow.

The formula is: $NPV = (Z1 / (1 + r)^1) + (Z2 / (1 + r)^2) - X0$

Where:

$Z1$ = Cash flow in time 1= \$- 41.3 million

$Z2$ = Cash flow in time 2= \$ - 9.3 million

r = Discount rate= approximately 10%

$X0$ = Cash outflow in time 0 (initial investment)= \$162.64 million

$NPV = -41.3/(1+0.1) + - 9.3 / (1+0.1)^2 - 162.64 = -37.55 - 7.7 = -207.88$

The Net present value is negative, which indicates that current new investment is not recommended, especially with the bad long-term solvency and debt situation. [CFI team \(n.d.\)](#)

Weighted Average Cost of Capital (WACC)

The weighted average cost of capital (WACC) is the average rate a business pays to finance its assets. It's calculated by finding the average of the rates of all the company's sources of capital (which include debt and equity). Then, these rates are weighted based on the proportion of each component.

$WACC = k(SE) * [SE/(SE+D)] + [D/(SE+D)] * [k(D) * (1 - \text{tax rate})]$

$K(SE)$ = Rate of return required by shareholders = not included

SE = Shareholders' equity= \$406.6 million

D = Total debt = \$(656.9) million

$K(D)$ = average interest rate on debt incurred = not included in the report

Due to missing information, I will not be able to calculate the WACC.

Summary: due to the amount of cash injected into the new acquisition of Saipem, and the negative long-term solvency situation, it is not recommended to invest in other investments.

[BDC.ca website \(n.d.\)](#)

Should the company pay the return earnings?

My advice for KCA DEUTAG is to hold off on paying out dividends and prioritize reinvesting in the business and reducing debt.

Here are the key reasons why:

Debt Management Concerns

The company's increasing debt-to-equity and debt-to-capital ratios reflect concerns about its long-term solvency. Distributing dividends could strain its financial resources and limit its ability to manage debt levels.

Liquidity and Working Capital Management

KCA DEUTAG's short-term liquidity is strong, but inventory levels indicate room for improvement in working capital management. Retaining earnings would enhance financial flexibility, improving working capital efficiency and healthy liquidity.

Potential Strategic Alternatives:

KCA DEUTAG needs to focus on strengthening its financial base, reducing debt, and reinvesting in the business to support sustainable growth before contemplating dividends for shareholders.

Once the company addresses its debt and liquidity concerns, it can implement a balanced capital allocation strategy that includes providing returns to shareholders.

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The value of all future cash flows over an investment's entire life discounted to the present.

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