

FINANCIAL MANAGEMENT

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Part A: About the company

Brief history of Nike

Nike is quite possibly of the most notable organization in the world, since its establishment in 1964. The organization has produced a recognized profession in the sports footwear and clothing area. “Blue Ribbon Sports” was first settled by “Bill Bowerman and Phil Knight” as a wholesaler for the “Japanese shoe manufacturer Onitsuka Tiger”. The business began creating its scope of shoes in 1971 and changed its name to Nike, after the *Greek goddess of victory*. Nike's business system is focused on worldwide development, marketing, and advancement. With materials like *Air and Flyknit* to further develop solace and execution, the firm pushes constantly the limits of innovation in shoe plans (Nike, 2024). Its exemplary marketing campaigns, which much of the time include effective competitors and spread a motivational message of greatness and strengthening, are notable. Nike's business procedure has coordinated social and environmental responsibility into its activities through projects, for example, the *Nike Grind project*, which reuses utilized athletic shoes into new things.

Taking into account a worldwide impression and a predominant situation in the sportswear business, Nike is an easily recognized name (Nike, 2024). Sports and exercises going from basketball and running to soccer and golf are taken care of by its products. In order to give openness to clients worldwide, the firm manages a mix of retail stores, web deals, and collaborations with outsider shippers. Nike has areas of strength with competitors like *Adidas, Under Armor, Puma, and New Balance* with its place of solidarity on the lookout. In the extraordinarily profitable sports clothing area, these rivals try constantly to develop and acquire a piece of the pie. *Adidas is an extremely strong competitor* with a large number of items and laid-out brand presence within the market in an efficient manner.

Review of major events over the past five years

FY 2018: Despite isolating consumers, Colin Kaepernick's "Just Do It" business for Nike became famous online. Even though the precise sales numbers for the mission's immediate impact are not disclosed to the public, it is said that after the promotion was sent, Nike's brand recognition increased by 17% (Nike, 2024). With this audacious marketing strategy, the organization's brand messaging advanced toward societal consciousness.

FY 2019: After getting backlash, Nike chose to scrap a shoe design using the Betsy Ross flag. The quarter saw a 3% drop in sales in North America, despite the way that the monetary

effect was immaterial. It was obvious from this that the business was mindful of possible cultural blunders.

FY 2020: At the hour of John Donahoe's arrangement as Chief, Coronavirus was causing a 5% decrease in sales in China — the first such loss in six years. Online sales, in any case, increased 44% to \$5.5 billion. During this time, the emphasis shifted to online business.

FY 2021: Although there had been no significant public events reported, this would have been an extended time of continuous adjustment to the post-pandemic retail climate.

FY 2022: Nike took full advantage of the way that there will be significant athletic events in the summer of 2024 by uncovering the new uniforms for the Olympics in Paris. Also, they had the option to get sponsorships from various European soccer teams (Nike, 2024). Despite a previous decreased sales assumption, this determined work to capitalize on the high-profile events is probably going to add to a projected single-digit rate revenue rise. This demonstrates their emphasis on exploiting notable athletic events.

Part B: Critical Review of the company's financial performance

Calculation of financial ratios

Profitability Ratios

Particulars	Nike Inc.					Adidas				
Input data for Profitability Ratios:	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Gross Profit	22,292.00	21,479.00	19,962.00	16,241.00	17,474.00	10,184.00	10,644.00	10,765.00	9,222.00	12,293.00
Pretax Income	6,201.00	6,651.00	6,661.00	2,887.00	4,801.00	65.00	388.00	1,852.00	575.00	2,558.00
Net Income	5,070.00	6,046.00	5,727.00	2,539.00	4,029.00	-14.00	638.00	2,158.00	443.00	1,977.00
Sales	51,217.00	46,710.00	44,538.00	37,403.00	39,117.00	21,427.00	22,511.00	21,234.00	18,435.00	23,640.00

	14,0	15,2	12,7							
	04.0	81.0	67.0	8,05	9,04	4,92	5,35	7,83	6,69	7,05
Total Equity	0	0	0	5.00	0.00	5.00	1.00	7.00	1.00	8.00
	37,5	40,3	37,7	31,3	23,7	18,0	20,2	22,1	21,0	20,6
	31.0	21.0	40.0	42.0	17.0	20.0	96.0	37.0	53.0	80.0
Total Assets	0	0	0	0	0	0	0	0	0	0
PROFITABILITY RATIOS:										
Gross Margin	44%	46%	45%	43%	45%	48%	47%	51%	50%	52%
Gross Profit/Sales										
Pretax Margin	12%	14%	15%	8%	12%	0%	2%	9%	3%	11%
Pretax Income/Sales										
Net Profit Margin	10%	13%	13%	7%	10%	0%	3%	10%	2%	8%
Net Income/Sales										
Return on Equity (ROE)	36%	40%	45%	32%	45%	0%	12%	28%	7%	28%
Net Income/Total Equity										
Return on Assets (ROA)	14%	15%	15%	8%	17%	0%	3%	10%	2%	10%
Net Income/Total Assets										

Table 1: Profitability Ratios of Nike Inc. and Adidas

(Source: Created by author)

Liquidity Ratios

Particulars	Nike Inc.	Adidas
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Input data for						20	20	20	20	20
Liquidity Ratios:	2023	2022	2021	2020	2019	23	22	21	20	19
Current Assets	25,202.00	28,213.00	26,291.00	20,556.00	16,525.00	9,809	11,732	13,944	12,154	10,934
Current Liabilities	9,256.00	10,730.00	9,674.00	8,284.00	7,866.00	8,043	9,257	8,965	8,827	8,754
Inventories	8,454.00	8,420.00	6,854.00	7,367.00	5,622.00	4,525	5,973	4,009	4,397	4,085
Cash	7,441.00	8,574.00	9,889.00	8,348.00	4,466.00	1,431	798	3,828	3,994	2,220
LIQUIDITY RATIOS:										
Current Ratio (ZENDESK)	2.72	2.63	2.72	2.48	2.10	1.22	1.27	1.56	1.38	1.25
Current Assets/Current Liabilities										
Quick Ratio (or Acid Test Ratio)	1.81	1.84	2.01	1.59	1.39	0.66	0.62	1.11	0.88	0.78
(Current Assets-Inventories)/Current Liabilities										
Cash Ratio	0.80	0.80	1.02	1.01	0.57	0.18	0.09	0.43	0.45	0.25
Cash/Current Liabilities										

Table 2: Liquidity Ratios of Nike Inc. and Adidas

(Source: Created by author)

Gearing Ratios

Particulars	Nike Inc.					Adidas				
Gearing ratio Input:	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Total Debt	9,256	8,920	9,413	9,406	3,464	2,430	2,946	2,466	2,482	1,595
Total Equity	14,004	15,281	12,767	8,055	9,040	4,925	5,351	7,837	6,691	7,058
Total Assets	37,531	40,321	37,740	31,342	23,717	18,020	20,296	22,137	21,053	20,680
EBIT (Operating income)	6,201	6,651	6,661	2,887	4,801	268	669	1,986	751	2,660
Interest Expense	-6	205	262	89	49	282	320	153	196	166
GEARING RATIOS:										
Debt-to-Equity Ratio	0.66	0.58	0.74	1.17	0.38	0.49	0.55	0.31	0.37	0.23
Total Debt/Total Equity										
Debt-To-Asset Ratio	0.25	0.22	0.25	0.30	0.15	0.13	0.15	0.11	0.12	0.08
Total Debt/Total Assets										
Interest Coverage Ratio	0.00	0.03	0.04	0.03	0.01	1.05	0.48	0.08	0.26	0.06
EBIT/Interest Expense										

Table 3: Gearing Ratios of Nike Inc. and Adidas

(Source: Created by author)

Efficiency Ratios

Particulars	Nike Inc.					Adidas				
Efficiency	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019

Ratios Input						3	2	1	0	9
Sales	51,2 17	46,7 10	44,5 38	37,4 03	39,1 17	21,4 27	22,5 11	21,2 34	18,4 35	23,6 40
Accounts Receivable	4,13 1	4,66 7	4,46 3	2,74 9	4,27 2	1,90 6	2,52 9	2,17 5	1,95 2	2,62 5
Accounts Payable	2,86 2	3,35 8	2,83 6	2,24 8	2,61 2	2,27 6	2,90 8	2,29 4	2,39 0	2,70 3
COGS	28,9 25	25,2 31	24,5 76	21,1 62	21,6 43	11,2 44	11,8 67	10,4 69	9,21 3	11,3 47
Inventory	8,45 4.00	8,42 0.00	6,85 4.00	7,36 7.00	5,62 2.00	4,52 5	5,97 3	4,00 9	4,39 7	4,08 5
Total assets	37,5 31	40,3 21	37,7 40	31,3 42	23,7 17	18,0 20	20,2 96	22,1 37	21,0 53	20,6 80
EFFICIENCY RATIOS										
Asset Turnover Ratio	1.36	1.16	1.18	1.19	1.65	1.19	1.11	0.96	0.88	1.14
(Net Sales/Total assets)										
Accounts Receivable Turnover	12.4 0	10.0 1	9.98	13.6 1	9.16	11.2 4	8.90	9.76	9.44	9.01
(Net Sales/ Accounts Receivable)										
Inventory Turnover	3.42	3.00	3.59	2.87	3.85	2.48	1.99	2.61	2.10	2.78
(COGS/Inventory)										
Accounts Payable Turnover Ratio	10.1 1	7.51	8.67	9.41	8.29	4.94	4.08	4.56	3.85	4.20
(COGS/Account										

s Payable)

Table 4: Efficiency Ratios of Nike Inc. and Adidas

(Source: Created by author)

Critical evaluation of ratios

Profitability Ratios

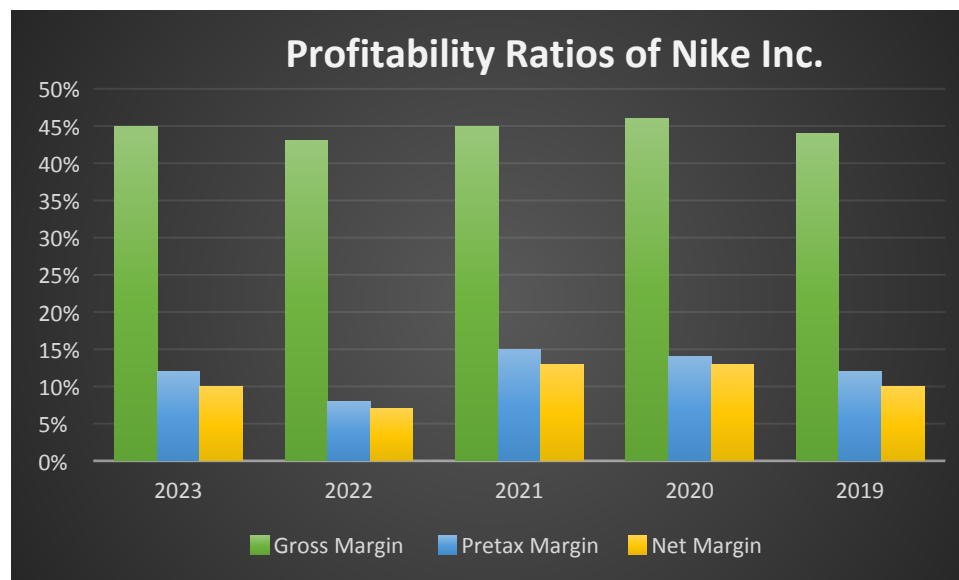


Figure 1: Profitability Ratios of Nike

(Source: Created by author)

The aforementioned chart indicates that The performance of Nike Inc. is average in terms of its profitability. Gross profit margin is associated with measuring the ability of an organisation to manage its direct cost and generate profit from its revenue. A good value of gross profit margin is always greater than 60% (Nariswari, and Nugraha, 2020). In this respect, the performance of Nike Inc. achieved only 44% in 2023. In the last 5 years, the gross profit margin of this company has been stable. The highest gross profit margin will be 46% in 2022.

Pretext profit margin refers to a financial ratio that assesses the proportion of profit by an organisation in relation to its revenue (Choiriyah et al., 2020). A good value of the pretext margin is always close to 25%. The performance of the pretext magazine shows that the profitability of Nike is average. However, it has become successful in managing its operating costs and financial costs to generate profit from its revenue. In 2020 the value of the pretext margin was 8% which was the lowest protected margin of this company and in 2022 the

company achieved a pretax margin of 14%. There has been a declining trend in pretext margin that denotes a reduced ability to generate profit from its revenue. A better value of net profit margin is 10% which is considered as healthy (Markonah et al., 2020). In 2021 and 2022 the company had a healthy net profit margin value of 13% which depicts the maximum ability of the company to generate profit by managing its cost. However, in 2023 the performance has decreased and the value of the net profit margin has been accounted for 10%.

ROE or return on equity is regarded as a profitability ratio that analyses the ability of a company to generate profit from its equity (Hertina, 2021). Higher equity denotes that the business has the ability to convert its equity financing into profit. It has been noticed that the return on equity of Nike is excellent. This is because in 2022 a 40% return on equity indicates the highest ability of a company to generate profit from its equity. It clearly signifies that 40% of equity could be converted into profit. In 2020 the business has achieved the lowest return on equity which is 32%. In 2019, the value was 45% which is the highest ROE of this company. A return on asset (ROA) is another profitability ratio that indicates the profitability of a company in relation to its total assets (Ledley et al., 2020). A better ROA is always close to 5% and a 20% ROA could be considered as healthy. The performance of the ROA of Nike Inc. states that if maintained a better return on assets. It has the ability to manage its assets to generate better profitability. In 2019, it achieved 17% of ROA which is a better RO. A declining trend in the ROA of this company indicates that the business is not maintaining its assets to generate profit in an efficient manner.

Liquidity Ratios

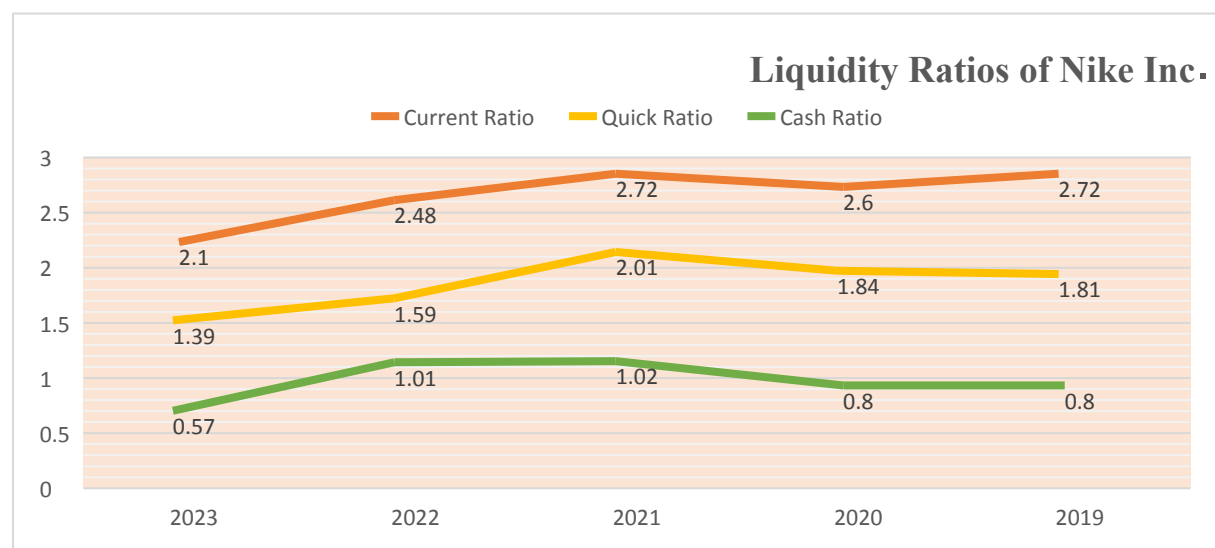


Figure 2: Liquidity Ratios of Nike Inc

(Source: Created by author)

The liquidity ratio is associated with evaluating the ability of a company to pay short-term debt obligations (Zuliyana *et al.*, 2023). The current ratio is engaged to assess the performance of the company to analyse the ability of the current asset to pay its current liability. A good value of the current ratio is close to 1 (Dirman, 2020). In the last 5 years, Nike perfectly maintained its liquidity position in terms of paying and its current liabilities by using its current assets. The highest liquidity has been achieved into 2021 and 2023 by Nike Inc. performance indicates that the company is over-liquidated indicating the company holds more cash that could affect the working capital management of this company.

On the other hand, a quick ratio is engaged to measure the ability of an organisation to quickly convert liquid assets into cash in terms of paying a short-term financial obligation. A positive quick ratio represents a company's ability to sustain emergencies and temporary cash flow problems (Okeke *et al.*, 2021). The performance of Nike states that the business is able to convert its assets to cash to manage obligations for the short-term period. In 2019, it accounted for 1.39 which was the lowest and an upward trend has been noticed in its quick ratio. In 2020 the value of quick ratio is 1.81.

A cash ratio is referred to as a liquidity ratio that measures the ability of the company to use its cash to pay its current liability (Mohammed *et al.*, 2020). A preferred cash ratio is 0.50 to 1. In this respect, the performance of Nike shows that the business has more cash to pay its debt obligations. In the financial year, 2021, it achieved the highest cash ratio of 1.02 indicated in the perfect ability of the company to pay its short-term debt application by using its cash. After that a declining trend in ratio represents the business that has been trying to mitigate the cash flow issues.

Gearing Ratios

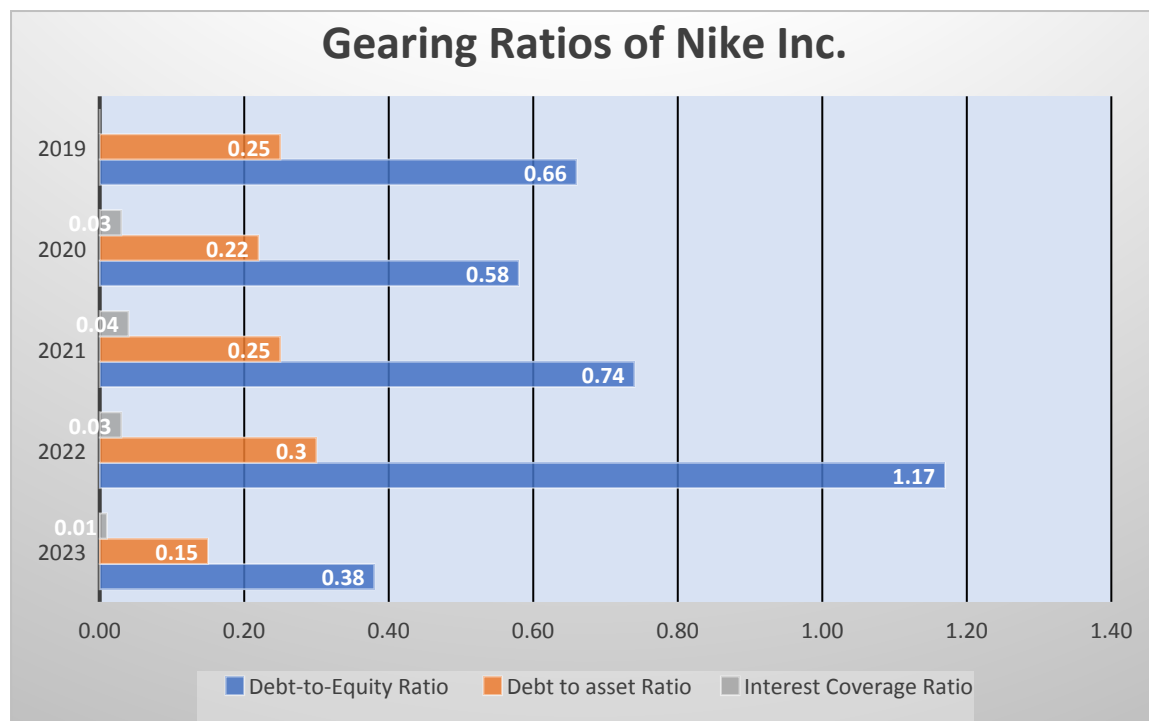


Figure 3: Gearing Ratios of Nike Inc.

(Source: Created by author)

The gearing ratio is associated with measuring the ability of the company to focus on its paying long-term liabilities. A debt-to-equity ratio refers to a financial ratio that indicates the proportion of shareholders' equity and debt to raise the finances of a company (Irsan, and Rambe, 2021). An optimal value of debt equity varies by industry but it must not be above the level of 2.0. In the context of Nike Inc it has been noticed that the company has gained the ability to maintain its debt and equity to finance its assets. This is because the highest debt-to-equity ratio has been valued at 1.17 which clearly indicates only 6% day is used to raise finance. Thus, it can be stated that the company maintains an optimal capital structure in the business that maximises the efficiency of debt and equity to raise finance.

The debt ratio could be measured by dividing the total debt by its total assets which defines the amount of debt carried by the company compared to its owned assets (Gunawan *et al.*, 2022). A better debt-to-asset ratio should be below 1 and a debt ratio above 2.0 might be considered as risky. In the last five financial years, the highest value of debt-to-asset ratio was 0.3 indicating 30% of assets are financed by the debt capital. In 2023, the company has reduced its debt positively impacting financing assets as the value indicates only 0.15

The value of interest coverage ratio is engaged to assess the ability of the company to pay financial expenses by using its operating profit (Rachman *et al.*, 2023). A higher interest

coverage ratio represents a strong financial position of the company indicating the ability of the company to meet its interest obligation. The performance of Nike Inc. in terms of interest coverage ratio is average because the protected profit margin of this company is lower and the finance expenses are higher. In 2023 it gained 0% interest coverage which indicates the business has no interest expenses.

Efficiency Ratios

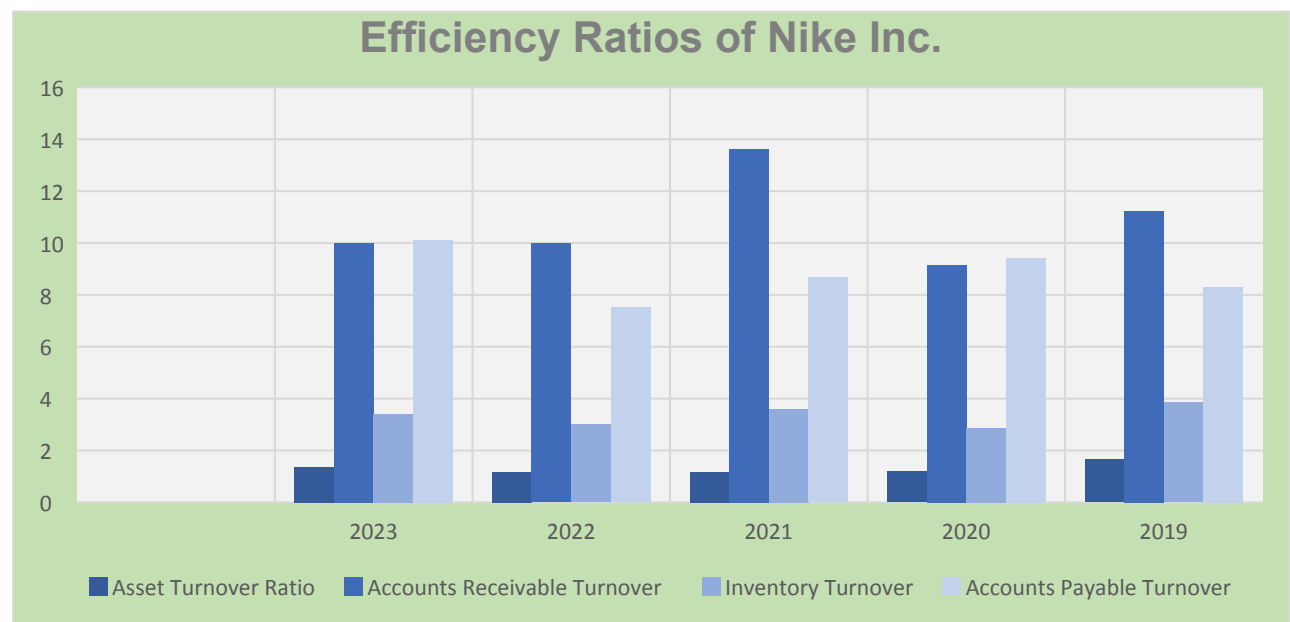


Figure 4: Efficiency Ratios of Nike Inc.

(Source: Created by author)

The asset turnover ratio refers to the ability of the company to manage assets in terms of generating sales. A higher asset turnover ratio indicates the efficiency of the organisation to utilise assets to generate sales (Kadochnikova et al., 2020). Analysing the performance of Nike, it can be stated that the business has an average efficiency in managing its assets. In 2019 performance in this year the performance has decreased, indicating the inability of the company to manage its assets. A good inventory turnover ratio is always between 5 to 10 which represents the company has the ability to manage, restock, and sell its inventory within 1 to 2 months (Siregar, and Harahap, 2021). The present performance of Nike shoes shows that the business has enough efficiency to maintain its inventory. In the last 5 years, the business efficiently handled its inventory and three stocks in 1.5 months. The accounts payable ratio is engaged to measure the effect of the business in paying its suppliers (Patin et al., 2020). It is important to clear payments to the suppliers to manage an effective working capital. In Nike, there is a requirement to focus on the payment term as the accounts payable

turnover is higher. It indicates delays in the payment that could hamper trepidation in this competitive market. On the other hand, the accounts receivable turnover ratio shows the efficiency of the organisation in collecting its payment to its customers. Every 45 days, the debt amount should be collected to increase the efficiency of the business. In this respect, Nike achieved an average accounts receivable turnover that could negatively influence the payment terms and cash flow of the business.

Comparison of financial performance of Nike Inc. with Adidas

In terms of profitability, Adidas gained a higher gross profit margin in these 5 years which indicates more ability than Nike Inc. to manage its cost of sales. The highest gross profit margin has been accounted for 52% in 2019 and the lowest profit margin has been accounted for 47% which is in 2022. However, the net profit margin and the pretext profit margin are not feasible for Adidas as the company failed to maintain its cost of operation. As denoted by Kartikasary *et al* (2021), the profit margin indicates that the company spent more than its revenue. In 2019, the pretext profit margin and net profit margin were healthy. In the last 4 years, the company has decreased its performance and reduced its competitiveness in the business. In the context of ROA and ROE, in 2023, Adidas has not performed well. Thus, the profitability performance of Nike is better than Adidas.

The liquidity performance of Nike is also better than Adidas. In the financial year of 2021, Adidas achieved the highest current ratio of 1.56 indicating the maximum ability of the business to pay its short-term debt obligations. The lowest current ratio is valued at 1.22 in 2023 which does not affect its liquidity. In addition, the quick ratio indicates that Adidas performed well. However, there is a declined trend in quick ratio representing the business has been facing a cash flow issue (Cipta *et al.*, 2020). The performance of cash ratio is stressful for Adidas as in 2022, it was valued at 0.09. It indicates the business does not hold enough cash to pay its short-term debt obligation.

In managing long-term solvency, Adidas has performed better than Nike. It has been noticed that the business has reduced its debt in 2023 resulting in 0.49 in 2023. In 2019, the debt-to-equity ratio was 0.23 which represented only 23% of debt capital financed. Nevertheless, the business is using a more conservative capital structure in the business as it relies on equity capital. Similarly, the performance of the debt ratio shows that the bush uses a small amount of debt to finance its assets. The lowest value of the debt ratio is 0.11 in 2021. The value of the interest coverage ratio shows the average ability of Adidas to pay its interest obligation.

In the realm of asset turnover ratio, it can be stated that the performance of Nike is better than Adidas. The lowest asset turnover rate of Adidas is valued at 0.88 in 2020 and in 2023 it was 1.11 which indicates the business has been improving the management of assets in terms of generating revenue. The inventory turnover ratio is not feasible for Adidas. The value represents that the business faces an inventory shortage that affects its sales performance. Both Adidas and Nike need to implement a better payment term to improve their collection from debtors and pay to their suppliers.

Recommendation to improve financial management

Bettering customer payment terms

It is recommended that Nike implement a better payment policy to collect payments from its customers. Business faces a major problem because of the late customer payment. In order to mitigate the risks of late or non-payment of customers, the company should make credit terms and conditions by issuing invoices in an accurate manner (Salamah, 2023). Utilising a computerised credit Management system to keep track of the customer account could ensure the customer payment on time.

More efficient control of the overhead cost

If the business wants to increase revenue and profitability there is a requirement to cut costs including heating lighting officer equipment and air conditioning to save money by using alternative energy resources (Adiputra, and Patricia, 2020).

Managing inventory

It is one of the four most important responsibilities of business management to implement a computerised inventory management tool that could ensure efficient stock control features to understand the right amount of stock available at the right time. It helps to maintain a balance in the capital structure as it assists in understanding the working capital Management and the level of cash to stock the raw materials or products (Byrapu, 2023). Controlling stock will enable Nike to maintain track of the stock level and working capital Management. The uses of cloud-based inventory management will enable to provide an up-to-date data on sales trend

Selling of unnecessary assets

It is important to sell unnecessary assets that could not provide more benefits to the company. These kinds of assets need maintenance costs which are unnecessary for the business. There is a requirement to cut this expense (Sathyamoorthi *et al.*, 2020). Moreover, it could be a source of cash that could improve cash flow in an emergency situation.

Making a clear financial plan

Nike Inc. needs to create a well-organized financial plan that could assist in outlining and forecasting the cost and revenue of the business. Additionally, it should keep a record of daily transactions to understand the financial position of the company

Optimising cash flow

It is recommended to monitor the cash inflows and cash outflows of the company to comprehend any cash deficit that could hamper the business activities. The business must track the outstanding invoices to ensure the inflow of cash within the business.

Part C: Prospects for a range of new investment opportunities.

1. Calculation of the Payback Period (PBP), Accounting Rate of Return (ARR) and the Net Present Value (NPV) of the project

“Payback Period (PBP)”

"Payback period" (Project A)			
Year	“Cash flows (£m)”	“Cumulative cash flows (£m)”	“Payback period (Days)”
1	2500	2500	14.4
2	2000	4500	
3	1000	5500	
4	-442	5058	

Table 1: “Payback period of project A”

(Source: Created by learner)

“Payback period (Project B)”			
Year	“Cash flows (£m)”	“Cumulative cash flows (£m)”	“Payback period (Days)”
1	1500	1500	9.4
2	1000	2500	
3	1000	3500	
4	-470	3030	

Table 2: “Payback period of project B”

(Source: Created by learner)

The “payback period of Project B” is 9.4 days, while the “payback period of Project A” is 14.4 days. This proposes that Project B recuperates its initial investment all the more rapidly, which may be invaluable for risk management and liquidity.

“Accounting Rate of Return (ARR)”

“Accounting rate of return (ARR) Project (A)”	
Year	“Cash flows (£m)”
0	-5000
1	2500
2	2000
3	1000
4	-442
"Annual cash flows"	5058
"Average annual cash flow"	14.5
"Accounting rate of return" (ARR)	0.29%

Table 3: Accounting rate of return of project A

(Source: Created by learner)

“Accounting rate of return (ARR) Project (A)”	
Year	“Cash flows (£m)”
0	-1000
1	1500
2	1000
3	1000
4	-470
"Annual cash flows"	3030
"Average annual cash flow"	507.5
"Accounting rate of return" (ARR)	50.75%

Table 4: Accounting rate of return of project B

(Source: Created by learner)

Project B's general “Accounting Rate of Return (ARR)” extensively surpasses the ARR of Project A. Contrasted with Project A, which has an ARR of 0.29%, Project B has an ARR of 50.75%, which shows a far superior return on the initial investment. This shows that, in contrast with its initial investment, Project B generates normal yearly incomes that are altogether bigger.

Net Present Value (NPV)

“Calculation of NPV for Project A”					
Particulars	“Year 0 (£m)”	“Year 1 (£m)”	“Year 2 (£m)”	“Year 3 (£m)”	“Year 4 (£m)”
Initial Investment	-5000				
Cash Flow		2500	2000	1000	-442
Discounting Rate	1	0.993	0.985	0.978	0.971
Discounting Cash flow	-5000	2481.39	1970.33	977.83	-428.98
NPV (£m)	0.57				

Table 5: NPV of project A

(Source: Created by learner)

“Calculation of NPV for Project A”					
Particulars	“Year 0 (£m)”	“Year 1 (£m)”	“Year 2 (£m)”	“Year 3 (£m)”	“Year 4 (£m)”
Initial Investment	-1000				
Cash Flow		1500	1000	1000	-470
Discounting Rate	1	0.993	0.985	0.978	0.971
Discounting Cash flow	-1000	1488.8 3	985.17	977.83	-456.16
NPV (£m)	1995.67				

Table 6: NPV of project B

(Source: Created by learner)

Moreover, “Project B's Net Present Value (NPV)” shows that it is the better decision. The “net present value (NPV)” of Project B is £1995.67 million, yet Project A just generates an irrelevant positive NPV of £0.57 million. A project with a positive net present value (NPV) enhances the firm since its anticipated incomes surpass the initial investment.

Project B seems to be the better investment choice when all three considerations are taken into account. Comparing it to Project A, it yields a much higher NPV, a much higher ARR, and a shorter payback period. Over the project's lifespan, Project B generates larger revenues, adds value to the business, and quickly recovers its initial outlay. The better financial performance as well as the potential for larger returns of *Project B* lead one to recommend that it be chosen over Project A.

2. Recalculation of NPV

Calculation of NPV for Project A					
Particulars	Year 0	Year 1	Year 2	Year 3	Year 4
Initial Investment	-5500				
Cash Flow		2250	1800	900	-486.2
Discounting Rate	1	0.993	0.985	0.978	0.971
Discounting Cash flow	-5500	2233.25	1773.30	880.05	-471.88
NPV (£m)	-1085.28				

Table 7: Adjusted NPV of project A

(Source: Created by learner)

“Calculation of NPV for Project A”					
Particulars	“Year 0 (£m)”	“Year 1 (£m)”	“Year 2 (£m)”	“Year 3 (£m)”	“Year 4 (£m)”
Initial Investment	-1100				
Cash Flow		1350	900	900	-517
Discounting Rate	1	0.993	0.985	0.978	0.971
Discounting Cash flow	-1100	1339.95	886.65	880.05	-501.78
NPV (£m)	1504.87				

Table 8: Adjusted NPV of project B

(Source: Created by learner)

After adjusting the initial investments for each project to increase by 10% and reducing all cash flows by 10%, the recalculated Net Present Values (NPVs) of Project A is -1085.28 (£m) and Project B is 1504.87 (£m). The Net Present Values (NPVs) of the two projects have been modified by the progressions made to the first investments and incomes (Alsharif *et al.* 2021). Indeed, even after the changes, Project B's NPV stays positive, showing its supportability as an investment, though Project A's NPV proceeds to decline and enters a negative area. This suggests that considering the changes, Project A probably won't be monetarily judicious. In this manner, even after the changes, Project B is as yet a preferable investment over Project A. Notwithstanding the progressions to the first suspicions, it shows strength in holding a positive NPV, repeating its draw as an effective investment opportunity.

3. Advantages and shortcomings of the PBP, ARR and NPV technique

Advantages and shortcomings of PBP

The significant advantage of the payback period is that it's clear and easy to grasp. For directors and stakeholders searching for fast returns, it offers an obvious sign of what amount of time it requires to recover the initial investment, which might tempt. According to Huang *et al.* (2022), PBP puts areas of strength at on risk to the executives and liquidity since projects with more limited payback times are regularly considered less perilous. Nonetheless, PBP ignores “cash flows that happen past the payback period” and does not take the “time value of money into account”, which could bring about inaccurate appraisals of long-term profitability. In light of this downside, PBP is less suitable for contrasting tasks and different cash flow examples or investment skylines.

Advantages and shortcomings of NPV

NPV gives a proportion of the project's value in current terms by applying a predefined discount rate to future cash flows, which takes them back to their current value. This makes it conceivable to assess profitability more meticulously and to contrast projects and different terms and cash flow designs. According to Sinaga *et al.* (2023), NPV is an incredible asset for decision-making since it incorporates the discount rate and considers the gamble connected with future cash flows. Nonetheless, NPV requires exact evaluations of discount rates and cash flows, which can be challenging to stop by, especially for long-term projects. Besides, dissimilar to PBP or ARR, NPV doesn't instinctively uncover data about the task's payback term or return on investment.

Advantages and shortcomings of the ARR

A broadly used technique that has the benefit of being clear and knowledgeable in accounting ideas is the “Accounting Rate of Return (ARR)”. Utilizing a rate proportion of return, ARR registers the typical yearly profit a venture makes in contrast with its unique investment. It is subsequently easy to comprehend and assess comparable to other investment choices. As per the view of Eferakeya *et al.* (2022), the time value of money isn't thought about by ARR, which is reliant upon accounting profits instead of cash flows, which are dependent upon control by accounting hypotheses. ARR is additionally less valuable in surveying the profitability of long-term investments as it doesn't think about the measurement of the venture or the gamble of future cash flows.

4. Non-financial factors management needs to consider

The board should assess capital ventures using various non-financial factors notwithstanding financial ones. The achievement and long-term practicality of an undertaking can be incredibly impacted by a few variables:

Strategic alignment: The strategic alignment of a task with the association's values, mission, and long-term objectives is something that the administration ought to assess. An association's general achievement is bound to result from projects that advance its strategic objectives (Sriphrabu *et al.* 2023).

Regulatory and Legal Compliance: It's basic to comply with industry standards, legal guidelines, and regulatory necessities. Resistance can undermine the undertaking's positive outcome by resulting in punishments, legal difficulties, and reputational hurt.

Environmental and Social Impact: It is becoming more significant than at any time in recent memory to assess a venture's consequences for the climate and society. According to the opinion of Eferakeya *et al.* (2022), in order to ensure moral organization activities, the board ought to consider components like sustainability, local area impact, and moral uncertainties.

Demand and Rivalry in the Market: It is fundamental to appreciate shopper inclinations, market patterns, and serious elements. The board might turn out to be more mindful of development prospects and predict dangers by doing a careful exploration of market demand and imminent contenders.

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