

LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	Gurumukh Singh Pavitar Singh Sandhu	Student ID number:	2434321
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Lecturer:	Shengfeng Mei (London)	Internal Verifier:	Vasilios Tavlaridis and Hoang Nguyen
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Academic honesty / referencing:	Academic honesty is required. In the main body of your submission, you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

Module Learning Outcomes (from module syllabus)

Upon the successful completion of this module, the student should be able to demonstrate the ability to:

- apply and evaluate a variety of financial assessment techniques for application to a case study;
- evaluate and critically discuss various issues and theoretical frameworks used in the management and control of financial resources.

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Main Report

1. Introduction

1.1 Overview of General Electronics and the CFO's role in addressing its financial challenges

General Electronics is one of the major companies in the consumer electronics market that is experiencing serious financial problems. The company has been facing a negative growth of sales and profitability over the last five years, with the operating expenses growing and the debt level increasing. The main task as the new Chief Financial Officer (CFO) is to overcome these financial issues. The CFO has to examine the financial statements of the firm, establish major performance problems, and apply a strategic financial turnaround. In this position, there is also the need to supervise key working capital decisions, investment appraisals, and corporate restructuring, to see the company back on its feet of financial stability and growth.

1.2 Purpose and structure of the report

This report intends to give a detailed review of the financial performance of General Electronics in the past five years, the major issues that have impacted the profitability of the company, and the possible turnaround plan. The report has been formatted in such a way that it encompasses financial health check, working capital analysis, strategic financial restructuring and investment appraisal to facilitate recovery of the company.

2. Evaluation of Financial Health

2.1 Analysis of financial statements

Consolidated Statement of Financial Position:

The balance sheet indicates a falling trend in current assets as well as the total assets. The current assets also declined by 6.3% in 2023 to 2024, mainly due to a decline in inventories (£88.3 million to 79.4 million) and accounts receivable (112.6 million to 114.2 million). The decrease in stocks could indicate a decrease in demand of the products, which could be related to the falling net sales (Hasanaj and Kuqi, 2019).

Under the liabilities section, current liabilities have decreased by a small percentage of 1.8, between 2023 and 2024 by 161.1 million and 158.3 million respectively. Credit lines also have gone down, by 2023 to 2024, by a margin of -55 to -36.96 million, and possibly due to the attempts to cut down on borrowing or to reorganize the debt.

The equity of the shareholders has been steadily decreasing as the company has been experiencing losses, as it was at 313.3 million in 2020 and 153.1 million in 2024. This means that there will be a decrease in retained earnings and that may affect the capacity of the company to attract additional investments since the financial position has been weakened (Drake and Fabozzi, 2012).

Consolidated Income Statement:

General Electronics has been experiencing financial variance in the last five years. Between 2020 and 2024, the net sales decreased by 36% (394.9 million). This implies that their market share can be affected by the declining demand or intense competition in the consumer electronics industry (Fridson and Alvarez, 2022).

In 2024, the cost of sales was 280.9 million compared to 438.4 million in 2020. The sales are down, but cost of sales is down and this means that the company is becoming more efficient or the supplier contract has become better. The gross profit decreased considerably in comparison to 2020 (176.3 million) and 2024 (113.99 million). The gross margin percentage has improved despite the decreasing revenues and this shows that the company has managed its costs better.

The cost of operation is unstable. In 2023 (£182.9 million) the operating loss increased 85.3 million and in 2024 decreased to 129.3 million. This decline implies that General Electronics has reduced the operating expenses through either downsizing or restructuring. The operating loss of the company has been decreasing to 15.3 million in 2024 as compared to 85.3 million in 2023, which means that the company is decreasing its operational inefficiencies (Light, 2009).

The corporation had significant interest payments, which will reach 4.3 million in 2023 and may have an unfavourable interest rate. The net loss of 24 million in 2024, compared to 98.2 million in 2023, is also a sign of financial distress, though it is less than it was in 2023. The losses demonstrate the difficulty of the company to recuperate.

Consolidated Cash Flow Statement:

The operating activities cash flow decreased by a wide margin between the years 2024 (£14.8 million) and 2023 (£25.2 million). The negative net income has been relieved through depreciation and amortization of cash flow. Adjustments of working capital are flexible, and inventories in 2023 and 2024 have a high cash outflow, which can be an indication of trying to clear excess inventory as sales reduce.

General Electronics purchased 4.57 million property, plant, and equipment in 2024 in the course of its investment activities. This is an indication that it made investment in its physical resources even when it was experiencing financial difficulties (Beaver, Correia, and McNichols, 2011).

Financing efforts are observed to have significant policy changes. In 2024, the amount of credit borrowings is 102.2 million, which was compensated by repayments. Nevertheless, treasury stock buybacks imply a constant attempt to decrease the number of outstanding shares, which may be to stabilize share prices and to lower equity dilution.

2.2 Financial Ratio Analysis

Efficiency Ratios					
Inventory Turnover Ratio					
Formula: Inventory / Cost of Goods Sold * 365					
Year	2020	2021	2022	2023	2024
Inventory (£m)	1,20,430	1,34,469	1,40,181	88,273	79,355
COGS (£m)	4,38,424	4,28,586	3,90,459	3,22,897	2,80,885
	100 Days	115 Days	131 Days	100 Days	103 Days
Asset Turnover Ratio					
Formula: Sales / Total Assets					
Year	2020	2021	2022	2023	2024
Sales (£m)	6,14,680	6,01,602	5,42,751	4,20,457	3,94,879
Total Assets (£m)	5,10,290	5,10,348	5,04,163	3,55,872	3,23,354
	1.20 Times	1.18 Times	1.08 Times	1.18 Times	1.22 Times

Figure 1 Efficiency Ratio

Source of Computation: Self

Investment Ratios					
Earnings per Share (EPS)					
Formula: Net Income / No of Outstanding Shares					
Year	2020	2021	2022	2023	2024
Net Income (£m)	38,572	5,301	407	-98,238	-24,029
Shares (m)	13,893	13,465	12,703	12,855	12,959
	£2.78 p/share	£0.39 p/share	£0.03 p/share	(£7.64 p/share)	(£1.85 p/share)
Book Value per Share					
Formula: Equity / No of Outstanding Shares					
Year	2020	2021	2022	2023	2024
Equity (£m)	3,13,301	2,75,949	2,68,406	1,78,920	1,53,105
Shares (m)	13,893	13,465	12,703	12,855	12,959
	£22.55 p/share	£20.49 p/share	£21.13 p/share	£13.92 p/share	£11.81 p/share

Figure 2 Investment Ratio

Source of Computation: Self

Profitability Ratios					
Net Profit Margin					
Formula: Net Income / Sales × 100					
Year	2020	2021	2022	2023	2024
Net Income (£m)	38,572	5,301	407	-98,238	-24,029
Sales (£m)	6,14,680	6,01,602	5,42,751	4,20,457	3,94,879
	6.28%	0.88%	0.07%	-23.36%	-6.09%
Return on Capital Employed					
Formula: EBIT / (Total Assets - Current Liabilities) × 100					
Year	2020	2021	2022	2023	2024
EBIT (£m)	37,267	23,253	14,548	-85,301	-15,297
Total Assets (£m)	5,10,290	5,10,348	5,04,163	3,55,872	3,23,354
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	11.27%	7.92%	5.06%	-43.81%	-9.27%

Figure 3 Profitability Ratio

Source of Computation: Self

Cash Flow Ratios					
Operating Cash Flow Ratio					
Formula: Operating Cash Flow / Current Liabilities					
Year	2020	2021	2022	2023	2024
Operating Cash Flow (£m)	73,392	40,283	10,926	25,190	14,822
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	0.41 Times	0.19 Times	0.05 Times	0.16 Times	0.09 Times
Free Cash Flow Margin					
Formula: (Operating Cash Flow - Capex) / Sales × 100					
Year	2020	2021	2022	2023	2024
Operating Cash Flow (£m)	73,392	40,283	10,926	25,190	14,822
Capex (£m)	16,862	12,586	14,006	8,116	4,572
Sales (£m)	6,14,680	6,01,602	5,42,751	4,20,457	3,94,879
	9.20%	4.60%	-0.57%	4.06%	2.60%

Figure 4 Cash Flow Ratio

Source of Computation: Self

Liquidity Ratios					
Current Ratio					
Formula: Current Assets / Current Liabilities					
Year	2020	2021	2022	2023	2024
Current Assets (£m)	3,26,843	3,37,146	3,38,040	2,58,851	2,42,494
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	1.82 Times	1.56 Times	1.56 Times	1.61 Times	1.53 Times
Quick Ratio					
Formula: (Current Assets - Inventory) / Current Liabilities					
Year	2020	2021	2022	2023	2024
(CA - Inventory) (£m)	2,06,413	2,02,677	1,97,859	1,70,578	1,63,139
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	1.15 Times	0.93 Times	0.91 Times	1.06 Times	1.03 Times

Figure 5 Liquidity Ratio

Source of Computation: Self

Interpretation of Result

Profitability Analysis:

Net Profit Margin is alarmingly decreasing, 6.28 in 2020 and 6.09 in 2024. This trend implies that General Electronics will not make any profits out of its sales, whether through poor management of costs or because of a drop in the demand of its products. In general, the company is having a hard time being profitable, and it is a cause of concern among investors (Hasanuddin et al., 2021).

ROCE ratio decreased 11.27 percent in 2020 and -9.27 percent in 2024. A negative ROCE means that the company is not capitalising on its assets to generate returns. This indicates the decreasing finances and inefficiency of the company in creating value out of invested capital.

Liquidity Analysis:

Current Ratio liquidity in short term decreases to 1.53 times in 2024 compared to 1.82 times in 2020. The current asset of General Electronics is gradually reducing its capacity to fulfil short-term obligations using current assets, but it is above the necessary threshold of 1.0. This ratio has fallen and this has impacted on the financial flexibility of the company.

The Quick Ratio decreased in 2024 to 1.03 times compared to 2020 (1.15 times). The fast ratio leaves out the inventories as part of current assets and is therefore a test of greater stringency of liquidity. A ratio that is considerably higher than 1.0 implies that the liquidity cushion is low, and this may be a problem in cash flow (Hastuti, Wibowo, and Nurcahyono, 2024).

Efficiency Analysis:

Inventory Turnover Ratio increased to 103 days in 2024 compared to 115 days in 2021. Though this is an indication of improved inventory management, the corporation maintains more than 100 days inventory which is high. This implies the inventory turnover or sales fall.

In 2021, the Asset Turnover Ratio increased to 1.18 times and 1.22 times in 2024. This ratio indicates that the corporation has been utilising its assets more effectively even with declining sales. Nevertheless, declining revenue performance is low (Maheshwari, Maheshwari, and Maheshwari, 2024).

Gearing Ratio:

It also experienced an increase in the Debt-to-Equity Ratio to 1.11 times in 2024 compared to 0.63 times in 2020, which means that General Electronics is turning to debt to fund its activities. This raised leverage raises financial risk, particularly following the reduction in profitability.

The interest coverage ratio has decreased to 26.21 times in 2020 and -4.55 times in 2024. The negative interest coverage ratio implies severe financial difficulties since the

company will not be able to generate revenues sufficient to pay the interest (Rafid et al., 2024).

Cash Flow Ratios:

Operational Cash Flow Ratio drastically reduced from 0.41 times in 2020 to 0.09 times in 2024. This steep fall suggests that the company is not generating enough cash to fulfil its short-term obligations, worsening its liquidity concerns.

EPS has dropped to -1.85 per share from 2.78 in 2020. Another drop in shareholder value suggests a continuous loss and worsening financial conditions.

2.3 Trend Analysis

Particular	Details
Trends	Declining Revenue and Profitability: Net sales decreased from £614.7m (2020) to £394.9m (2024), and net profit margin dropped from 6.28% to -6.09%.
	Increased Debt Levels: Debt-to-equity ratio rose from 0.63 times (2020) to 1.11 times (2024), indicating greater reliance on debt financing.
Strengths	Improved Asset Utilization: Asset turnover ratio improved from 1.18 times (2021) to 1.22 times (2024), reflecting better use of assets to generate sales.
	Operational Cost Control: Reduction in operating expenses from £182.9m (2023) to £129.3m (2024), indicating successful cost control measures.
Threats	High Financial Leverage: Growing debt-to-equity ratio and negative interest coverage ratio highlight increased financial risk and potential solvency issues.
	Liquidity Challenges: Declining current and quick ratios signal potential difficulty in meeting short-term liabilities, posing liquidity risks.

2.4 Assessment of Default Risk

In determining the risk of default of General Electronics, we shall use the Altman Z-Score which is a proven corporate failure forecasting model that uses a combination of financial

ratios to determine the chances of a firm becoming bankrupt in the next two years. The Z-Score is computed with the formula below:

$$Z = 1.2 \times \text{Working Capital} / \text{Total Assets} + 1.4 \times \text{Retained Earnings} / \text{Total Assets} + 3.3 \times \text{EBIT} / \text{Total Assets} + 0.6 \times \text{Market Value of Equity} / \text{Total Liabilities} + 1.0 \times \text{Sales} / \text{Total Assets}$$
$$Z = 1.2$$

Altman Z-Score Interpretation:

- A Z-Score above 3 indicates a low probability of bankruptcy (safe zone).
- A Z-Score between 1.8 and 3 indicates a grey area (zone of caution).
- A Z-Score below 1.8 indicates a high likelihood of bankruptcy (distress zone).

Considering the financial performance of General Electronics, the next points point out its default risk:

- Lower Profitability and Earnings: The corporation has experienced losses and negative EBIT and net income since 2022 (2023 and 2024), which implies inefficient operations and low profitability. This hurts Z-Score EBIT.
- Increasing Leverage: The debt-to-equity ratio rose to 1.11 as of 2024 compared to 0.63 as of 2020, which implies that the company is becoming more dependent on debt. Financial risk and default risk are increased by leverage (Carlton et al., 2025).
- Weak Cash Flow and Liquidity Position: General Electronics has a weak cash flow as indicated by the declining operating cash flow ratio (0.41 times in 2020 to 0.09 times in 2024). Inability to meet short-term obligations due to the shortage of liquidity is a sign of financial difficulties.
- High Debt Servicing Load: In 2020, the interest coverage ratio of the company stood at 26.21 times but in 2024, it was at -4.55 times, meaning that the company could not cover interest payments with earnings. This issues a strict caution against default (Parrino et al., 2025).

3. Working Capital Management Analysis

3.1 Assessment of the cash operating cycle

The Cash Operating Cycle is calculated using the following components:

$$= \text{Days Sales Outstanding (DSO)} + \text{Days Inventory Outstanding (DIO)} - \text{Days Payables Outstanding (DPO)}$$

Here is the breakdown of each component for the years 2020 to 2024:

Days Sales Outstanding (DSO): (Accounts Receivable / Net Sales) × 365

$$2020: = (129,433 / 614,680) \times 365 = 76.86 \text{ days}$$

$$2021: = (129,215 / 601,602) \times 365 = 78.40 \text{ days}$$

$$2022: = (112,346 / 542,751) \times 365 = 75.55 \text{ days}$$

$$2023: = (112,596 / 420,457) \times 365 = 97.74 \text{ days}$$

$$2024: = (114,182 / 394,879) \times 365 = 105.54 \text{ days}$$

Days Inventory Outstanding (DIO): Inventory / Cost of Goods Sold × 365

$$2020: = (120,430 / 438,424) \times 365 = 100.26 \text{ days}$$

$$2021: = (134,469 / 428,586) \times 365 = 114.52 \text{ days}$$

$$2022: = (140,181 / 390,459) \times 365 = 131.04 \text{ days}$$

$$2023: = (88,273 / 322,897) \times 365 = 99.78 \text{ days}$$

$$2024: = (79,355 / 280,885) \times 365 = 103.12 \text{ days}$$

Days Payables Outstanding (DPO): Accounts Payable / Cost of Goods Sold × 365

$$2020: = (83,229 / 438,424) \times 365 = 69.29 \text{ days}$$

$$2021: = (92,707 / 428,586) \times 365 = 78.95 \text{ days}$$

$$2022: = (71,373 / 390,459) \times 365 = 66.72 \text{ days}$$

$$2023: = (57,033 / 322,897) \times 365 = 64.47 \text{ days}$$

$$2024: = (72,031 / 280,885) \times 365 = 93.60 \text{ days}$$

Cash Operating Cycle (COC): = DSO + DIO – DPO

$$2020: = (76.86 + 100.26 - 69.29) = 107.83 \text{ days}$$

$$2021: = (78.40 + 114.52 - 78.95) = 113.96 \text{ days}$$

$$2022: = (75.55 + 131.04 - 66.72) = 139.87 \text{ days}$$

$$2023: = (97.74 + 99.78 - 64.47) = 133.06 \text{ days}$$

$$2024: = (105.54 + 103.12 - 93.60) = 115.06 \text{ days}$$

Cash Operating Cycle has changed throughout the years, and the greatest growth is seen in the year 2022 (139.87 days). The DSO has been steadily increasing whereas the DIO has slightly increased and the DPO has greatly increased. Such developments indicate that General Electronics is witnessing inefficiencies in its receivables and inventory management (Susena, Hidayah, and Tarigan, 2025). Even though the longer payment terms (DPO) will assist in the short-term liquidity, it is necessary to improve DSO and DIO to minimize the total cash operating cycle, increase liquidity, and financial flexibility of the company.

3.2 Recommendations for improving liquidity through working capital reforms

To improve liquidity, General Electronics should focus on optimizing its working capital management:

1. Improve Days Sales Outstanding:

- Restrict credit policies through decreasing the credit period and carrying out comprehensive credit checks.
- Provide early payment discounts to make customers pay faster.

2. Reduce Days Inventory Outstanding:

- Adopt a Just-in-Time (JIT) inventory to reduce inventory.
- Implement clearance sales of slow-moving items in order to minimize the inventory (Ibrahim, Usaini, and Elijah, 2021).

3. Optimize Days Payables Outstanding:

- Make long-term payments with suppliers and retain good supplier relations.
- Balance DPO is enhanced by cooperation of suppliers to prevent destruction of relationships.

4. Improve Cash Flow Forecasting:

- Adopt periodic and rolling cash flow projections to predict cash deficits.
- Work together in departments to enhance visibility and management of cash.

3.3 Comparison of short-term vs. long-term financing options

A combination of short and long-term financing can help General Electronics to enhance its liquidity status. The decision between these forms of financing will be determined by the short-run cash flow requirements of the company, and also its long-term plans.

Short-Term finance Options:

- Lines of Credit: Gives flexibility to short term finance requirements. General Electronics has a chance to borrow and repay the debts as the cash flows increase. This method controls the working capital volatility and can be charged with high-interest rates as compared to long-term financing. The dependence on lines of credit can raise the interest rates and liquidity issues.
- Trade Credit: The suppliers offer short term financing of goods or services which enable the company to finance them in the future (Gandhi and Nasit, 2022). This decreases the liquidity in the short run as it postpones the cash outflows. Overdependence on trade credit can however destroy supplier relationships and lead to increased prices or poor terms.
- Short term loans or overdrafts: These are quick loans but with very high interest rates. loans should be borrowed carefully since loans can also pose a strain to cash flow in case they are not repaid on time and lenders may also harass the company to repay them.

Long Term Finance Options

- Equity Financing: Sales of equity can be a solution to long-term financing, and this will benefit the balance sheet of General Electronics without debt. This approach watered down ownership and could impact ownership without direct repayment. It is appropriate to long-term investment or expansion of business but might not be helpful in reducing liquidity.
- Long-term Debt Financing: Capital expenditures or strategic plans may be financed by the use of bonds or loans. There is low interest on long term debt compared to short term funding. But it adds more debt to the company and necessitates frequent interest payments. This capital is more suited to expansion plans or massive reorganization as opposed to urgent cash requirements (Hempel, Li, and Tibay, 2024).
- Leasing: General Electronics will be able to lease property, machinery or equipment without the huge capital investment. This alternative will save immediate cash costs and avail the organization with the required assets. The interest and depreciation make leasing agreements long and costly.

Recommendation: A combination of short and long-term borrowing is recommended to General Electronics due to its financial position. Lines of credit and trade credit will help temporarily ease the liquidity situation, but in the long run, the sources should be reinforced with debt or equity financing to provide the company with the necessary financial base and make strategic investments (Zaramella, 2023).. The company ought to strike a balance between both options to ensure that it does not overleverage itself and have financial flexibility.

4. Strategic Financial Restructuring Plan

4.1 Recommendations for financial restructuring options

Financial restructuring is an amalgamation of financial alternatives which General Electronics ought to take into account since it finds itself in a state of financial distress in order to stabilize its operations, decrease its debt, and improve its liquidity. The following six strategies can be used to achieve these goals:

1. Divestiture of Non-Core Assets:

Sale of non-core assets or non performing business units is one of the best methods of raising liquidity in the short term (Potharla, 2025). General Electronics can sell off some of the business that is not part of the long-term strategy of the company or is not profitable to raise capital to pay down the debt and concentrate on its core business, which is more profitable. To illustrate this, in case the company has subsidiaries that are not performing well in non-essential markets, selling them will enable the company to streamline its operations hence enhance financial stability.

2. Merger or Acquisition:

Merger or acquisition may be of great help as it will lead to improvements in the level of operations, expansion of market share and product diversification. General Electronics may want to merge or acquire a complementary product, technology or market access competitor. This may provide cost reduction, revenue growth and efficiency.

3. Issuing New Shares:

The issuance of new shares can also be used to raise equity capital and lower financial leverage and enhance liquidity. General Electronics can raise funds without increasing

its debt by providing more shares to institutional investors or private equity companies. This would lower the debt equity ratio of the company and enhance the balance sheet of the company, which would be a strong platform to grow in future (Siddiq, 2023).

4.2 Impact on shareholder value, debt structure, and operational flexibility

1. Divestiture of Non-Core Assets:

- **Effects on Shareholder Value:** Non-core asset divestment will create instant capital which can be invested in debt reduction or reinvestment in profitable areas (Pereira, 2025). This enhances the value of shareholders by making operations leaner and concentrating on areas that are more profitable. The direct cash inflow will be able to boost the balance sheet of the company and ease the financial load, which will increase the long-term returns of the shareholders.
- **Influence on Debt Structure:** The sale of the non-core assets will help in reducing debt by utilizing the proceeds to pay off the liabilities. This will reduce the debt-to-equity ratio that improves leverage of the company and reduce financial risk. An improved balance sheet and reduced debt increase the credit worthiness of the firm and the future financing (Umar, 2023)
- **Influence on Operational Flexibility:** Divestiture increases the operational flexibility because it enables General Electronics to focus on its most lucrative business operations. The company would be able to allocate resources more efficiently, better make decisions, and respond more swiftly to the needs of the market without having to be distracted by non-performing assets.

2. Merger or Acquisition:

- **Implication on Shareholder Value:** The merging or acquisition activity can greatly boost the shareholder value due to the synergies, cost reduction and market share. The increased size enhances profitability, whereas the synergy of the complementary strengths may result in increased returns. Nevertheless, integration risks exist, and the ineffective implementation may decrease the shareholder value in the short run (AYODEJI et al., 2025).
- **Influence to Debt Structure:** Mergers may either increase or decrease debt based on the financing structure. In case the acquisition is accompanied by the assumption of debt of the acquiring firm, it can lead to leverage. Nonetheless,

when funded by equity or asset sales, it will be able to decrease the total debt load, enhancing financial health.

- **Implication on Operational Flexibility:** Mergers and acquisitions promise the prospects of greater operational flexibility due to economies of scale, diversification of product line, and new market access. The process of integration can however lead to the lack of flexibility in the short term because systems, processes and corporate cultures have to be aligned (Lee, 2021).

3. Issuing New Shares:

- **Effects on Shareholder Value:** Equity injection by issuing new shares dilutes the shareholders but may eventually increase the value by improving the financial position of the company. Having less debt on the books, the company is more stable financially and its future prospects of growth increases, resulting in an increased long-term shareholder value.
- **Influence on Debt Structure:** The equity financing will decrease the dependency on debt by decreasing the debt-to-equity ratio and enhancing the solvency of the company. This will enable General Electronics to bolster its balance sheet, cut down on the interest costs and minimise its overall risk profile. Although it waters down the ownership, it enhances long-term financial flexibility of the company (Mba, 2019).
- **Effects on Operational Flexibility:** An equity infusion enhances liquidity and access to funds required to fund strategic initiatives, which increase operational flexibility. The company is now able to grow as well as invest in new technology and increase its market share without the burden of debt servicing.

4.3 Considerations of international and ethical factors

Taxation:

In the process of restructuring, especially in inter-country mergers or acquisitions, taxation needs to be taken into account. There are varying corporate taxes, tax treaties, and transfer pricing regulation that may have implication on the financial result of the transaction in each country. General Electronics needs to estimate the possible tax liabilities or benefits to maximize the restructuring plans and prevent the tax surprises.

Currency Risk:

General Electronics is a multinational company and this puts it at risk of currency risk. The exchange rates may vary and this may affect the profitability of the foreign operations and the value of the assets and liabilities in the foreign currency. The company ought to use hedging mechanisms, including forward contracts, to secure the exchange rates and minimize volatility to avoid this risk (Shin, 2017).

Corporate Social Responsibility:

Any restructuring initiative must be in line with the dedication of General Electronics to CSR. Possible layoffs, environmental and community impacts are all ethical issues. The company should make sure that the divestiture or merger does not hurt the employees or communities (Massari, Gianfrate, and Zanetti, 2016). As an illustration, retraining of employees should be adopted when there is a lay-off and the environment also needs to be considered when making a decision during a merger or acquisition. A balance between profitability and CSR is the key to a favourable corporate image and sustainability.

5. Investment Appraisal and Capital Budgeting

5.1 Evaluation of Proposed Investment Projects

Accounting Rate of Return				
Project	Average Annual Profit	Depreciation Expense per annum	Average Capital Invested	ARR
A	$(54 - 40) / 5 = 2.8$	$(40 - 0) / 5 = 8$	$(40 + 0) / 2 = 20$	14%
B	$(30 - 30) / 5 = 0$	$(30 - 0) / 5 = 6$	$(30 + 0) / 2 = 15$	0%
C	$(75 - 50) / 5 = 5$	$(50 - 0) / 5 = 10$	$(50 + 0) / 2 = 25$	20%

Figure 6 ARR

Source of Computation: Self

Payback Period			
Project A			
Year	Free Cash Flow (£m)	Cumulative Free Cash Flow (£m)	Comment
0	-40	-40	Initial Investment
1	10	-30	Not Recovered
2	12	-18	Not Recovered
3	14	-4	Not Recovered
4	10	6	Recovered
5	8	14	
Payback: $3 + (4 / 10 * 12 \text{ Months}) = 3 \text{ Years \& 5 Months}$			
Project B			
Year	Free Cash Flow (£m)	Cumulative Free Cash Flow (£m)	Comment
0	-30	-30	Initial Investment
1	6	-24	Not Recovered
2	6	-18	Not Recovered
3	6	-12	Not Recovered
4	6	-6	Not Recovered
5	6	0	Recovered
Payback Period: 5 Years			
Project C			
Year	Free Cash Flow (£m)	Cumulative Free Cash Flow (£m)	Comment
0	-50	-50	Initial Investment
1	5	-45	Not Recovered
2	10	-35	Not Recovered
3	20	-15	Not Recovered
4	25	10	Recovered
5	15	25	
Payback: $3 + (15 / 25 * 12 \text{ Months}) = 3 \text{ Years and 7 Months}$			

Figure 7 Payback Period

Source of Computation: Self

Net Present Value				
Project A:				
Year	Free Cash Flow (£m)	Discount Factor at 10%	Discounted Cash Flow (PV)	Cumulative PV
0	-40	1	-40	-40
1	10	0.909	9.09	-30.91
2	12	0.826	9.912	-21
3	14	0.751	10.514	-10.49
4	10	0.683	6.83	-3.66
5	8	0.621	4.968	1.31
Total			41.314	1.314
Initial Outlay: £40m				
NPV: £1.314m				
Project B:				
Year	Free Cash Flow (£m)	Discount Factor at 10%	Discounted Cash Flow (PV)	Cumulative PV
0	-30	1	-30	-30
1	6	0.909	5.454	-24.546
2	6	0.826	4.956	-19.59
3	6	0.751	4.506	-15.084
4	6	0.683	4.098	-10.986
5	6	0.621	3.726	-7.26
Total			22.74	-7.26
Initial Outlay: £30m				
NPV: -£7.26m				
Project C:				
Year	Free Cash Flow (£m)	Discount Factor at 10%	Discounted Cash Flow (PV)	Cumulative PV
0	-50	1	-50	-50
1	5	0.909	4.545	-45.455
2	10	0.826	8.26	-37.195
3	20	0.751	15.02	-22.175
4	25	0.683	17.075	-5.1
5	15	0.621	9.315	4.215
Total			54.215	4.215
Initial Outlay: £50m				
NPV: £4.215m				

Figure 8 NPV

Source of Computation: Self

Internal Rate of Return					
Project A					
Year	Free Cash Flow (£m)	Factor at 10%	PV of FCF	Factor at 20%	PV of FCF
0	-40	1	-40	1	-40
1	10	0.909	9.09	0.833	8.33
2	12	0.826	9.912	0.694	8.328
3	14	0.751	10.514	0.579	8.106
4	10	0.683	6.83	0.482	4.82
5	8	0.621	4.968	0.402	3.216
Total			41.314		32.8
Initial Outlay			40		40
NPV			1.314		-7.2
IRR = 10% + 1.314 / 1.314 - (-7.2) × (20%-10%) = 11.54%					

Project B:					
Year	Free Cash Flow (£m)	Factor at 10%	PV of FCF	Factor at 0%	PV of FCF
0	-30	1	-30	1	-30
1	6	0.909	5.454	1	6
2	6	0.826	4.956	1	6
3	6	0.751	4.506	1	6
4	6	0.683	4.098	1	6
5	6	0.621	3.726	1	6
Total			22.74		30
Initial Outlay			30		30
NPV			-7.26		0
IRR=10% + 0 / 0 - (-7.26) × (20%-10%) = 0%					

Project C:					
Year	Free Cash Flow (£m)	Factor at 10%	PV of FCF	Factor at 20%	PV of FCF
0	-50	1	-50	1	-50
1	5	0.909	4.545	0.833	4.165
2	10	0.826	8.26	0.694	6.94
3	20	0.751	15.02	0.579	11.58
4	25	0.683	17.075	0.482	12.05
5	15	0.621	9.315	0.402	6.03
Total			54.215		40.765
Initial Outlay			50		50
NPV			4.215		-9.235
IRR=10% + 4.215 / 4.215 - (-9.235) × (20%-10%) = 13.13%					

Figure 9 IRR

Source of Computation: Self

Profitability Index	
Project A:	
Metric	Value (£m)
Total PV of FCF	41.314
Initial Outlay	40
PI	1.03
Project B:	
Metric	Value (£m)
Total PV of FCF	22.74
Initial Outlay	30
PI	0.758
Project C:	
Metric	Value (£m)
Total PV of FCF	54.215
Initial Outlay	50
PI	1.084

Figure 10 Profitability Index

Source of Computation: Self

Capital Budgeting Methods Analysis

ARR

- Project A has 14% ARR. Based on an average yearly profit of £2.8 million, depreciation of £8 million, and capital investment of £20 million. Since the ARR is larger than the normal needed rate of return (typically 10%), Project A can deliver a decent return on investment (Failasufa and Mukhtaruddin, 2025).
- Project B has 0% ARR. Despite its average capital investment (15 million), the project breaks even annually. Since it has a negative NPV and ARR of 0, Project B is bad.
- The highest ARR is 20% for Project C, with an average yearly profit of £5 million, depreciation of £10 million, and capital investment of £25 million. Project C is the most profitable of the three due to its high ARR.

Payback Period

- Project A pays back in 3 years and 5 months. This is calculated from annual free cash flows after recovering the 40-million-pound initial investment. The payback period is considerable yet acceptable for projects with higher NPVs and returns (Kengatharan, 2016).
- Project B is 5-year and will cover its investment in the fifth year. Because the project's NPV is negative, the payback period does not generate positive cash flow faster than the initial outlay, hence it is not valuable.
- Project C has a 3 years and 7 months Payback Period, compared to Project A. Due to its large NPV and cash flows, a high-return project may afford this payback period.

NPV

- The NPV of project A is 1.314 million, which is higher than the cost of capital (10%), and is useful to the company. A is a good investment because it has a positive NPV, which implies that the money invested will be more than the money that will be returned (Vernimmen, Quiry, and Le Fur, 2022).
- The NPV of Project B of -7.26 million will annihilate the value of the company. This demonstrates that Project B is not able to cover its cost of capital and must be refused.

- Project C has the largest NPV of £4.215 million implying that it can add value to the company. The cost of capital is below the positive NPV hence it is a good investment.

IRR

- Project A has an IRR of 11.54, exceeding the company's 10% cost of capital. This makes the project a favourable investment because it will generate a higher rate of return than required (Yasotharalingam, 2016).
- The IRR of Project B is 0, indicating no profit above its cost of capital. Project B is a bad investment because it doesn't make money.
- Project C's IRR is 13.13, higher than the company's cost of capital, indicating a favourable payback. Project C is most appealing.

PI

- Project A earns investors 1.03 pounds every pound invested with a PI of 1.03. Positive, although marginal compared to Project C.
- Project B's PI is 0.758, which is below 1, indicating that it kills value and should be rejected.
- The best project is C, which yields 1.084 pounds per pound. This most efficient capital use suggests Project C is the best of the three.

Conclusion:

- Project A is an option, which has a positive NPV, reasonable ARR, and IRR exceeding the cost of capital in the company. It also has a low PI, though, which is a disadvantage to it compared to Project C.
- Project B is unacceptable because it has a negative NPV, zero ARR, and negative IRR, which implies that it would create a value-destroying project to the company. Project C is the most profitable and value creating investment, as it has the highest NPV, IRR, ARR and PI (Brigham, 2020).
- Thus, Project C should be a priority capital allocation project at General Electronics.

5.2 Capital Rationing

Step 1: Output Analysis

Three projects are under consideration for investment: Project A, Project B, and Project C. Below is a summary of the financial metrics:

- Project A requires an initial outlay of £40 million, with a Net Present Value (NPV) of £1.314 million, a Profitability Index (PI) of 1.033, and an Internal Rate of Return (IRR) of 11.54%.
- Project B requires £30 million, but it has a negative NPV of -£7.26 million, a PI of 0.758, and an IRR of 0%. It is not a viable option.
- Project C requires £50 million and has the highest NPV of £4.215 million, a PI of 1.084, and an IRR of 13.13%.

Step 2: Capital Rationing Decision

Case A – Projects are Indivisible

Given a capital budget of £60 million, we can evaluate the feasible combinations of projects:

- Project A only requires £40 million, offering a total NPV of £1.314 million.
- Project B only requires £30 million, but it has a negative NPV of -£7.26 million, making it unattractive.
- Project C only requires £50 million, providing a strong NPV of £4.215 million.
- Combinations of A + B, B + C, and A + C all exceed the £60 million budget, making them unfeasible.

Project C is the only best feasible option and its total NPV is £4.215 million. The project satisfies the capital requirements, IRR of 13.13, which is higher than the cost of capital of 10, and PI of 1.084, which implies value creation. Thus, it is advised that Project C should be accepted and the project will not spend the remaining 10 million of the 60 million budget.

Case B – Projects are Divisible

Here, we apply the Profitability Index (PI) ranking approach to raise capital in a divisible form (Sharma, 2025). The projects will be ranked in the following order:

- The PI of project C is the greatest 1.084.
- Project A follows with a PI of 1.033.
- The last ranked project is B with PI of 0.758 and, therefore, it is omitted.

The process of capital allocation follows the following steps:

- Project C has a budget of £50 million that is used to the fullest and results in a total NPV of £4.215 million.
- Invest in project A of 25% (investment of 10 million), PI of 1.033 and extra NPV of 0.329 million.

This divisible mix will have a total NPV of £4.544 million and this will exhaust the budget of £60 million.

Step 3: Final Recommendation

- Indivisible Option: Invest £50 million in Project C, with a total NPV of £4.215 million. This option leaves £10 million unused, but it provides the highest possible return given the capital constraints.
- Divisible Option: Invest £50 million in Project C and £10 million in Project A (25%), achieving a total NPV of £4.544 million, which fully utilizes the £60 million budget.

In conclusion, the divisible option of combining Project C and 25% of Project A provides the highest total NPV (£4.544 million) and fully uses the available budget. Thus, this is the recommended strategy for General Electronics.

5.3 Justification of recommendation

The current financial performance of General Electronics and the characteristics of each project make Project C the greatest investment option.

Profitability: General Electronics struggles with profitability, as evidenced by negative NPV of Project B and declining net income. Project C is the most profitable because its NPV (£4.215 million), PI (1.084), and IRR (13.13%) exceed the company's cost of capital (10%). These numbers show that Project C creates the maximum company value and profit. The company needs growth and profitability due to declining revenues (e.g., net sales declined to 394 million in 2024, compared to 614 million in 2020), therefore Project C has a high return on investment.

Liquidity: The liquidity position of General Electronics is underperforming as it has a low operating cash flow ratio and a high debt-to-equity ratio (Banerjee, 2021). Project C will

produce credible cash flows that enhance liquidity. The 3 years and 7 months payback period is low in comparison with other similar projects (5 years in Project B). This accelerated investment payback increases the short-term liquidity of the company. Project C has good cash flows that can satisfy the liquidity requirements of the company.

Project Risk: Project A has higher cash flow volatility and favourable returns with changing free cash flows. Project C, however, has more stable returns and lower cash flow volatility. General Electronics needs steady cash flows to solve its financial problems (operating income in 2024 was -15.3 million). In conclusion, Project C is the most profitable, liquid, and stable cash flow alternative to improve General Electronics' financial situation and long-term sustainability (Khan, 2024).

6. Conclusion

6.1 Findings and recommendations

General Electronics is experiencing serious financial issues such as a falling profitability, increased debt, and liquidity constraints. Net sales have fallen by 36 percent over the past five years and the firm has not been profitable since 2022 and in 2024, the company had a net loss of £24 million. The liquidity ratios are deteriorating as the operating cash flow ratio dropped to 0.09 in 2024, which means that the company does not generate enough cash to cover the short-term liabilities.

Project C is the best investment option to use to overcome these challenges, as it offers the best NPV, IRR, and PI, which means that it offers good returns and value creation. The company needs to work on the working capital reforms such as the enhancement of receivables and inventory, and the minimization of debt by injecting equity and selling assets. Also, the strategic debt reorganization plan will assist in reducing the financial load and enhancing liquidity. These fronts will be addressed immediately and the company will stabilize its financial position and grow in the future.

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8. Appendix

8.1 Capital Budgeting Methods

Accounting Rate of Return				
Project	Average Annual Profit	Depreciation Expense per annum	Average Capital Invested	ARR
A	$(54 - 40) / 5 = 2.8$	$(40 - 0) / 5 = 8$	$(40 + 0) / 2 = 20$	14%
B	$(30 - 30) / 5 = 0$	$(30 - 0) / 5 = 6$	$(30 + 0) / 2 = 15$	0%
C	$(75 - 50) / 5 = 5$	$(50 - 0) / 5 = 10$	$(50 + 0) / 2 = 25$	20%

Payback Period			
Project A			
Year	Free Cash Flow (£m)	Cumulative Free Cash Flow (£m)	Comment
0	-40	-40	Initial Investment
1	10	-30	Not Recovered
2	12	-18	Not Recovered
3	14	-4	Not Recovered
4	10	6	Recovered
5	8	14	
Payback: $3 + (4 / 10 * 12 \text{ Months}) = 3 \text{ Years \& 5 Months}$			
Project B			
Year	Free Cash Flow (£m)	Cumulative Free Cash Flow (£m)	Comment
0	-30	-30	Initial Investment
1	6	-24	Not Recovered
2	6	-18	Not Recovered
3	6	-12	Not Recovered
4	6	-6	Not Recovered
5	6	0	Recovered
Payback Period: 5 Years			
Project C			
Year	Free Cash Flow (£m)	Cumulative Free Cash Flow (£m)	Comment
0	-50	-50	Initial Investment
1	5	-45	Not Recovered
2	10	-35	Not Recovered
3	20	-15	Not Recovered
4	25	10	Recovered
5	15	25	
Payback: $3 + (15 / 25 * 12 \text{ Months}) = 3 \text{ Years and 7 Months}$			

Net Present Value				
Project A:				
Year	Free Cash Flow (£m)	Discount Factor at 10%	Discounted Cash Flow (PV)	Cumulative PV
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Total			41.314	1.314
Initial Outlay: £40m				
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Year	Free Cash Flow (£m)	Discount Factor at 10%	Discounted Cash Flow (PV)	Cumulative PV
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2	6	0.826	4.956	-19.59
3	6	0.751	4.506	-15.084
4	6	0.683	4.098	-10.986
5	6	0.621	3.726	-7.26
Total			22.74	-7.26
Initial Outlay: £30m				
NPV: -£7.26m				
Project C:				
Year	Free Cash Flow (£m)	Discount Factor at 10%	Discounted Cash Flow (PV)	Cumulative PV
0	-50	1	-50	-50
1	5	0.909	4.545	-45.455
2	10	0.826	8.26	-37.195
3	20	0.751	15.02	-22.175
4	25	0.683	17.075	-5.1
5	15	0.621	9.315	4.215
Total			54.215	4.215
Initial Outlay: £50m				
NPV: £4.215m				

Internal Rate of Return

Project A					
Year	Free Cash Flow (£m)	Factor at 10%	PV of FCF	Factor at 20%	PV of FCF
0	-40	1	-40	1	-40
1	10	0.909	9.09	0.833	8.33
2	12	0.826	9.912	0.694	8.328
3	14	0.751	10.514	0.579	8.106
4	10	0.683	6.83	0.482	4.82
5	8	0.621	4.968	0.402	3.216
Total			41.314		32.8
Initial Outlay			40		40
NPV			1.314		-7.2
IRR = 10% + 1.314 / 1.314 - (-7.2) × (20%-10%) = 11.54%					

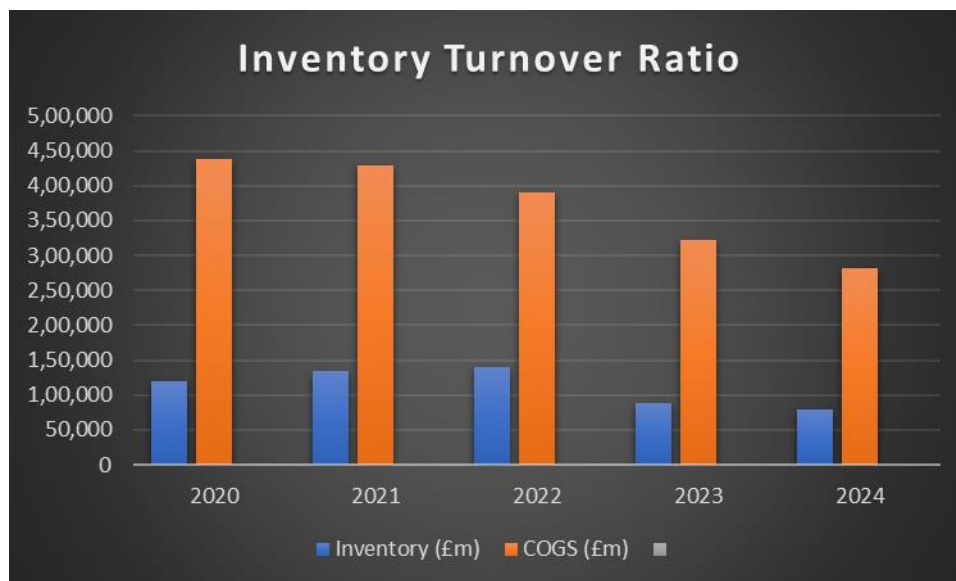
Project B:					
Year	Free Cash Flow (£m)	Factor at 10%	PV of FCF	Factor at 0%	PV of FCF
0	-30	1	-30	1	-30
1	6	0.909	5.454	1	6
2	6	0.826	4.956	1	6
3	6	0.751	4.506	1	6
4	6	0.683	4.098	1	6
5	6	0.621	3.726	1	6
Total			22.74		30
Initial Outlay			30		30
NPV			-7.26		0
IRR=10% + 0 / 0 - (-7.26) × (20%-10%) = 0%					

Project C:					
Year	Free Cash Flow (£m)	Factor at 10%	PV of FCF	Factor at 20%	PV of FCF
0	-50	1	-50	1	-50
1	5	0.909	4.545	0.833	4.165
2	10	0.826	8.26	0.694	6.94
3	20	0.751	15.02	0.579	11.58
4	25	0.683	17.075	0.482	12.05
5	15	0.621	9.315	0.402	6.03
Total			54.215		40.765
Initial Outlay			50		50
NPV			4.215		-9.235
IRR=10% + 4.215 / 4.215 - (-9.235) × (20%-10%) = 13.13%					

Profitability Index	
Project A:	
Metric	Value (£m)
Total PV of FCF	41.314
Initial Outlay	40
PI	1.03
Project B:	
Metric	Value (£m)
Total PV of FCF	22.74
Initial Outlay	30
PI	0.758
Project C:	
Metric	Value (£m)
Total PV of FCF	54.215
Initial Outlay	50
PI	1.084

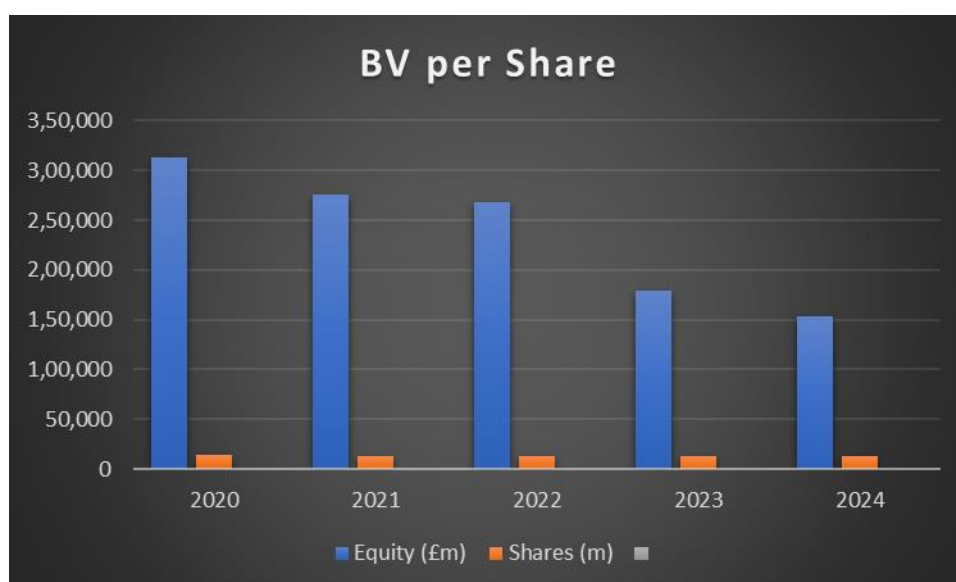
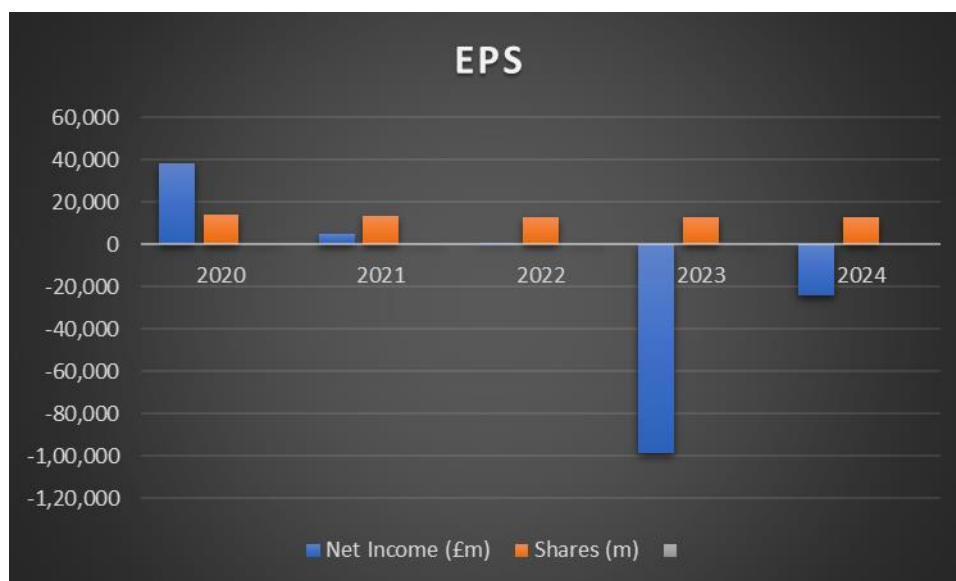
8.2 Financial Ratio Analysis together with graphs

Efficiency Ratios					
Inventory Turnover Ratio					
Formula: Inventory / Cost of Goods Sold * 365					
Year	2020	2021	2022	2023	2024
Inventory (£m)	1,20,430	1,34,469	1,40,181	88,273	79,355
COGS (£m)	4,38,424	4,28,586	3,90,459	3,22,897	2,80,885
	100 Days	115 Days	131 Days	100 Days	103 Days
Asset Turnover Ratio					
Formula: Sales / Total Assets					
Year	2020	2021	2022	2023	2024
Sales (£m)	6,14,680	6,01,602	5,42,751	4,20,457	3,94,879
Total Assets (£m)	5,10,290	5,10,348	5,04,163	3,55,872	3,23,354
	1.20 Times	1.18 Times	1.08 Times	1.18 Times	1.22 Times





Investment Ratios					
Earnings per Share (EPS)					
Formula: Net Income / No of Outstanding Shares					
Year	2020	2021	2022	2023	2024
Net Income (£m)	38,572	5,301	407	-98,238	-24,029
Shares (m)	13,893	13,465	12,703	12,855	12,959
	£2.78 p/share	£0.39 p/share	£0.03 p/share	(£7.64 p/share)	(£1.85 p/share)
Book Value per Share					
Formula: Equity / No of Outstanding Shares					
Year	2020	2021	2022	2023	2024
Equity (£m)	3,13,301	2,75,949	2,68,406	1,78,920	1,53,105
Shares (m)	13,893	13,465	12,703	12,855	12,959
	£22.55 p/share	£20.49 p/share	£21.13 p/share	£13.92 p/share	£11.81 p/share

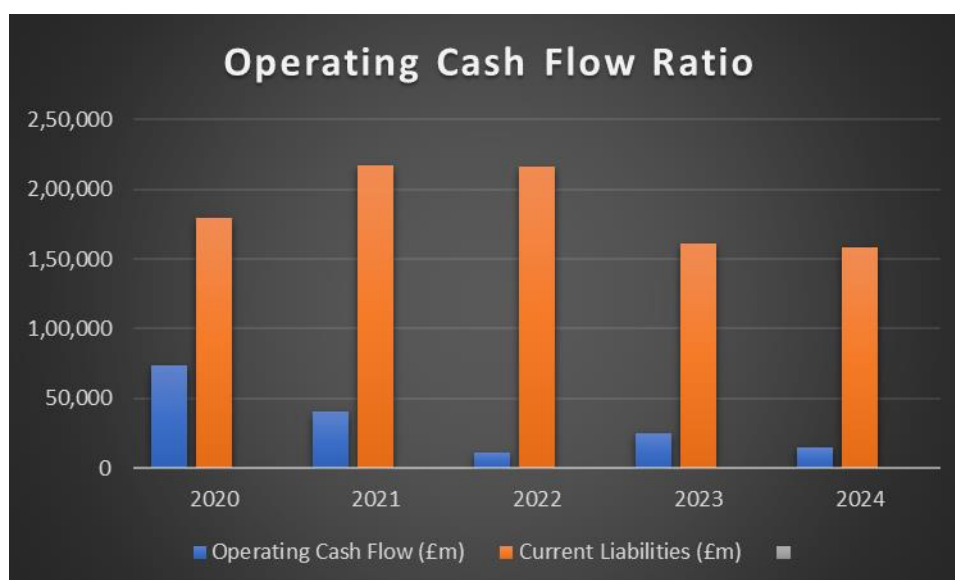


Profitability Ratios					
Net Profit Margin					
Formula: Net Income / Sales × 100					
Year	2020	2021	2022	2023	2024
Net Income (£m)	38,572	5,301	407	-98,238	-24,029
Sales (£m)	6,14,680	6,01,602	5,42,751	4,20,457	3,94,879
	6.28%	0.88%	0.07%	-23.36%	-6.09%
Return on Capital Employed					
Formula: EBIT / (Total Assets - Current Liabilities) × 100					
Year	2020	2021	2022	2023	2024
EBIT (£m)	37,267	23,253	14,548	-85,301	-15,297
Total Assets (£m)	5,10,290	5,10,348	5,04,163	3,55,872	3,23,354
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	11.27%	7.92%	5.06%	-43.81%	-9.27%





Cash Flow Ratios					
Operating Cash Flow Ratio					
Formula: Operating Cash Flow / Current Liabilities					
Year	2020	2021	2022	2023	2024
Operating Cash Flow (£m)	73,392	40,283	10,926	25,190	14,822
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	0.41 Times	0.19 Times	0.05 Times	0.16 Times	0.09 Times
Free Cash Flow Margin					
Formula: (Operating Cash Flow - Capex) / Sales × 100					
Year	2020	2021	2022	2023	2024
Operating Cash Flow (£m)	73,392	40,283	10,926	25,190	14,822
Capex (£m)	16,862	12,586	14,006	8,116	4,572
Sales (£m)	6,14,680	6,01,602	5,42,751	4,20,457	3,94,879
	9.20%	4.60%	-0.57%	4.06%	2.60%





Liquidity Ratios					
Current Ratio					
Formula: Current Assets / Current Liabilities					
Year	2020	2021	2022	2023	2024
Current Assets (£m)	3,26,843	3,37,146	3,38,040	2,58,851	2,42,494
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	1.82 Times	1.56 Times	1.56 Times	1.61 Times	1.53 Times
Quick Ratio					
Formula: (Current Assets - Inventory) / Current Liabilities					
Year	2020	2021	2022	2023	2024
(CA - Inventory) (£m)	2,06,413	2,02,677	1,97,859	1,70,578	1,63,139
Current Liabilities (£m)	1,79,510	2,16,787	2,16,473	1,61,148	1,58,291
	1.15 Times	0.93 Times	0.91 Times	1.06 Times	1.03 Times

