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Student Name: Mikel Shil

Id: 2434307

Lecturer: Shengfeng Mei (London)

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1. Introduction

General Electronics, an international organisation that has been in the consumer electronics industry for a long time, is presently in great financial trouble due to a number of years of poor performance. The company has been subjected to severe declines in sales, continued losses in operation, declining liquidity, and increased financial risk, which have threatened its long-term sustainability. The new Chief Financial Officer is brought in as the main business task is to identify the real factors behind this downfall and put in place a sound turnaround plan that will be able to bring about profitability, stability in operations and shareholder trust. This report provides a financial evaluation of General Electronics of years 2020-2024 through various methodologies. They are systematic ratio analysis to assess the trend of profitability, liquidity, efficiency, and solvency; a corporate failure forecast model (Altman Z-score) to assess the risk of financial distress; and approaches to capital budgeting based on discounted cash flows to assess strategic investment decisions. Besides, the working capital management effectiveness is also analyzed by the cash operating cycle, and the strategic financial restructuring plan is suggested to stabilize the situation, enhance liquidity, and reestablish shareholder trust.

2. Financial Health Check

2.1. Overview of Financial Performance

General Electronics has now definitive signs of high-level financial distress within the 2020-2024 forecast, that is, not only shrinking revenues, but structural loss in profitability and liquidity and capital strength. As sales dropped by around 35% in 5 years, what is more worrying is that cost structures were not able to align with declining demand, resulting in operating losses in the current year, 2023 and next year, 2024. This is an indication of poor strategic cost management as opposed to short-term cyclical decline. The decline in total assets between £510m and £323m is forced balance-sheet compression, which was caused by declining inventories, dwindling cash reserves, and asset impairments. Instead of a positive indication of efficiency savings, this contraction is the indication of defensive retrenchment due to financial constraints. At the same time, the equity of shareholders decreased by leaps and bounds to

£153m, indicating a large loss of shareholder wealth and loss-absorption buffer (Cenciarelli, 2024). Taken together, these patterns indicate that the challenges faced by the firm are not short-term and structural in nature, and they put the organisation in a weak financial position that needs immediate remedial measures.

2.2. Profitability Analysis

Profitability Ratios	Formula	2024	2023	2022	2021	2020
Gross Profit Margin	Gross Profit / Net Sales*100	28.87%	23.20%	28.06%	28.76%	28.67%
Operating Profit Margin	Operating Profit / Net Sales*100	-3.87%	-20.29%	2.68%	3.87%	6.06%
Net Profit Margin	Net Profit / Net Sales*100	-6.09%	-23.36%	0.07%	0.88%	6.28%
Return on Assets (ROA)	Net Profit / Total Assets*100	-7.43%	-27.60%	0.08%	1.04%	7.56%
Return on Equity (ROE)	Net Profit / Shareholders' Equity*100	-15.69%	-54.91%	0.15%	1.92%	12.31%

Table 1. Profitability Ratios.

Source: From Case Study

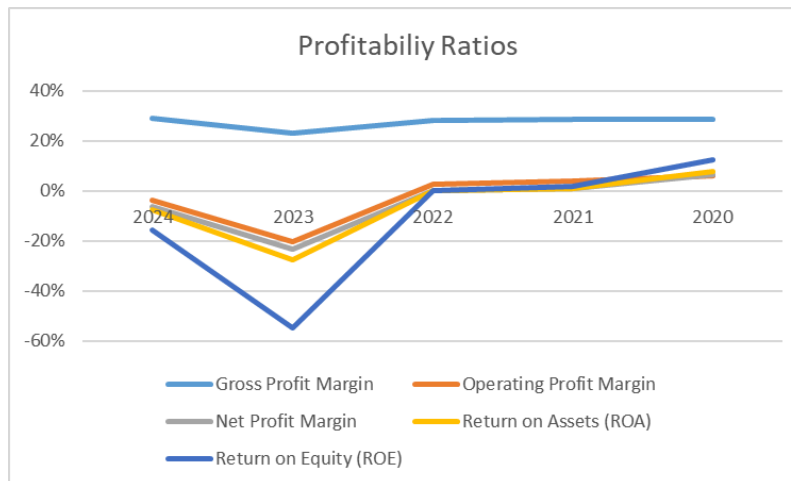


Figure 1. Profitability Ratios.

Source: Self-generated

Even though it may seem that the gross profit margin is not changing between 2020 (28.67% and 2024 (28.87%) due to the appearance of stability, this is not the case. The incremental change does not show the existence of better pricing power and efficiency, but rather the reality that absolute gross profit fell steeply accompanied by crashing revenues. This means that the level of cost containment in the production level was inadequate to compensate for the fact that the sales volumes were decreasing, which weakened the capacity of the firm to realise scale-based profitability (Arnold et al., 2019). When measured in terms of operating profit margin, there was

a significant decline between 2020 and 2024, where the positive figure was 6.06% and the negative figure was 3.87% respectively. The operating costs were still too high in comparison to revenues, which indicated inflexible overheads and lack of discipline over costs. This imbalance means the inability of the management to modify the operating model to the variations of the market environment. The trend of net profit margin also supports this evaluation. Not only operational weakness but also strategic misjudgment is reflected by the change of a loss-making position of -6.09% in 2024 as compared to a 6.28% margin in 2020, especially in terms of impairment charged on a significant scale in 2023. Such impairments mean that previous investments and acquisitions did not become profitable according to the economic forecasts, which is an indicator of the misallocation of capital and poor strategic control. The fall of ROA (7.56% to -7.43%) and ROE (12.31% to -15.69%) also indicate that the company is no longer able to give the same returns on its asset base or the capital of its shareholders (Brealey et al., 2022). Negative ROE is particularly alarming, and it implies that a company is essentially funding losses as opposed to realised returns, which will cause an erosion of long-term investor confidence.

2.3. Liquidity Analysis

Liquidity ratios	Formula	2024	2023	2022	2021	2020
Current Ratio	Current Assets / Current Liabilities	1.53	1.61	1.56	1.56	1.82
Quick Ratio	(Current Assets - Inventory) / Current Liabilities	1.03	1.06	0.91	0.93	1.15

Table 2. Liquidity Ratios.

Source: From Case Study.

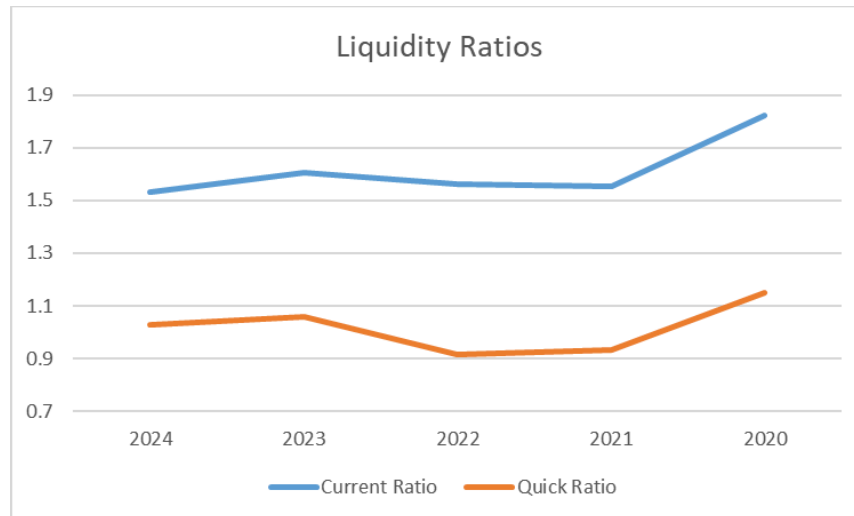


Figure 2. Liquidity Ratios.

Source: Self-generated

Although during the period, General Electronics has a current ratio of more than 1, the decline from 1.82 (2020) to 1.53 (2024) is an indicator of gradual loss of financial strength in the short term. This deterioration is not caused by efficiency gains but by deteriorating current assets and especially cash and inventories, cast doubts on the capacity of the firm to absorb liquidity shock. The liquidity fragility is also revealed by the fact that the quick ratio fell to 1.03 in 2024 (Joshi, 2019). Having few liquid assets other than inventory, the ability of the firm to fulfil short-term liabilities grows more and more contingent on the persistence of cash flows and external sources of finance. This drastic decrease in cash balances from £57.2m to £26.8m, plus increased dependence on lines of credit is a sign that liquidity is being maintained by means of borrowing and not by the cash generated internally. Such short-term debt financing exposes them to refinancing risk and makes them susceptible to strain on credit conditions. Therefore, the liquidity position displays defensive financial management, in which survival takes precedence over stability, this puts the company at higher risks of financial distress in case of poor market conditions.

2.4. Efficiency Ratio Analysis

Efficiency Ratios	Formula	2024	2023	2022	2021
Inventory Turnover	Cost of Sales / Average Inventory	3.35	2.83	2.84	3.36
Receivables Turnover	Net Sales / Average Trade Receivables	3.48	3.74	4.49	4.65
Payables Turnover	Cost of Sales / Average Trade Payables	4.35	5.03	4.76	4.87
Asset Turnover	Net Sales / Total Assets	1.16	0.98	1.07	1.18

Table 3. Efficiency Ratios.

Source: From Case Study.

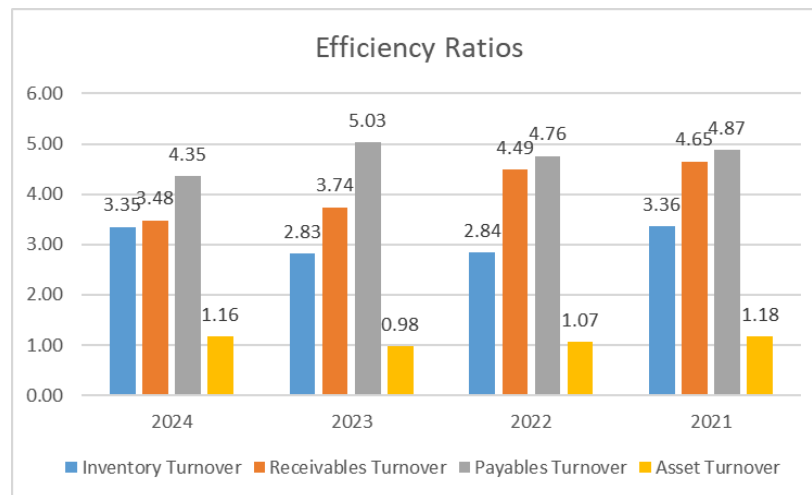


Figure 3. Efficiency Ratios.

Source: Self-generated

Systemic areas of weaknesses in working capital management are shown by efficiency ratios, which make liquidity pressures worse. The level of inventory turnover remained at low levels, indicating the oversupply of stocks with the sales dwindling. This is a sign of bad demand forecasting and inefficient inventory management and is a strain on capital that would otherwise be used to facilitate liquidity. The turnover on receivables dropped sharply, to 3.48 (2024) compared to 4.65 (2021), which is an indication of slower cash collection and deterioration of credit discipline (Damodaran, 2016). This degradation goes straight to the heart of operating cash flows, compelling increased reliance on outside financing. At the same time, the decrease in the

payable's turnover may indicate that the company is extending supplier payment to hold cash which may hurt supplier relations and the stability of supplier relationships in the long term. This is not the case because even though the asset turnover was rather stable, its stability is deceptive given that the asset turnover indicates waning asset values and not an increase in revenue generation. All in all, the lengthening operating cycle increases requirements of working capital and increases the pressure on cash flow which strengthens the poor liquidity position of the firm.

2.5. Gearing Ratio Analysis

Gearing Ratios	Formula	2024	2023	2022	2021	2020
Debt to Equity Ratio	Total Debt / Total equity	0.31	0.38	0.39	0.25	0.11
Equity Ratio	Total Equity / Total Assets	0.47	0.50	0.53	0.54	0.61
Debt Ratio	Total Debt / Total	0.53	0.50	0.47	0.46	0.39
Interest Coverage Ratio	EBIT / Interest Expense	-4.55	-19.69	6.61	41.08	26.21

Table 4. Gearing Ratios.

Source: From Case Study.

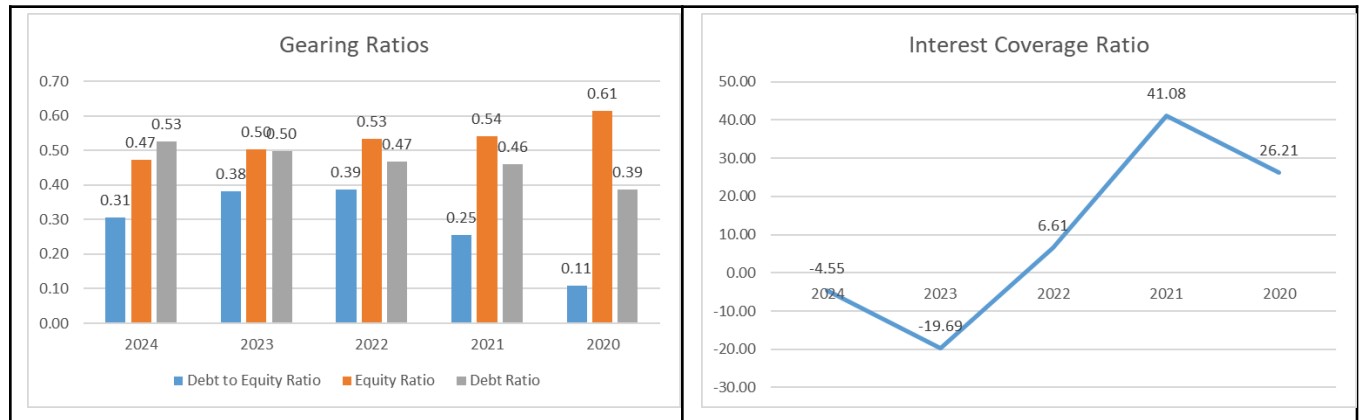


Figure 4. Gearing Ratios & Interest Coverage Ratio.

Source: Self-generated

The debt-to-equity ratio might seem to be average at first sight, but this indicator covers a deeper and more serious problem. Stability in the ratio is not owned by controlled leverage but shrinking equity which lowers the ability of the firm to absorb the losses. With the loss of equity, there would be increased financial risk even in small amounts of debt. Of particular concern is the fact that the interest coverage has gone down to a negative figure in 2024, unlike 26.21 in 2020. This

means that operating profit is no longer adequate to finance interest payments, which is an indication of increased risks of default (Damodaran, 2016). Creditor wise, this decadence affects confidence and can result in tightening of lending conditions or financing can be recalled. This has thus led to an unviable capital structure in the firm, and operational conditions are pushing it to either recover its earnings, restructuring of the debt, or equity strengthening to get its footing back on its feet.

2.6. Investment Ratios Analysis

Investment Ratios	Formula	2024	2023	2022	2021	2020
EPS	Given in F/S	-1.85	-7.64	0.03	0.39	2.78
Book Value per share	Shareholders' Equity / No. of Shares Outstanding	11.81	13.92	21.13	20.49	22.55

Table 5. Investment Ratios.

Source: From Case Study.

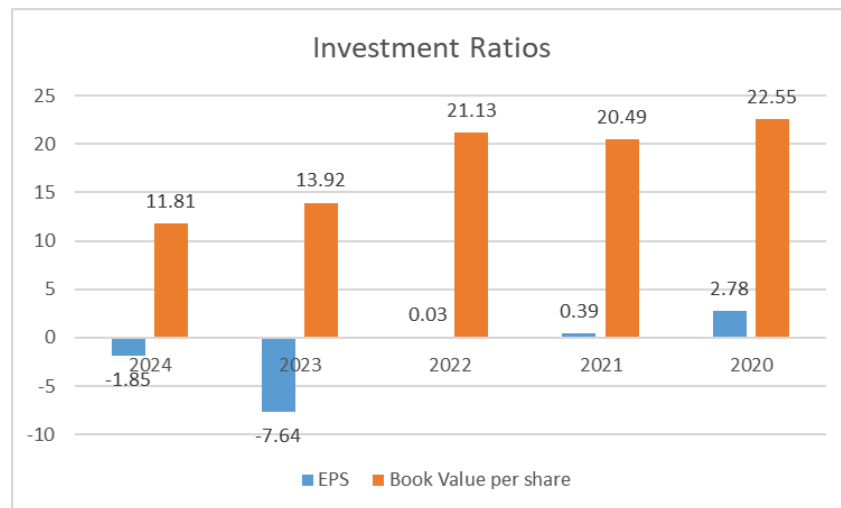


Figure 5. Investment Ratios.

Source: Self-generated

The fact that the EPS dropped to -£1.85 (2024) as compared to £2.78 (2020) indicates the devastating value destruction to the shareholders. The company has been experiencing persistent losses, especially in 2023 and 2024, which means that the company is no longer making distributable profits which wear market confidence and restrict access to equity financing. When

the firm has negative earnings, then P/E ratio is meaningless, and the firm is not subjected to the usual equity valuation standards (Hillier et al., 2023). The fact that dividends are not paid also adds to the impression that the management is focusing on keeping its head above water in the short run rather than on dividends to shareholders, which is a sound but not a desirable indicator of its long-term plans. All these trends represent a poor investment case of General Electronics with deteriorating market credibility and a lack of ability to raise capital without major restructuring.

2.7. Cash Flow Ratio Analysis

Cash Flow Ratios	Formula	2024	2023	2022	2021	2020
Operating Cash Flow Ratio	Operating Cash Flow / Current Liabilities	0.09	0.16	0.05	0.19	0.41
Cash Flow to Debt Ratio	Operating Cash Flow / Total Debt	0.32	0.37	0.11	0.57	2.14

Table 6. Cash Flow Ratios.

Source: From Case Study.

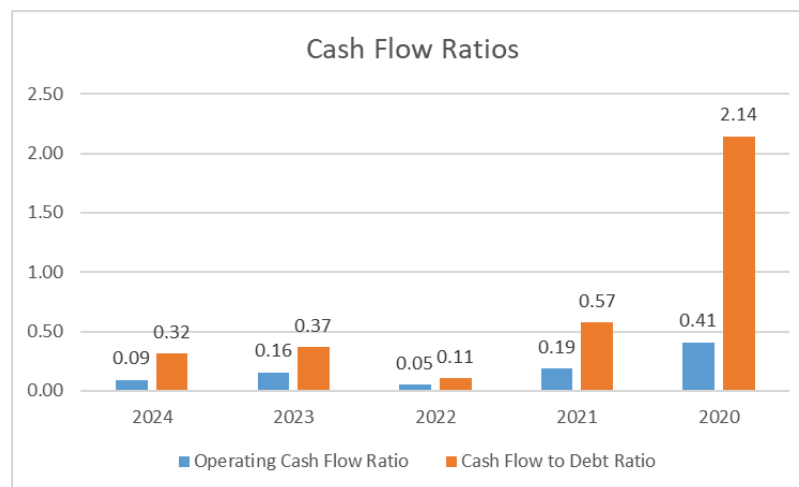


Figure 6. Cash Flow Ratios.

Source: Self-generated

The cash flow ratios indicate that there is an increasing gap between accounting profits and cash generating capacity. The decrease of operating cash flow ratio to 0.09 in 2024 is a sign of inadequacy of operating activities to meet short-term commitments so the company will rely on debt financing. The growth in the cash flow-to-debt ratio, 2.14 (2020) to 0.32 (2024), also speaks

in favour of poor solvency (Palepu et al., 2019). There were intermittent recoveries, but it was too little to nullify the overall downward trend. This implies that the volatility of cash flow and not profitability is a major menace to financial sustainability. In the absence of structural enhancements in the cash generation operation, the company is prone to the refinancing risk and liquidity crises, which supports the urgency of the financial restructuring.

2.8. Corporate Failure Prediction (Z-Score)

Particular	Formula	2024	2023	2022	2021	2020
Z score	$0.717*A + 0.847*B + 3.107*C + 0.420*D + 0.998*E$	2.182	1.609	2.371	2.530	2.844
Variables						
A	(Current Assets – Current Liabilities) / Total Assets	0.2604	0.2745	0.2411	0.2358	0.2887
B	Retained Earnings / Total Assets	0.6446	0.6532	0.6559	0.6472	0.6369
C	EBIT / Total Assets	-0.0473	-0.2397	0.0289	0.0456	0.0730
D	Book Value of Equity / Total Liabilities	0.8993	1.0111	1.1385	1.1773	1.5904
E	Sales / Total Assets	1.2212	1.1815	1.0765	1.1788	1.2046

Table 7. Z-score calculation

Source: From Case Study.

Interpretation:

$Z > 2.99$ = Safe zone (low bankruptcy risk)

$1.81 < Z < 2.99$ = Grey zone (moderate risk)

$Z < 1.81$ = Distress zone (high bankruptcy risk)

Year	Z-Score	Zone Classification	Interpretation	Financial Implication

2020	2.844	Grey Zone	Borderline financial stability; risk beginning to emerge.	Company not yet distressed but is showing early warning signals.
2021	2.530	Grey Zone	Deterioration continues; moving closer to distress threshold.	Performance weakening; solvency risk increasing.
2022	2.371	Grey Zone	Further decline in solvency; liquidity and profitability under pressure.	High probability of entering distress without corrective measures.
2023	1.609	Distress Zone	Critical financial distress; below the 1.81 threshold.	Very high likelihood of default or failure without restructuring.
2024	2.182	Grey Zone	Partial recovery from 2023 but still below safe zone (2.99).	The company remains financially vulnerable; failure risk remains significant.

Table 8. Z-score Interpretation.

Source: (Ross et al., 2019)

The analysis of the Altman Z-Score gives good empirical evidence of the poor financial situation of General Electronics. The company was in the grey zone between 2020 and 2022, with an indication of a looming risk before dropping to the distress zone with a score of 1.609 in 2023 (Altman, 1968). This shift is a result of the progressive effects of diminishing profitability, deteriorating liquidity and depleted equity. The Z-Score reached 2.182 in 2024 but that is still not enough to conclude that the firm is safe as it is not above 2.99 which is the safe-zone. This partial recovery seems motivated by temporary changes, as opposed to core performance recovery and hence, the risk of default is still high unless radical restructuring initiatives are taken.

Summary of Findings

The financial health check shows that General Electronics is undergoing structural financial health issues and not a short-term decline. Making consistent losses, declining liquidity, ineffective management of working capital, increasing solvency risk, and negative Z-Score results are all signs of the high possibility of failure of the firm. Unless there is a strategic intervention that is imminent in terms of cost restructuring, balance-sheet mending, and better cash flow discipline, the long-run viability of the company is seriously impaired.

3. Working Capital Management Analysis

3.1. Cash Operating Cycle Assessment

	Formula	2024	2023	2022	2021
Cash operating Cycle	Inventory Days+Receivables Days –Payables Days	129.87	154.18	132.91	112.09

Components					
Inventory days	365 / Inventory Turnover	108.91	129.12	128.37	108.54
Receivables days	365 / Receivables Turnover	104.81	97.64	81.22	78.46
Payables days	365 / Payables Turnover	83.86	72.57	76.69	74.92

Table 9. Cash Operating Cycle calculation.

Table 9.

Source: From Case Study.

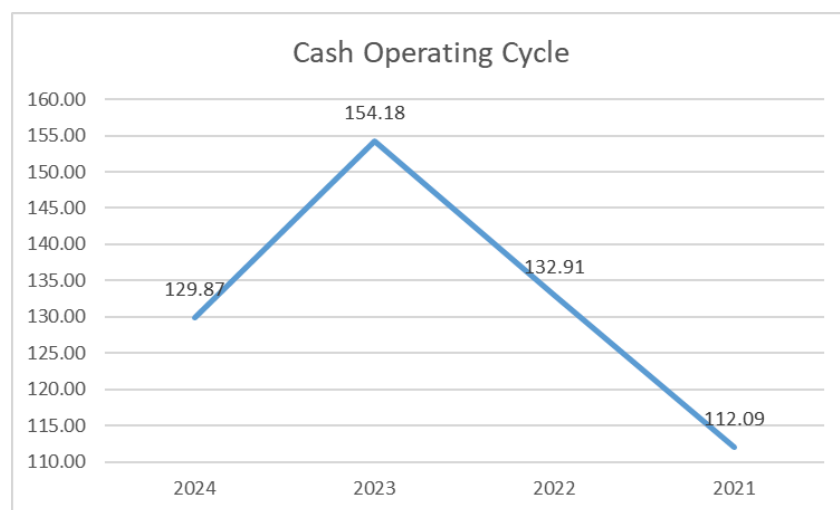


Figure 7. Cash Operating Cycle.

Source: Self-generated.

Cash operating cycle (COC) is used to indicate how many days it will take a company to use investments in inventory and other resources to translate them into cash sales (Ross et al., 2019).

An extended cycle represents cash held up in operation and this influences liquidity (Archavli et al., 2012). The COC calculation of General Electronics is attached to Appendix-III.

The growth of COC from 112.09 days in 2021 to 129.87 days in 2024 indicates 18 days of capital tied up in operations. This extension locks in almost £19 million of cash in inventories and receivables, based on average daily sales of about £1.1 million. This indicates that it has been taking longer to turn cash in its operations cycle, which is pressuring the working capital and liquidity in the short-term.

The disintegration of the COC demonstrates that the level of inventory days has been high during the period, as it increased to 129.12 days in 2023, and then decreased slightly to 108.91 days in 2024. This means that there could be inefficiency in the management of the stock or reduced turnover in sales. Furthermore, the number of receivables days rose to high levels, as in 2020, it was 78.46 days, and in 2024, it reached its highest mark of 104.81 days, which signifies the delay in receiving the payment. Conversely, payables days were not very volatile as they stood at an average of about 75-83 days, implying that the company has not been making a significant change in the payment terms to the suppliers.

3.2. Strategies to Improve Liquidity

The analysis of the cash operating cycle of General Electronics evidences that the company is experiencing long-term liquidity strain, which is majorly influenced by long-inventory turnovers and sluggish accounts receivable. As a solution to these challenges, the company needs to adopt specific working capital reforms which include inventory management, receivables management, payables management and cash management (Hillier et al., 2023; Shleifer and Vishny, 1997).

Inventory Management: The reconstruction in inventory management is necessary because the inventory days are constantly high throughout the period. General Electronics needs to implement better methods of demand forecast and sales planning using data to minimize overstocking and obsolete inventory. An immediate and feasible liquidity intervention is receivables factoring. The sale of outstanding invoices to a third party at a discount will enable General Electronics to turn the credit sales into almost instant cash and will resolve the high receivables turnover ratio of over 100 days. Such a solution enables the company to quickly

inject cash into the company held in trade debtors, without causing customer credit conditions to tighten or break supply chains.

Receivables Management: There should be increased receivables management, as the receivables days have been on the rise. The company also needs to review its credit policy by increasing credit terms on risky clients and performing stricter credit worthiness checks. It would be possible to introduce early payment incentives, like discounts to pay on time and stimulate quick cash flows. In addition, invoicing automation and introducing measures on non-payment follow-up would shorten the time to collect and enhance predictability of cash flows (Emery et al., 2011).

Payables Management: Payables management can be streamlined to facilitate liquidity without harming relationships with suppliers. Although there have been relatively steady payables days, negotiations of extended payment terms can be made with major suppliers by General Electronics, especially in cases where long-term relationship is involved (Kaplan and Norton, 2018). This would enable the company to keep its cash for longer and keep on its operations. Yet, caution is to be considered to prevent late payments which might potentially damage credit status or supply reliability.

Cash Management and Forecasting: Better cash management and projections are essential. Planning detailed short-term cash flow projections would allow the management to predict the funding shortages and preventive actions. The use of cash buffers and cash centralisation in international business will further improve the level of liquidity control and minimise unnecessary short-term borrowing.

3.3. Short-term vs Long-term Financing Options

Criteria	Short-term options	Long-term options
Purpose	Addressing immediate cash flow gaps due to long operating cycle	Funding major investments or restructuring long-term operations
Examples	Bank overdrafts, trade credit, lines of credit, short term loans	Term loans, bonds, equity financing

Relevance to COC	It is helpful in meeting short term working capital requirements, particularly due to the long receivable and inventory days of the firm, which results in temporary liquidity crises.	Meets structural working capital requirements in case of a long COC trend over a series of years which eliminate the frequent short-term borrowing.
Impact on Liquidity	Enhances short-term liquidity through the provision of access to quick cash to meet the delayed receivables and large inventory.	Enhances long-term liquidity and minimizes the refinancing risk, particularly where COC will stay above 120 days over multiple years.
Cost of Financing	Not typically low interest rates, however, flexible and quick. The expenses become more costly as they are operated continuously because of the prolonged operating cycles.	Ordinarily reduced interest rates and foreseeable payments. Economical to finance chronic recurring COC trends.
Risk Level	Increased rollover and interest rate risk. In case COC deteriorates (as happened in 2023), the company will struggle to pay in the short term.	Lower refinancing risk. More applicable to companies such as General Electronics whose COC is variable and every now and then it exceeds 130 days (Kaplan and Norton, 2018).
Flexibility	Very flexible; it is suited to seasonal inventory and sales peaks common in the consumer electronics field.	Less adjustable, though, guarantees stable financing of stock-ups and long receivable cycles.

Suitability	Useful in the case that COC has been varying in the short term, and urgent liquidity is necessary, particularly during years such as 2021 and 2024 when COC has improved.	More appropriate in case the long-term pattern indicates continuously high COC (as in 2022-2023) i.e. structural liquidity requirements.
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Table 10. Short-term vs Long-term Options.

Source: (Hillier et al., 2023)

4. Strategic Financial Restructuring Plan

4.1. Financial Restructuring Options

Divestiture of Underperforming Business Units

Among the most productive restructuring measures to General Electronics is the sale of non-core assets, especially in the case of loss-making product-lines or markets that are unprofitable geographically. The ratio analysis depicts a decreasing asset turnover and decreasing gross profits which means that some of the assets are not yielding sufficient returns (Lane, 2019). Sale of the division responsible for the goodwill impairment would bring instant cash flows which could be utilized to pay off high interest debts or even invest in profitable product lines like smart home systems or wearable devices.

Also, divestiture enhances operational focus. Portfolio allows the management to invest more effectively in the high-margin segments (Hofer, 1980; Pearce and Robbins, 1993). Financially, divestiture improves ROA, cuts down on depreciation expenses and increases liquidity. Shareholder value can be enhanced because the market is generally rewarding those companies that also sell non-performing units, as they are seen to have a greater strategic focus and a lower uncertainty in earnings.

Equity Injection

With the declining profitability and a high leverage level of General Electronics, an equity injection offers a required amendment to the capital structure (Modigliani and Miller, 1958). The debt-to-equity ratios have been increasing steadily, and interest coverage has been compromised, which indicates the inability to service the current liabilities. Long-term and stable capital would be available through a rights issue or a private equity investor.

The benefits of an equity injection are:

- Lessens the debt burden, which reduces financial risk and increases credit ratings.
- Improves liquidity to structure its operations or to invest in research and development.
- Favors innovation-based development which is a critical component in the fast changing consumer electronics sector (Lane, 2019).
- Strengthens balance sheet, which is essential in obtaining long payment terms with suppliers.

Debt Restructuring and Refinancing

Since the facility of short-term credit is denied, and cash flows are not stable, it is necessary to restructure the current debt structure. The company will be able to renegotiate repayment conditions, roll over maturities or refinance high-cost borrowings with longer term, lower rate instruments (Lane, 2019).

Debt restructuring has three key benefits:

- Balances the cash flows by lowering the short-term repayment liabilities.
- Enhances liquidity, enabling the management to concentrate on operational efficiency and not temporary refinancing.
- Minimizes bankruptcy risk, making shareholders and creditors more confident.

Further, currency risk is reduced over refinancing debt that has a foreign currency denomination, which is imperative to a multinational firm that faces fluctuations of exchange rates in its entire supply chain.

Strategic Joint Venture or Technology Partnership

Substantial ventures can be created in the event of a merger or strategic alliance with a more powerful or complementary technology firm. General Electronics has experienced decreasing R&D output and deteriorating share which points to technological assistance. A merger can deliver:

- Production and procurement economies of scale.
- Common technological resources and collaborative research and development.
- Economy of scale obtained by merging duplicated processes.

This kind of cooperation would not only increase competitiveness in the long term, but it will help the company shift towards products that are based on innovation (Kaplan and Norton, 2018; Joshi, 2019). Moreover, mergers tend to increase shareholder value through the formation of joint entities that are more relevant in the market and have a better bargaining power (Jensen and Meckling, 1976).

4.2. Impact Evaluation

Shareholder Value

The restructuring plan would add value to shareholders with respect to increasing profitability, lessening financial risk, and increasing long-term growth prospects (Palepu et al., 2019). The loss-making assets should be removed by divestiture, the financial stability can be enhanced by equities injection, and the interest expenses and cash flow stabilisation can be achieved by restructuring debts. Alliances also contribute to innovation. Though there are some issues of equity that can be a point of concern in dilution, effective communication and use of funds being value orientated can reduce this. Overall, a better balance sheet enhances investor confidence and valuation.

Debt Structure

The recommended measures are great to enhance the debt position of the firm. Divestiture has the benefit of reducing debt immediately whereas refinancing turns short-term liabilities into long-term liabilities that are easier to manage (La Porta et al., 2000). Increase in equity reduces the leverage ratios and improves borrowing power. This is a more sustainable structure, which enhances creditworthiness and minimizes the cost of financing.

Operational Flexibility

Flexibility in operations is higher because divestiture and refinancing relieve cash limitations and allows increased investment in core operations, innovation, and supply chain enhancement. Optimisation of Cash Operating Cycle is also supported by better liquidity. Partnerships also create flexibility of strategy by getting access to technology and new markets. Generally, the company is made more responsive to market and competitive dynamics.

4.3. International and Ethical Considerations

Taxation

The divestiture can lead to the creation of capital gains that are taxable in various jurisdictions. Debt restructuring has impacts on the deductibility of interest and equity financing eliminates the tax shields regarding interest payment (Sangster, 1993). The company should streamline the reorganization to provide avoidance of unnecessary taxation and full compliance to the international taxation laws and take into account the transfer pricing risks.

Currency Risk

General Electronics is a multinational company that sources components around the world, hence, it is exposed to the exchange rate volatility. Refinancing foreign debt to home-currency obligations minimizes the foreign exchange risk (Emery et al., 2011). The partners of mergers in stable currency also reduce exposure. The restructuring plan should include hedging measures (i.e., forwards, options).

Inflation

Inflation in the supplier areas makes the costs of raw materials high, aggravating the cost structure of the firm. Restructuring debt shields cash flows in times of inflation, whereas selling price sensitive divisions eliminate exposure to the effects of inflation on the erosion of margins.

CSR and Ethical Responsibilities

Through the restructuring process, the process needs to be supported with good ethics and corporate social responsibility (CSR) to ensure that the stakeholders trust the process. Open notification to employees on the possibility of job change, redeployment or divestiture effects should be communicated to reduce uncertainty. Such financial restructuring might necessitate downsizing of the workforce thereby incurring redundancy costs in terms of severance, retraining, and legal requirements and broader societal consequences on local communities (Jafeel et al., 2023). To safeguard stakeholder confidence and corporate image, ethical management by effective communication and equitable payments is necessary. The company is not supposed to engage in aggressive tax-minimisation strategies that might harm its reputation or go against the regulatory expectations. Disposal of any assets or closing of any facility should be done in an environmentally friendly manner that is harmless in handling of electronic components, recycling of materials and environmental regulations. Also, the company should uphold just labour standards especially when conducting cost-cutting measures such as offering severance, retraining, and assisting the stricken employees.

5. Investment Appraisal and Capital Budgeting

Year	Project A	Project B	Project C
0	-40	-30	-50
1	10	6	5
2	12	6	10
3	14	6	20
4	10	6	25
5	8	6	15

Table 11. Project Cash Flows (in £million).

Source: From Case Study.

The choice of optimal capital investment is an important strategy decision that directly determines its long-term shareholder value, financial sustainability, and operational competitiveness (Sangster, 1993). General Electronics is now considering three mutually exclusive projects A, B, and C, all of which involve a large initial investment and will result in cash flows during a period of five years. In order to be rigorous and objective in the assessment, five commonly used appraisal methods are used: PBP, ARR, NPV, PI, and IRR. The discount rate is to be 10 percent and depreciation of all assets is straight-line to zero. There is also a capital rationing constraint which limits the firm to invest up to £60 million which forces not only to rank the projects, but also to choose the best portfolio with budget constraints. The results are provided in the following Table-12.

Methods	Project A	Project B	Project C
Payback Period (Years)	3.4	5.0	3.6
ARR	14%	0%	20%
NPV (£)	1,324,176.81	-7,255,279.38	4,225,369.60
Profitability Index (PI)	1.033	0.758	1.085
IRR	11.33%	0.00%	12.72%

Table 12. Summary of Results.

Source: From Case Study.

5.1. Payback Period Analysis (PBP)

Year	Project A	Cumulative Cash Flow	Project B	Cumulative Cash Flow	Project C	Cumulative Cash Flow
0	-40,000,000	-40,000,000	-30,000,000	-30,000,000	-50,000,000	-50,000,000
1	10,000,000	-30,000,000	6,000,000	-24,000,000	5,000,000	-45,000,000
2	12,000,000	-18,000,000	6,000,000	-18,000,000	10,000,000	-35,000,000
3	14,000,000	-4,000,000	6,000,000	-12,000,000	20,000,000	-15,000,000
4	10,000,000	6,000,000	6,000,000	-6,000,000	25,000,000	10,000,000
5	8,000,000	14,000,000	6,000,000	0	15,000,000	25,000,000

PBP	Project A	Project B	Project C
Formula = Years before full recovery + (Unrecovered Amount / Cash Inflow in Recovery Year)	3.4	5	3.6

Table 13. PBP Calculation.

Source: From Case Study.

Payback period is the duration in which the initial investment is recovered using the net cash inflows. It is a liquidity-based measure that is frequently applied in industries where cash flow risks are high. Project A and C have a higher rate of payback than Project B. Since General Electronics has a long working capital cycle and an increased liquidity strain, the short payback projects are strategically beneficial since it reduces the tight cash flow in the short run and minimizes the vulnerability of financial risk. The four-year payback in project B is not as appealing and can increase liquidity stress. Thus, in terms of pure liquidity and the risk-reduction, Projects A and C are better than Project B.

5.2. Accounting Rate of Return (ARR)

Depreciation	Project A	Project B	Project C
Formula = Initial Investment / No. of years	8	6	10

Accounting profit

Formula= Annual Cash Flow - Depreciation

Year	Project A	Project B	Project C
1	2	0	-5
2	4	0	0
3	6	0	10
4	2	0	15
5	0	0	5
Total	14	0	25
Average Annual Profit	2.8	0.0	5.0
Average Investment	20	15	25
ARR	14%	0%	20%

Table 14. ARR Calculation.

Source: From Case Study.

ARR measures the profitability in terms of the average annual accounting profits as compared to the initial investment. Project C provides the best ARR (20%), which implies high accounting profitability. Project A is moderately performing with 14% whereas Project B is not bringing any accounting profit meaning it is not worth considering in terms of return-on-investment. Although ARR does not consider the time value of money, it is still effective in the measurement of performance in terms of book values and the evaluation of incentives among the managers. The high ARR of Project C supports its appeal and shows that it generates more profits throughout the life of project operations.

5.3. Net Present Value (NPV)

NPV	Project A	Project B	Project C
$\sum \frac{CF_t}{(1+r)^t} - \text{Initial Investment}$	1,324,176.814	-7,255,279.384	4,225,369.603

Table 15. NPV calculation

Source: From Case Study.

NPV is the most theoretically objective technique or method of appraisal since it considers the size and the timing of cash flows. It quantitatively measures the anticipated growth in the shareholder wealth. When NPV is positive, it implies value creation whereas a negative NPV implies the destruction of values. Project C has the best NPV and therefore, the most robust addition to the shareholder value. Project A has a small positive NPV as well. Project B has an NPV of a certain negative value, meaning that the project should be discarded. In the case of a firm such as General Electronics, which is currently reducing in profitability and under pressure on its financial side, it is necessary to focus on the projects that can generate the greatest value. Under the NPV, Project C comes first hence Project A, and Project B is rejected.

5.4. Profitability Index (PI)

PI	Project A	Project B	Project C
Formula = $1 + (\text{NPV} / \text{Initial Investment})$	1.033	0.758	1.085

Table 16. PI calculation

Source: From Case Study.

The PI assesses the value generated per dollar of investment, and it is particularly essential in capital rationing. A PI with value exceeding 1 signifies the creation of positive value. Project C gives the best PI, which is the highest rate of return on every pound invested. Project A is also acceptable but a weaker project and the PI below 1 of Project B strengthens the rejection. PI is highly significant under capital restrictions since it determines where limited capital is going to

produce the most benefit. Project C is hence the most efficient and economically desirable investment.

5.5. Internal Rate of Return (IRR)

IRR	Project A	Project B	Project C
$0 = \sum \frac{CF_t}{(1+IRR)^t} - \frac{\text{Initial Investment}}{\text{Initial Investment}}$	11.33%	0.00%	12.72%

Table 17. IRR calculation.

Source: From Case Study.

The discount rate which gives $NPV = 0$ is IRR. It is the anticipated project rate of recovery. Project A and C both surpass the 10% discount rate, i.e. both are able to give returns greater than the required rate of return. Project C is still better than Project A, but Project B is significantly worse, which does not pay back the cost of capital. IRR proves previous conclusions: Project C is the most financially reasonable choice, Project A is the second choice, and Project B is not acceptable.

5.6. Comparative Evaluation and Capital Rationing

Method	Best Project	Comment
PBP	A	Fastest recovery of cash
ARR	C	Highest profitability
NPV	C	Highest wealth creation
PI	C	Best under capital rationing
IRR	C	Highest rate of return

Table 18. Comparative Evaluation.

Source: (Brealey et al., 2022)

Although Project A is acceptable, it is inferior to Project C across most investment appraisal techniques. On the contrary, Project B performs poorly across all metrics.

Under capital rationing, decision-makers must prioritise investments with the highest value per unit of capital (Damodaran, 2016). As it is given that General Electronics can invest up to £60 million and there is no possible combination of projects which is less than the given amount, only one project can be chosen. It is described in the following Table-18.

Combination	Investment Total	Feasibility
A + B	£70m	Not feasible
A + C	£90m	Not feasible
B + C	£80m	Not feasible

Table 19. Feasibility under Capital Rationing.

Source: (Brealey et al., 2022)

As Project C gives the highest NPV, PI, IRR and ARR with shortest payback, under capital rationing, the optimal decision is to select Project C only.

5.7. Final Recommendation

The investment decision should not just be in accordance with the outcomes of the appraisals but also in accordance with the overall financial situation of General Electronics and its strategic priorities. The company is struggling in case of liquidity, i.e., prolonged cash operating cycle, loss in profitability and restrained ability to borrow. All these pressures necessitate the need to pick on a project that will boost the cash flow, increase the profitability, and longevity.

Project C is also supported by profitability analysis. It has the best ARR (20%), which is higher than Project A (14%), and significantly higher than Project B (0%). Its NPV of £4.23 million is also the highest in terms of value creation, which is certainly in contrast to the small NPV of Project A and a considerably negative NPV of Project B. Since NPV is the best indicator of shareholder wealth (Arnold & Lewis, 2019), Project C fits the best in the effort to undo the negative profitability trends in the recent past.

Despite Project C shows the best net present value and highest value creation in the long term, its choice must be justified with caution since the firm has a weak liquidity stand. Project C would require a high initial investment of £50 million and cash inflows relatively small in the first years, putting a further burden on short-term liquidity. Project A, on the other hand, has a smaller initial cost, greater first year cash operations and maintains a larger share of the capital budget as immediate working capital. According to Brealey et al. (2020), firms who are facing liquidity constraints should prioritise investment options with strong cash recovery states.

The strategic mandate of the General Electronics is however not restricted to the short-term survival but the long-term viability and competitiveness. Project C is more appropriate to this goal as it provides better overall wealth creation and greater long-term profitability. It is rightly chosen on the basis, however, that the working capital reforms suggested in Section 3, including the acceleration of receivables and the release of trapped cash, is effectively executed. Such steps are necessary to compensate the stricter liquidity profile of Project C and to make sure that the company will be able to survive the initial cash flow pressure and realize long-term benefits of the project.

This conclusion is supported by risk considerations. Despite the fluctuations in the cash flows of Project C over the years, the growth potential is demonstrated in the positive trend, which is the beginning of the change in the strategies of the company towards more value-driven and innovation-based products. Project A is more stable and provides inadequate value creation and Project B provides neither value nor adequate returns. The suitability of Project C further proves through the IRR of 12.72% which is above the 10% discount rate used by the firm.

Having a capital limit of £60 million that is very strict, only independent projects can be viable. Project C is the most efficient in terms of using scarce capital also because of its Profitability Index (1.085).

6. Conclusion

General Electronics has been in serious financial distress due to decreasing profitability, increasing liquidity weaknesses, and increased inefficiency in its operations. It is revealed that the company requires immediate reorganisation to secure the cash flow, reinforce the capital structure and reinstate the trust of shareholders. Reforms of working capital, debt reorganization and divestment of low performing units will assist in restoring financial resilience. Project C is the best investment under the PS60 million capital constraint based on the extensive investment appraisal including the highest NPV, IRR, ARR, and PI, which contributes to the recovery of liquidity based on the presence of strong cash flows. On the whole, turnaround will only be successful by exercising disciplined measures to implement financial restructuring and prioritisation of value enhancing investments that are consistent with the long-term strategic goals of the firm.

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8. Appendices

I. Ratios

Ratios	Formula	2024	2023	2022	2021	2020
Profitability Ratios						
Gross Profit Margin	Gross Profit / Net Sales*100	28.87%	23.20%	28.06%	28.76%	28.67%
Operating Profit Margin	Operating Profit / Net Sales*100	-3.87%	-20.29%	2.68%	3.87%	6.06%
Net Profit Margin	Net Profit / Net Sales*100	-6.09%	-23.36%	0.07%	0.88%	6.28%
Return on Assets (ROA)	Net Profit / Total Assets*100	-7.43%	-27.60%	0.08%	1.04%	7.56%
Return on Equity (ROE)	Net Profit / Shareholders' Equity*100	-15.69%	-54.91%	0.15%	1.92%	12.31%
Liquidity ratios						
Current Ratio	Current Assets / Current Liabilities	1.53	1.61	1.56	1.56	1.82
Quick Ratio	(Current Assets - Inventory) / Current Liabilities	1.03	1.06	0.91	0.93	1.15
Efficiency Ratios						
Inventory Turnover	Cost of Sales / Average Inventory	3.35	2.83	2.84	3.36	
Receivables Turnover	Net Sales / Average Trade Receivables	3.48	3.74	4.49	4.65	
Payables Turnover	Cost of Sales / Average Trade Payables	4.35	5.03	4.76	4.87	
Asset Turnover	Net Sales / Total Assets	1.16	0.98	1.07	1.18	
Gearing Ratios						
Debt to Equity Ratio	Total Debt / Total equity	0.31	0.38	0.39	0.25	0.11
Equity Ratio	Total Equity / Total Assets	0.47	0.50	0.53	0.54	0.61

Debt Ratio	Total Debt / Total Assets	0.53	0.50	0.47	0.46	0.39
Interest Coverage Ratio	EBIT / Interest Expense	-4.55	-19.69	6.61	41.08	26.21
Investment Ratios						
EPS	Given in F/S	-1.85	-7.64	0.03	0.39	2.78
Book Value per share	Shareholders' Equity / No. of Shares Outstanding	11.81	13.92	21.13	20.49	22.55
Cash Flow Ratios						
Operating Cash Flow Ratio	Operating Cash Flow / Current Liabilities	0.09	0.16	0.05	0.19	0.41
Cash Flow to Debt Ratio	Operating Cash Flow / Total Debt	0.32	0.37	0.11	0.57	2.14

II. Z-score

Particular	Formula	2024	2023	2022	2021	2020
Z score	$0.717*A + 0.847*B + 3.107*C + 0.420*D + 0.998*E$	2.182	1.609	2.371	2.530	2.844
Variables						
A	(Current Assets – Current Liabilities) / Total Assets	0.2604	0.2745	0.2411	0.2358	0.2887
B	Retained Earnings / Total Assets	0.6446	0.6532	0.6559	0.6472	0.6369
C	EBIT / Total Assets	-0.0473	-0.2397	0.0289	0.0456	0.0730
D	Book Value of Equity / Total Liabilities	0.8993	1.0111	1.1385	1.1773	1.5904
E	Sales / Total Assets	1.2212	1.1815	1.0765	1.1788	1.2046

III. Cash Operating Cycle

	Formula	2024	2023	2022	2021
Cash operating Cycle	Inventory Days+Receivables Days –Payables Days	129.87	154.18	132.91	112.09

Components					
Inventory days	365 / Inventory Turnover	108.91	129.12	128.37	108.54
Receivables days	365 / Receivables Turnover	104.81	97.64	81.22	78.46
Payables days	365 / Payables Turnover	83.86	72.57	76.69	74.92

IV. Investment Appraisal Calculations

In (£m)			
Year	Project A	Project B	Project C
0	-40	-30	-50
1	10	6	5
2	12	6	10
3	14	6	20
4	10	6	25
5	8	6	15

Year	Project A	Cumulative Cash Flow	Project B	Cumulative Cash Flow	Project C	Cumulative Cash Flow
0	-40,000,000	-40,000,000	-30,000,000	-30,000,000	-50,000,000	-50,000,000
1	10,000,000	-30,000,000	6,000,000	-24,000,000	5,000,000	-45,000,000
2	12,000,000	-18,000,000	6,000,000	-18,000,000	10,000,000	-35,000,000
3	14,000,000	-4,000,000	6,000,000	-12,000,000	20,000,000	-15,000,000
4	10,000,000	6,000,000	6,000,000	-6,000,000	25,000,000	10,000,000
5	8,000,000	14,000,000	6,000,000	0	15,000,000	25,000,000

PBP	Project A	Project B	Project C
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Formula = Years before full recovery + (Unrecovered Amount / Cash Inflow in Recovery Year)	3.4	5	3.6
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Depreciation	Project A	Project B	Project C
Formula = Initial Investment / No. of years	8	6	10

Accounting profit

Formula= Annual Cash Flow - Depreciation

Year	Project A	Project B	Project C
1	2	0	-5
2	4	0	0
3	6	0	10
4	2	0	15
5	0	0	5
Total	14	0	25
Average Annual Profit	2.8	0.0	5.0
Average Investment	20	15	25
ARR	14%	0%	20%

NPV	Project A	Project B	Project C
$\sum \frac{CF_t}{(1+r)^t} - \text{Initial Investment}$	1,324,176.81 4	-7,255,279.384	4,225,369.603

PI	Project A	Project B	Project C
Formula = $1 + (\text{NPV} / \text{Initial Investment})$	1.033	0.758	1.085

IRR	Project A	Project B	Project C
0 = $\sum \frac{CF_t}{(1+IRR)^t} - \text{Initial Investment}$	11.33%	0.00%	12.72%

