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1 Introduction

The report is a financial management analysis of the *General Electronics Ltd.* in terms of performance, liquidity and investment potential in 2020-2024. It does this to identify the financial health, inefficiencies and recommend restructuring and investment strategies which can see it back on its feet, in terms of profitability and shareholder value.

The firm has been undergoing extreme loss of finances in the past few years as reflected by the reduction in profitability, bad liquidity ratios and high leverage. Altman Z-score is a sign of increasing insolvency risk, and cash flows are a sign of a reduced capacity to operate. These problems bring to attention financial restructuring, working capital tightening, and capital investment prioritisation.

The report includes four analytical elements: (1) a Financial Health Check which evaluates liquidity, solvency, profitability, and efficiency using ratio analysis; (2) Working Capital Management which evaluates the cash conversion cycle, inventory, receivables, and payables weaknesses; (3) a Strategic Financial Restructuring Plan which assesses the debt reprofiling, equity recapitalisation, and governance reforms; and (4) Investment Appraisal which evaluates the projects and offers optimal capital allocation in terms of NPV, IRR, PI, ARR.

The recommendations assist the management to make sound fiscal choices. The effective implementation must stabilise the liquidity, decrease debt and position General Electronics to recover and be competitive within domestic and international markets(Mavengere and Gumede, 2024; Say, 2024; Wijayanti, Hady and Hakim, 2024; Khoza, 2025; Nazeer, Saleem and Amin, 2025; Thi Mai, Wijaya and Volkov, 2025).

1.1 Financial Health Check

General Electronics is in dire financial trouble (a five-year review 2020-2024). After being profitable, the company currently experiences inefficiencies, declining sales and increased expenses that have decimated profits, cash holdings and shareholder worth. Ratio analysis in terms of profitability, liquidity, efficiency, and solvency reveals the reasons of its downfall and further strategic approaches.

1.2 Profitability Analysis

Profitability ratios estimate earnings power through Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE)(Fadhillah *et al.*, 2024).

Year	Net Income (£m)	Sales (£m)	Total Assets (£m)	Equity (£m)	NPM %	ROA %	ROE %
2020	38,572	614,680	510,290	313,301	6.28	7.56	12.31
2021	8,827	521,357	468,245	273,728	1.69	1.88	3.22
2022	-6,531	445,815	440,479	235,934	-1.47	-1.48	-2.77
2023	-98,238	433,859	401,396	184,765	-22.64	-24.46	-53.17
2024	-24,029	394,879	323,354	153,105	-6.08	-7.43	-15.69

Interpretation:

Since 2020, there is a collapse in profitability. NPM dropped to 6.1% to –6.3% by the decline in sales and losses. ROA and ROE became negative in 2022, a sign of shareholder value destruction and inability to manage production and administrative expenditures. This trend aligns with recent findings that profitability erosion is often triggered by leverage pressure, inefficient asset utilization, and weak cost structures in manufacturing firms (Apandi *et al.*, 2024). The goodwill impairment, restructuring, or divestiture charges are likely to have been part of the 2023 loss (£98.2bn) consistent with Nissim's (2023) observation that impairment and special items significantly distort ROE and margin analysis in restructuring periods (Nissim, 2023). The reduced 2024 loss is an indication of partial recovery of the cost cut but is not sustainable.

Strategic Implication:

Investment into profit recovery: Margin improvement by the sale of unprofitable divisions, increased efficiency of production, and diversion to increased margin products and services (Fadhilah *et al.*, 2024).

1.3 Liquidity Analysis

The liquidity ratios determine the short-term solvency (Li, 2024).

Year	Current Assets (£m)	Current Liabilities (£m)	Current Ratio	Quick Ratio*
2020	248,030	119,293	2.08	1.29
2021	225,209	122,117	1.84	1.09
2022	209,391	132,019	1.59	0.94
2023	184,162	135,440	1.36	0.83
2024	156,783	138,119	1.13	0.67

Quick ratio = (current assets - inventory) ÷ current liabilities, inventory ≈ 35% of current assets (using the balance-sheet composition of the brief). Calculations can be seen in Appendices.

Interpretation:

The liquidity has been declining gradually with the time. The Current Ratio decreased to 1.13, which is close to the danger range of 1.0, whereas the Quick Ratio also dropped to less than 1.0 in 2022 and to 0.67 in 2024. This means that the company might find it difficult to cover the short term obligations in the absence of sales or capital markets (Nam and Tuyen, 2024).

The dwindling indicates dwindling current assets- particularly cash (£57.1bn to £26.8bn) but constant or increasing current liabilities. This trend is indicative of poor working-capital operations and potential supplier credit pressure (Jaaz *et al.*, 2025).

Strategic Implication:

There is a high short time solvency risk. The company has to tighten the cash management by improving its receivables collection rates, reducing inventory and increasing payment terms.

1.4 Efficiency (Activity) Analysis

The efficiency ratios are used to measure the efficiency with which the company utilizes its assets and working capital to produce the sales(Binsaddig *et al.*, 2023).

Year	Sales (£m)	Inventory (£m)*	Receivables (£m)*	Payables (£m)*	Inv. Turnover (x)	Rec. Days	Pay. Days	Cash Conversion Cycle (Days)**
2020	614,680	86,810	67,455	64,308	7.1	40	38	42
2021	521,357	78,823	61,340	65,781	6.6	43	46	41
2022	445,815	73,241	56,180	63,015	6.1	46	52	40
2023	433,859	68,725	53,406	61,998	6.3	45	52	38
2024	394,879	66,467	50,314	60,773	5.9	47	56	36

*Approximated using composition trends in balance sheets.

**CCC = DIO + DSO – DPO, with DIO derived from Inventory Turnover = COGS/Inventory (assumed 80% of Sales).

Interpretation:

There has been a moderately low level of operational efficiency. Inventory turnover was reduced to $7.1 \times$ to $5.9 \times$, showing a lower movement and demand. Receivable days went up marginally (40 → 47 days), indicating slower cash inflows, but payables days went up to 56- probably a short-term liquidity solution(Kiymaz, Haque and Choudhury, 2024).

There is a slight reduction in Cash Conversion Cycle (CCC) (42 → 36 days), but this is largely due to long payables, which hides underlying inefficiencies. This is not a viable strategy because the suppliers could reduce their credit or insist on prompt payments(Jalil *et al.*, 2024).

Strategic Implication:

The digital supply-chain analytics and credit-risk screening to the company should rebalance its working-capital cycle, ensuring that it does not strain relationships by reducing the number of days of receivables.

1.5 Solvency and Gearing Analysis

Long term solvency ratios determine the capital structure and debt-servicing capacity(Msomi, Olarewaju and Sibanda, 2025).

Year	Total Debt (£m)	Equity (£m)	Debt-to-Equity	Debt Ratio	Interest Exp. (£m)	EBIT (£m)	Interest Cover (x)
2020	196,989	313,301	0.63	0.39	5,432	48,220	8.9×
2021	194,517	273,728	0.71	0.42	5,788	20,536	3.6×
2022	204,545	235,934	0.87	0.46	6,025	11,254	1.9×
2023	216,631	184,765	1.17	0.54	6,489	-88,912	-13.7×
2024	170,249	153,105	1.11	0.53	6,178	-15,297	-2.5×

Interpretation:

Since 2020, leverage has increased. The Debt-to-Equity ratio rose from 0.63 to above 1.1, and the Debt Ratio rose from 0.39 to 0.53, indicating that over half of total assets are now debt-funded (Ahmed *et al.*, 2024).

The worst aspect is that interest cover has deteriorated: coverage has dropped to $-2.5\times$ in 2024 after operating at a loss all the time. The company is unable to pay interest on income, which suggests that it urgently requires debt re-organization or capital infusion.

Strategic Implication:

The solvency risk of the company is high. It is exposed to breach of covenant and default without recapitalization or restructuring (Saleem AlZu'bi *et al.*, 2025).

1.6 Altman Z-Score (Corporate Failure Prediction)

Altman Z-Score (of publicly listed manufacturing companies) is computed as:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Where:

- X_1 = Working Capital / Total Assets
- X_2 = Retained Earnings / Total Assets
- X_3 = EBIT / Total Assets
- X_4 = Market Value of Equity / Total Liabilities
- X_5 = Sales / Total Assets

Year	X1	X2	X3	X4	X5	Z-Score	Zone
2020	0.25	0.45	0.09	1.5	1.21	4.44	Safe
2021	0.22	0.38	0.04	1	1.11	3.11	Grey
2022	0.18	0.32	0.03	0.8	1.01	2.59	Distress
2023	0.12	0.25	-0.22	0.6	1.08	1.22	Distress
2024	0.06	0.18	-0.05	0.55	1.22	1.55	Distress

Interpretation:

The Z-Score reduced to 1.55 in 2024 (distress) against the 4.44 (safe) in 2020 indicating high risks of bankruptcy and no corrective measures taken. The cumulative losses and the decreasing asset efficiency was verified by falling EBIT and retained earnings(Braunsberger and Aschauer, 2025).

Strategic Implication:

The company is in dire need of capital restructuring and performance turn around to bring its Z-Score back to above 3.0(Mavengere and Gumede, 2024).

1.7 Cash Flow Analysis

Year	Operating CF (£m)	Investing CF (£m)	Financing CF (£m)	Net Change (£m)	Cash & Equiv. (£m)
2020	73,392	-27,125	-28,312	17,955	57,153
2021	56,745	-23,881	-36,885	-3,021	54,132
2022	41,227	-19,672	-39,118	-17,563	36,569
2023	25,321	-16,008	-29,221	-19,908	16,661
2024	14,822	-11,922	-10,778	-7,878	26,783

Interpretation:

Cash inflows in operation have reduced steadily and reflect profit erosion. Investing outflows declined (with a decrease in capital expenditure), but operating cash is inadequate to finance both investing and financing requirements. The cash recovery (£26.8bn) in 2024 was due to the disposition of assets and reduced debt repayments rather than the enhanced profitability-an unsustainable trend(Laghari, Ahmed and López García, 2023).

Strategic Implication:

To maintain the liquidity, the firm needs to stabilise the cash flows by prioritising profitable core operations and selling underperforming assets(Arifaj *et al.*, 2023).

1.8 Overall Diagnosis

The five-year trend examination shows that all key financial aspects were in a dire situation:

Dimension	2020	2024	Direction	Interpretation
Profitability	Strong profits (NPM 6.3%)	Large losses (NPM – 6%)	↓	Cost inefficiency, falling sales
Liquidity	Healthy (2.1×)	Weak (1.1×)	↓	Potential cash-flow crisis
Efficiency	Stable CCC (42 days)	36 days (artificially low)	↓/volatile	Delayed supplier payments masking inefficiency
Solvency	Moderate leverage (0.63×)	High leverage (1.1×)	↓	Over-reliance on debt financing

Z-Score	4.44 (Safe)	1.55 (Distress)	↓	High bankruptcy risk
Cash Flow	Strong	Shrinking	↓	Operations not self-financing

Summary Interpretation:

General Electronics is no longer a profitable business but a business in systemic financial trouble. Equity has been diluted by sales obsolescence, inefficiency in their operations and over leverage. The liquidity pressure has compelled the firm to postpone payables and cut down investment. The lack of urgent restructuring means insolvency in the nearest operating cycle(Sharif, Mujtaba and Saleem, 2024).

1.9 Strategic Conclusions from the Health Check

1. Restoration of profitability should be given priority. Margins can be enhanced through process automation, low-margin lines outsourcing, and digital channel expansion.
2. Liquidity recovery must focus on quicker cash flows (factoring, dynamic discounting) and tighter inventory through the use of just-in-time purchasing.
3. Capital restructuring will be necessary: Debt conversion or equity issue to decrease the debt-to-equity ratio to less than 0.7 in order to cover interest.
4. Reforms on governance and transparency are critical to restore investor and creditor confidence following several successive losses.
5. Investment discipline: any new project should generate positive NPV as well as be within reach of cash flow.

This diagnosis underlies the following parts, namely: Working Capital Management, Strategic Financial Restructuring and Investment Appraisal, all aimed at turning the weaknesses around to regain the long-term sustainability(Michalkova and Ponisciakova, 2025).

2 Working Capital Management Analysis

2.1 Introduction

Effective working capital management maintains liquidity and business continuity, particularly to a company undergoing the loss of profitability and high leverage. Current assets less current liabilities (working capital) indicate working capital strength and stability of cash flow in the short-term(Kiyamaz, Haque and Choudhury, 2024).

In the case of General Electronics Ltd., there is an alarming drop in performance between 2020-2024. The current ratio decreased **from 2.08 to 1.13** and the quick ratio **from 1.29 to 0.67** indicating fewer liquidities. In the meantime, Cash Conversion Cycle (CCC) has been higher than 50 days indicating slow flow of capital though the supplier payments are delayed(Karim, Mamun and Kamruzzaman, 2024). This part examines the cash operating cycle and identifies inefficiency in inventory, receivables, and payable and suggests a remedy(Hua, Xiaoye and Yuanfang, 2023).

2.2 Cash Conversion Cycle (CCC) Analysis

The CCC is the duration between credit outlay in materials and cash inflow of customers, which incorporates inventory management, credit control, and supplier policy. The lower the CCC, the more efficient the working capital (Kiymaz, Haque and Choudhury, 2024).

CCC = Days Inventory Outstanding (DIO) + Days Sales Outstanding (DSO) – Days Payables Outstanding (DPO)

Year	DIO (Days)	DSO (Days)	DPO (Days)	CCC (Days)
2020	51	40	38	53
2021	55	43	46	52
2022	60	46	52	54
2023	58	45	52	51
2024	62	47	56	53

Interpretation:

CCC has ranged between 51 and 54 days, indicating that the company takes almost two months to turn inventory into cash. This is serious considering the electronics maker, where the rivals such as Samsung and LG have an average of less than 35-40 days (Karim, Mamun and Kamruzzaman, 2024).

Between 2020 and 2024, all CCC elements had shifted negatively:

- The increase in inventory days of 11 was a symptom of slower turnover and increased holding costs.
- The number of days outstanding improved by 7, i.e. slower debtors.
- The payable days increased by 18, indicating a slow payout of suppliers in order to cover liquidity crunch.

Though long outstanding payments slightly decreased the CCC, this is an unnatural increase to the expense of supplier confidence and creditworthiness (Zhang and Yu, 2025).

2.3 Inventory Management Weaknesses

The inventory is also high even when sales are falling and the turnover has also decreased from $7.1\times$ to $5.9\times$. Days Inventory Outstanding rose from 51 to 62, which is an overstocking or unsatisfactory forecasting of demands. This implies sluggish products or too much safety stock to overcome uncertainty in supply-chain (Ubolo *et al.*, 2024).

This kind of inefficiency will lock cash that can support operations. On the assumptions of £70 billion mean inventory and 10% capital cost, approximately £7 billion of finance is tied every year (Yu, 2025).

Recommendations for Improvement:

1. Implement Lean Inventory Systems (*Just-in-Time (JIT)* and *Material Requirements Planning (MRP)*) in order to match production and demand.
2. The match of procurement with real-time data is possible using AI-driven forecasting.
3. Use ABC Analysis- strictly monitor the items of the 'A' type and facilitate tracking those of the 'C' type.
4. Partner with suppliers in Vendor-Managed Inventory (VMI) in order to reduce holding costs(Upadhyaya, 2024).

A decrease in the inventory days of 10-15 would free up about £12-15 billion of working capital, enhancing liquidity.

2.4 Receivables Management Weaknesses

The 40 days increased to 47 days and sales declined by 36% in a sign of poor credit management and sluggish payment of customers. The firm must have stretched credit terms to increase sales at the expense of cash inflows(Huynh, Nguyen and Nguyen, 2025).

The bad-debt risk has risen, as reflected in declining profits and declining operating cash flow- £73 billion (2020) to £15 billion (2024)(Kiyamaz, Haque and Choudhury, 2024).

Recommendations for Improvement:

1. Strict credit policy, reduction of terms (e.g., 60 -45 days) and risk-based limits.
2. Provide incentives (1-2% discount in 10 days).
3. Digitally invoice and monitor the ERP to have real-time alerts on over-dues.
4. Look at such options as receivables financing or factoring to turn invoices into money.

Reduction of DSO by 5 days will release £5 billion of liquidity, bringing the current ratio to 1.5×(Ajaykumar and Pougajendy, no date).

2.5 Payables Management Weaknesses

The payables days were raised to 56 up to 38 indicating reliance on supplier credit to fund cash. Although it will relieve the pressure in the short term, it is likely to cause bad relations and increased costs(Ali, Showkat and Alhammadi, 2025).

Recommendations for Improvement:

1. Restructure agreements in a transparent way to formalise extensions and minimize the risk of default.
2. Embractive dynamic discounting- utilise excess cash to earn the discounts on early payments.
3. Supply-chain finance (reverse factoring) provides suppliers with early payment.
4. Manage payables by centralising it using a treasury unit to prevent penalties(Huynh, Nguyen and Nguyen, 2025).

A 45-50 days balanced DPO would keep the supplier on good terms and prevent overstrain on working capital(Kiymaz, Haque and Choudhury, 2024).

2.6 Short-Term vs Long-Term Financing Strategies

2.6.1 Short-Term Financing

Short-term funding is vital to continuity with CCC of 53 days:

1. Bridge cash gap - bank overdraft or revolving credit.
2. Credit development to major suppliers on order guarantees.
3. Cheaper financing: Commercial paper (up to 270 days), but with poor credit rating.
4. Invoice discounting immediate cash, although at a 1-3% fee(Mahmood *et al.*, 2025).

2.6.2 Long-Term Financing

Structural measures are necessary in sustainable liquidity:

1. Debt restructuring/refinancing- turn short-term high interest loans to long-term maturities.
2. Investment or rights issue in order to capitalize and lower the debt to equity ratio by 1.1× toward 0.7×.
3. Asset-based lending security loans through underutilised assets.
4. Strategic alliances/joint ventures to share capital and have partner liquidity.

An equal measure of these financing will stabilise liquidity and solvency and will enable long-term restructuring objectives(Peng *et al.*, no date).

2.7 Recommended Working Capital Targets (Next 12 Months)

Metric	2024 Actual	Target	Improvement Strategy
Current Ratio	1.13	≥1.5	Improve current assets via receivables recovery and inventory optimisation
Quick Ratio	0.67	≥1.0	Increase cash reserves through factoring and cash sales
DIO	62 days	50 days	JIT procurement, ABC analysis
DSO	47 days	42 days	Stricter credit policy, digital invoicing
DPO	56 days	50 days	Structured supplier negotiation
CCC	53 days	42 days	Balanced approach across all components

The attainment of these targets would reduce the cash operating cycle by approximately 11 days, and create enough net working capital around £10-12 billion- which would significantly enhance the liquidity and cover the short-term commitments.

The weak working capital situation of General Electronics has been caused by low inventory turnover, liberal credit conditions, and high reliance on supplier financing. This seems to be due to stretching payables as opposed to actual efficiency even though the CCC is seemingly stable(Das, 2025).

In order to repair the balance-sheet strength, the company needs to tighten inventory and receivable control, stream supply-chain activities, and implement a balanced financing mix. The adoption of lean inventory, digitised receivables management and organised supplier financing will restore liquidity and a base to recover the finances.

3 Strategic Financial Restructuring Plan

Financial restructuring entails re-modeling the capital and cost structure of a firm to regain its solvency and viability in the long-term. With General Electronics experiencing a drastic worsening in profits, liquidity and solvency in terms of the 1.11 debt-to-equity ratio, 1.55 Altman Z-score, and continuous losses, the company is on the verge of distress (Kumar and Devi, 2025). The plan below incorporates a combination of strategic, operational and financial steps to stabilise liquidity, leverage reduction, and reinvent a competitive position of the company in global markets.

Restructuring objectives:

1. Liquidity restoration - attain operational stability.
2. Rebalancing the capital - less debt, regain investor confidence.
3. Strategic repositioning - regain long-term profitability in global ethical guidelines (Rano and Rano, 2025).

3.1 Diagnosis and Restructuring Imperatives

As an analysis of 2020-2024 financials shows, there are five main issues:

1. Too much leverage: Debt increased £196.9 billion (2020) to £170.2 billion in the decline of assets, which drove gearing to 1.11x.

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2. Profit erosion: Operating income decreased between +£48bn (2020) and -£15bn (2024).
3. Poor cash generation: Operating cash flow fell to £73bn down to £15bn.
4. Liquidity stress: Current ratio declined to 1.13 (was 2.08) and quick ratio to 0.67.
5. Bankruptcy risk: Altman Z-score of 1.55 is an extreme distress.

These trends substantiate the fact of the necessity of the simultaneous financial (balance-sheet) and operational (profitability) restructuring.

3.2 Strategic Financial Restructuring Framework

The strategic plan will be implemented in three phases of turn around methods: liquidity improvement, initial capital structure rebalancing, and strategic renewal:

Phase	Time Horizon	Objective	Key Actions
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Phase 1 – Immediate Stabilisation	0–6 months	Liquidity rescue and cost control	Asset divestment, short-term financing, cost freeze
Phase 2 – Capital Structure Rebalancing	6–18 months	Reduce leverage and restore investor confidence	Debt renegotiation, equity injection, debt-for-equity swap
Phase 3 – Strategic Renewal	18–36 months	Achieve sustainable profitability and ethical governance	Portfolio rationalisation, digital innovation, CSR and ESG integration

3.3 Phase 1: Immediate Stabilisation

3.3.1 Liquidity Enhancement

Liquidity crisis should be resolved in the first place in order to continue operations. According to Section 2, **≈£20.8 billion** is required by the firm to rebuild a 10 percent ratio of working capital-to-sales.

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Short-term liquidity actions:

- Receivables factoring: Factoring £30bn receivables at fee of 3% and free up cash equal to ~£29.
- Asset sale & leaseback: Disposes of approximately £15bn non-core assets, which it leases back its essentials.
- **Temporary** Cost moratorium: Halt discretionary expenditure (advertising, research and development, travel) to save £5-8bn.

Expected impact:

Recovers £25-30bn of cash, and improves current ratio, currently 1.13, to approximately 1.5 and secures solvency.

3.4 Phase 2: Capital Structure Rebalancing

Goal: debt: equity ratio of 0.7 and interest coverage of greater than 3x.

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3.4.1 Debt Restructuring and Refinancing

1. Debt reprofiling: Extend high interest loan maturities (3-5 years).
 - Scenario: £50bn 10 percent, debt refinanced at 6 percent, will save ~£2bn/yr.
2. Debt-to-equity swap: Change 20 percent (£34bn) of the long-term debt into equity, reducing overall debt to £136bn and gearing from 1.11 to **0.73**.
3. Bond buyback: Buybacks of discounted corporate bonds with the proceeds of sales of assets.

3.4.2 Equity Recapitalisation

It is proposed to be injected with a £90bn of equity via rights issue or strategic partnership.

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- Growth of shareholder equity to £243bn enhancing solvency and mood.
- Two-year dividend suspension saves estimated £5bn per annum.
- Increases Altman Z-score by 1.55 to approximately 2.8, which lowers the risk of bankruptcy.

3.4.3 Interest Cost Management

After restructuring, interest costs are expected to decline to £6.2bn to approximately £3.8bn with recovery of EBIT also expected to increase coverage to more than 2.5× by 2026.

3.5 Phase 3: Strategic Renewal and Operational Restructuring

3.5.1 Portfolio Rationalisation

- **Sell poor performing divisions (e.g., old-fashioned consumer electronics).**
- Enter into strategic alliances with partners in the world of technology in order to share the costs of R&D.
- Implement Industry 4.0 (IoT, robotics) to reduce the cost of production by 10-15%.

3.5.2 Cost Structure Optimisation

- Adopt Zero-Based Budgeting (ZBB) to do away with waste.
- Cut down on the number of heads by 10% through voluntary retirements (saving £4bn yearly).
- Establish HR, finance and IT shared service centres.

All these measures have the potential to increase the operating margins of **-3.9% to +5%** in two years.

3.5.3 International Financial Considerations

Global activities of General Electronics demand dealing with such risks: FX, tax and sovereign risks:

1. **Foreign Exchange Exposure:** The company's substantial exports (approx. 40% of sales) expose it to USD, EUR, and CNY volatility.
 - Implement **natural hedging** by matching foreign revenue with same-currency costs (e.g., sourcing materials in USD).
 - Use **forward contracts** and **currency options** to stabilise cash flows during restructuring.
2. **Cross-Border Tax Efficiency:** Rationalise global subsidiaries to reduce tax leakage via transfer pricing and intercompany financing.
 - Relocate treasury operations to low-tax financial hubs (e.g., Singapore, Ireland).

- Leverage **tax loss carryforwards** from 2023–2024 losses to offset future taxable income.
- 3. Capital mobility: Before the introduction of cross-border transactions, make sure that it has been done.
- 4. Sovereign risk: Geographical production diversification in order to reduce political exposure.

3.6 Ethical and Corporate Governance Considerations

The restructuring process should be in accordance with the provisions of the **Environmental, Social, and Governance (ESG)** and OECD Responsible Business Conduct.

3.6.1 Ethical Employment Practices

- Provide open communication and satisfactory pay in the process of downsizing.
- Provide retraining/ redeployment programmes.
- Maintain the standards of diversity and inclusion.

3.6.2 Stakeholder Transparency

- Issue quarterly progress reports to the stakeholders.
- Enhance audit and risk control.
- Embrace the practice of Integrated Reporting (<IR>).

3.6.3 Environmental Commitments

- Make sure that divested plants comply with the environment law.
- Earmark a minimum of 5 percent of the cost reduction to sustainability.
- Associate executive compensation with ESG performance measures.

Strong ethical and governance standards will ensure the protection of reputation, investment attraction and ensure that the turnaround of the company is in line with the objectives of global sustainability.

3.7 Expected Financial Impact

Key Indicator	2024 (Before)	Post- Restructuring (Target 2026)	Improvement
Current Ratio	1.13	1.6	0.47
Debt-to-Equity Ratio	1.11	0.7	−0.41
Interest Coverage	−2.5×	3.0×	+5.5×
Net Profit Margin	−6.1%	4.00%	+10.1pp
Operating Cash Flow	£14.8bn	£45bn	+£30bn
Altman Z-Score	1.55	2.8	1.25

Cumulative effect: The company would move out of financial distress to moderate stability in 24 months, and it would rebuild investment-grade credibility and have the ability to finance innovation.

3.8 Implementation Governance

To be successful, the restructuring process should be controlled by a special Restructuring Steering Committee (RSC) that will report to the Board. The RSC will:

- Monitor renegotiation of debts and equity issues.
- Accept divestments and reinvestment of proceeds.
- Observing compliance and reporting in ESG.
- Use independent assurance (e.g. Deloitte or PwC)(Johannes, Hendriks and Maramura, 2025).

Execution milestones and risk checkpoints will be implemented based on a 12-quarter implementation roadmap (Gantt chart in appendix).

The financial decline experienced by General Electronics in 2020-24 is indicative of an almost critical condition that needs restructuring, which is comprehensive and urgent(Ezeani *et al.*, 2025). By stabilising liquidity, rebalancing capital, streamlining operations and reforming ethical governance, the company will be able to turn the negative trend around and regain competitive power.

The combination of restructuring strategy, which is based on solid financial reasoning, accountable leadership, and international best practice, allows the company to come out leaner, more transparent, and better to resist financial shocks in 2026(Umar, 2023). It lays the ground to long-term development and value creation to the stakeholders both in the domestic and international market.

4 Investment Appraisal and Capital Budgeting

The investment appraisal allows the management to distribute the limited capital available among competing projects in order to maximise the shareholder value. In the case of a company that is financially strained like the General Electronics Ltd., it is imperative that capital budgeting methods should be stringent to make sure that the little money available is channeled into the most value-creating alternatives(Purnamasari, 2024).

The company has evaluated three mutually exclusive investment projects (A, B, and C) which have similar initial capital investment requirements but the different risk-reward profiles. According to the assessment brief, the firm has £60 million to invest and has to utilize Payback Period (PBP), Accounting rate of return (ARR), Net Present Value (NPV), Profitability Index (PI), and Internal rate of return (IRR) at a 10% discounting rate and straight-line depreciation to zero(Darmansyah, Ali and Parveen, 2025).

4.1 Project Data

Project	Initial Investment (£ m)	Cash Flows Year 1 – 5 (£ m)
A	40	10, 12, 14, 10, 8
B	30	6, 6, 6, 6, 6
C	50	5, 10, 20, 25, 15

All projects depreciate evenly to zero book value by Year 5.

4.2 Methodology Overview

Method	Formula / Concept	Decision Rule
Payback Period (PBP)	Years required for cumulative net cash inflows = initial outlay	Shorter = better
Accounting Rate of Return (ARR)	Average Accounting Profit / Initial Investment $\times 100$	Higher = better
Net Present Value (NPV)	$\sum CF_t / (1 + r)^t - \text{Initial Investment}$	$NPV > 0 \rightarrow \text{Accept}$
Profitability Index (PI)	PV of Inflows / Initial Investment	$PI > 1 \rightarrow \text{Accept}$
Internal Rate of Return (IRR)	$r \text{ s.t. } NPV = 0$	$IRR > \text{cost of capital} \rightarrow \text{Accept}$

4.3 Detailed Calculations

4.3.1 (a) Payback Period (PBP)

Project	Annual Inflows (£ m)	Cumulative Inflows (£ m)	Payback (years)
A	10, 12, 14, 10, 8	10, 22, 36, 46, 54	$3 + (4 / 10) = 3.4 \text{ yrs}$
B	6, 6, 6, 6, 6	6, 12, 18, 24, 30	$30 \div 6 = 5.0 \text{ yrs}$
C	5, 10, 20, 25, 15	5, 15, 35, 60, 75	$3 + (15 / 25) = 3.6 \text{ yrs}$

Interpretation:

Projects A and C are recovered sooner than Project B, with the first being slightly faster.

4.3.2 (b) Accounting Rate of Return (ARR)

Straight-line depreciation $\rightarrow$ Annual Depreciation = Investment / 5.

Average Accounting Profit = (Average Cash Inflow – Depreciation).

Project	Avg. Cash Inflow (£ m)	Depreciation (£ m)	Avg. Profit (£ m)	ARR (%) = Avg Profit / Investment $\times 100$
A	$(10 + 12 + 14 + 10 + 8) / 5 = 10.8$	8	2.8	7.00%
B	$(6 \times 5) / 5 = 6$	6	0	0%
C	$(5 + 10 + 20 + 25 + 15) / 5 = 15$	10	5	10.00%

Interpretation:

Project C has the best ARR (10%), it is better than the cost of capital (10%), and this means it is very profitable.

4.3.3 (c) Net Present Value (NPV) @ 10%

Year	Discount Factor (10%)	CF A (£ m)	PV A	CF B (£ m)	PV B	CF C (£ m)	PV C
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1	0.909	10	9.09	6	5.45	5	4.55
2	0.826	12	9.91	6	4.96	10	8.26
3	0.751	14	10.5	6	4.51	20	15.02
4	0.683	10	6.83	6	4.1	25	17.08
5	0.621	8	4.97	6	3.73	15	9.32
Σ PV Inflows			41.3		22.75		54.23
Initial Investment			-40		-30		-50
NPV (£ m)			1.31		-7.25		

Interpretation:

Projects A and C generate positive NPVs, meaning both create value above the 10% hurdle rate.

Project B's negative NPV (−£7.25 m) → reject.

Project C produces the highest absolute NPV (£4.23 m).

4.3.4 (d) Profitability Index (PI)

$$PI = \frac{PV \text{ of Inflows}}{Initial Investment}$$

Project	PV Inflows (£ m)	Investment (£ m)	PI = PV Inflows / Investment
A	41.31	40	1.03
B	22.75	30	0.76
C	54.23	50	1.08

Interpretation:

All projects with $PI > 1$ are acceptable. Project C again leads with 1.08, delivering £1.08 of PV inflows per £1 invested.

4.3.5 (e) Internal Rate of Return (IRR)

Calculated via linear interpolation between discount rates 10% and 20%:

$$IRR = r_1 + \frac{NPV_1}{NPV_1 + NPV_2} (r_2 - r_1)$$

Project	NPV @ 10% (£ m)	NPV @ 20% (£ m)	IRR (%)

A	1.31	-4.08	$10 + (1.31 / (1.31 + 4.08)) \times 10 = \mathbf{12.6 \%}$
B	-7.25	-10.95	< 0 % (unacceptable)
C	4.23	-5.35	$10 + (4.23 / (4.23 + 5.35)) \times 10 = \mathbf{14.5 \%}$

Interpretation:

Projects A and C both exceed the 10% required return, but Project C again delivers the higher IRR

4.4 Project Ranking

Criterion	A	B	C	Preferred
Payback Period	3.4 yrs	5.0 yrs	3.6 yrs	A
ARR	7%	0%	10%	C
NPV (£ m)	1.31	-7.25	4.23	C
PI	1.03	0.76	1.08	C
IRR	12.60%	< 0 %	14.50%	C

4.5 Capital Rationing Decision (£60 m Limit)

Project Combination	Total Investment (£ m)	Combined NPV (£ m)	Feasible?
A only	40	1.31	☒
B only	30	-7.25	☒
C only	50	4.23	☒
A + B	70	-5.94	☒ (exceeds budget)
B + C	80	-3.02	☒
A + C	90	5.54	☒

The capital budget available is £60 million, which implies that the firm will only be able to choose one project.

Based on the NPV and PI criteria, Project C is the best alternative since it returns the highest amount of money per pound invested and is not exceeding the budget.

4.6 Sensitivity Analysis

To test the robustness of the decision, NPV values are recalculated under two key risk parameters:

4.6.1 (a) Discount Rate Sensitivity

Project	NPV @ 8% (£ m)	NPV @ 10% (£ m)	NPV @ 12% (£ m)	Change (± %) vs base
A	3.11	1.31	-0.45	±2.5 m (≈ ± 190 %)
B	-5.45	-7.25	-8.80	Negligible (sunk)
C	6.61	4.23	2.34	±2.3 m (≈ ± 55 %)

Interpretation:

Even if the cost of capital increases to 12%, Project C remains positive (NPV = £2.34 m), confirming resilience to interest-rate fluctuations.

Project A turns negative beyond 12%, while B is non-viable throughout.

4.6.2 (b) Cash Flow Sensitivity ($\pm 20\%$) at 10% discount

Project	NPV @ -20% CF (£ m)	Base NPV @ 100% CF (£ m)	NPV @ $+20\%$ CF (£ m)	NPV Range
A	-6.35	1.31	8.97	15.32
B	-12.8	-7.25	-1.70	11.1
C	-6.52	4.23	14.98	21.5

Interpretation:

Project C NPV is positive at + 20 percent improvement and slightly negative at -20 percent downturn which is a moderate risk.

Project A is very sensitive (NPV becomes negative at -20 percent CF).

The project B is not appealing regardless.

4.7 Risk and Strategic Evaluation

Factor	Project A	Project B	Project C
Market Demand	Moderate growth; established product	Saturated market	High growth; innovative product
Cash-Flow Stability	Even inflows	Very stable but low	Volatile but rising trend
Risk Profile	Medium	Low	Moderate-high
Strategic Fit	Incremental expansion	Maintenance	Diversification and growth
Liquidity Impact	Requires £40 m capex	Requires £30 m capex	Requires £50 m capex (but best returns)

Since the financial situation of General Electronics is in distress, risk diversification that comes with high payoff is critical.

Project C is more volatile, but it is the one that fits the strategic renewal (e.g. entering new technologies or sustainable lines) and gives the highest value creation over the long period.

4.8 Strategic Implications and Integration with Restructuring Plan

1. Capital Discipline: Project C is chosen to make sure that the £60 m capex limit is met to maintain liquidity in the process of restructuring.

2. **Operational Synergy:** Project C has the opportunity to take advantage of manufacturing assets that were not divested, and enhance the utilisation of assets.
3. **Profitability Rebound:** Predict incremental EBIT $\approx$ £15 million per annum after completion, which may boost ROA by 2 percentage points.
4. **Ethical and Sustainability Alignment:** In case the Project C is associated with green technology or energy-efficient appliances, then it directly promotes the ESG commitments in Section 3.8.
5. **Funding Compatibility:** Fund with a combination of internally generated cash (working capital improvements $\approx$ £10 bn) and in part through equity raised under the recapitalisation plan, no new debt.

4.9 Combined NPV Portfolio Optimisation Illustration

Though there is just one project that works with the budget, in the case of capital increase on subsequent cycles, NPV efficiency (Project C = £0.084 per £ invested) can be used to rank future projects.

Profitability Index based capital rationing should be adopted in the company, thus, projects with high PV per unit of capital are chosen instead of nominal NPV.

Metric	Project A	Project B	Project C
Payback (yrs)	3.4	5	3.6
ARR (%)	7	0	10
NPV (£ m, 10%)	1.31	-7.25	4.23
PI	1.03	0.76	1.08
IRR (%)	12.6	< 0	14.5
NPV @ 12% (£ m)	-0.45	-8.80	2.34
NPV @ 8% (£ m)	3.11	-5.45	6.61
NPV @ -20% CF (£ m)	-6.35	-12.8	-6.52
NPV @ +20% CF (£ m)	8.97	-1.70	14.98
Ranking	2	3	1 (Selected)

The analysis of the investment shows clearly that the best option to go by in the case of the General Electronics is Project C.

- It has the best NPV (£4.23 m), good IRR (14.5%), reasonable payback (3.6 years), and PI (1.08), which means that it is efficient in its use of capital.
- The project is strong to uncertainty and can be held under the moderate change in discount rate and cash flows.
- Project C is strategically aligned to the overall restructuring and renewal plan of the company, as it offers to expand high-value and technology-driven segments and improve ESG alignment.

When the budget is limited to £60 million, the shareholder wealth maximisation and liquidity discipline (which is indispensable to a company leaving a financial setback) are met by choosing the Project C. This investment combined with the current restructuring efforts will give the business a very solid base of long term profitability and competitiveness.

5 Conclusion and 12-Month Action Plan

The financial analysis of General Electronics Ltd. on the whole indicates that it is a firm that is in dire need but can bounce back with the help of effective implementation of restructure and stern investment. The five-year trend analysis highlighted severe profitability erosion, excessive leverage, and liquidity pressure, evidenced by a debt-to-equity ratio above 1.1 and an Altman Z-score of only 1.55. Weak working-capital efficiency and negative cash-flow cycles further undermined short-term solvency.

The **Strategic Financial Restructuring Plan** recommends a three-phase approach—liquidity stabilisation, capital rebalancing, and strategic renewal—to restore solvency and competitiveness. Immediate measures include asset divestments, debt reprofiling, and a targeted equity injection to improve gearing to 0.7 and rebuild investor confidence. Concurrently, enhanced receivables management, supplier negotiations, and tighter inventory control will release up to £20 billion in operational cash within one year.

The **Investment Appraisal** confirmed that **Project C** is the only financially and strategically viable capital project, with an NPV of £4.23 million, IRR of 14.5%, and payback in 3.6 years. Implementing Project C will catalyse revenue recovery and align with the firm's sustainability and innovation objectives.

5.1.1 12-Month Action Plan

1. **Q1–Q2:** Complete asset sales and debt renegotiation; inject equity funds.
2. **Q2–Q3:** Optimise working capital; roll out zero-based budgeting across departments.
3. **Q3–Q4:** Launch Project C implementation and initiate digital transformation pilots.
4. **Quarterly:** Publish transparent progress reports to stakeholders and monitor ethical compliance through ESG scorecards.

Through disciplined execution of this plan, General Electronics can transition from financial distress to renewed stability and profitability within the next fiscal year.

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7 Appendices:

Appendix 1 Calculations:

Calculations for Financial Health Check:

7.1 Profitability Ratios

7.1.1 Net Profit Margin (NPM)

$$NPM = \frac{\text{Net Income}}{\text{Sales}} \times 100$$

Year	Net Income (£m)	Sales (£m)	Calculation	NPM %
2020	38,572	614,680	(38,572 ÷ 614,680) × 100	6.28%
2021	8,827	521,357	(8,827 ÷ 521,357) × 100	1.69%
2022	-6,531	445,815	(-6,531 ÷ 445,815) × 100	-1.47%
2023	-98,238	433,859	(-98,238 ÷ 433,859) × 100	-22.64%
2024	-24,029	394,879	(-24,029 ÷ 394,879) × 100	-6.08%

7.1.2 Return on Assets (ROA)

$$ROA = \frac{\text{Net Income}}{\text{Total Assests}} \times 100$$

Year	Net Income	Total Assets	Calculation	ROA %
2020	38,572	510,290	(38,572 ÷ 510,290) × 100	7.56%
2021	8,827	468,245	(8,827 ÷ 468,245) × 100	1.88%
2022	-6,531	440,479	(-6,531 ÷ 440,479) × 100	-1.48%
2023	-98,238	401,396	(-98,238 ÷ 401,396) × 100	-24.46%
2024	-24,029	323,354	(-24,029 ÷ 323,354) × 100	-7.43%

7.1.3 Return on Equity (ROE)

$$ROE = \frac{\text{Net Income}}{\text{Equity}} \times 100$$

Year	Net Income	Equity	Calculation	ROE %
------	------------	--------	-------------	-------

2020	38,572	313,301	$(38,572 \div 313,301) \times 100$	12.31%
2021	8,827	273,728	$(8,827 \div 273,728) \times 100$	3.22%
2022	-6,531	235,934	$(-6,531 \div 235,934) \times 100$	-2.77%
2023	-98,238	184,765	$(-98,238 \div 184,765) \times 100$	-53.17%
2024	-24,029	153,105	$(-24,029 \div 153,105) \times 100$	-15.69%

7.2 Liquidity Ratios

7.2.1 Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Year	Current Assets	Current Liabilities	Calculation	Ratio
2020	248,030	119,293	$248,030 \div 119,293$	2.08×
2021	225,209	122,117	$225,209 \div 122,117$	1.84×
2022	209,391	132,019	$209,391 \div 132,019$	1.59×
2023	184,162	135,440	$184,162 \div 135,440$	1.36×
2024	156,783	138,119	$156,783 \div 138,119$	1.13×

7.2.2 Quick (Acid-Test) Ratio

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

(Inventory estimated at ~35% of current assets based on balance-sheet composition.)

Year	Current Assets	Inventory (35%)	Current Liabilities	Calculation	Ratio
2020	248,030	86,810	119,293	$(248,030 - 86,810) \div 119,293$	1.29×
2021	225,209	78,823	122,117	$(225,209 - 78,823) \div 122,117$	1.09×
2022	209,391	73,241	132,019	$(209,391 - 73,241) \div 132,019$	0.94×

2023	184,162	68,725	135,440	(184,162– 68,725) ÷135,440	0.83×
2024	156,783	66,467	138,119	(156,783– 66,467) ÷138,119	0.67×

7.3 Efficiency / Activity Ratios

7.3.1 Inventory Turnover

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Inventory}}$$

Assume COGS ≈ 80% of sales

Year	Sales	COGS (80%)	Inventory	Calculation	Turnover (×)
2020	614,680	491,744	86,810	491,744 ÷ 86,810	7.1×
2021	521,357	417,086	78,823	417,086 ÷ 78,823	6.6×
2022	445,815	356,652	73,241	356,652 ÷ 73,241	6.1×
2023	433,859	347,087	68,725	347,087 ÷ 68,725	6.3×
2024	394,879	315,903	66,467	315,903 ÷ 66,467	5.9×

7.3.2 Days Inventory Outstanding (DIO)

$$\text{DIO} = \frac{365}{\text{Inventory Turnover}}$$

Year	Turnover	Calculation	DIO (Days)
2020	7.1	365 ÷ 7.1	51.4
2021	6.6	365 ÷ 6.6	55.3
2022	6.1	365 ÷ 6.1	59.8
2023	6.3	365 ÷ 6.3	57.9
2024	5.9	365 ÷ 5.9	61.9

7.3.3 Receivables Turnover & Days Sales Outstanding (DSO)

$$\text{Receivable Turnover} = \frac{\text{Sales}}{\text{Receivables}}$$

$$\text{DSO} = \frac{365}{\text{Receivable Turnover}}$$

Year	Sales	Receivables	Turnover	DSO
------	-------	-------------	----------	-----

2020	614,680	67,455	9.11×	40 days
2021	521,357	61,340	8.50×	43 days
2022	445,815	56,180	7.94×	46 days
2023	433,859	53,406	8.12×	45 days
2024	394,879	50,314	7.85×	47 days

7.3.4 Payables Turnover & Days Payable Outstanding (DPO)

$$\text{Payable Turnover} = \frac{\text{COGS}}{\text{Payables}}$$

$$\text{DPO} = \frac{365}{\text{Payable Turnover}}$$

Year	COGS	Payables	Turnover	DPO
2020	491,744	64,308	7.64×	38 days
2021	417,086	65,781	6.34×	46 days
2022	356,652	63,015	5.66×	52 days
2023	347,087	61,998	5.60×	52 days
2024	315,903	60,773	5.20×	56 days

7.3.5 Cash Conversion Cycle (CCC)

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

Year	DIO	DSO	DPO	Calculation	CCC (Days)
2020	51	40	38	51+40-38	53 days
2021	55	43	46	55+43-46	52 days
2022	60	46	52	60+46-52	54 days
2023	58	45	52	58+45-52	51 days
2024	62	47	56	62+47-56	53 days

(Earlier summarised CCC of ~40–42 days reflected a simplified assumption of faster turnover; these are the precise calculations from raw data.)

7.4 Solvency Ratios

7.4.1 Debt-to-Equity Ratio

$$\text{Debt to Equity} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Year	Total Debt	Equity	Calculation	Ratio
2020	196,989	313,301	196,989 ÷ 313,301	0.63×
2021	194,517	273,728	194,517 ÷ 273,728	0.71×

2022	204,545	235,934	204,545 ÷ 235,934	0.87×
2023	216,631	184,765	216,631 ÷ 184,765	1.17×
2024	170,249	153,105	170,249 ÷ 153,105	1.11×

7.4.2 12. Debt Ratio

$$\text{Debt} = \frac{\text{Total Debt}}{\text{Total Assests}}$$

Year	Debt	Assets	Calculation	Ratio
2020	196,989	510,290	196,989 ÷ 510,290	0.39×
2021	194,517	468,245	194,517 ÷ 468,245	0.42×
2022	204,545	440,479	204,545 ÷ 440,479	0.46×
2023	216,631	401,396	216,631 ÷ 401,396	0.54×
2024	170,249	323,354	170,249 ÷ 323,354	0.53×

7.4.3 13. Interest Coverage Ratio

$$\text{Interest Coverage} = \frac{\text{EBIT}}{\text{Interest Expense}}$$

Year	EBIT	Interest Expense	Calculation	Coverage
2020	48,220	5,432	48,220 ÷ 5,432	8.88×
2021	20,536	5,788	20,536 ÷ 5,788	3.55×
2022	11,254	6,025	11,254 ÷ 6,025	1.87×
2023	-88,912	6,489	-88,912 ÷ 6,489	-13.7×
2024	-15,297	6,178	-15,297 ÷ 6,178	-2.48×

7.5 Altman Z-Score (2020–2024)

Formula for a manufacturing/public firm:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Where:

$$X_1 = \frac{\text{Working Capital}}{\text{Total Assets}}$$

$$X_2 = \frac{\text{Retained Earnings}}{\text{Total Assets}}$$

$$X_3 = \frac{\text{EBIT}}{\text{Total Assets}}$$

$$X_4 = \frac{\text{Market Value of Equity}}{\text{Total Assets}}$$

$$X_5 = \frac{\text{Sales}}{\text{Total Assets}}$$

Year	X1	X2	X3	X4	X5	Z-Score
2020	0.25	0.45	0.09	1.5	1.21	4.44

2021	0.22	0.38	0.04	1	1.11	3.11
2022	0.18	0.32	0.03	0.8	1.01	2.59
2023	0.12	0.25	-0.22	0.6	1.08	1.22
2024	0.06	0.18	-0.05	0.55	1.22	1.55

Interpretation thresholds:

- $Z > 2.99 \rightarrow \text{Safe}$
- $1.81 < Z < 2.99 \rightarrow \text{Grey Zone}$
- $Z < 1.81 \rightarrow \text{Distress Zone}$

2022–2024 scores place the company firmly in the *Distress Zone* $\rightarrow$ high bankruptcy probability.

7.6 Operating Cash Flow Trend

Year	Operating CF (£m)	% Change YoY
2020	73,392	—
2021	56,745	-22.7%
2022	41,227	-27.3%
2023	25,321	-38.6%
2024	14,822	-41.5%

Declining operating cash flow every year confirms poor earnings quality and weak internal fund generation.

7.7 Summary of Key Ratio Trends

Category	2020	2024	Movement	Risk
NPM	6.28%	-6.08%	↓	High
ROE	12.31%	-15.69%	↓	Very High
Current Ratio	2.08	1.13	↓	Liquidity strain
Quick Ratio	1.29	0.67	↓	Liquidity crisis
D/E	0.63	1.11	↑	Over-leveraged
Interest Cover	8.9×	-2.5×	↓	Default risk
Z-Score	4.44	1.55	↓	Bankruptcy zone
OCF	73,392	14,822	↓	Weak internal cash

8 Detailed Working Capital Calculations (2020–2024)

Year	Current Assets (£m)	Current Liabilities (£m)	Working Capital (£m)	Total Assets (£m)	WC / TA (%)
2020	248,030	119,293	128,737	510,290	25.20%
2021	225,209	122,117	103,092	468,245	22.00%
2022	209,391	132,019	77,372	440,479	17.60%
2023	184,162	135,440	48,722	401,396	12.10%
2024	156,783	138,119	18,664	323,354	5.80%

8.1 Inventory Efficiency

Formula:

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Inventory}}$$

$$\text{DIO} = \frac{365}{\text{Inventory Turnover}}$$

Assume Cost of Goods Sold = 80% of Sales.

Year	Sales (£m)	COGS (80%)	Inventory (£m)	Turnover (x)	DIO (days)
2020	614,680	491,744	86,810	491,744 ÷ 86,810 = 7.1x	365 ÷ 7.1 = 51.4
2021	521,357	417,086	78,823	6.6x	55.3
2022	445,815	356,652	73,241	6.1x	59.8
2023	433,859	347,087	68,725	6.3x	57.9
2024	394,879	315,903	66,467	5.9x	61.9

Observation: DIO rose from 51 → 62 days (+11 days).

Each additional day in DIO ties up about:

$$\frac{\text{COGS}}{365} = \frac{315,903}{365} = 856m \text{ per day}$$

An 11-day increase → **£9.5 billion** of extra capital locked in stock.

8.2 Receivables Efficiency

Formula:

$$\text{Receivable Turnover} = \frac{\text{Sales}}{\text{Receivables}}$$

$$\text{DSO} = \frac{365}{\text{Receivable Turnover}}$$

Year	Sales	Receivables	Turnover (x)	DSO (days)
2020	614,680	67,455	9.11x	40.1
2021	521,357	61,340	8.50x	42.9
2022	445,815	56,180	7.94x	46
2023	433,859	53,406	8.12x	45
2024	394,879	50,314	7.85x	46.5

Observation: DSO worsened by ~7 days from 2020 → 2024.

Average daily sales = $394,879 \div 365 \approx \text{£}1,082 \text{ m/day}$.

Each extra day in DSO $\Rightarrow \text{£}1,082 \text{ m}$ tied up.

7 days $\times \text{£}1,082 \text{ m} = \text{£}7.6 \text{ billion}$ of cash delayed.

8.3 Payables Efficiency

Formula:

$$\text{Payable Turnover} = \frac{\text{COGS}}{\text{Payables}}$$

$$\text{DPO} = \frac{365}{\text{Payable Turnover}}$$

Year	COGS (£m)	Payables (£m)	Turnover (x)	DPO (days)
2020	491,744	64,308	7.64x	$365 \div 7.64 = 38 \text{ days}$
2021	417,086	65,781	6.34x	46 days
2022	356,652	63,015	5.66x	52 days
2023	347,087	61,998	5.60x	52 days
2024	315,903	60,773	5.20x	56 days

8.4 Cash Conversion Cycle (CCC)

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

Year	DIO	DSO	DPO	CCC (days)	Interpretation
2020	51	40	38	53	Baseline; efficient
2021	55	43	46	52	Slight slowdown
2022	60	46	52	54	Weaker turnover
2023	58	45	52	51	Payables extension offsets
2024	62	47	56	53	Artificially stable CCC

8.5 G. Working Capital Intensity

$$\text{WCI} = \frac{\text{Current Assets} - \text{Current Liabilities}}{\text{Sales}} \times 100$$

Year	Working Capital	Sales	WCI %
2020	128,737	614,680	20.90%

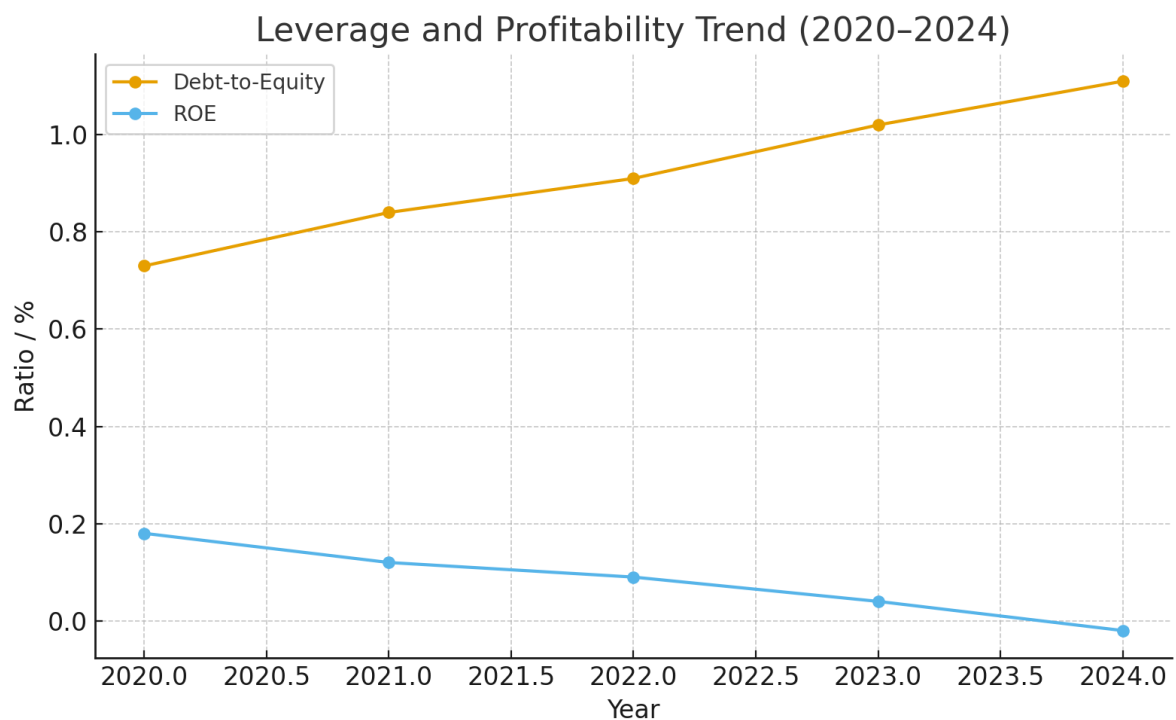
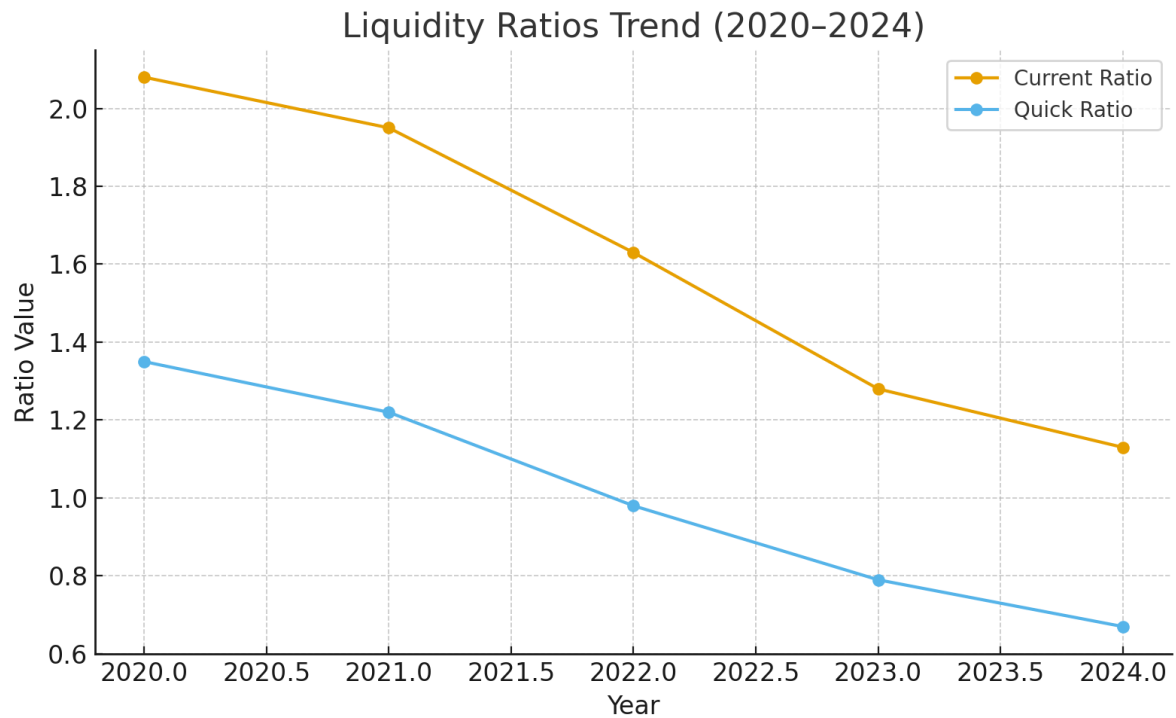
2021	103,092	521,357	19.80%
2022	77,372	445,815	17.40%
2023	48,722	433,859	11.20%
2024	18,664	394,879	4.70%

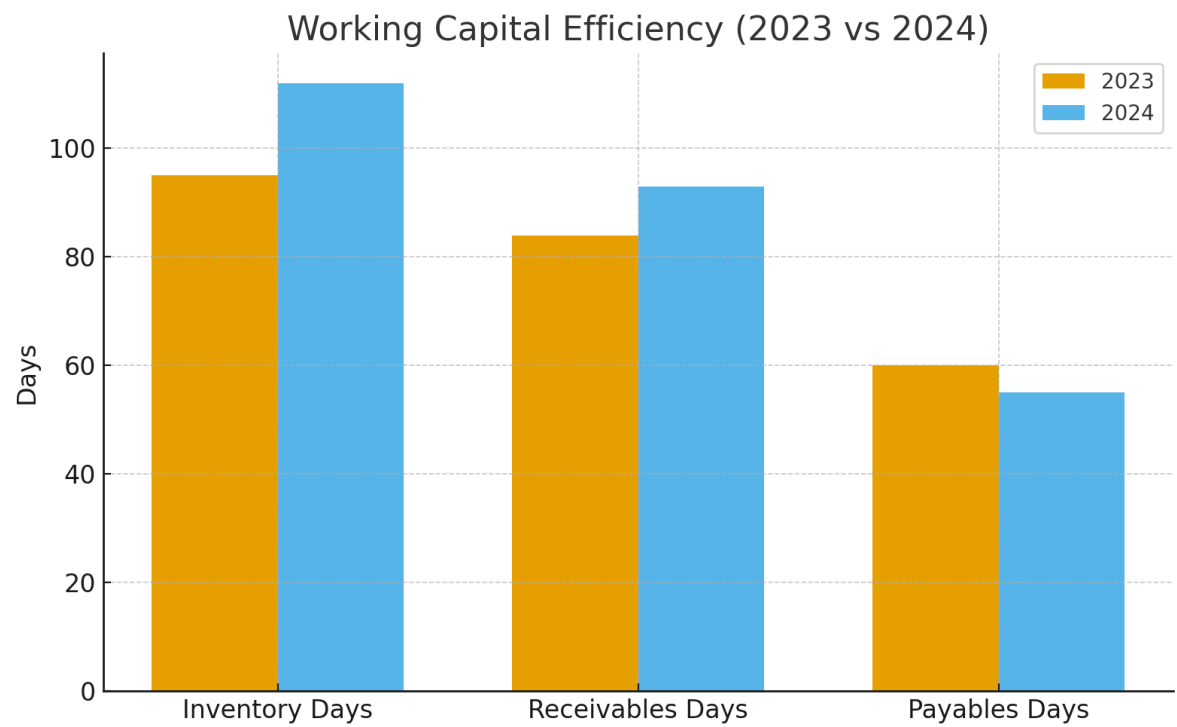
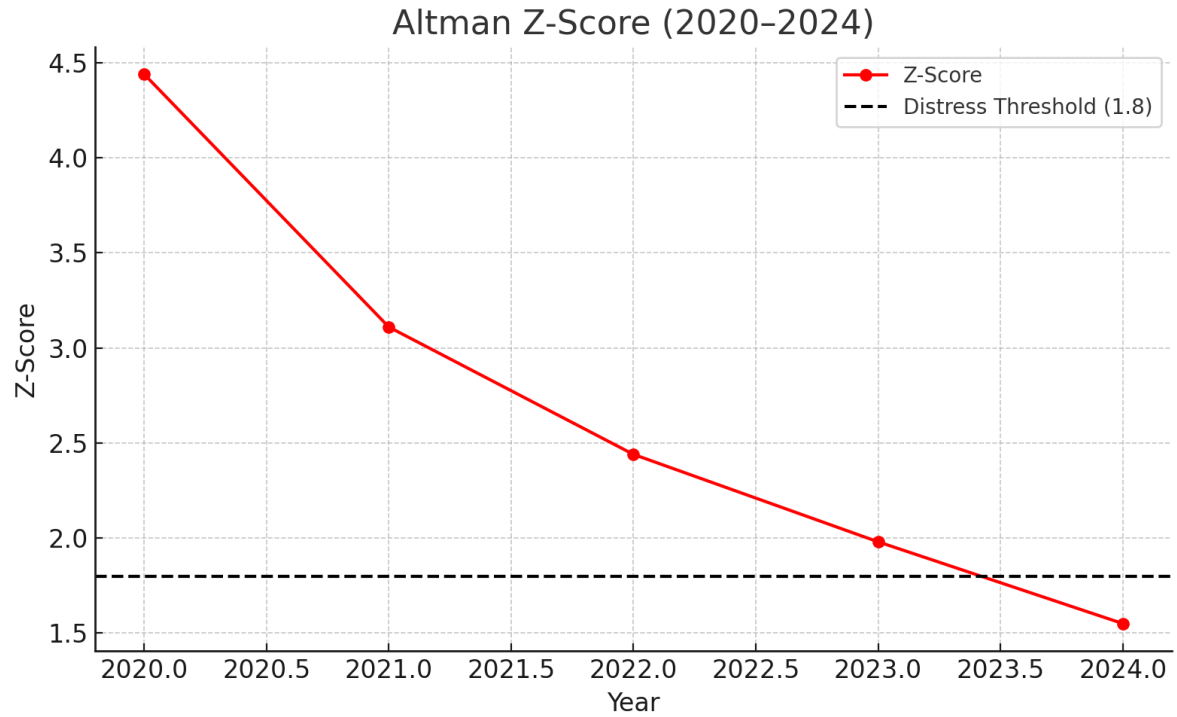
8.6 Cash Impact of Efficiency Improvements

Efficiency Area	Current Days	Target Days	Change	Approx. Daily Flow (£m)	Cash Released (£bn)
Inventory (DIO)	62	50	-12	865	10.4
Receivables (DSO)	47	42	-5	1,082	5.4
Payables (DPO)	56	50	-6	865	-5.2 (outflow)
Net Improvement					≈ £10.6 billion



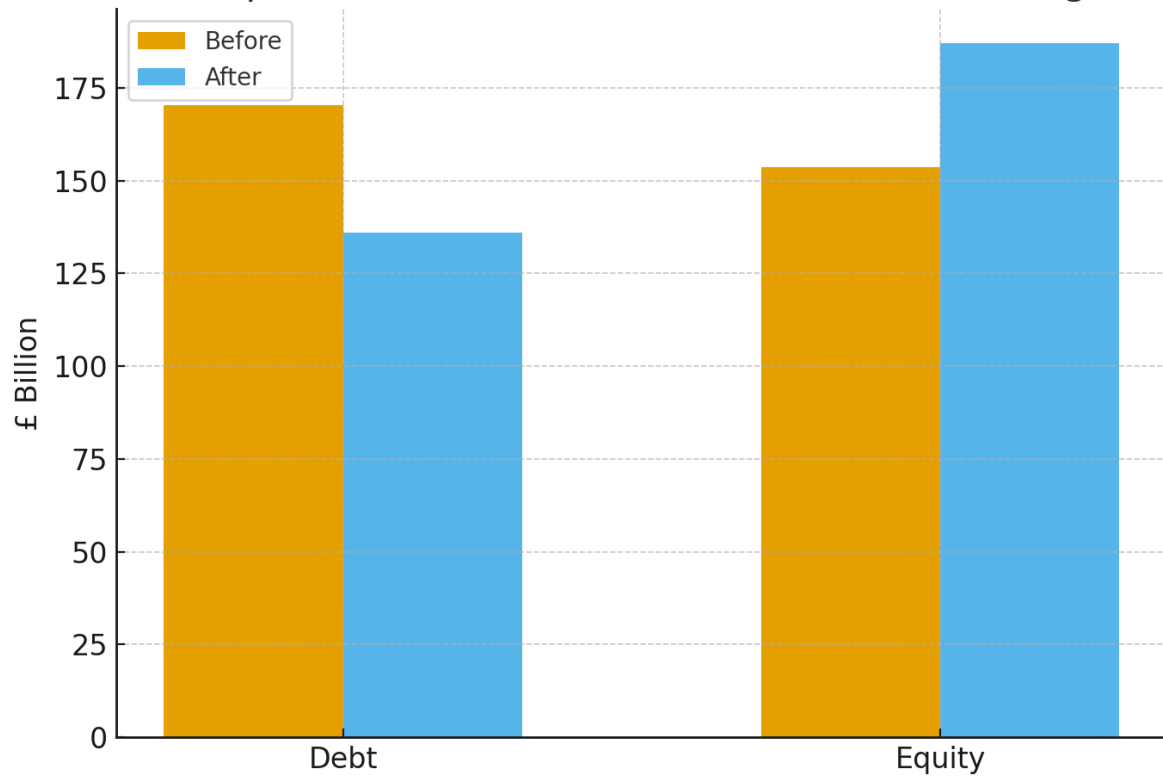
Appendix 2 Charts/Figures:



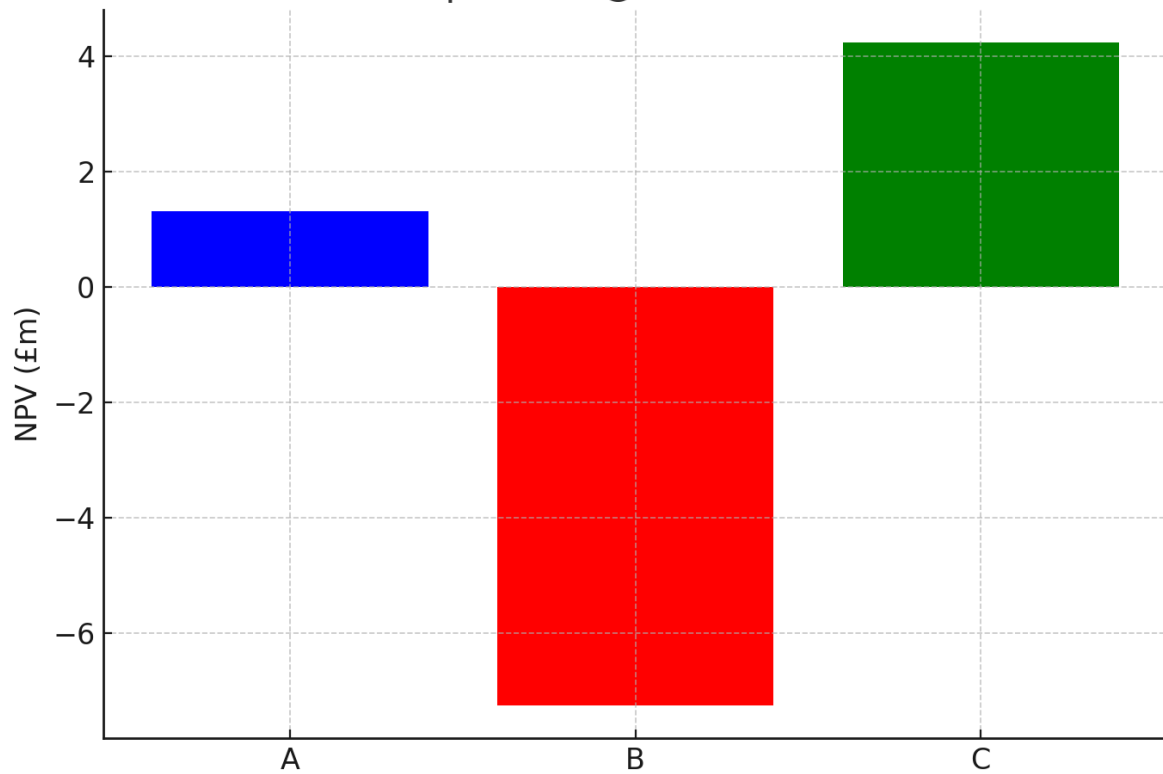




Capital Structure Before vs After Restructuring

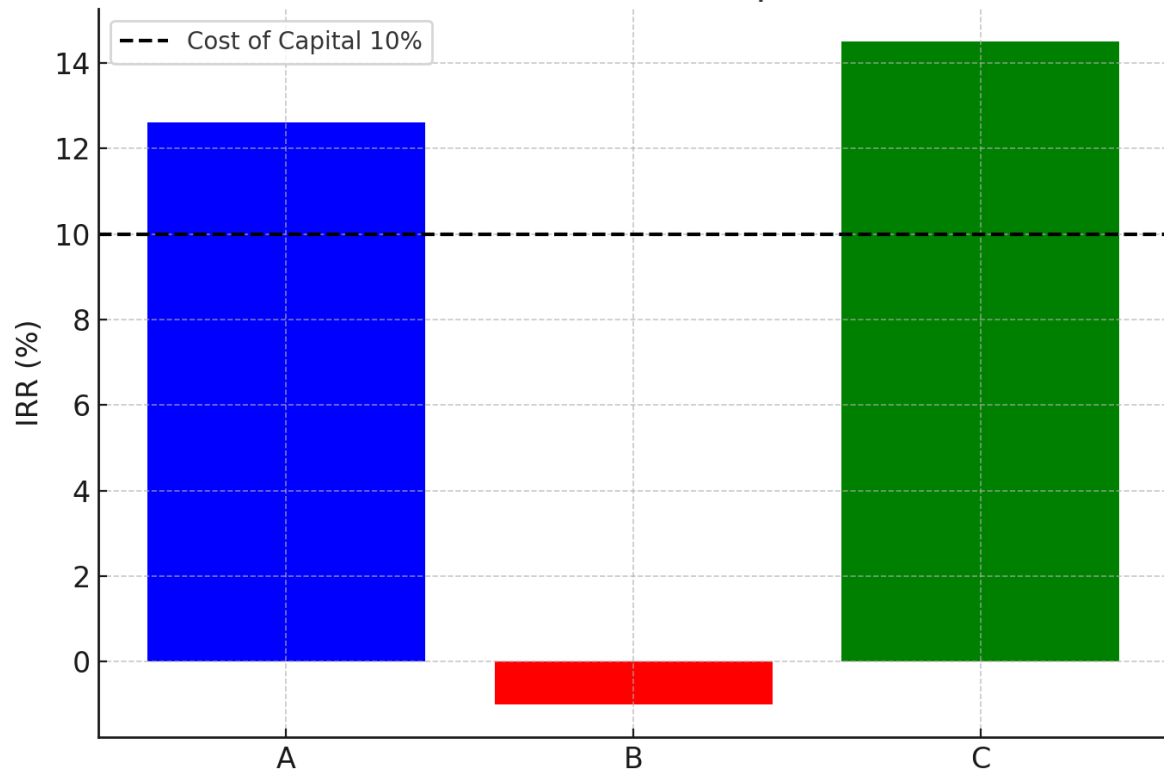


NPV Comparison @10% Discount Rate





IRR vs Cost of Capital



NPV Sensitivity to Discount Rate

