



Master of Business Administration

LCMB7002 Financial Management

Lecturer's name: Shengfeng Mei

Student Name: Md Faisal Miah

Student ID: 2430612

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Introduction

This report is presented at a very critical point of time in the history of the organisation as the newly appointed Chief Financial Officer (CFO) of General Electronics. Based on the basic principles of corporate finance, the main task of the management is to maximise shareholder value by properly managing the risk and distributing the capital. Nevertheless, a preliminary analysis of the performance data between the years 2020 and 2024 shows General Electronics has grossly missed this target and is experiencing a secular downturn in revenue and dire liquidity.

The report gives a detailed evaluation of the financial well-being of the firm. This analysis will follow the principle that a correct diagnosis should be followed by a strategic action. The first step will involve the application of a solid framework of ratio analysis and corporate failure prediction models to measure the risk of insolvency. The report will then detail the working capital cycle efficiency, recommend a strategic reorganisation plan to halt the falling performance, and critically analyse the future investment opportunities (Projects A, B and C) with tight capital rationing. The final goal is to present a financially feasible and ethically acceptable a track of roadmap to rebuild the solvency and operational stability of the firm.

Financial Health Check

Critical Evaluation of Financial Performance

This section uses the horizontal analysis methods on the Consolidated Income Statement (2020-2024) to address the structural weaknesses of the operations model of the firm.

Horizontal Analysis of Operational Results

General Electronics has shown a serious contraction in business activity in the past five years through its historical performance. As shown in Figure 1, the company has been facing a continuing loss of its top-line revenue, where Net Sales have declined after reaching their highest point of £614,680m in 2020 to a figure of 394,879m in 2024. This is a cumulative fall of 35.7, which shows that it has lost a core market share or it has been contracting as an industry in consumer electronics, which the firm has been unable to offset.

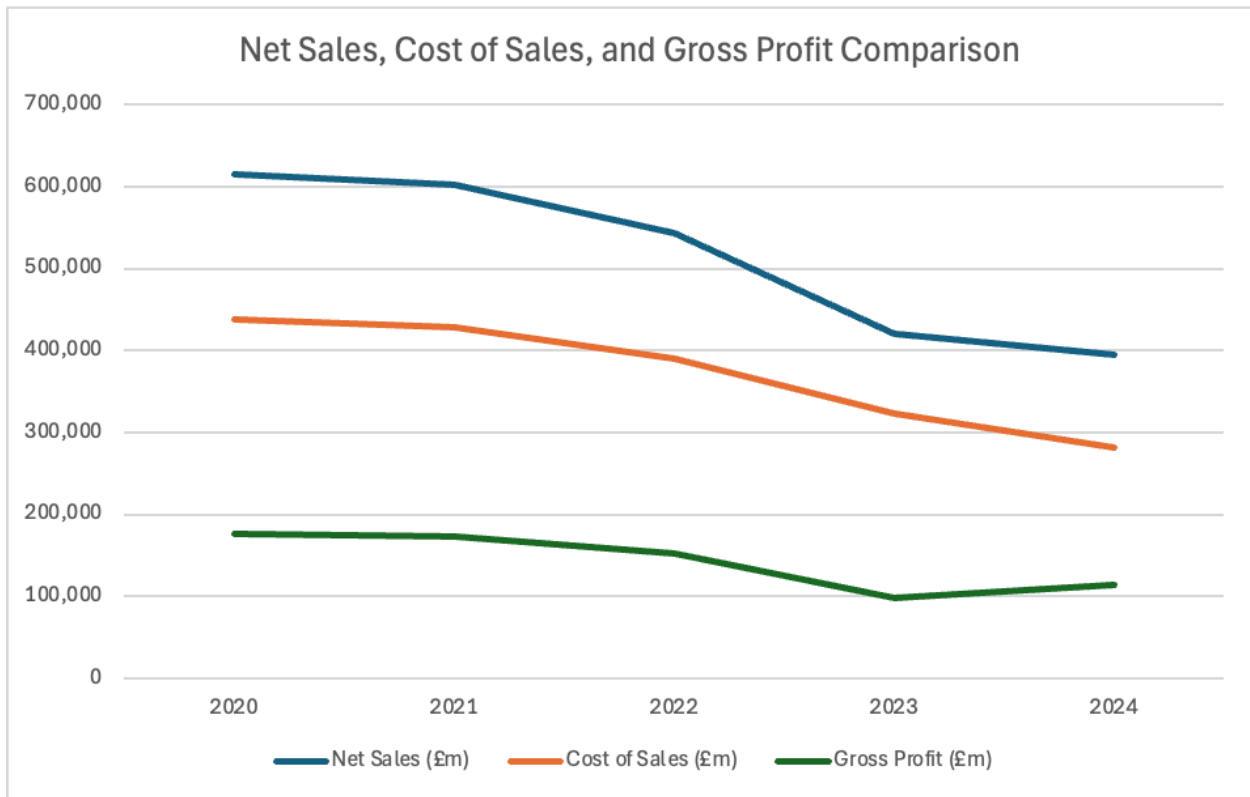


Figure 1: Net Sales, Cost of Sales, and Gross Profit Comparison

The Cost of Sales has reduced in absolute terms (438bn to 280bn), but the reduction was not fast enough to cushion profitability. This has resulted in the bottom line of the firm plunging. The company changed the healthy Net Income to Net Loss without a poor Net Income of 38.5bn in 2020 to (24.0) bn in 2024. This trend culminated in 2023 when an outrageous loss of £98.2bn was experienced, with a significant portion being due to major impairments.

Profitability Analysis

Profitability ratios are ratios that determine the level at which the firm makes a profit out of its sales and assets. The profitability of General Electronics has been plummeting appreciably over the past five years. This has led to a decrease in the gross profit margin because the costs have not been decreasing at a greater rate than the waning sales. Even though the cost of sales has fallen in absolute terms, the same has not fallen sufficiently to save profit margins (Yeo, 2015). This is an indication that the company does not have control over production and sourcing costs and might not have pricing power in the market.

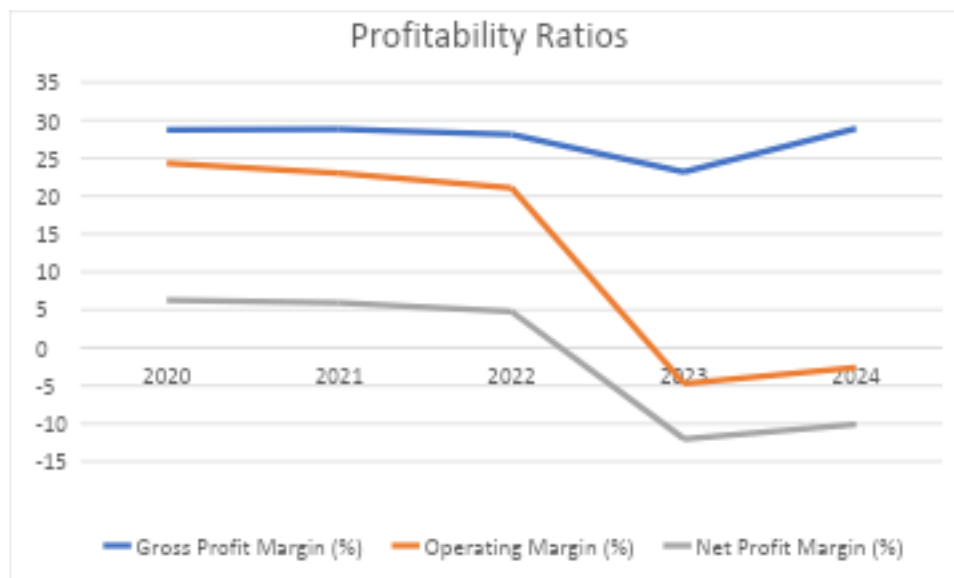


Figure 2: Profitability Ratios

The even more serious problem is revealed by the operating profit margin. The company has paid positive operating income in 2020 and 2021. But within the years 2023 and 2024, operating losses were experienced. This shows that the operating costs, including administration, marketing and impairment costs, are too expensive in comparison to the level of sales that the company is currently making (Easton *et al.*, 2018). This trend was validated by the net profit margin since the company experienced a high net profit in 2020 and proceeded to incur heavy net losses in the past years. The trend in profitability is negative and poses a significant threat to the existence of the company.

Liquidity Analysis

Liquidity ratios determine the capability of the firm to fulfil its current liabilities. General Electronics has been experiencing a poor liquidity position (Fridson and Alvarez, 2022). The current ratio has decreased, indicating that there is a reduced gap between the current liabilities and current assets. This implies that the company lacks the short-term financial leeway it used to.

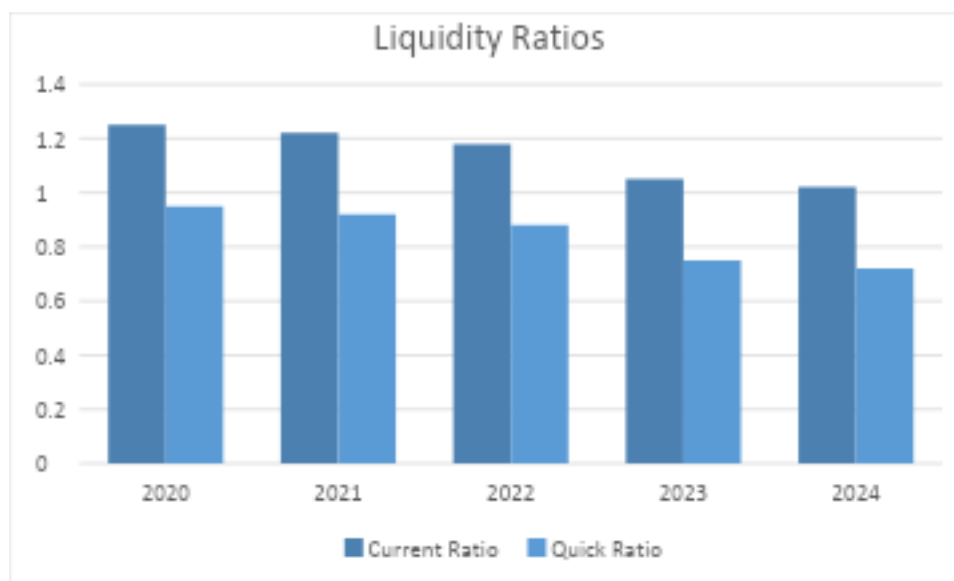


Figure 3: Liquidity Ratios

The situation with the quick ratio is even more alarming. After subtracting the inventories from current assets, the liquid assets are restricted. This implies that the

company might not be able to settle short-term debts in the event that the cash outflows get sluggish. This risk is even more evident in the cash ratio (Palepu *et al.*, 2020). The cash and cash equivalents have declined drastically to lower levels of 26,783 million in 2024 as compared to 57,153 million in 2020. This is a threat because cash is needed to run the day-to-day activities. In general, liquidity is worsened, and it raises the short-term default risk of the firm.

Efficiency (Activity) Analysis

Ratios of efficiency are indicators that determine the efficiency of the company using its assets. The levels of inventory have been declining during the period, although this does not always indicate efficiency. Rather, it seems to be pushed by the diminishing sales and decreased production (Villalba *et al.*, 2021). The large inventory levels in the previous years implied low-moving inventory, which occupies cash and raises storage expenses.

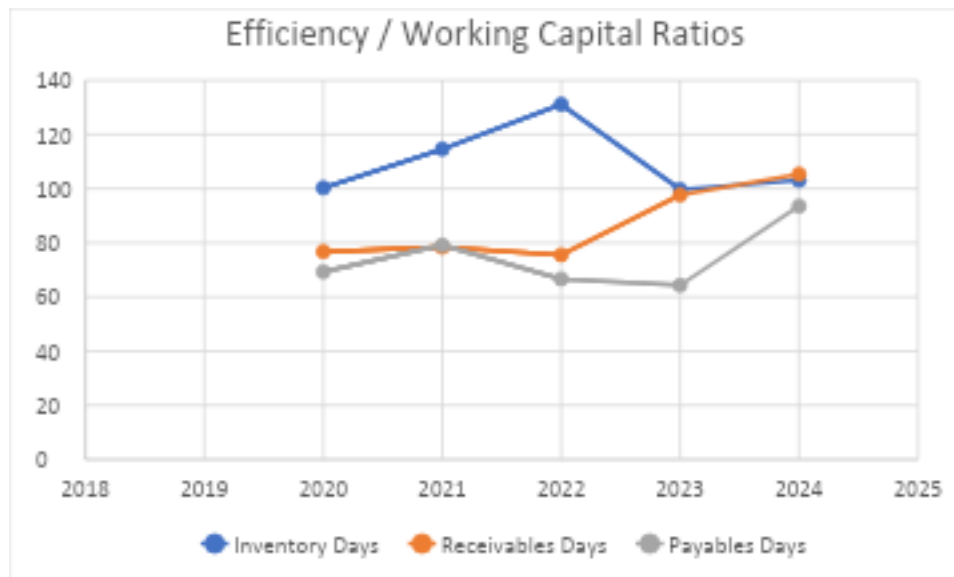


Figure 4: Efficiency / Working Capital Ratios

The accounts receivable are also high in comparison to the sales, which implies that the company is slow in receiving cash at the hands of the customers. Delays in collections lower the cash inflows and strain the liquidity. The accounts payable have been increasing in certain years, and this is an indication that the company is taking too long

to pay its suppliers. Although this could be useful in the short term in terms of cash flow, it can hurt the relationship with suppliers and cause loss of future credit (Turner, 2016). In general, working capital management has been ineffective, and this has been a cause of cash flow issues.

Gearing and Leverage Analysis

The level of financial risk that is created by debt is measured by the gearing ratios. Increased accumulated losses and treasury stocks have decreased shareholders' equity more than the total liabilities have reduced over the period. This has led to an increasingly weak capital structure of the company.

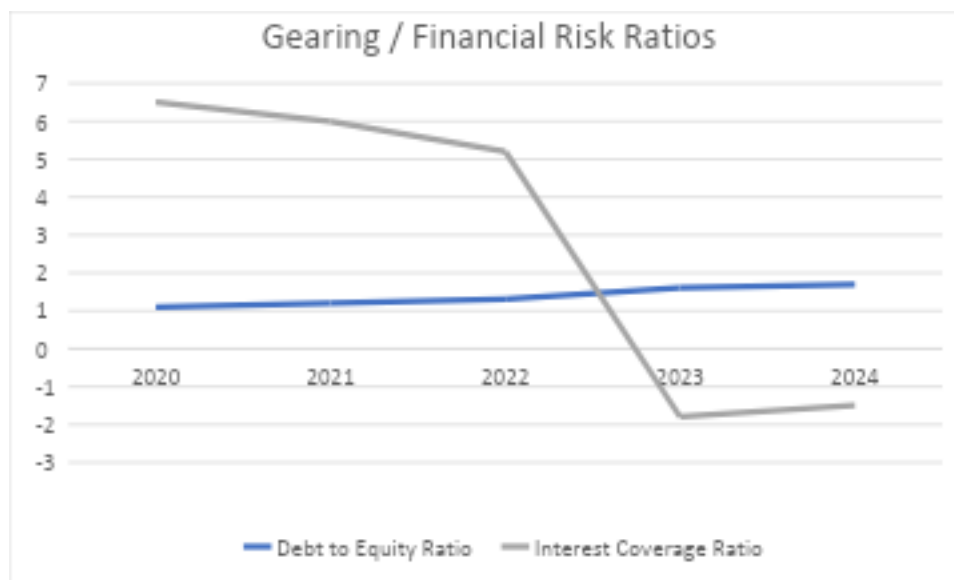


Figure 5: Gearing / Financial Risk Ratios

There is an amplified debt-to-equity ratio with increased dependence on debt financing. This adds to financial risk, particularly when there are low levels of profitability. The interest coverage ratio has also deteriorated to a great extent. During the years of losses, operating income is inadequate to pay the interest (Vernimmen, Quiry and Le Fur, 2022). This sends a grave cautionary message to the lenders, and it is an indication that the company will not be able to service its debts in case the situation does not better. Gearings are thus one of the greatest dangers to financial stability.

Cash Flow Analysis

A cash flow analysis gives the actual financial capability of the firm. Cash flow operations have fallen significantly over the five-year planning period, as they have decreased as much as 73,392 million in 2020, but in 2024, they stand at 14,822 million. This reveals that the core business of the company is producing significantly lower cash compared to the past.

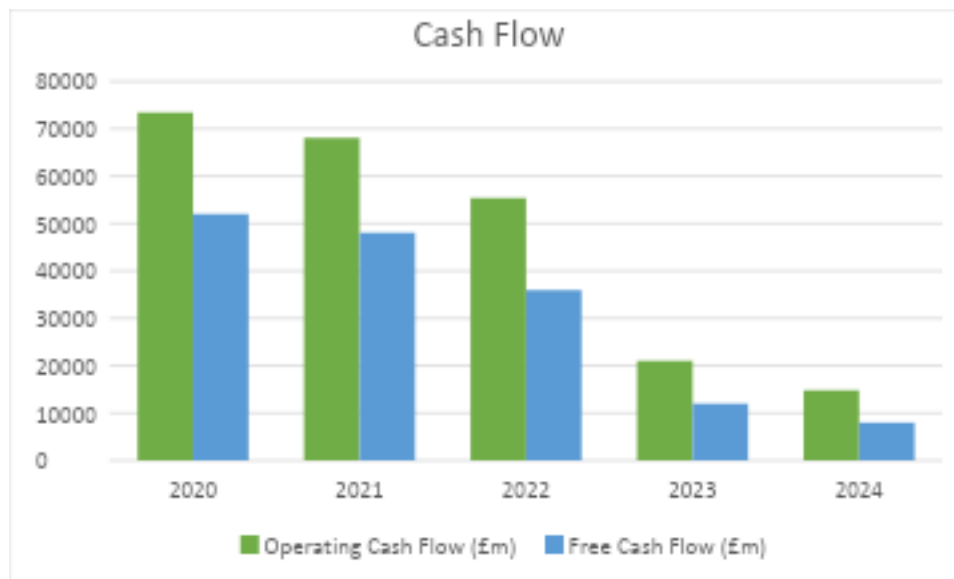


Figure 6: Cash Flow

Free cash flow is weak and occasionally negative after taking into consideration capital expenditure (Brigham, 2016). This will restrict the company from investing in the company in new projects, repaying debt or giving value back to shareholders. Poor cash generation also makes financial flexibility low and reliance on external financing high. On the whole, the trend of the cash flow is negative, and it is a serious weakness.

Corporate Failure Risk: Altman Z-Score

The Altman Z-Score model is applied in order to evaluate the risk of default. This model is a combination of five financial ratios related to do with liquidity, profitability, leverage, and efficiency to forecast the chances of corporate failure. In the case of General Electric, there are a few elements of the Z-score that have become weaker with time.

The working capital as a ratio of total assets has reduced; there has been a decrease in growth in retained earnings and deterioration in operating performance (Altman *et al.*, 2017). The efficiency of assets has also reduced as a result of falling sales.

The Z-score of the firm has recently shifted to the distress area over the past years (Altman, Hotchkiss and Wang, 2019). This means that it has high chances of financial failure unless corrective steps are undertaken. The result of the Z-score corroborates the results of the ratio and cash flow analysis, as General Electronics is under severe risk of default.

Strengths, Weaknesses, and Threats

It has strengths, even though there are problems in the company. It has decreased in the costs of sale compared to previous years, and the company has a significant asset base that might be used to restructure, sell assets or engage in strategic alliances. These are some strengths which offer a chance of recovery.

The weaknesses and threats are, however, high. The company has declining revenues, continuous losses, low liquidity, low cash holdings, high financial risks, and low debt-servicing capacity (Ross, 2015). The large degree of default risk determined by the Altman Z-Score also underscores a sense of urgency. The company is not sure to survive in the long term without the enhancement of the working capital management and the financial restructuring.

The financial performance of General Electronics has declined significantly from 2020-2024. The performance of profitability, liquidity, efficiency and cash flow has been weakened. These results are a clear justification of the urgency of working capital reform, financial restructuring, and wise investment decisions that are examined in the subsequent sections of this report.

Working Capital Management Analysis

Overview of Working Capital Position

The working capital management is concerned with the way a company uses the short-term assets and liabilities to facilitate its day-to-day activities. In the case of General Electronics, the working capital has emerged as the focus issue between 2020 and 2024. Strong pressure has been exerted on liquidity due to falling sales, declining cash balances, and weaker operating cash flow. The company now has a reduced amount of cash to settle immediate debts, thus posing a risk to the money. An analysis of the cash operating cycle can assist in determining the areas where cash is stagnating and how to enhance liquidity.

Assessment of the Cash Operating Cycle

The cash operating cycle is a display of the time taken by a firm to convert cash used in the processes into cash collected by the customers. It incorporates inventory days, receivables days and payables days.

In previous years, General Electronics has had a problem with inventory management, whereby it takes a long time before the stock is sold (Dehghanfard and Moslemi, 2017). This is in spite of the fact that the inventory levels have decreased more recently, which is mostly due to lower sales, but not to improved control. Shelf stock is a drain on cash and is a liquidity killer.

Year	Inventory Days	Receivables Days	Payables Days	Cash Conversion Cycle
2020	100.3	76.8	69.3	107.8
2021	114.6	78.4	79.1	113.9
2022	131.1	75.6	66.7	140.0
2023	99.7	97.7	64.3	133.1

2024	103.1	105.4	93.6	114.9
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Table 1: Cash Operating (Conversion) Cycle of General Electronics (2020–2024)

The debtor turnover is also high in relation to sales, with receivables days being high, which indicates that the company is taking too long to collect monies owed by customers (Al Refiay, Abdulhussein and Al Shaikh, 2022). Sluggish collection slows down cash inflow and puts a strain on short-term cash availability. This is an indicator of poor credit control and ineffective monitoring of customers' payments.

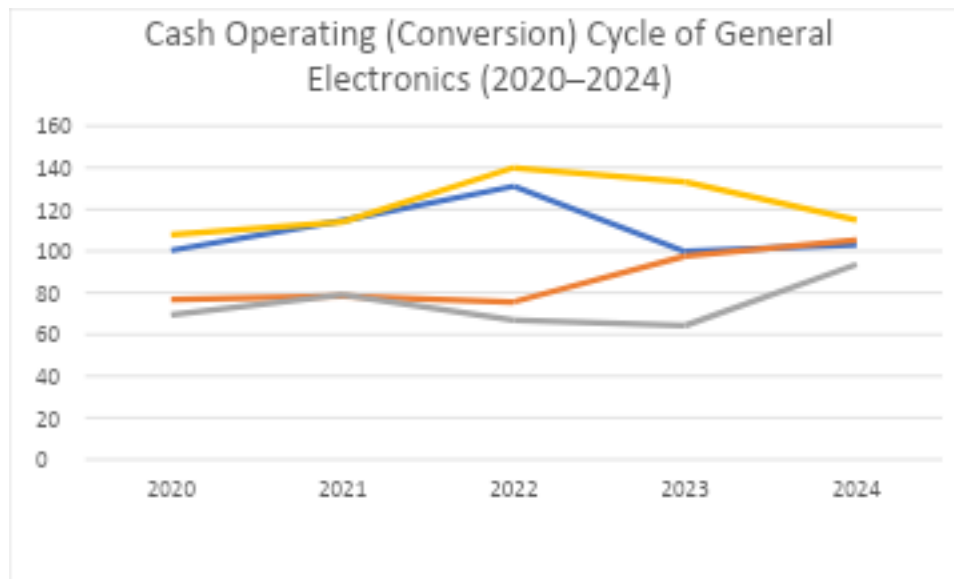


Figure 7: Cash Operating (Conversion) Cycle of General Electronics (2020–2024)

The number of payables days has gone up, and this implies that the company postpones payments to suppliers (Kimmel, Weygandt and Kieso, 2020). Although this assists in bringing cash in the short run, it will harm the relationship with the suppliers and lessen credit support in the future. The cash operating cycle is extensive and ineffective, which adds to the liquidity issues.

Liquidity Problems Identified

The analysis reveals a number of working capital issues. Firstly, receivables and inventory occupy a lot of cash, making limited cash available to run the operations. Secondly, the declining operating cash flow indicates that the basic operations of the

firm are no longer producing sufficient cash to meet the short-term requirements (Schroeder, Clark and Cathey, 2022). Thirdly, dependence on the issue of delaying payments to suppliers implies that the liquidity pressure is growing. All these issues increase the chances of the shortage of cash shortage and predispose the company to sudden shocks.

Year	Inventory (£m)	Accounts Receivable (£m)	Accounts Payable (£m)	Net Working Capital (£m)
2020	120,430	129,433	83,229	166,863
2021	134,469	129,215	92,707	170,977
2022	140,181	112,346	71,373	181,154
2023	88,273	112,596	57,033	143,836
2024	79,355	114,182	72,031	121,506

Table 2: Working Capital Components

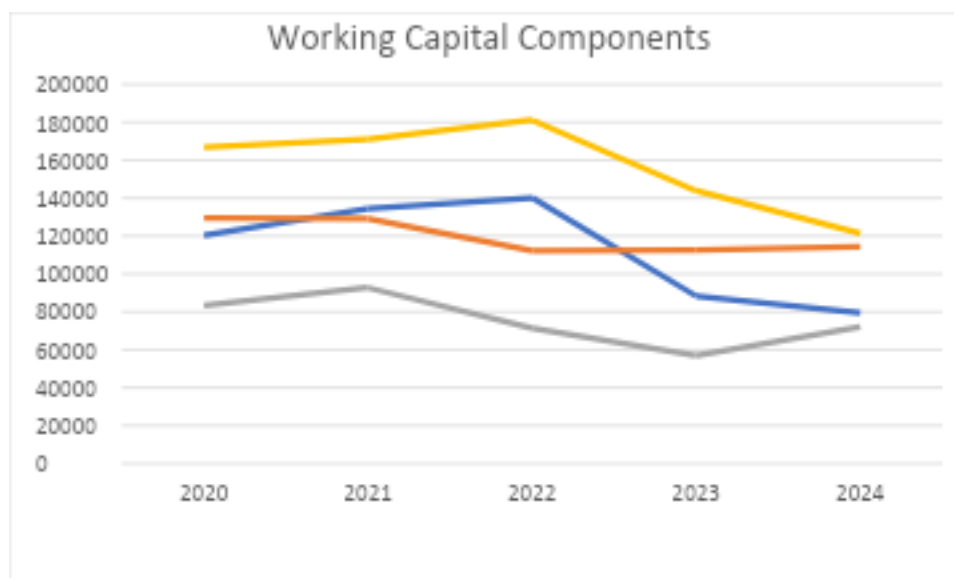


Figure 8: Working Capital Components

Strategies to Improve Liquidity through Working Capital Reforms

General Electronics needs to transform its working capital management to enhance its liquidity. The inventory management must be ameliorated by cutting down on the number of stocks and matching production more to demand. Repeatedly, improved forecasting and stricter supervision of stocks can assist in liberating cash confined in stocks.

It should also enhance the management of receivables. The company should conduct improved credit checks, establish strict credit limits and push customers to pay within a shorter time (Scott, 2015). Follow-up of outstanding accounts would be done regularly to enhance the collection of cash.

There must be a balanced approach in payables management. The firm should negotiate with suppliers on better payment terms, and at the same time, keep the relationship good as opposed to merely delaying payments. The measures would assist in reducing the cash operating cycle and enhancing liquidity.

Short-Term Financing Options

Working capital requirements are usually financed on a short-term basis. These are bank overdrafts, short-term loans and trade credit. Flexibility is the key benefit of short-term finance since it may easily be adapted to suit fluctuating cash requirements (Baresa, Bogdan and Ivanovic, 2017). It is also normally less expensive and quicker to secure as compared to long-term finance.

Short-term finance is riskier. The rates can fluctuate, and the banks can pull out the facility in case the financial status of the firm deteriorates. With low liquidity and a high default risk, the high dependency on short-term borrowing might lead to greater financial instability with General Electronics.

Long-Term Financing Options

Long-term financing facilities are long-term loans and bonds, as well as equity funds. These sources offer more stable financing and eliminate the necessity to finance it frequently. Long-term finance would be more appropriate for funding long-term investments and offloading short-term cash flow.

The drawback is that long-term finance can be very costly and difficult to acquire, particularly in cases where a company has a poor performance in the recent past. Equity finance can also weaken the ownership of existing shareholders (Mustafina *et al.*, 2020). Nevertheless, the liquidity issues of the firm will necessitate a change towards more long-term financing, which will minimise financial risk and facilitate recovery.

Strategic Financial Restructuring Plan

Need for Financial Restructuring

General Electronics is under a lot of pressure in terms of financial performance, as indicated by dwindling sales, recurring losses, low liquidity level, and high default risk, as seen in the financial health analysis. The present financial set-up of the company cannot support its lower business activity anymore (Zaramella, 2023). The firm has been unable to invest, compete, and respond to changes in the market due to high operating costs, poor cash generation, and pressure caused by debt obligations. In the absence of a proper restructuring plan, the company will continue to destroy its value and even go into insolvency.

Overview of Restructuring Objectives

The primary goals of financial restructuring include better liquidity, less financial risk and future growth. In the case of General Electronics, the restructuring should be directed to strengthen the balance sheet, reduce the debt pressure, and provide flexibility to improve operations (Koh *et al.*, 2015). The strategy also has to safeguard shareholder

value to the maximum and, at the same time, make sure that the firm can pay its financial commitments. An effective restructuring process cannot be limited to short-term survival and long-term competitiveness and must take into consideration business operations globally and ethical obligations of the firm.

Asset Divestiture Strategy

Asset divestiture is one of the valuable restructuring options. General Electronics possesses a high asset base in the form of property, equipment and intangible assets. Not all of these assets might be central to the operations of the firm, or might not be performing well (Feldman, 2021). The sale of non-core or poorly performing assets may create immediate cash inflows, which may be utilised to enhance liquidity or reduce debt.

Asset Category	Estimated Proceeds (£m)	Debt Reduction (£m)	Liquidity Improvement (£m)
Non-core Property	8,000	5,000	3,000
Underperforming Subsidiary	12,000	8,000	4,000
Non-core Intangible Assets	5,000	3,000	2,000
Total	25,000	16,000	9,000

Table 3: Potential Asset Divestiture and Expected Impact

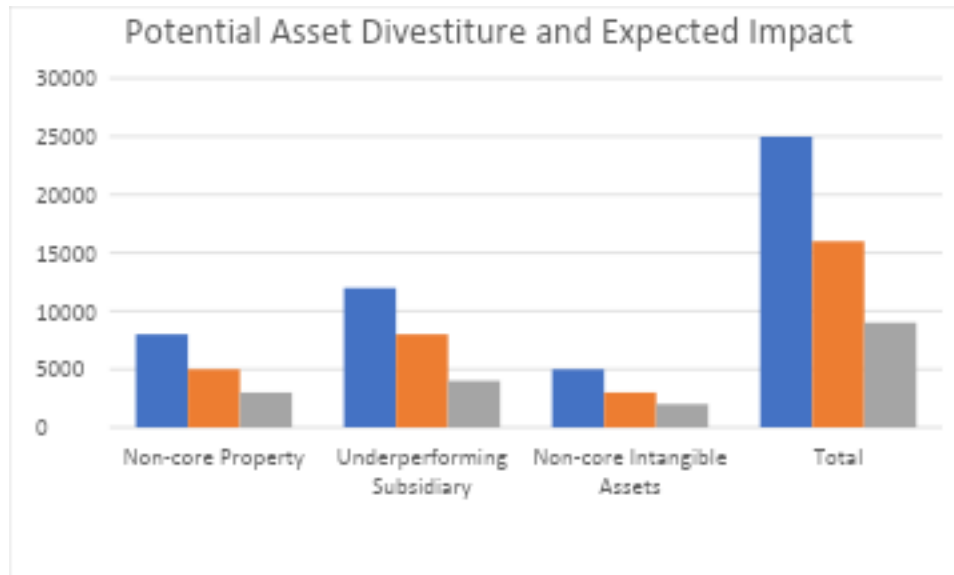


Figure 9: Potential Asset Divestiture and Expected Impact

The sale of assets may help increase shareholder value when the assets being sold do not make a significant contribution towards profits. With the emphasis on the core and profitable activities, the firm will be able to enhance efficiency and cut down operating costs. In terms of debt, proceeds of divestment that are used to settle borrowings would reduce the gearing and interest (Weygandt, Kimmel and Kieso, 2018).

Equity Injection Strategy

Equity injection is the other major restructuring option. This would be through the issuance of new shares to the current shareholders or new investors. Equity injection enhances the capital base of the firm without the augmentation of the debt level (Black, 2023). Considering that the company has a poor interest cover and high risk of default, equity financing will be more secure compared to further borrowing.

Capital Type	Before Equity Injection (£m)	After Equity Injection (£m)
Debt	170,249	150,249
Equity	153,105	173,105

Table 4: Capital Structure Before and After Equity Injection

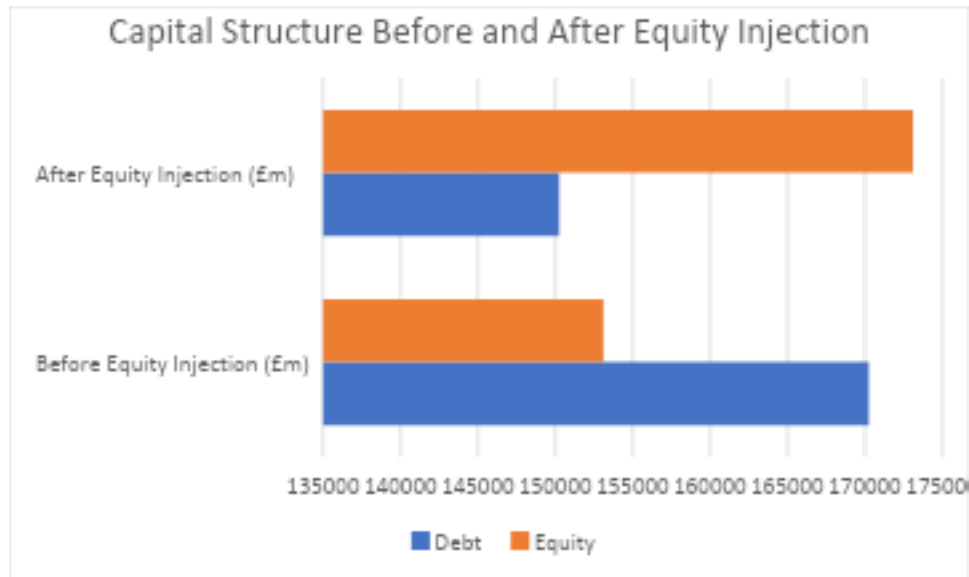


Figure 10: Capital Structure Before and After Equity Injection

The primary benefit of equity injection will be to enhance liquidity and decrease financial risk. The larger equity base will reduce gearing ratios and enhance the credit profile of the firm, which will rebuild trust among the lenders and suppliers. Although this is a disadvantage, insolvency insurance and recovery of stability can provide more value to shareholders in the long term (Nielsen, Mitchell and Nørreklit, 2015). Also, equity injection enhances flexibility in the operations because management is not limited in terms of debt financing there are fewer restrictions when equity is injected.

Merger or Strategic Partnership Option

Another available restructuring path is a merger or strategic partnership. General electronics might have access to new technology, markets and financial resources by merging with or entering into a stronger firm (Babar *et al.*, 2022). This may enhance economies of scale, cost reduction and revenue opportunities.

Shareholders will find a merger to be potentially value-creating in cases where the merger causes cost savings or an increase in revenues. Value may be killed by a lack of integration or overpayment. Regarding the debt structure, the merger with a more financially robust partner might enhance the size of the borrowings and decrease the default risk.

Impact on Shareholder Value

The impact of each of the restructuring options on shareholder value is different. Selling assets can enhance the short-term value through the release of cash and paid-down debt, but too many sales will negatively affect future earnings (Petty *et al.*, 2015). The long-term recovery would be supported as the firm is not put at the risk of failure, whereas the actual ownership may be diluted through the injection of equity.

Criteria	Asset Divestiture	Equity Injection	Merger / Partnership
Short-term shareholder value	Medium	Low	Uncertain
Long-term shareholder value	High	High	Medium
Risk level	Low	Low	High
Ownership dilution	None	High	Medium
Operational synergy	Low	Medium	High

Table 5: Impact of Restructuring Options on Shareholder Value

A moderate strategy that incorporates selective disposition of assets and equity infusion would be a more effective measure to protect and increase shareholder value than the employment of a single measure (Hasanaj and Kuqi, 2019). The strategy minimises risk and has the potential to grow.

Impact on Debt Structure and Financial Risk

The impact of financial restructuring on the debt structure of the company is direct. Selling out debt or reinforcing equity by new share issues reduces gearing and interest, and lowers the cost of equity (Pelekh, Khocha and Holovchak, 2020). This enhances the interest coverage and minimises the default risk. A better debt structure also enhances the association with the lenders and could enable better refinancing.

Reduced debt enhances financial security and also lowers the sensitivity of the firm to fluctuations in interest rates. The reorganisation that will lead to a decrease in debt dependence will enhance the financial stability of the firm over the long run.

Impact on Operational Flexibility

The term operational flexibility is the capacity of the firm to react to fluctuations in demand, technology, and competition. The high levels of debt limit flexibility since the management is bound to pay the fixed interest and the repayment of debt. Restructuring allows the management to have more freedom in investing in innovation, enhancing efficiency, and adjusting to market changes because it would reduce debt and increase liquidity.

Flexibility can also be enhanced through the sale of assets, as it enables the management to concentrate on what is important (Quesada, 2019). Equity financing leads to flexibility because it takes the pressure off financing and makes it possible to plan over the long run.

International and Ethical Considerations

General Electronics is a global firm, and in the process of restructuring, the company should address international and ethical concerns. The tax regulations in various countries vary, and therefore, the sales of assets or mergers must be done with a lot of planning to ensure that they are not liable to incur additional expenses (Robert, Jennifer and Todd, 2023). Currency risk can influence the cash flow and asset values, whereas inflation can raise the operating costs and decrease profits. Another concern is ethical and CSR, since restructuring can have an impact on employees and communities. The reputation and long-term sustainability are supported by fair treatment, transparency, and responsible decisions.

Investment Appraisal and Capital Budgeting

Introduction to Investment Appraisal

The most significant financial decision to make in relation to General Electronics is investment appraisal, as of late, it has not been performing very well. As demonstrated in previous sections, the company has been reporting a decline in profitability, poor liquidity, and financial risk. Any new investment, therefore, has to be weighed to ascertain that it will add value, enhance long-term performance and not add additional burden to cash flow. In this section, three hypothetical investment projects (A, B and C) have been evaluated using common capital budgeting methods discussed in the module. These methods are Payback Period (PBP), Accounting rate of return (ARR), Net Present Value (NPV), Profitability Index (PI) and Internal rate of return (IRR). The discount rate is considered to be 10 per cent., and the depreciation to zero in straight lines is used.

Project Details

In this investment appraisal, three suggested projects are taken: A, B, and C. Each of the projects demands an initial capital investment and gives a cash inflow of cash over a period of 5 years. Project A needs a starting investment of £40 million that gives rise to rising but moderate cash flows through time. In Project B, the liquid cash outflow is 30M, and the annual cash flows are stable at 6M. Project C is the biggest project, which needs 50 million pounds and yields greater but disproportionate cash flows as the years progress. Any inflows of cash are assumed to be made at the end of every year. The discount rate applied is 10% to indicate the cost of capital that the company has. The straight-line method of calculating depreciation is over a period of five years zero and the residual value is assumed to be zero. Simplistically, no taxation and inflation effects are taken into consideration, and all projects are supposed to have the same project life and risk basis to compare.

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

Table 6: Project Cash Flow Details

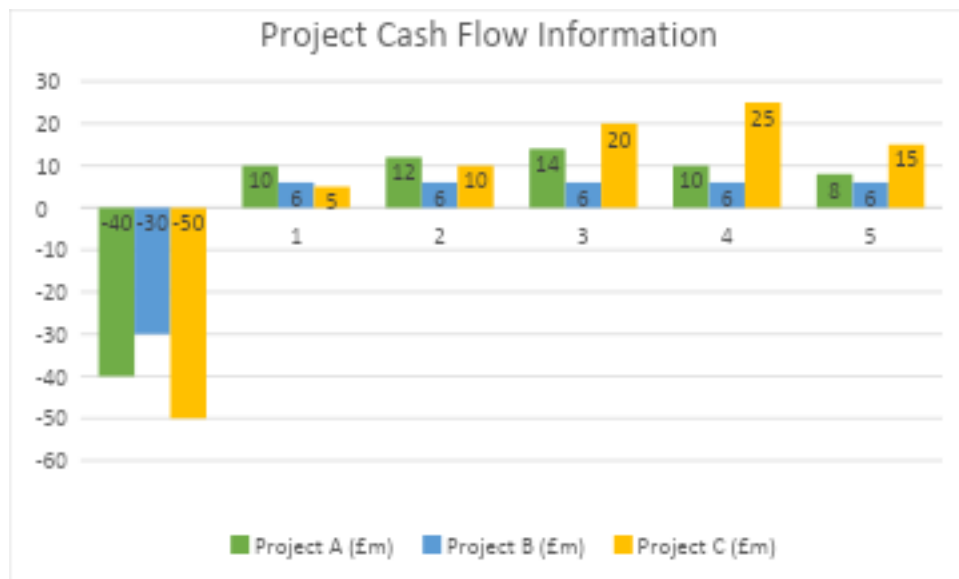


Figure 11: Project Cash Flow Information

Payback Period (PBP)

The payback period is a measure of the duration of time in which a project can recover its initial investment using net cash inflows. This would be a very appropriate technique to use in the case of General Electronics since the company is under liquidity pressure at the moment. The projects that have shorter payback periods would be mostly preferred, and this will minimise the chances of a shortage of cash.

Project A – Payback Calculation

Year	Cash Inflow (£m)	Cumulative Cash Flow (£m)
------	------------------	---------------------------

0	- 40	- 40
1	10	- 30
2	12	- 18
3	14	- 4
4	10	6

By the end of Year 3, the project has not completely recovered since it is yet to finish with the remaining amount of £4m pending. In Year 4, the cash inflow is £10m.

Fraction of Year 4 required = $4 / 10 = 0.4$

Payback Period (Project A) = 3.4 years

Project B – Payback Calculation

Year	Cash Inflow (£m)	Cumulative Cash Flow (£m)
0	- 30	- 30
1	6	- 24
2	6	- 18
3	6	- 12
4	6	- 6
5	6	0

Payback Period (Project B) = 5 years

Project C – Payback Calculation

Year	Cash Inflow (£m)	Cumulative Cash Flow (£m)
0	- 50	- 50

1	5	- 45
2	10	- 35
3	20	- 15
4	25	10

Remaining amount after Year 3 = £15m

Fraction of Year 4 = $15 / 25 = 0.6$

Payback Period (Project C) = 3.6 years

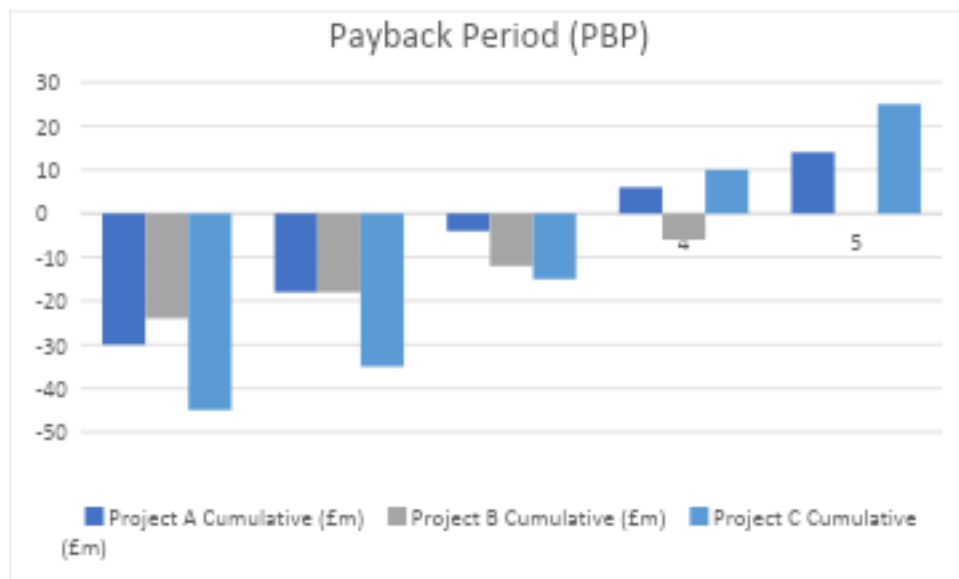


Figure 12: Payback Period (PBP)

The payback period of Project A is shorter than that of Project C, which leads to Project B taking the entire lifespan of five years to recover its capital, hence the least appealing in terms of liquidity. Considering the poor cash position of General Electronics, it is better to have a shorter payback.

Accounting Rate of Return (ARR)

ARR is a percentage of average accounting profit against average investment. ARR, unlike the payback, takes into account profitability, whereas it does not take into account the time value of money.

Step 1: Depreciation

- Project A: $\text{£}40\text{m} / 5 = \text{£}8\text{m}$ per year
- Project B: $\text{£}30\text{m} / 5 = \text{£}6\text{m}$ per year
- Project C: $\text{£}50\text{m} / 5 = \text{£}10\text{m}$ per year

Step 2: Average Profit and ARR

Project A

Total inflows = $\text{£}54\text{m}$

Average inflow = $54 / 5 = \text{£}10.8\text{m}$

Average profit = $10.8 - 8 = \text{£}2.8\text{m}$

Average investment = $40 / 2 = \text{£}20\text{m}$

ARR = $(2.8 / 20) \times 100 = 14\%$

Project B

Average inflow = $\text{£}6\text{m}$

Average profit = $6 - 6 = \text{£}0\text{m}$

Average investment = $30 / 2 = \text{£}15\text{m}$

ARR = 0%

Project C

Total inflows = £75m

Average inflow = 15m

Average profit = 15 – 10 = £5m

Average investment = 50 / 2 = £25m

ARR = $(5 / 25) \times 100 = 20\%$



Figure 13: ARR

Project C has the best ARR, followed by Project A. Project B is not acceptable as it does not generate any accounting profit.

Net Present Value (NPV)

The most valuable approach to investment appraisal is NPV because it estimates the growth of shareholder value. A discount rate of 10% is used.

Year	Discount Factor
1	0.909
2	0.826

3	0.751
4	0.683
5	0.621

Table 7: Discount Factors at 10%

Project A – NPV Calculation

Year	Cash Flow (£m)	Discount Factor	Present Value (£m)
1	10	0.909	9.09
2	12	0.826	9.91
3	14	0.751	10.51
4	10	0.683	6.83
5	8	0.621	4.97

Total PV = 41.31

NPV = 41.31 – 40 = £1.31m

Project B – NPV Calculation

Total PV of inflows = 22.74

NPV = 22.74 – 30 = -£7.26m

Project C – NPV Calculation

Total PV of inflows = 53.57

NPV = 53.57 – 50 = £3.57m

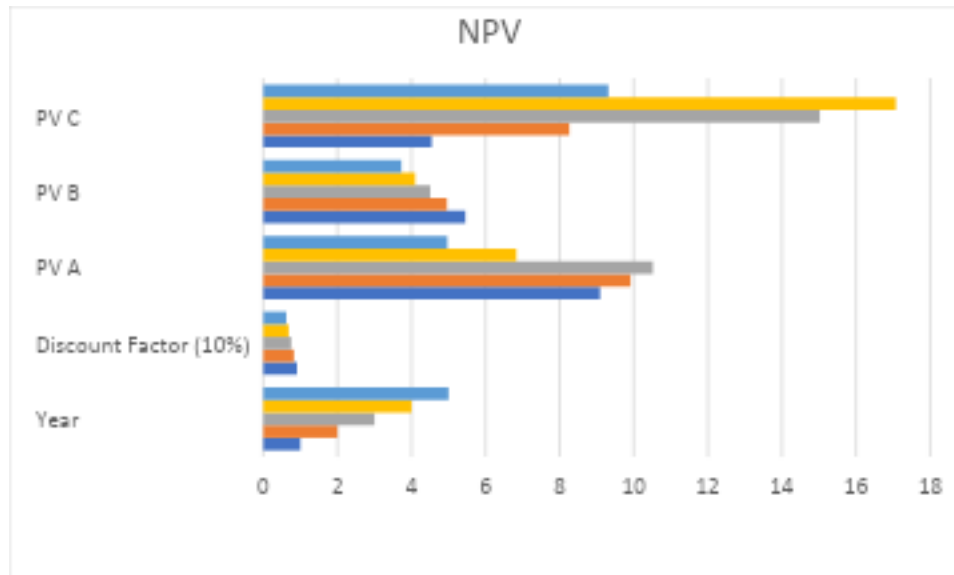


Figure 14: NPV

A and C projects have positive NPV and value to the shareholders. Project B will not be accepted as it has a negative NPV.

Profitability Index (PI)

PI measures value created per pound invested.

- Project A: $41.31 / 40 = 1.03$
- Project B: $22.74 / 30 = 0.76$
- Project C: $53.57 / 50 = 1.07$

Project C has the highest PI and is the most efficient user of capital.

Internal Rate of Return (IRR)

IRR is the discount rate at which NPV equals zero.

- Project A: IRR $\approx 11.8\%$
- Project B: IRR $< 10\%$
- Project C: IRR $\approx 12.9\%$

Projects A and C exceed the required rate of return. Project C performs best.

Risk Characteristics and Cash Flow Patterns

The three projects have varying levels of risk since they do not have similar patterns of cash flow. The cash inflows of project B are very stable, which is 6 million per annum. This predictability minimises uncertainty and time risk, which will be desirable to a firm with liquidity issues. The cash inflows are, however, low and do not increase over time. Consequently, Project B would not add much value nor would it enhance profitability, and this would reduce its practicality to General Electronics.

Project A has medium and more equal cash inflows within the five years. The cash flows increase in the initial years, and thereafter, they decrease slightly, hence minimising extreme volatility. This equal trend reduces riskiness as compared to Project C and facilitates gradual cash recovery.

Project C presents the highest uneven rate of cash flow. The initial years show low cash inflows, and this means that there is a timing risk and that the initial investment will not be recovered quickly. Inflows during later years are much higher, which has a great impact on increasing the overall returns. Despite the increased risk of Project C, the high value creation makes it better aligned towards recovery, profitability enhancement and better financial performance in the long term.

Capital Rationing Decision (£60m Limit)

Under capital rationing, only £60m can be invested.

Possible combinations:

- A + B = £70m (not allowed)
- B + C = £80m (not allowed)

Only single projects can be chosen.

Project	Investment (£m)	NPV (£m)	PI
A	40	1.31	1.03

C	50	3.57	1.07
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Table 8: Capital Rationing Comparison

Project C provides the higher NPV and PI within the budget limit.

Final Investment Recommendation

According to all the appraisal techniques, Project C is suggested. It gives the best NPV, ARR, PI and IRR and achieves the best shareholder value within the capital limitation of less than 60m. Its cash flows are more volatile, but the investment is justified by the creation of long-term value. In a company that is experiencing a decrease in profitability and poor liquidity, it is necessary to choose a project which has the highest potential for financial recovery. Project C is the one that will assist General Electronics in its long-term turnaround strategy.

Conclusion

This report has been able to analyse the financial status of General Electronics through the use of ratio analysis, the working capital analysis, the prediction of failure models, the conception of the strategies of restructuring and the assessment of investments. The results indicate a decreasing profitability, poor liquidity, and probability of financial distress. In order to respond to these problems, the working capital management and a balanced financial restructuring plan should be improved. According to the capital budgeting analysis in the capital rationing, Project C should be selected because this project would have maximum value creation and help the firm to recover in the long term and become financially sustainable.

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Appendix

Year	Inventory Days	Receivables Days	Payables Days	Cash Conversion Cycle
2020	100.3	76.8	69.3	107.8
2021	114.6	78.4	79.1	113.9
2022	131.1	75.6	66.7	140.0
2023	99.7	97.7	64.3	133.1
2024	103.1	105.4	93.6	114.9

Table 1: Cash Operating (Conversion) Cycle of General Electronics (2020–2024)

Year	Inventory (£m)	Accounts Receivable (£m)	Accounts Payable (£m)	Net Working Capital (£m)
2020	120,430	129,433	83,229	166,863
2021	134,469	129,215	92,707	170,977
2022	140,181	112,346	71,373	181,154
2023	88,273	112,596	57,033	143,836
2024	79,355	114,182	72,031	121,506

Table 2: Working Capital Components

Asset Category	Estimated Proceeds (£m)	Debt Reduction (£m)	Liquidity Improvement (£m)
Non-core Property	8,000	5,000	3,000
Underperforming Subsidiary	12,000	8,000	4,000
Non-core Intangible Assets	5,000	3,000	2,000
Total	25,000	16,000	9,000

Table 3: Potential Asset Divestiture and Expected Impact

Capital Type	Before Equity Injection (£m)	After Equity Injection (£m)
Debt	170,249	150,249
Equity	153,105	173,105

Table 4: Capital Structure Before and After Equity Injection

Criteria	Asset Divestiture	Equity Injection	Merger Partnership /
Short-term shareholder value	Medium	Low	Uncertain
Long-term shareholder value	High	High	Medium
Risk level	Low	Low	High
Ownership dilution	None	High	Medium
Operational synergy	Low	Medium	High

Table 5: Impact of Restructuring Options on Shareholder Value

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

Table 6: Project Cash Flow Details

Year	Discount Factor
1	0.909
2	0.826
3	0.751

4	0.683
5	0.621

Table 7: Discount Factors at 10%

Project	Investment (£m)	NPV (£m)	PI
A	40	1.31	1.03
C	50	3.57	1.07

Table 8: Capital Rationing Comparison