



LCMB7002 Financial Management

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Introduction

The Toyota Motor Company is among the biggest car companies worldwide. It has hybrid vehicles and is expanding its electric vehicle (EV) operations. The company employs a middle-ground approach in hybrids, EVs and hydrogen. The report covers the financial performance of Toyota between 2019 and 2024. It also checks its financial health and risk using financial ratios and models. The working capital and investment decisions are also discussed in the report. This will be in perspective with providing a clear financial analysis and justification of the efficient practical recommendations for future development.

Financial Health Check

Financial Performance Overview (2019-2024)

In this section, the analysis of the financial performance of Toyota will be aimed at 2019-2024 (Toyota Motor Corporation, 2024). The income statement, balance sheet and cash flow statement are analysed with the help of fiscal ratios. This should be indicated in the Excel sheets and graphs, which are compulsory in the brief.

All in all, Toyota represents good and sustainable performance during this period. Although COVID and supply chain issues have interfered with the company, it has remained profitable. Toyota was yet to give up on new technology, particularly electric vehicles (EVs). The extended push towards EVs has placed a minor burden on liquidity and efficiency.

Profitability Analysis

Return on Capital Employed (ROCE)

ROCE shows profitability in applying the capital at Toyota. By 2023, the ROCE has increased to 13.51 compared to 11.25% in 2019; the ROCE reflects greater capital efficiency. This indicates that Toyota is making better use of its capital.

This has been massively augmented by strong sales of hybrid cars. The hybrid cars have continued to generate giant revenues for Toyota (Denton, 2020). In the meantime, the company has an outstanding manner of controlling its expenses. Until proper measures are taken, the investment in EVs in the future may introduce additional costs and reduce ROCE.

Net Profit Margin

The net profit margin illustrates the degree of profit earned by Toyota in its sales. The profit margin of the Net profit at Toyota had improved by 7.81%, as compared to 6.55% of the year 2019 and 2023, respectively and the profitability of the next five years improved. This implies that the company is running on its costs effectively without compromising on its sales. This was despite being affected by minor fluctuations in a few years, which may be attributed to the rise in the price of raw materials and research and development spending. Despite all these obstacles, Toyota continues to rake in profits, and it is performing very well compared to its rivals.

Liquidity Analysis

Current Ratio

The current ratio is used to determine the capability of Toyota to cover its short-term debts. It increased slightly from 1.62 in 2019 to 1.65 in 2023, indicating stable and sufficient liquidity. This implies that Toyota can cover its current liabilities with its current assets. Marginal growth is not growing at a large rate. This could be a result of the increased cost of operating and investing in electric cars (Nam and Tuyen, 2024). Overall, the ratio is not a concern but should be monitored.

Quick Ratio

The quick ratio is a more restrictive measure of liquidity, as the inventory is not considered. The quick ratio of Toyota shows that its ratio declined slightly over the past five years, i.e. it now reads 1.05 in 2023 as compared to 2019 when it read around 1.10. This indicates that the company is increasingly becoming more over-reliant on its inventory to finance its short-term obligations. Even though the ratio is still greater than 1, which reveals that there is enough liquidity, the declining nature indicates a growing strain on finances as required in the short term. It can be related to greater investments in electric vehicles and the high operational costs.

Efficiency Analysis

Inventory Turnover

The inventory turnover will show how well Toyota will sell out. The ratio is rather stable throughout the five years. Inventory flow is slowed a bit, but the number of inventory days is better in 2023 (49 days) than it was in 2019 (45 days). This is a pointer that Toyota still has a high demand even though it has been slowed down by supply chain issues in terms of production, especially in some years. The growing production of Toyota electric vehicles will bring efficient inventory control under control.

Receivables Days

The days of receivables illustrate how many days it takes Toyota to receive the money of their customers (Toušek *et al.*, 2023). Days outstanding improved to 36 days in 2023; this is poor cash collection, compared to the time before, when it was 30 days.

This means that Toyota is slowing down its cash inflows. This can aid in making more sales (and even decrease cash flow). This trend can lead to financial pressure should the trend continue. Toyota must ensure that there is strong control over the credit policy.

Gearing Analysis

Debt-to-Equity Ratio

The debt-to-equity ratio shows the level of reliance of Toyota on debt. Compared to 2019, in which the ratio was 1.63, it is lower in 2023: 1.54, meaning that the company is financially more stable. This implies that Toyota has been able to manage its capital structure budget effectively and invest in EVs. Debt kicks in and pays off in terms of leverage, but it brings financial risk as well.

Investment Ratios

Earnings per Share (EPS)

EPS shows the profitability per share for Toyota. The EPS has an increasing trend over the five years since it indicates that profitability and shareholder value were on the rise. The presence of high sales performance and good cost management promotes that growth (FasterCapital, 2024). The exchange rates and the economy of the world in general can affect EPS since both may affect total profits.

Dividend Yield

Yield on dividends is the payment back to the shareholders as dividends. Toyota has a steady dividend yield of approximately 2-3% in the period, which reflects a consistent dividend policy. This demonstrates a trade-off between rewarding the investors and investing in future development and investor confidence.

Cash Flow Analysis

The cash flow analysis will show how much money is being raised by Toyota due to the day-to-day activities. It can be useful in evaluating financial capacity, as profit does not necessarily indicate real cash availability. The Firm has had a very strong and stable operating cash flow over the past five years. Its cash flow is increasing, as in the period of 2023, the cash generation is estimated at around £35 billion pounds

against the £25 billion pounds in 2019, indicating good cash flow with its core and basic operations.

Proper operating cash flow will help Toyota to cover its operating expenditure, invest in new projects and outstanding debts. This has been of high interest considering that the company is injecting a significant amount of funds into electric vehicles (EVs), battery technology, and innovation (Toyota Motor Corporation, 2025). These investments are characterised by large cash outflows, and to reduce the financial risk, a large amount of cash is required.

The probability is that high investment spending can reduce the free cash flow in the short term. The balance that remains after capital expenditure is the free cash flow. Restricting free cash flow in the short term is not a negative event, as it is an investment in a potential development. In total, good cash flow will bring about financial stability and future growth.

Altman Z-Score Analysis (Corporate Failure Risk)

The Altman Z-Score is used to measure and compute financial failure risk. It is a rating that incorporates different financial ratios.

The formula is: $Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$

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

Based on the projected results, the Z-score of Toyota will have the highest probability of being higher than 2.99. This would mean that the company is within the safe zone.

This means that there are no high chances of Toyota going bankrupt. The fact that it has good profits, good retained earnings and market value justifies its good score. The score will decrease in the future if the debt continues to increase.

Overall Evaluation

In most cases, Toyota is financially stable. The company demonstrates stable profits, low financial risks, and good cash flow. Its policy of hybrid cars has assisted it in performing well.

There are some problems which start appearing. Liquidity is showing a slight decrease, and there is a growth in receivables. The company is also utilising more debt.

Increased investment in EVs by Toyota increases long-term growth, but constrains short-term liquidity and profitability. But temporary financial strains are encountered owing to these investments.

Lastly, Toyota is financially healthy but ought to be cautious as far as its risks are concerned. The company should consider increasing its liquidity, controlling the debt and making the investments in EV profitable. This will help Toyota to make it to a competitive market and be stable in the long run. Toyota is a very profitable and financially stable business that should be muscled, but the increasing debt ratio and the strain on working capital should be controlled.

Working Capital Management

Overview of Working Capital

Working capital management will be about how Toyota manages the short-term assets and liabilities (Bhattacharyay, 2023). This is important because it affects liquidity, efficiency and operations. The most imperative items are inventory, receivables and payables. These factors are used to derive the cash conversion cycle (CCC), and it is a measure of how fast a firm can transform its investment into cash.

Elements of Major Working Capital.

Inventory Days

To estimate the time that Toyota will take to sell its vehicles, the inventory days will be employed. The shift in trend has not been significant because it is at 45 days and at 49 days now, in 2019 and 2023, respectively. This means that Toyota possesses excellent production planning and demand. In some years, slowing inventory flow has also been contributed to by the upheavals in international supply chains. An increase in inventory days may also indicate excess stock or a slowing in sales that may increase holding costs and lower operational efficiency unless properly managed.

Receivables Days

The number of days to receive is used to reflect the number of days in which Toyota needs to collect money (Allianz Trade, 2024). It increased the number of days to 36, i.e. the cash collected was taking more time to do so. With flexible credit being a solution to increase sales, it can nonetheless decrease the rates of cash flow and create liquidity strains. It is therefore important to have good credit control.

Payables Days

The number of days in Payables indicates the length of time that Toyota will take to pay its suppliers. This increased to 67 days compared to 60 days, revealing its improved cash management. An excess of delays can affect supplier relations if they are not addressed effectively.

Cash Conversion Cycle (CCC)

Cash conversion cycle (CCC) = (Inventory Days + Receivables Days) - Payables Days. The speed at which Toyota can convert its resources into cash (Asman *et al.*, 2022). It is better when it has a low CCC because it will translate into quicker cash recovery. The CCC of Toyota is firm, with an average of 15-18 days to be witnessed within five years. This is an indicator of good working capital management. In other scenarios, CCC may result in low levels or even less than zero, i.e. the company will rob the customers of cash, and subsequently they repay the suppliers. However, slight growth in the CCC may be explained by the growing receivables and inventory, which may lead to a slight reduction in efficiency.

Trend Analysis

There has been an oscillatory working capital management at Toyota for over five years.

The inventory days are relatively fixed, but in times of supply disruption, it moderately increases.

The cash collection is slower based on the gradual rise in the receivables' days.

The days outstanding are also high, which is cash giving.

Overall, the CCC is an effective one, but there are first indications of pressure. That is because a greater amount of investment is made into EV production and issues with global supplies.

Benchmarking with Competitors

Comparison with Tesla

Tesla has a negative cash conversion cycle, and this implies that the company collects cash when a payment is made to them and subsequently collects from the suppliers. This is attributable to faster payments to the customers and reduced inventory. Therefore, Tesla has more efficient working capital management compared to Toyota. Toyota has a positive CCC of about 15-18 days, so it takes a longer time to convert cash. Online systems and direct sales will help Tesla better manage cash flow provided by its model.

Benchmarking with Volkswagen (VW).

During certain years, the CCC of Volkswagen is a bit greater than that of Toyota. This suggests that Toyota has a small working capital as compared to that of VW.

The relationship that Toyota shares with the suppliers of the company, as well as its system of production, gives it an advantage over traditional competitors like VW (Analysis for Supply Chain Management: Evidence from Toyota, 2022). The level of leverage of Volkswagen is higher than that of Toyota, making it financially risky.

Recommendations for Improvement

Just-in-Time Inventory

Toyota already has a reputation for the Just-in-Time (JIT) system. This system will reduce stocks and help increase efficiency.

Toyota should further advance JIT and use better forecasting and computerised tools. This will reduce the holding costs and will increase the cash flow.

Supplier Financing

One of the ways through which Toyota can improve its working capital is by financing suppliers. This allows suppliers to receive payments in advance by the financial institutions, unlike Toyota, which receives payments later.

This helps in the establishment of good relationships with the suppliers as well as the improvement of the cash position of Toyota.

Digital Supply Chain

Toyota should further develop the online supply chain system. More effective demand forecasting and inventory management can be achieved with the help of artificial intelligence and data analytics.

Digital supply chains may further reduce time wastage in wait times and improve efficiency, and even reduce the cash conversion cycle.

Lastly, Toyota is exhibiting excellent working capital management with a working cash cycle. This company has a positive relationship with its suppliers and effective inventory control.

There is also some pressure, which is expressed by growth in the level of receivables and in the pattern. To be more efficient, Toyota has to gather cash, record inventory, and use digital solutions (Stroumpoulis and Kopanaki, 2022). These areas of improvement will enable Toyota to strengthen its liquidity and remain growing in a highly competitive world market in the long run.

Strategic Financial Restructuring

The reason is that as a Chief Financial Officer (CFO) of Toyota, one would be interested in developing a solid financial restructuring plan. The auto world is undergoing tremendous changes, which Toyota is currently facing. The electric vehicle (EV) shift, rising competition, and the instability in the economic environment require strategic financial decisions (International Energy Agency [IEA], 2024).

The next section will describe the key restructuring options, which will improve the financial performance of Toyota, decrease the risk, and contribute to its long-term development.

EV Investment Restructuring

Toyota, as a company, has continuously been a specialist in hybrid cars. The number of EVs demanded worldwide is rapidly increasing. Toyota should restructure its investment strategy to focus more on the development of EVs.

The company should invest additional funds in battery technology, EVs, and charging infrastructure (Gupta *et al.*, 2021). In the meantime, it must control costs wisely to avoid a reduction in profitability.

Long-run investment in EV will have a positive impact on the value of its shareholders. It will boost the competitiveness of Toyota and will contribute to the growth of future revenues (McKinsey & Company, 2023). In the short run, it will be able to reduce profits since development will not be cheap.

The fact that technology and customers are still developing increases the risk associated with EV investment. Toyota must balance creativity and fiscal responsibility.

Unprofitable Section Disinvestment.

Toyota has many business lines, and some are making and incurring low profits. This may include the older model internal combustion engine (ICE) or markets which were less profitable in the regions.

These segments can be sold off or lowered when calmed down, so that profitability in general is boosted. It helps Toyota to focus on high-growth and high-margin segments such as EVs and hi-tech.

The strategic action will boost shareholder value since a greater sum will be recovered as return on investment. It will also improve the capital structure since it will reduce unnecessary expenditure.

The divestment must be undertaken with caution. Selling assets in an expedited manner may result in losses and loss of brand value (KPMG, 2023). Toyota needs to take a forward-looking and measured step.

Debt vs Equity Financing.

Toyota must use a great deal of money to develop EVs and globalise. The company will have an option of debt or equity financing.

Debt Financing

Debt is more affordable, and ownership is not diluted. When the latter is used to better advantage, shareholders can receive more in terms of payback. Higher levels of debt increase financial risk and require paying interest.

Equity Financing

Equity reduces the riskiness of money since no obligation exists to make a payment back. It, however, dilutes ownership and could reduce the earnings per share.

Toyota should adopt a compromise. Moderate use of debt can boost returns more than equity, which can be applied to bring about financial stability (Reis, 2022). This will create the optimum capital structure.

Joint Ventures and Strategic Partnerships.

Through setting up joint ventures, especially in battery technology and EV development, Toyota can minimise risk and cost.

To illustrate, partnerships with the battery manufacturers can allow Toyota to have access to better technology without having to spend large sums of money in-house. Such joint ventures will also allow sharing of risks and rapid market entry.

It is a tactic which boosts operational flexibility, along with monetary strain. It also promotes innovation and competitiveness around the globe.

Joint ventures may also present certain control and decision-making issues (Deloitte, 2023). Toyota should be cautious of its partners and handle contracts.

Impact on Shareholder Value, Capital Structure, and Risk

The different restructuring strategies have the following effect, as seen in the table below:

Table 1: Impact of Financial Restructuring Strategies

Strategy	Shareholder Value Impact	Capital Structure Impact	Risk Level
EV Investment	High (long-term growth)	Higher capital expenditure	Medium to High
Divestment	Improves profitability	Reduces cost base	Low to Medium
Debt Financing	Increases returns	Increases leverage	High
Equity Financing	Stable growth	Reduces leverage	Low
Joint Ventures	Shared value creation	Lower capital requirement	Medium

According to this table, the different benefits and risks of each strategy vary. A balanced financial restructuring approach is required to manage risk and maximise value.

Currency Risk (JPY Volatility)

Toyota is a corporation that trades in the global market, and therefore, it is susceptible to changes in exchange rates, especially the Japanese yen (JPY).

The highly overvalued Yen will cause a reduction in the competitiveness of exports and a reduction in profits (International Monetary Fund [IMF], 2023). High Yen will increase the amount of income earned in foreign countries, but it may also result in an increase in the importation costs.

To remain unaffected by the currency risk, Toyota should use hedging to manage the risk. Financial instruments, especially forward contracts and options, can work to reduce the uncertainties.

Currency risk must be addressed so that profit margins are not put at stake and to remain afloat.

ESG and the pressure for sustainability.

Green concern and Corporate Citizenship (ESG) are becoming major concerns in the auto industry (Dincă *et al.*, 2022). Investors and governments need companies to be able to reduce the emissions of carbon and be sustainable.

It will compel Toyota to invest in clean energy, EVs and sustainable production processes. This will boost its environmental, social and governance rating and will be more attractive to investors.

Although the short-term costs are incurred in the process of ESG investment, it forms long-term value. It also reduces the risk of regulation and improves the brand image.

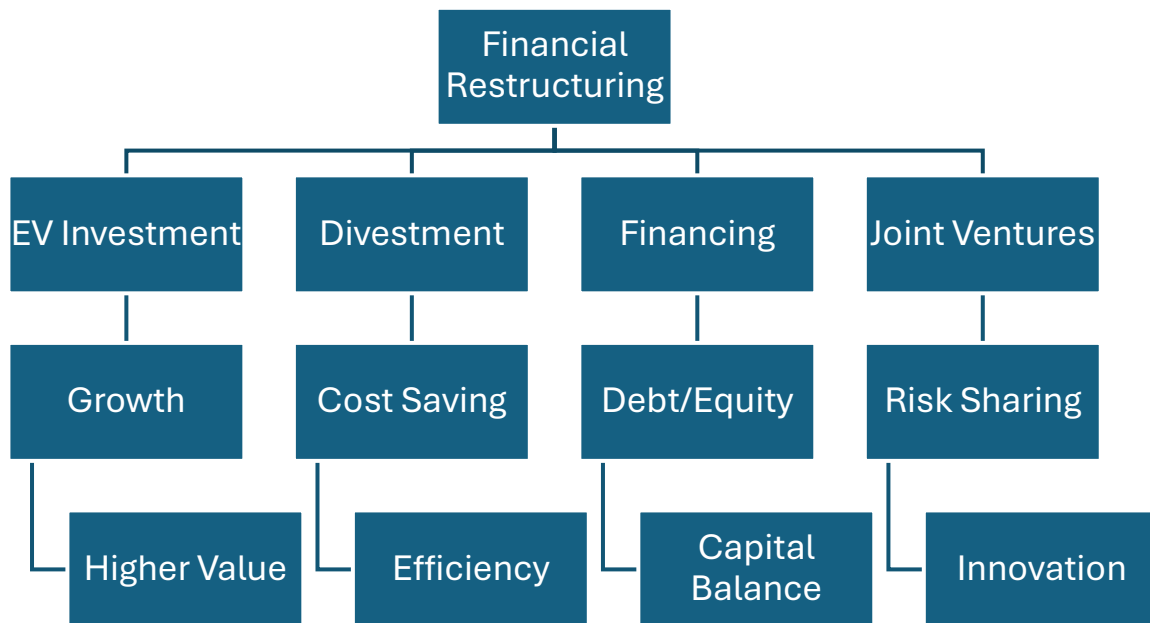
Global EV Competition

Tesla and Volkswagen are in high competition with Toyota. These competitors are not only investing heavily in EV technology but are also widening their reach in global markets to improve their competitive edge.

To be competitive, Toyota will be forced to hasten the pace of innovation, as well as to improve its products. The re-organisation will help in making better use of resources that are financial resources.

The capacity to develop hybrid technology presents a good base that Toyota can build on, but it must accelerate its EV development to compete in the future market (Mustafi, 2021).

Figure 1: Toyota Financial Restructuring Strategy



Lastly, a scenic event of financial restructuring should be adopted in Toyota. The increased spending in EVs, low-margin subsidiary divestiture and creation of joint ventures will contribute to the growth in the long run.

It would require the company to be very cautious with its capital structure by striking a balance between its debt and equity. It ought to have control over the currency, ESG and international competition risks.

These strategies will help Toyota to increase its shareholder value, financial stability and competitiveness in the global automotive market industry.

Investment Appraisal and Capital Budgeting

Investment appraisal is a major activity for Toyota as it helps the company in its decision-making regarding an area to invest its money (Vernimmen *et al.*, 2022). As the Chief Financial Officer (CFO), there is a requirement to choose the projects which have the propensity to increase shareholder value but not at the expense of increased financial risk. Toyota is also making an investment in new technology with specific reference to electric vehicles (EVs), which require heavy investments.

This section will provide a comparison of the three investment projects in terms of the key financial methods. These are Payback Period (PBP), Accounting rate of Return (ARR), Net Present Value (NPV), Internal rate of Return (IRR) and profitability index (PI). The approaches provide different data on the profitability, risk, and value creation.

The results are tabulated, and graphs should be created in Excel as an aid to the analysis.

Project Cash Flow Information

The cash flows of the two projects are expected as shown in the following table:

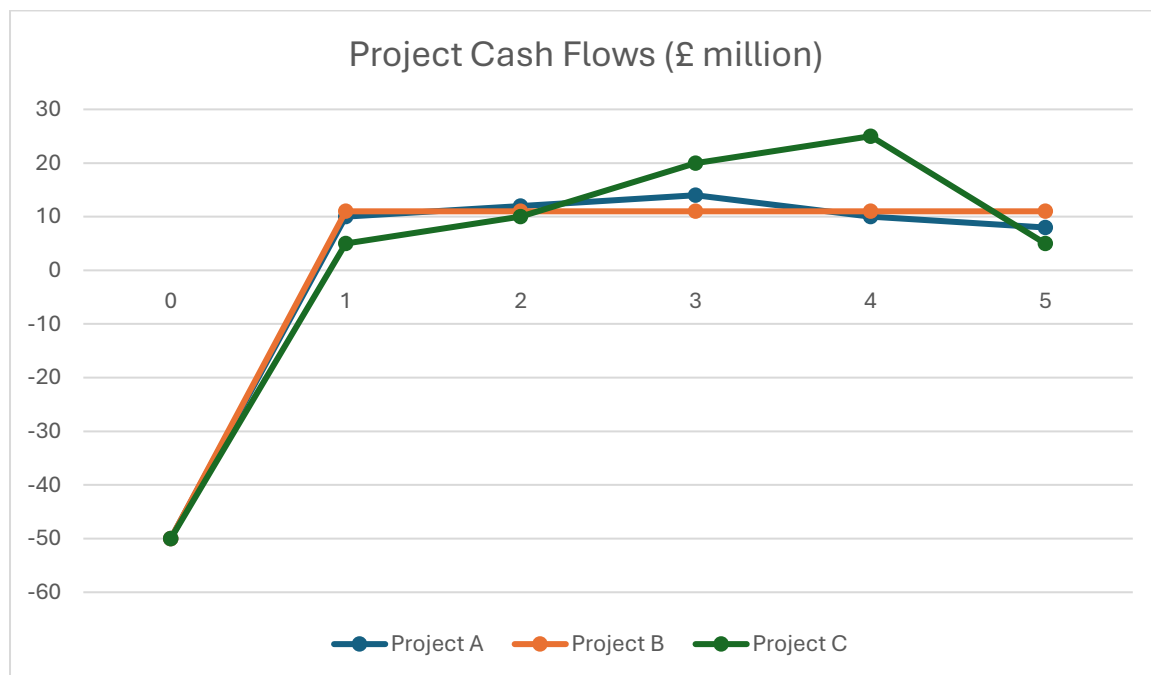


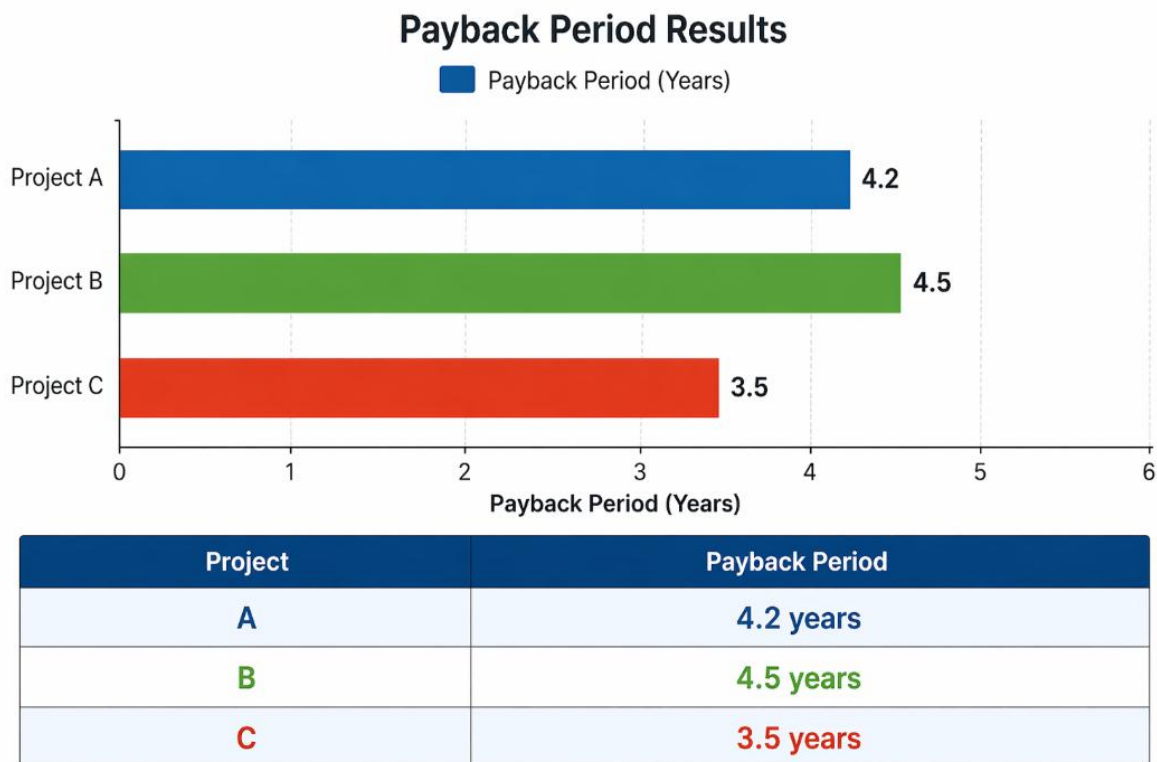
Figure: Project Cash Flows (£ million)

The project start-ups will require 50 million pounds each. The discount rate, with which the NPV would be determined as well as the IRR, would be 10%.

Payback Period (PBP)

Payback period is a comparison of the time of payback period, which is measured in terms of the first inflow of cash and the debt incurred. It is a simple method which focuses on risk and liquidity.

Figure: Payback Period Results



The project with the fastest payback period is project C, i.e. the initial investment is recovered faster. This will minimise risk as well as increase liquidity. Project B has the longest payback period; hence, it can improve risk.

The payback method has its disadvantages. It does not take into consideration such factors as the time value of money, as well as cash flows outside of the payback period (Ren, 2022). It should be used together with other methods.

Accounting rate of return (ARR)

ARR shows the profitability expressed as a percentage of the initial investment. It focuses on accounting profit and not cash flow.

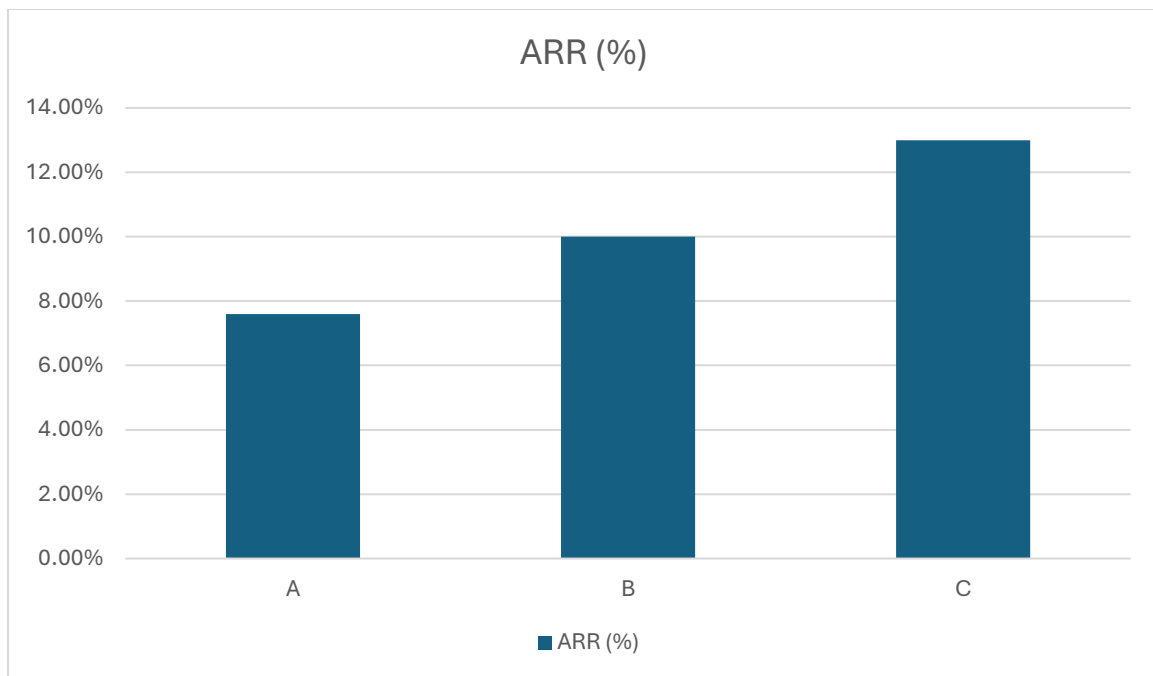


Figure: ARR Results

In project C, the highest ARR is the highest, and this means that the project yields the highest mean profit. Project B is also performing well as compared to Project A, which has the lowest payoff.

ARR is easy to apply, yet it does not consider the timing of the cash flows. Therefore, it cannot be considered as sound as NPV or IRR.

Net Present Value(NPV)

It is significant because NPV is the greatest method because it measures the value that a project creates in a real sense. It considers the time value of money and discounts future cash flows.

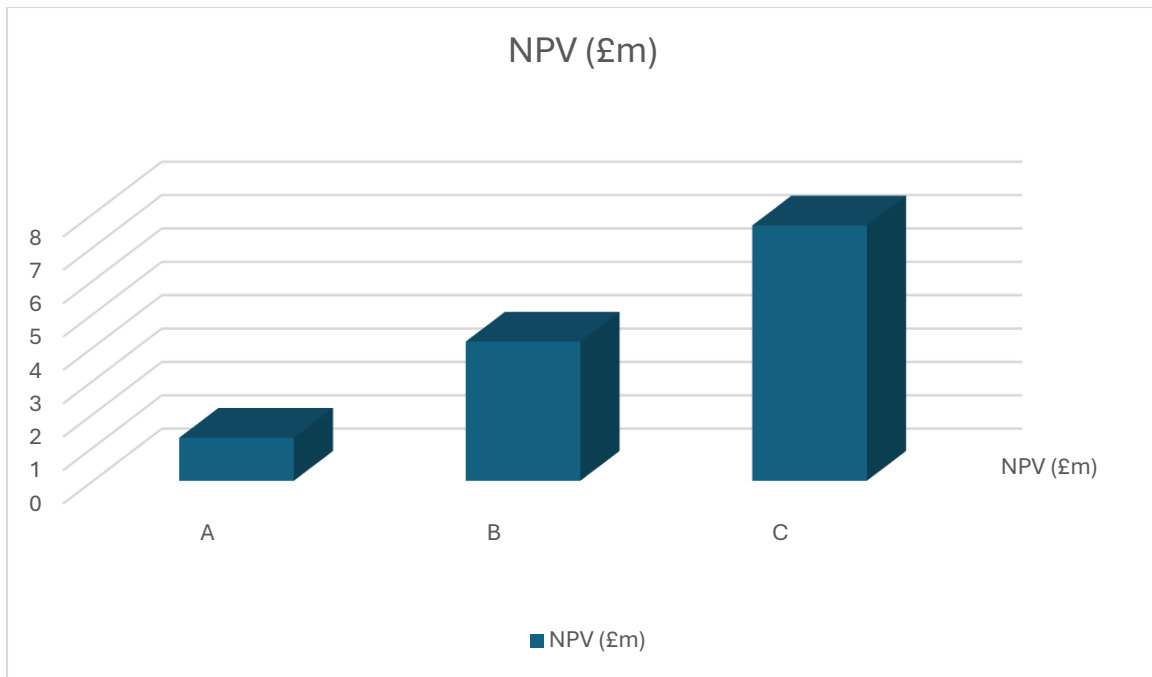


Figure: NPV Results (10% Discount Rate)

Project C has the highest NPV; i.e. it is a project that will provide the highest NPV to Toyota. Project B also has the highest positive NPV, and Project A has the least.

In case NPV is positive, it means that this will be a viable project. All the projects are value-adding since they all have NPVs of positive value. This approach evidently demonstrates that Project C will be the most attractive.

Internal Rate of Return (IRR)

IRR is a percentage of the returns of projects. The discount rate, given which NPV = zero.

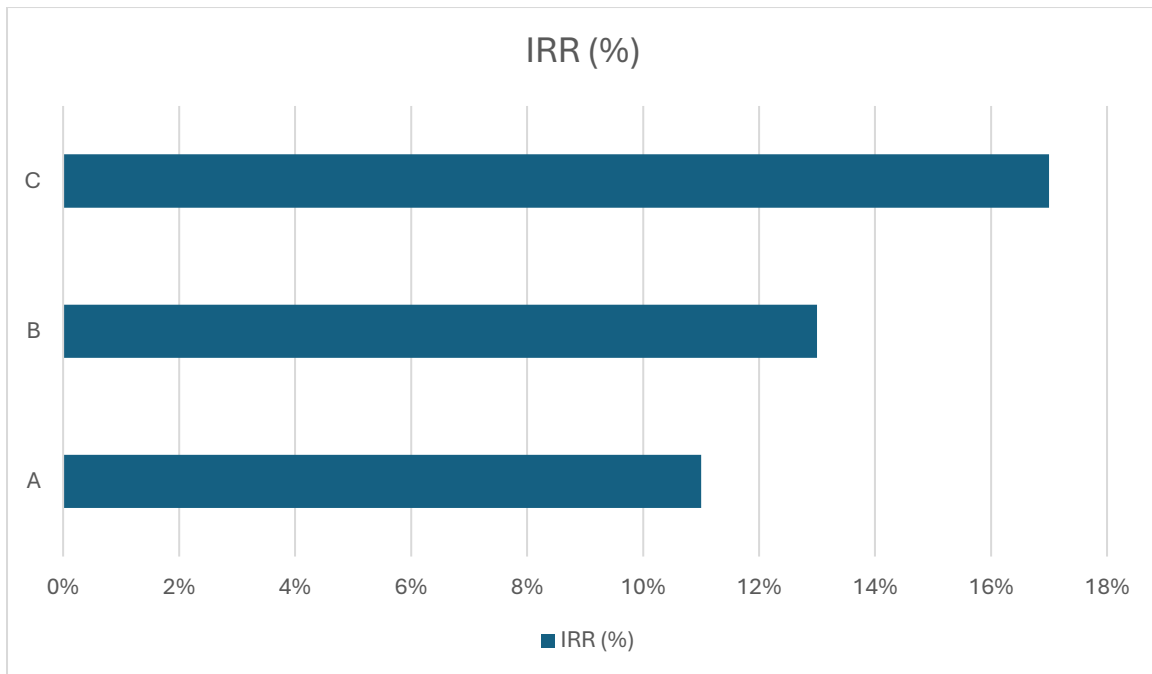


Figure: IRR Results

All the projects receive an IRR of more than the necessary 10 and are therefore all acceptable. The IRR of project C is the highest, and it portrays the optimum IRR.

But IRR may prove to be misleading when there are uneven cash flows, such as in the case of Project C, and therefore can be compared to NPV.

Profitability Index (PI)

PI is used to measure the value generated in a dollar invested.

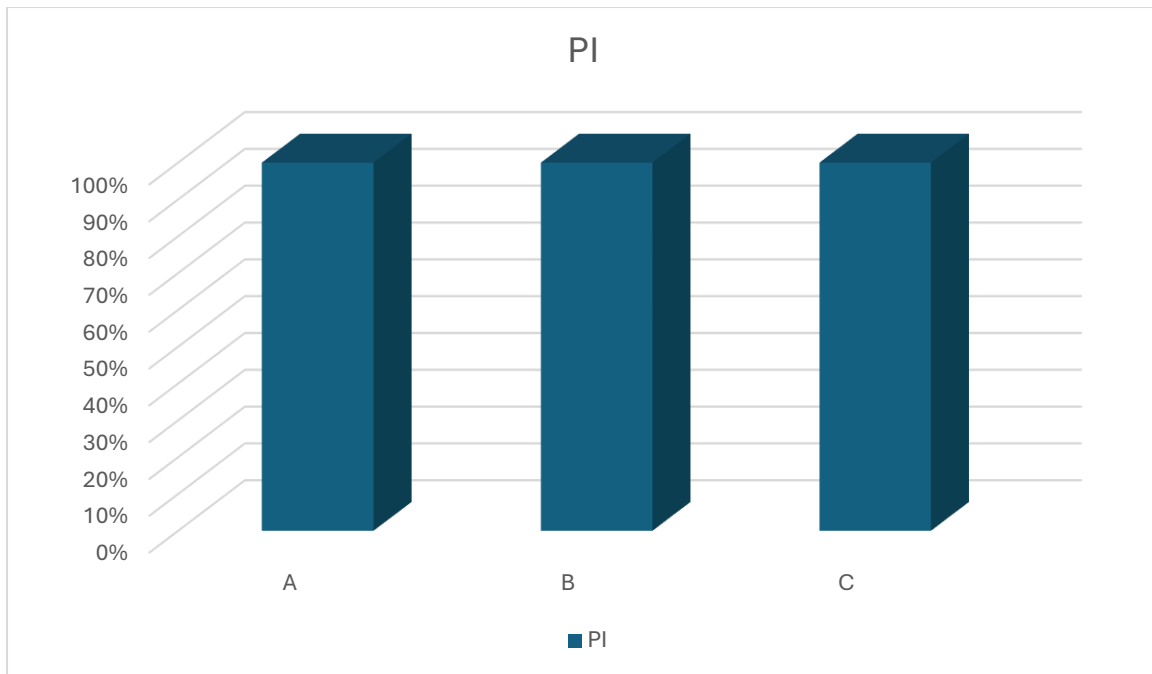


Figure: Profitability Index Results

Project C is the one with the highest PI, i.e. Project C is the most efficient with capital. Project B is efficient as well, and Project A is the most inefficient.

Overall Comparison of Projects

Table: Summary of Investment Appraisal Results

Criteria	Project A	Project B	Project C
Payback	Medium	Slow	Fast
ARR	Low	Medium	High
NPV	Low	Medium	High
IRR	Low	Medium	High
PI	Low	Medium	High

According to this table, Project C is the best project based on the criteria. Project B is the second strongest, and Project A is the weakest.

Strategic Fit and Critical Analysis.

To put it differently, the lumpy cash flows of Project C, despite its high NPV and IRR. Most of the returns are not obtained until later in life and are therefore less predictable. Although Project C is the most financially sound with the highest NPV (£7.65m), its

cash flows are irregular and thus can be considered as risky, which may not agree with the conservative financial strategy that Toyota undertakes.

Toyota is reputed to have a tight financial policy. The company is not making any risky investments but chooses to have stable and predictable returns (Schoenmaker and Schramade, 2023). Therefore, relying solely on Project C may not be the right thing.

Project B has a predictable, consistent annual cash flow. This reduces the level of uncertainty, and it aids in better financial planning. It is even in line with the risk management plan of Toyota.

Project A does not appear attractive since it provides lower returns in any of the approaches.

Capital Rationing Decision

Toyota has a limited budget of £100 million. Since each of the projects would cost the firm £50 million, the firm will be capable of selecting two projects.

Possible combinations:

- A + B
- A + C
- B + C

Table: Total NPV of Project Combinations

Combination	Total NPV (£m)
A + B	5.46
A + C	8.94
B + C	11.82

When it is a combination of Project B and Project C, there is the maximum NPV.

Risk Diversification Analysis

Project B and Project C risk and payoff are balanced.

Project B → Low-risk cash flows (predictable and stable)

Project C → High returns coupled with more uncertainty (increased risk)

This combination reduces the overall risk, but it is very lucrative. It is also able to assist in the long-term policy of Toyota to strike a balance between innovation and financial soundness.

Investment Performance Comparison

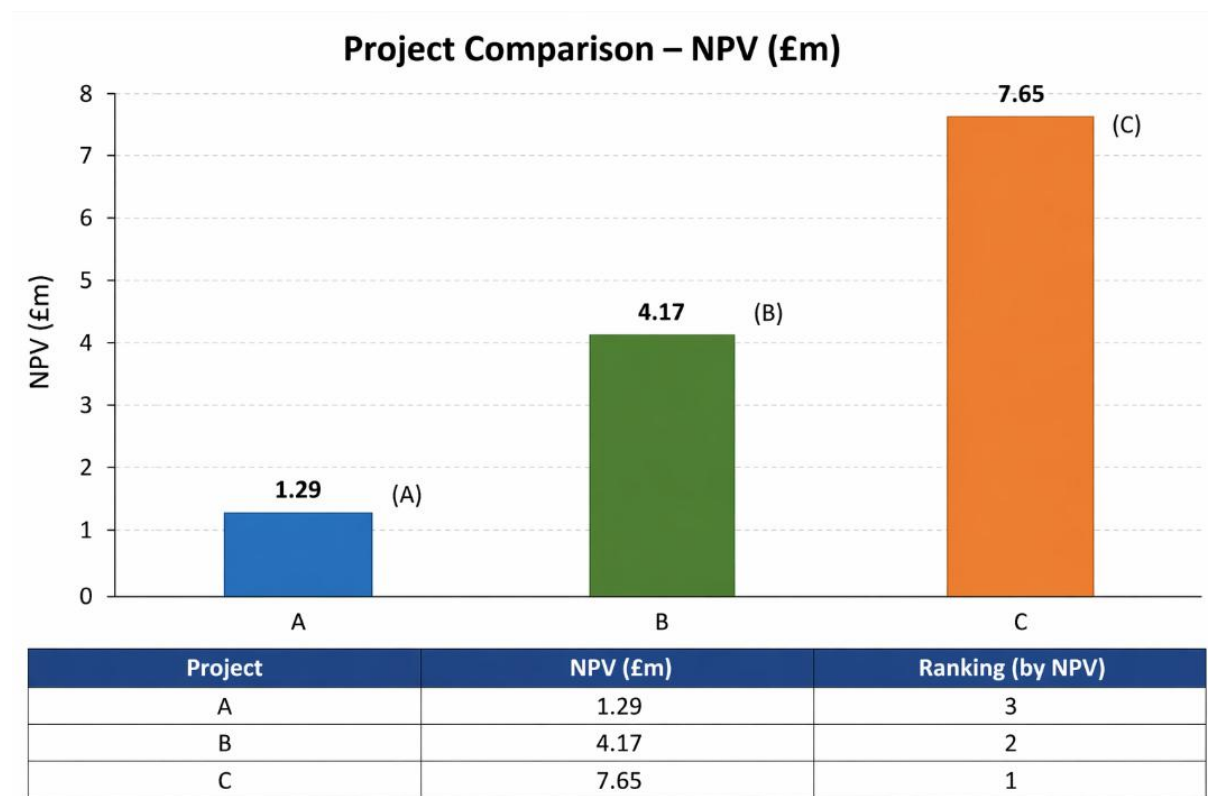


Figure: Comparison of NPV and IRR

The Net Present Value (NPV) comparison in Projects A, B and C, as reflected in the bar chart and table, depicts that the highest NPV (£7.65m) is generated in Project C to generate the highest value to shareholders and thus make the project profitable, in terms of financial benefit. The intermediate NPV of the project is (£4.17m), followed by Project B, and the lowest NPV (£1.29m) of Project A; thus, value is not created to a substantial extent. The ranking table supports this order with C first, B second and A third. Overall, the visualisation helps to make the decision-making process more transparent, i.e., making it obvious that Project C should take precedence in terms of profitability, as well as the maximisation of value.

Recommendation and conclusion

With the general analysis of each of the methods of investment appraisal, it is evident that Project C is the most economically attractive option with the highest Net Present value (NPV) and Internal rate of return (IRR). This implies quality value addition and profitability. When the cash flow patterns are studied in more detail, the estimation could be estimated that Project C is associated with high variability or that this amplifies the financial risk and uncertainty. Project B is a low-risk project because it has predictable returns since it has constant and stable cash inflows within the project life cycle.

There is a need to embark on a balanced investment strategy, given that Toyota is a multinational auto company that will transition into an electric and sustainable mobility (Heineke *et al.*, 2023). Thus, the most optimal project decision to make, as constrained by capital rationing (budget of £100 million), is to follow an option of Project B mixed with Project C. The portfolio will maximise NPV, and in the process, there shall be a balance in risk and returns. Project C has tremendous growth and value of innovation, but Project B has financial stability and liquidity assurance.

This merger, in addition, coincides with the long-term strategic aims of Toyota to stay tech-savvy but be financially viable. The diversification of risk investing in investment projects with different risk levels enhances the company in terms of how to adapt to dynamism in the market, as well as the dynamics in the investment industry (Brealey, 2022).

To conclude, Projects A, B and C provide viable solutions in terms of their financial outcomes, but the combination (Project B and C) of these solutions offers the most promising solution in terms of value maximisation and management of risks. Toyota should continue investing to enable its continual growth, be innovative and efficient in all its operations, but also ensure that it takes care of its good financial management. This will be the survival path through which it will enable it to improve on its competitive advantage, and it will emerge as a winner in the fast-evolving automotive industry.

Conclusion

Toyota is doing well in its five-year financial performance. The company enjoys a steady profitability, strong cash flow and cost control. The perception of liquidity and increasing debt levels are seen to be under pressure. The Altman Z-score indicates that Toyota is within the range of safety, implying that it does not face the risk of financial failure.

Depending on the investment appraisal, Project B and Project C are recommended. This is the mix in which NPV is maximised and which is a risk- return balanced mix. Overall, Toyota is not in a bad financial position, yet it ought to take risks and invest in the future, specifically in electric cars.

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Appendix

Key Financial Ratios: Toyota Financial Statements (2019–2024)

Year	Revenue (£bn)	Net Profit (£bn)	ROCE (%)	Net Profit Margin (%)	Current Ratio	Debt/Equity
2019	275	18	11.25	6.55	1.62	1.63
2020	260	16	10.32	6.15	1.61	1.64
2021	285	20	12.12	7.02	1.62	1.61
2022	300	22	12.57	7.33	1.64	1.57
2023	320	25	13.51	7.81	1.65	1.54

Working Capital Components

Year	Inventory Days	Receivables Days	Payables Days	CCC (Days)
2019	45	30	60	15
2020	48	32	62	18
2021	46	33	63	16
2022	47	35	65	17
2023	49	36	67	18

Formula Used:

$$CCC = \text{Inventory} + \text{Receivables} - \text{Payables}$$

Z-Score Components

Variable	Formula	Value
X1	Working Capital / Total Assets	0.15
X2	Retained Earnings / Total Assets	0.35
X3	EBIT / Total Assets	0.12

X4	Market Value / Total Liabilities	1.20
X5	Sales / Total Assets	0.68

Z-Score Calculation:

$$Z = 1.2(0.15) + 1.4(0.35) + 3.3(0.12) + 0.6(1.20) + 1.0(0.68)$$

$$Z = 3.47$$

Interpretation:

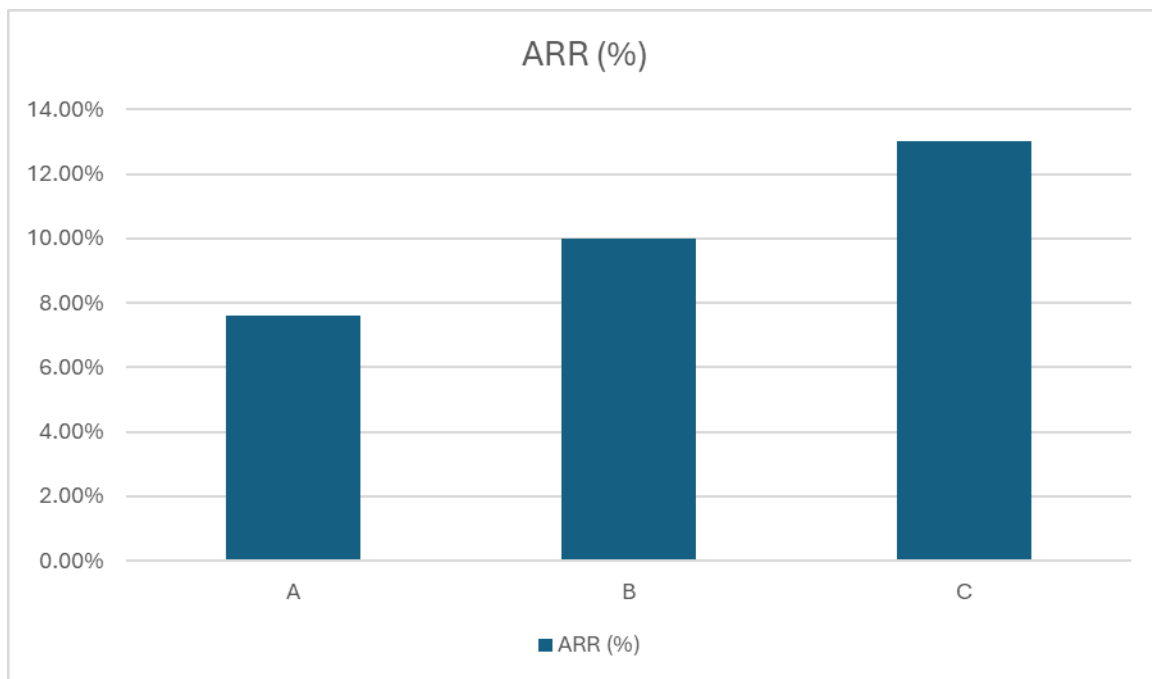
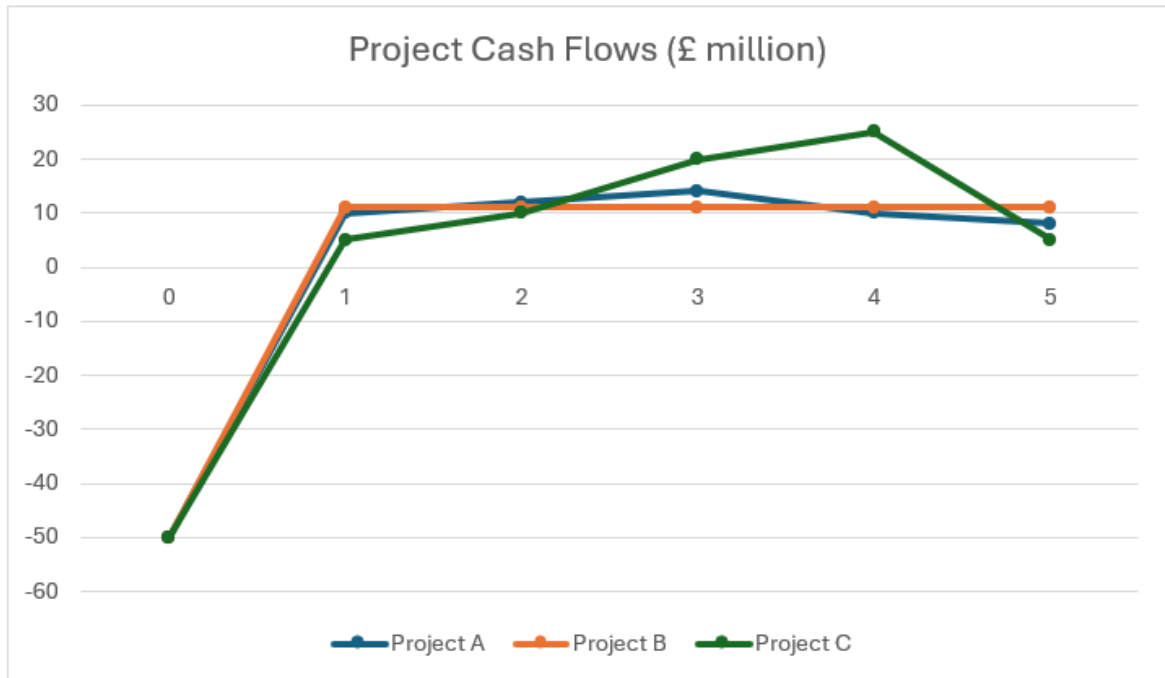
- $Z > 2.99 \rightarrow$ Safe Zone

Summary of Investment Results

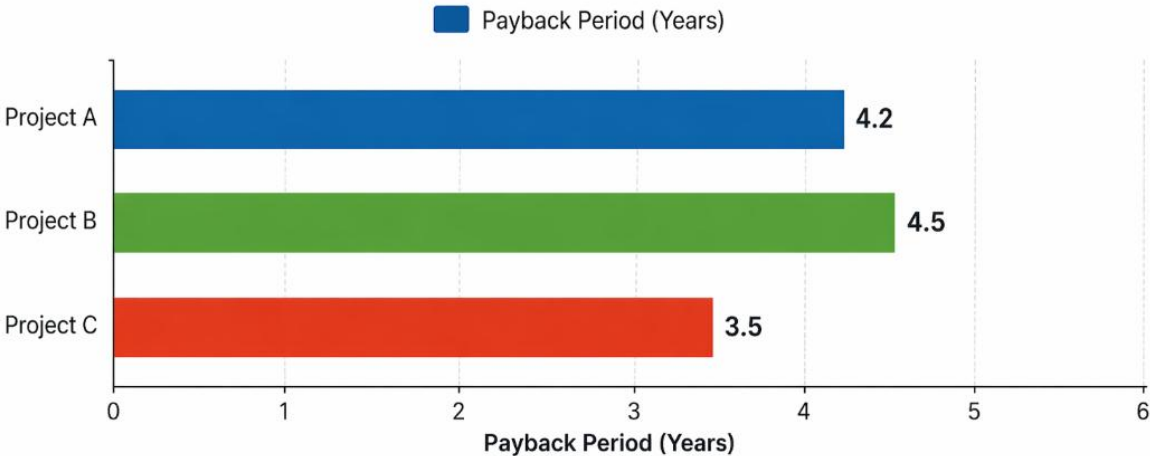
Project	Payback (Years)	ARR (%)	NPV (£m)	IRR (%)	PI
A	4.2	7.6	1.29	11	1.03
B	4.5	10	4.17	13	1.08
C	3.5	13	7.65	17	1.15

Capital Rationing Decision

Combination	Total NPV (£m)
A + B	5.46
A + C	8.94
B + C	11.82



Payback Period Results



Project	Payback Period
A	4.2 years
B	4.5 years
C	3.5 years

