



ASSESSMENT TITLE

Evaluating Financial Performance and Management Strategies to Facilitate General Electronics' Recovery

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1.0 Introduction

General Electronics is one of the dominant companies in the consumer electronics market in the world, but it is experiencing serious financial difficulties that endangered its sustainability in the long run. The company should look into different alternatives of restructuring to regain financial stability, maximize shareholder value and create more operational flexibility. This assignment discusses three main types of financial restructuring, such as divestitures, mergers, and equity injections, each with its own opportunities and risks. Through the analysis of these strategies, we are thus hoping to evaluate their possible effects on the wealth of shareholders, the stock price, the debt structure, and the flexibility of its operation. The report also takes into account some crucial international and ethical considerations that should be included in every decision related to restructuring and they include tax considerations, currency risks, and corporate social responsibility (CSR). It is through such analyses that we are in a position to give a sound comprehension of how General Electronics can overcome its current financial challenges and establish itself to achieve sustainable growth and prosperity.

2.0 Financial Health Check

2.1 Overview of the Firm's Financial Position

General Electronics has had a lot of financial problems in the past five years as it is indicated in its income statement, balance sheet and cash flow statement. The net sales of the company have declined compared to 2020 as the sales are now 394,879 million lower than they were 614,680 million in 2020, which indicates a significant drop in revenues. The gross profit margin is also decreasing due to the cost of sales that has also reduced over the same period. The operating expenses have been varying with some extremes, especially in 2023 which experienced high operating expense thus adversely affecting the operating income.

The current assets of the company have declined in the balance sheet by about 83.5 billion between the year 2020 and 2024, mainly caused by the declining inventories and accounts receivable. Nevertheless, its long time assets like property, plant and equipment have also considerably reduced with the passage of time. The liabilities of

the company have been a matter of concern as the current and long term debt liabilities have swelled and have led to the rising debt to equity ratios.

The cash flows have not been stable, as there has been a significant decline in net cash of operating activities in 2024 which reflects the difficulty of the firm operating. This notwithstanding, the company has tried to finance the business by means of borrowing and stock options leading to variation in the financing activities. Cash reserves have also been affected by the impact of the changes in the foreign currency exchange rates.

2.2 Ratio Analysis

	Profitability Ratios		Liquidity Ratios		Efficiency Ratios		Gearing Ratios	Investment Ratios	Cash Flow Ratios
Year	Gross Profit Margin (%)	ROA (%)	Current Ratio	Quick Ratio	Asset Turnover	Inventory Turnover	Debt to Equity Ratio	EPS (£)	Operating Cash Flow to Debt
2024	28.90%	-7.40%	1.53	1.03	1.22	3.54	1.11	-1.85	0.087
2023	23.20%	-27.60%	1.6	1.06	1.18	3.65	0.99	-7.64	0.142
2022	28.10%	0.08%	1.56	0.92	1.08	2.78	0.88	0.03	0.046
2021	28.80%	1.00%	1.56	0.94	1.18	3.18	0.85	0.39	0.172
2020	28.60%	7.60%	1.82	1.14	1.2	3.64	0.63	2.72	0.373

Table 1Ratio Analysis

The 5-year ratio analysis of General Electronics shows that the company has a mixed performance having strengths and weaknesses in the main financial aspects. The gross profit margin has been quite stable and has been between 23.2 and 28.9 which suggests that the company can withstand the cost of production and make a steady profit out of its sales. Nonetheless, the turnover of assets (ROA) has been worsening, indicating a downward trend towards the efficiency of assets used to make a profit, 7.6 in 2020 and -7.4 in 2024. General Electronics should be able to pay short-term liabilities as the liquidity ratios show that it has sufficient short-term assets to offset its short-term liabilities, though there has been a minor trend over the last few years. Its asset turnover ratio has been rather constant and quite low, 1.22 in 2024, indicating

an average efficiency in the asset utilization to generate revenues. The current inventory turnover ratio of 3.54 in 2024 indicates the effective management of inventory whereby the current products sold and replacement are rather swift. There is also a negative aspect of the debt-to-equity ratio rising to 1.11 in 2024, as it shows that the company has started to rely more on debt financing, which is associated with a greater financial risk. In addition, the negative earnings per share (EPS) in 2024 and the deteriorating operating cash flow to debt ratio (0.087 in 2024) shows that the company is facing some problems in terms of its ability to achieve steady profits and cope with its debt.

2.3 Trend Analysis

The trend analysis of the financial performance of General Electronics in the last five years shows the main areas of concern. Such tendencies, relying on the given financial information, reveal the fact that the company currently experiences issues in all its aspects of profitability, liquidity, efficiency, and financial stability (Li, 2023).

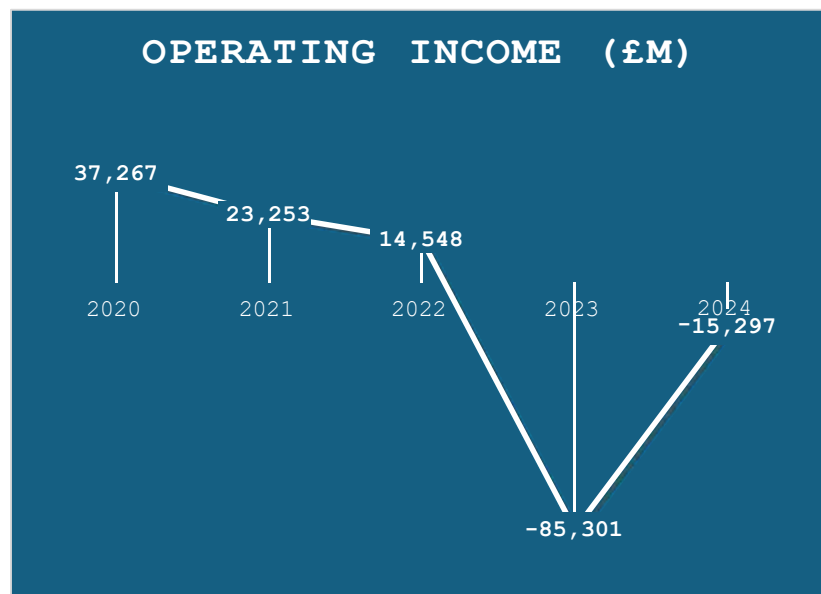


Figure 1 Operating Income

Operating Income: The firm has experienced large operating losses over the previous two years with the operation making major losses of £15,297 million in 2024 as compared to operation making a profit of 37,267 million in 2020. This depicts a significant decline in the efficiency of operation (Febryandhie Ananda et al., 2024).

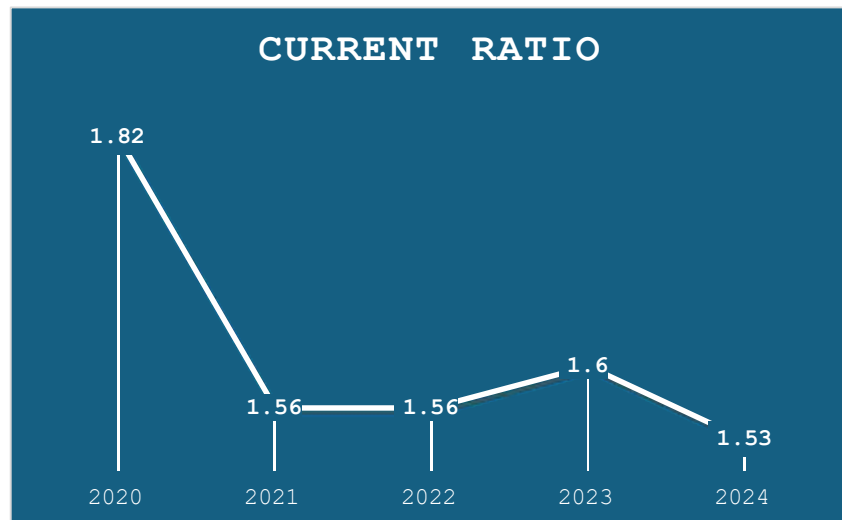


Figure 2 Current Ratio

Current Ratio: The company has slightly reduced in the capacity to pay off its short-term liabilities with the current ratio declining to 1.53 in 2024 compared to 1.82 in 2020. This ratio shows that General Electronics may not be able to cover its short-term debts soon, but is still higher than the average rate of 1.0 (Mao, 2023).

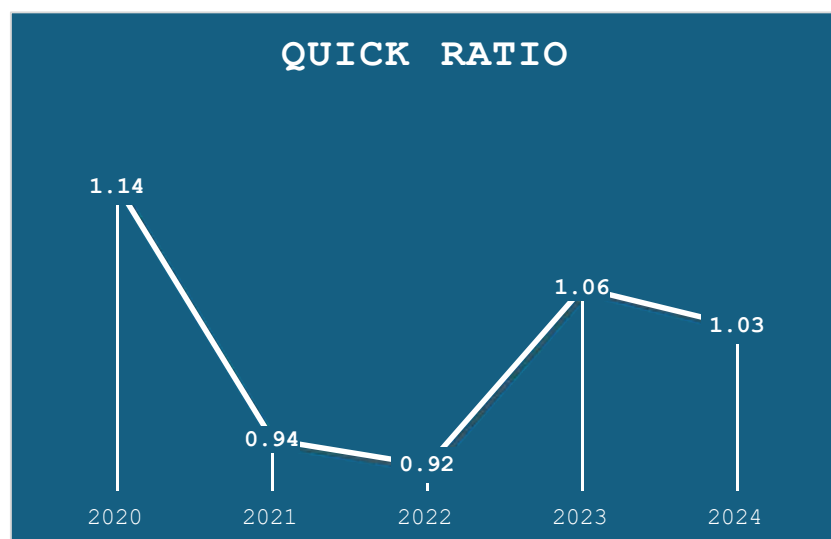


Figure 3 Quick Ratio

Quick Ratio: Likewise, the quick ratio is reducing by 1.14 in 2020 and 1.03 in 2024. The trend also implies possible liquidity issues since the quick assets of the company are insufficient to settle the short-term liabilities (Mao, 2023).

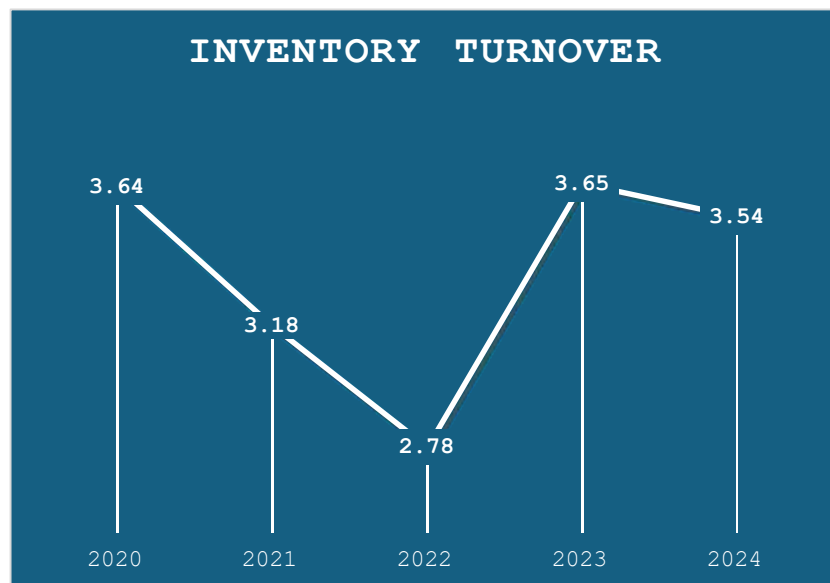


Figure 4 Inventory Turnover

Inventory Turnover: The inventory turnover ratio has been changing irregularly yet it is still quite high meaning that General Electronics is effectively utilizing its inventory. Nevertheless, the decrease in 2022 (2.78) was also observed, which might be associated with overstocking or reduced sales in the same year (Eryatna, Eltivia and Handayawati, 2021).

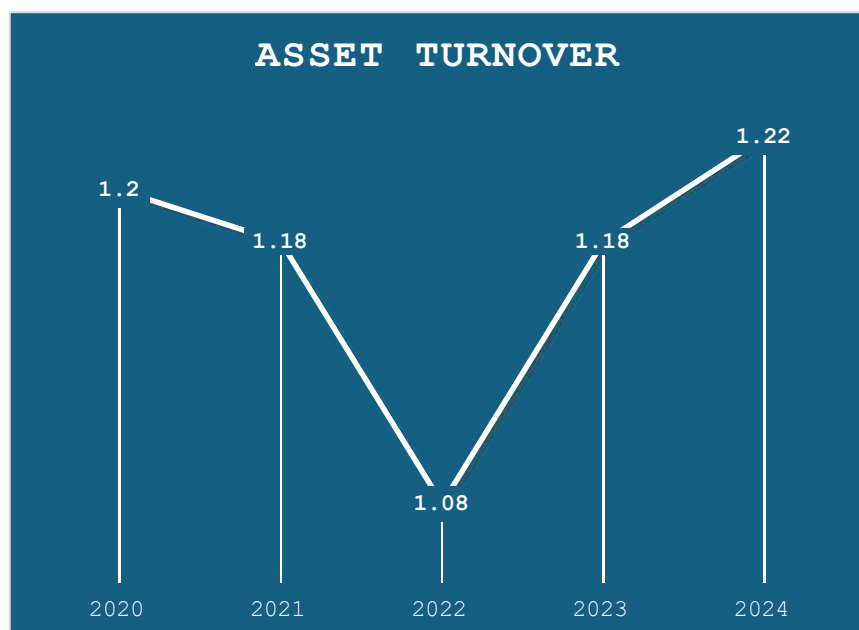


Figure 5 Asset Turnover

Asset Turnover: The asset turnover ratio has been fairly constant in the last five years with the average value being about 1.2. This demonstrates that the company has been

enjoying a steady degree of efficiency in the use of its assets to achieve revenue even though this figure has been on the decline (Kurniawan, 2021).

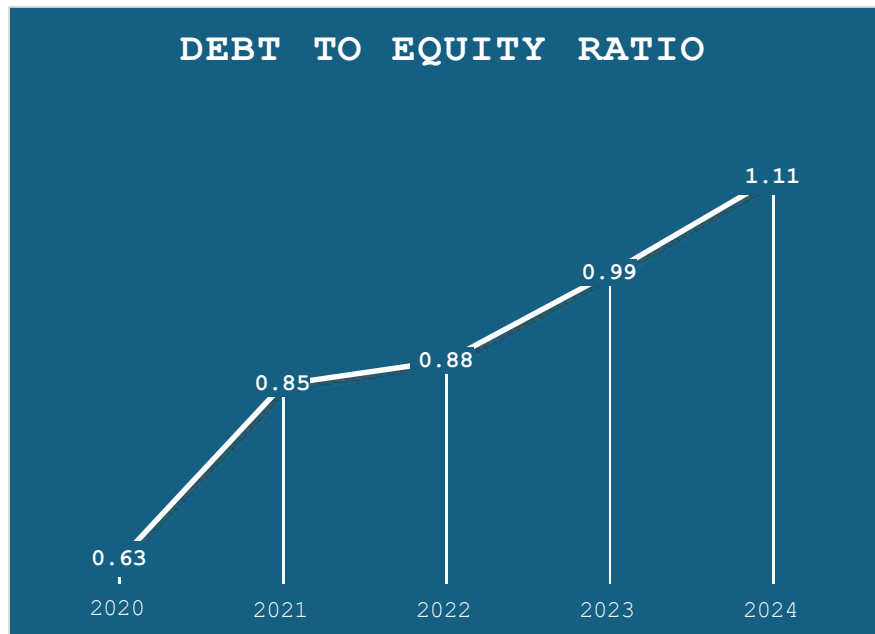


Figure 6 Debt to Equity Ratio

Debt to Equity Ratio: The debt to equity ratio has been on the rise, with the values improving to 1.11 in 2024 since it was 0.63 in 2020, signifying that the company has increasingly been using debt to fund its operations. This is a matter of concern regarding the financial stability of the company and its capacity of repaying the debt in the future (Susilawati, Agusetiawan Shavab and Mustika, 2022).

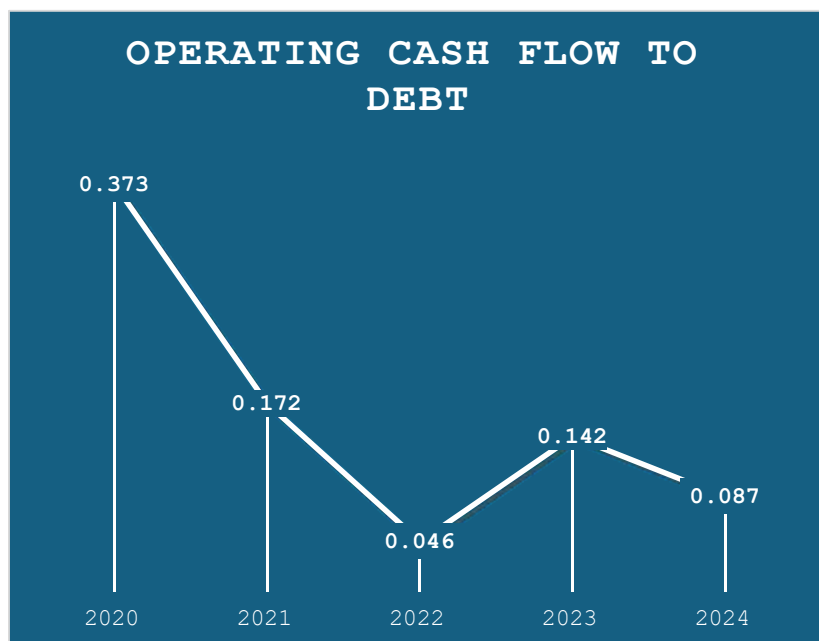


Figure 7 Operating Cash Flow to Debt Ratio

Operating Cash Flow to Debt Ratio: The operating cash flow to debt ratio has been minimal, especially in 2024, 0.087 showing that the company is having difficulties in producing cash flow to pay its debts.

2.4 Strengths and Threats

Strengths

1. **Stable Gross Profit Margin:** General Electronics has a fixed gross profit margin between 23.2 to 28.9 percent in 2023 to 2024 respectively. This is one of the reasons why despite the challenges posed by financial factors, the company has been able to manage its cost of production and realize some profitability out of its core operations.
2. **Strong Liquidity Ratios:** The liquidity ratios of the company are healthy as the company has a current ratio of 1.53 and a quick ratio of 1.03 in the year 2024. These ratios indicate that General Electronics is well equipped in terms of its short term assets covering short term liabilities meaning that it has enough financial flexibility to meet unanticipated challenges.
3. **Effective Asset Management:** General Electronics has managed to record a high asset turnover ratio of 1.22 in the year 2024. Although this is a slight improvement compared to the past years, it is still an indication of the capacity of the company to bring revenue out of the assets that it has. Besides, the inventory turnover of 3.54 shows that the company manages its inventory, and stock is sold and replaced at a very fast rate.

Threats

1. **Decreasing Return on Assets (ROA):** The ROA has been decreasing severely to -7.4 in 2024 as compared to 7.6 in 2020 indicating that the company can make less profit using its assets. This falling performance is a significant issue of profitability in the long term.
2. **Large Debt Levels:** General Electronics has a debt to equity ratio of 1.11 in 2024 which implies that it continues to depend on debt financing. This increases the threat to financial distress particularly in a low-profit setting since it is harder to service the debt.

3. **Negative Earnings per Share (EPS):** The negative EPS value (-1.85) in 2024 shows that the company is not profitable. This may weaken the faith of investors and adversely affect the stock price.

2.5 Corporate Failure Prediction Models (Altman Z-Score)

The Altman Z-Score is a form of prediction that is used to determine the chances of a company becoming bankrupt. The formula of Z-Score is as follows:

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

Calculation of Altman Z-Score for 2024

We are going to use estimates figures of the balance sheet and income statement of 2024.

- Working Capital = Current Assets - Current Liabilities = £242,494m - £158,291m = £84,203m
- Retained Earnings = £208,431m
- EBIT (Operating Income) = -£15,297m
- Total Assets = £323,354m
- Market Value of Equity (approximated) = Total Assets - Total Liabilities = £323,354m - £170,249m = £153,105m
- Sales = £394,879m

Now, substituting these values into the Z-Score formula

$$Z = 1.2 \times \left(\frac{84,203}{323,354} \right) + 1.4 \times \left(\frac{208,431}{323,354} \right) + 3.3 \times \left(\frac{-15,297}{323,354} \right) + 0.6 \times \left(\frac{153,105}{170,249} \right) + 1.0 \times \left(\frac{394,879}{323,354} \right)$$

$$Z = 1.2 \times 0.260 + 1.4 \times 0.645 + 3.3 \times (-0.047) + 0.6 \times 0.899 + 1.0 \times 1.220$$

$$Z = 0.312 + 0.903 - 0.155 + 0.539 + 1.220 = 2.819$$

Interpretation of Z-Score

The Altman Z-Score of 2024 is 2.819 that puts the company in the grey zone. This implies that General Electronics is undergoing threats of financial losses which it should undertake drastic corrective measures to prevent bankruptcy.

3.0 Working Capital Management Analysis

3.1 Cash Operating Cycle

One of the metrics in the working capital management is the Cash Operating Cycle (COC), which is used to determine how much time a business has to take to turn its working capital into cash (Asman et al., 2022). It simply represents the duration of time that elapses between the expenditure of money on stock and the cash received by the customer. A reduced cash cycle is usually superior since it signifies that an organization can turn its assets into cash at a short notice. A longer cycle, however, may be an indicator of inefficiency in inventory form or sluggish receivables.

The **formula** for calculating the Cash Operating Cycle is:

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

Days Inventory Outstanding (DIO) for 2024:

$$\text{DIO} = \frac{\text{Average Inventory}}{\text{Cost of Sales}} \times 365$$

$$\text{Average Inventory} = \frac{88,273 + 79,355}{2} = 83,814 \text{ million}$$

Now, we calculate the **Days Inventory Outstanding (DIO)** for 2024:

$$\text{DIO} = \frac{83,814}{280,885} \times 365 = 108.6 \text{ days}$$

Days Sales Outstanding (DSO):

$$\text{DSO} = \frac{\text{Accounts Receivable}}{\text{Net Sales}} \times 365$$

$$\text{DSO} = \frac{114,182}{394,879} \times 365 = 105.7 \text{ days}$$

Days Payables Outstanding (DPO) for 2024:

$$\text{DPO} = \frac{\text{Accounts Payable}}{\text{Cost of Sales}} \times 365$$

$$\text{DPO} = \frac{72,031}{280,885} \times 365 = 93.5 \text{ days}$$

Cash Operating Cycle (COC):

Now, we calculate the overall **Cash Operating Cycle**:

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

$$\text{COC} = 108.6 + 105.7 - 93.5 = 120.8 \text{ days}$$

This implies that the working capital turnover of General Electronics is quite long and it takes 120.8 days to turn its working capital into cash. This long cycle implies that the corporation might have inefficiencies in terms of inventory turnover and receivables collection, and which might affect its cash flow and liquidity.

3.2 Liquidity Recommendations

Since General Electronics has a long cash operating cycle, a number of strategies can be utilized to increase the liquidity and working capital management to optimize the cash flow, decrease the debt ratio and increase the efficiency in its operation.

3.2.1 Improve Inventory Management

General Electronics ought to adopt just-in-time (JIT) inventory control in order to reduce the cash operating cycle. This plan also lowers the overstocking of a product because they order it according to the demand and not based on the stocking. JIT reduces the amount of time that inventory is held in storage and reduces Days Inventory Outstanding (DIO). The inventory audits need to be done regularly to know the slow moving products and in doing so, it would be in a better position to utilize the cash by cutting down on the amount of inventory.

3.2.2 Strengthen Receivables Collection

The Days Sales Outstanding (DSO) of General Electric is excessive (105.7) and slows down the cash inflows. The company would be able to increase this by providing early payment discounts to customers to pay faster. Besides this, more stringent credit policy and tougher collections practices would assist in speeding up receivables. Selling receivables to a third party at a discount, also known as factoring, may also give a short-term cash inflow.

3.2.3 Optimize Payables

General Electronics has a Day Payables outstanding of 93.5 days which indicates that it is overdue to the suppliers. Although this would improve the short-run liquidity, relationships with suppliers would be strained. To moderate the liquidity and not to spoil the relationships with the suppliers, it is recommended that the company reevaluates the payment terms and enters into longer contracts with the suppliers whenever possible, without ruining the important partnerships.

3.3 Short-Term vs. Long-Term Financing Options

General Electronics should take a keen consideration of both short-term and long-term financing approaches to deal with liquidity problems. Both are associated with their own benefits and vulnerabilities and the decision made by the company will rely on its short-term and long-term planning.

3.3.1 Short-Term Financing

Short-term funding, such as lines of credit, working capital loans, and trade credit, may be used to get short-term liquidity to meet operating costs. These are best suited in dealing with the short-term cash flow shortages especially given the fact that the company has a long cash operating cycle. Short-term funding is however usually at higher rates of interest and that can pose financial pressure when not handled well (Nicolas, 2021). In the case of General Electronics, lines of credit or commercial paper would be a short-term relief as the company seeks to streamline its cash cycle. Also, financing or factoring by the suppliers may enable faster cash inflow through selling receivables.

3.3.2 Long-Term Financing

Long-term sources of finance, including equity issue, bonds, or long-term loans, offer the company greater capital amounts with no hard cash burden of short-term sources. These might be used to stabilize the financial position of the company and invest in strategy (Tang, Wen and Jiang, 2025). Long-term financing however has its own disadvantages like having to pay interest on the debt or dilution of ownership through issuing equity. Considering the financial position of General electronics, long-term debt or equity could be a solution, but it should not take more debt until its debt-to-equity ratio is corrected.

4.0 Strategic Financial Restructuring

4.1 Financial Restructuring Options

General Electronics needs to consider different financial restructuring strategies in order to revive itself financially, increase shareholder value, and become more flexible in terms of its operations. These are the divestitures, mergers, and equity injections. Both solutions have their own advantages and problems, and the decision will be made based on the long-term aims of the company, its current financial situation, and the external aspects of the market.

4.1.1 Divestitures

Divestiture is the sale of non-core assets, under-performing divisions or subsidiaries to raise capital and decrease debts, a strategy that is good in financially strained firms such as General Electronics (Chen, 2019). Divestitures help the company to concentrate on its most profitable businesses by releasing cash in the assets that are not performing well to improve the shareholder value. The proceeds may be utilized to settle debts enhancing financial stability. Nevertheless, in the process of enhancing efficiency in its operations, the sale of non-core operations can lower the level of diversification in the company, which exposes it to risks in its core business.

4.1.2 Mergers

A merger is a process of uniting General Electronics and other businesses in order to form a bigger and more competitive company. The economies of scale, cost saving, and the increase of the market share are the factors that can increase the shareholder value, but the important thing is to succeed in the integration (Hargrave, 2024). The consolidation with a company with strong financial position makes the balance sheet strong and avails the company access to low-cost financing. Nonetheless, the presumption that the liabilities of the other company would augment the debt and the restructuring of operations would lead to less flexibility as a result of difficulties in integrating the operations.

4.1.3 Equity Injections

Equity injection is the process of raising capital either through issue of new shares or bringing on board strategic investors. Though it can potentially water down the existing shareholders ownership, which may decrease the short term EPS and share prices, it

enhances liquidity and decreases dependency on debt, which creates long-term value (Buchanan, 2025). Equity will increase the balance sheet as its impact is decreasing the debt to equity ratio, credible creditworthiness. Nonetheless, it can change the system of governance and this will affect the decision making and flexibility in running their businesses because new investors will be involved, and this will affect the company strategic direction.

4.2 Impact on Shareholder Value

Shareholder Return

Restructuring affects the shareholder value depending on the strategy. Divestiture can provide short-term cash to enhance liquidity and reduce debts, which is beneficial to shareholders in the short run, but the sale of key assets can reduce future growth and revenues, which is harmful to long-term returns (Umar, 2023). A merger concept has the ability to produce value by saving on costs, access into more markets and creating more efficiencies, which enhances shareholder value in the case of the actualization of synergies. Nonetheless, the issue of integration can damage profitability and market confidence. Issuance of equity decreases debt and enhances liquidity, and enhances financial stability in the long term, but dilutes share ownership, decreasing EPS and stock prices in the short run. It is capable of improving long-run shareholder value provided it is invested in a strategic fashion.

Stock Price Impact

The effectiveness will be based on perceived effectiveness by the market in reacting to restructuring. The sale of non-core assets may boost the stock prices in case of a divestiture as the company is enabled to concentrate on its lucrative activities (Munsanje, Abednego Nchimunya, 2021). But in case of selling surfaces of first need, the market may take it negatively and the price of stocks may fall.

Merger may lead to an increase in the price of stocks when investors anticipate synergies and improved profitability, but integration issues and uncertainty may lead to a decline in the price of stocks. Equity issuance normally causes a temporary reduction in the stock prices because of the dilution. Nonetheless, in case the restructuring enhances the financial performance of the company, the stock prices might increase in the long run as the trust of the market is restored.

4.3 Debt Structure and Operational Flexibility

Debt-to-Equity Ratio

Reorganization, especially the reduction of debt or the issue of equity will affect the debt to equity ratio of General Electronics. Debt reduction enhances flexibility in the finances and decreases the ratio, which makes obtaining future financing easy (Islam, 2023). The equity issue is also effective in reducing the ratio as it dilutes ownership, which may not be pleasant to the current shareholders.

Operational Flexibility

Restructuring has the ability to increase flexibility of operations. A merger presents availability of new resources and markets enhancing decision-making (Chien and Tu, 2021). Nevertheless, the integration process can impair the operations and decrease flexibility. Divestiture will enable General Electronics to concentrate on the core business, which will enlarge the efficiency but decrease the diversification. Reduction in debt also enhances cash flow, it enables more flexibility to invest in areas of growth, which also increases operational flexibility.

4.4 International and Ethical Considerations

Since General Electronics is a multinational corporation, its reorganization of finances has to cover a wide range of international and ethical challenges.

International Tax Issues

Cross-border transactions can include restructuring work, i.e. selling assets or merging with another institution, which is also subject to various tax regimes. General Electronics should take into consideration the tax implication of both the capital gains tax on the sale of its assets as well as the issue of tax avoidance when engaging in a merger with foreign companies. It is important to consult with international tax experts in order to avoid considerable liabilities.

Currency Risk

Foreign currency fluctuations can have a huge effect on the restructuring especially in global mergers or divestitures (Vicky Youn Jung Lee, 2021). The changes in exchange rates can have some impact on the values of assets and liabilities as well as cash flows in the future. In order to cope with this risk, General Electronics may apply the

hedging scheme in order to stabilize its financial situation having forward contracts or currency options.

Inflation

The markets where General Electronics has been operating might experience inflation which can push the price of raw materials, labor and energy which in turn narrows down the profit margins. To remain profitable in an inflating economy, the company might be forced to change its pricing policies and cost control measures.

Corporate Social Responsibility (CSR)

General Electronics is required to take into account the ethical aspects of the restructuring, especially the aspect of laying off of employees, relations with suppliers, and environmental consequences. Efforts to reduce jobs or dispose the assets must be done with caution to guarantee the affected persons a fair compensation and support without compromising on the high standards of CSR (Porcuna Enguix, 2021).

Ethical Implications of Proposed Restructuring

All the three restructuring alternatives such as divestitures, mergers, and equity injections have ethical issues. These implications need to be considered by General Electronics so that its choices can not contradict ethical values and obligations of the company.

5.0 Investment Appraisal and Capital Budgeting.

5.1 Financial Evaluation Techniques

5.1.1 Payback Period (PBP)

Payback Period (PBP) is computed by adding cash inflows on an annual basis up to the point of covering the initial investment.

Project A

Year	Cash Inflows (£m)	Cumulative Cash Inflows (£m)
1	10	10
2	12	22

3	14	36
4	10	46
5	8	54

Table 2 Cash Inflows

The initial investment of £40 million is recovered between Year 3 and Year 4. Specifically, £36m is recovered by Year 3, and the remaining £4m comes from Year 4's £10m inflow.

Payback Period = $3 + (4/10) = 3.4$ years

Project B

Year	Cash Inflows (£m)	Cumulative Cash Inflows (£m)
1	6	6
2	6	12
3	6	18
4	6	24
5	6	30

Table 3 Cash Inflows

The initial capital of 30 million is recouped in the fifth year.

Payback Period = 5 years

Project C

Year	Cash Inflows (£m)	Cumulative Cash Inflows (£m)
1	5	5
2	10	15
3	20	35

4	25	60
5	15	75

Table 4 Cash Inflows

The initial investment of 50 million is regained in the Years 3 through 4. Particularly, the annual recovery of £35m is received by Year 3 and the rest of the 15m through Year 4 annual inflow of 25m.

Payback Period = $3 + (15/25) = 3.6$ years

5.1.2 Accounting Rate of Return (ARR)

ARR is divided by the initial investment and obtained as the mean annual accounting profit.

Project A

Description	Value
Total Cash Inflows	£10m + £12m + £14m + £10m + £8m = £54m
Average Annual Cash Inflow	£54m / 5 = £10.8m
Initial Investment	£40m
ARR	$(£10.8m / £40m) \times 100 = 27\%$

Table 5 Accounting Rate of Return

Project B

Description	Value
Total Cash Inflows	£6m × 5 = £30m
Average Annual Cash Inflow	£30m / 5 = £6m
Initial Investment	£30m
ARR	$(£6m / £30m) \times 100 = 20\%$

Table 6 Accounting Rate of Return

Project C

Description	Value
Total Cash Inflows	£5m + £10m + £20m + £25m + £15m = £75m
Average Annual Cash Inflow	£75m / 5 = £15m
Initial Investment	£50m
ARR	(£15m / £50m) × 100 = 30%

Table 7 Accounting Rate of Return

5.1.3 Net Present Value (NPV)

The NPV is derived by taking the difference between initial investment and discounted cash inflows of 10 percent.

Project A

$$NPV = \frac{10}{(1+0.10)^1} + \frac{12}{(1+0.10)^2} + \frac{14}{(1+0.10)^3} + \frac{10}{(1+0.10)^4} + \frac{8}{(1+0.10)^5} - 40$$

$$NPV = 9.09 + 9.92 + 10.51 + 6.83 + 4.96 - 40 = £1.31m$$

Project B

$$NPV = \frac{6}{(1+0.10)^1} + \frac{6}{(1+0.10)^2} + \frac{6}{(1+0.10)^3} + \frac{6}{(1+0.10)^4} + \frac{6}{(1+0.10)^5} - 30$$

$$NPV = 5.45 + 4.95 + 4.50 + 4.09 + 3.72 - 30 = £ - 7.29m$$

Project C

$$NPV = \frac{5}{(1+0.10)^1} + \frac{10}{(1+0.10)^2} + \frac{20}{(1+0.10)^3} + \frac{25}{(1+0.10)^4} + \frac{15}{(1+0.10)^5} - 50$$

$$NPV = 4.55 + 8.26 + 15.03 + 17.07 + 9.32 - 50 = £4.23m$$

5.1.4 Profitability Index (PI)

PI is determined as the ratio of the present value of the future cash inflows to the investment.

Project A

$$PI = \frac{NPV + \text{Initial Investment}}{\text{Initial Investment}} = \frac{1.31 + 40}{40} = 1.033$$

Project B

$$PI = \frac{NPV + \text{Initial Investment}}{\text{Initial Investment}} = \frac{-7.29 + 30}{30} = 0.243$$

Project C

$$PI = \frac{NPV + \text{Initial Investment}}{\text{Initial Investment}} = \frac{4.23 + 50}{50} = 1.085$$

5.1.5 Internal Rate of Return (IRR)

Project A

Starting with an estimated discount rate of **12.5%**, we calculate the **NPV**:

$$NPV = \frac{10}{(1+0.125)^1} + \frac{12}{(1+0.125)^2} + \frac{14}{(1+0.125)^3} + \frac{10}{(1+0.125)^4} + \frac{8}{(1+0.125)^5} - 40$$

By trial and error or using financial calculator functions, we find that:

$$IRR \approx 12.5\%$$

Project B

With an initial IRR of 10, we obtain a negative NPV. Since the amount of cash inflows per year is identical in all years and the NPV is negative at a discount rate of 10, the IRR will be less than 10. The NPV at 10 is negative hence the IRR is negative.

Project C

- Cash inflows: £5m, £10m, £20m, £25m, £15m
- **Initial Investment:** £50m

Starting with an estimated **IRR** of 14%, we calculate the **NPV** and find that:

$$NPV = \frac{5}{(1+0.14)^1} + \frac{10}{(1+0.14)^2} + \frac{20}{(1+0.14)^3} + \frac{25}{(1+0.14)^4} + \frac{15}{(1+0.14)^5} - 50$$

By trial and error or using financial calculator functions, we find that:

$$IRR \approx 14\%$$

5.2 Comparative Analysis of Projects

5.2.1 Financial Performance Comparison

Three major metrics are used to evaluate the financial performance of the three proposed projects: Payback Period (PBP), Accounting Rate of Return (ARR), Net Present Value (NPV), Profitability Index (PI), and Internal Rate of Return (IRR).

Project A possesses a relatively small Payback Period (PBP) 3.4 years, i.e. the initial capital (40 million pounds) is not recouped in the distant past, this is beneficial in a capital-restricted world. The ARR stands at 27% and is solid but not the highest as Project C. The NPV amount of 1.31 million is positive and it shows the value creation but it is less compared to project C. PI of 1.033 has indicated that each pound invested yields 1.033, which makes it profitable. The IRR of 12.5 is moderate and positive as compared to other projects.

Project B however has a Payback Period of 5 years which is the longest of the three projects. This is not as appealing, particularly in terms of liquidity requirements because this is a longer time to recoup the original investment of 30 million pounds. ARR is 20% which is the lowest among the three projects and the NPV is negative at -7.29 million, which means that the project will not add value. The PI of 0.243 indicates that the returns will not be worth investing in. Also, the IRR is negative which strengthens its financial infeasibility.

Project C has the best financial profile. It has a Payback Period of 3.6 years which is slightly higher than Project A but it remains comparatively small. The ARR of 30 is the highest showing the most profitable investment. NPV is the most high at £4.23 million indicating that it will provide a high value to the company. The PI of 1.085 indicates that, Project C will yield a profit of 1.085 a pound every pound invested, and thus it will be very profitable. The IRR of 14% is also the highest and it will provide the most appealing financial choice compared to the discount rate and thus is more appealing in terms of financial returns, hence making Project C the best choice based on finances.

5.2.2 Risk and Cash Flow Volatility

Project A has quite stable cash flows where the uncertainties lie between 8 million pounds to 14 million pounds in the 5 years period. It is a positive consistency, but the drastic decrease of cash inflows in Year 5 is a serious concern concerning its sustainability in the long run. Although the payback period is quite short, volatility over the years would present certain risks on the financial stability of the project.

Project B will provide cash flows of £6 million annually and five years stable. This stability is normally favorable but the negative NPV and IRR render it unprofitable. Although cash flows are stable, they are not enough to support the investment so, Project B is rather risky, and finally, they are not an appropriate solution.

Although **project C** has the largest cash flow volatility, it has the largest potential returns. The cash inflows are between £5 million in Year 1 to £25 million in Year 4 after which it falls to 15 million in Year 5. The increased volatility comes with a degree of risk to some extent but the NPV and IRR are high to offset the risk. The high returns negate the volatility in the cash flows and therefore, Project C is the most appealing.

5.3 Final Investment Recommendation

5.3.1 Decision on the Project to Investment

Taking into account the capital rationing constraint of £60 million, Project C is the project that should be chosen to invest in. It has a starting investment of 50 million, which is quite within the budget and project has the best NPV (4.23 million), ARR (30 per cent.), and IRR (14 per cent.). These good financial indicators imply that Project C will create the highest value to General Electronics and the most appropriate option in the long run recovery of the company.

5.3.2 Justification of the Recommendation

Project C is the most profitable and valuable in the long term. The financial returns as shown by the NPV of 4.23 million and IRR of 14% are strong, whereas the ARR of 30% is high. Despite the fact that the project is more volatile in terms of cash flow, the high returns offset the risk by a large margin, and thus it is the best project in a condition of capital rationing. The strategic objectives of the General Electronics will be fulfilled by investing in Project C, which will provide the most favorable prospects of financial recovery and developing in the long run. Although a good option, Project A will not be as profitable or valuable in the long-term and should not be included in the investment portfolio.

6.0 Conclusion

In summary, General Electronics desperately requires strategic financial restructuring in order to be back on its feet and profitability. All restructuring alternatives such as divestitures, mergers, and equity injections can all help increase shareholder value, lower debts, and increase operational flexibility, although all of them come with their own set of challenges. Divestitures may enhance liquidity and concentration of resources on core business whereas mergers present the potential of synergies and market growth. Equity injects may offer the cash requirement to decrease debt and

enhance financial condition though they are dilutive in the short term. These options however have to be considered carefully considering international tax implications, currency risks, inflationary pressures and ethical implications. Through appropriate choice of restructuring strategy, General Electronics will be able to address and cope with financial difficulties, improve its competitive standing, and development of long term shareholder value, thereby guaranteeing sustainable growth in a competitive international market.

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Appendix

1. Profitability Ratios

Gross Profit Margin (GPM)

$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

Year	Gross Profit (£m)	Net Sales (£m)	Gross Profit Margin (%)
2024	113,994	394,879	28.9%
2023	97,560	420,457	23.2%
2022	152,292	542,751	28.1%
2021	173,016	601,602	28.8%
2020	176,256	614,680	28.6%

Return on Assets (ROA)

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

Year	Net Income (£m)	Total Assets (£m)	ROA (%)
2024	-24,029	323,354	-7.4%
2023	-98,238	355,872	-27.6%
2022	407	504,163	0.08%
2021	5,301	510,348	1.0%
2020	38,572	510,290	7.6%

2. Liquidity Ratios

Current Ratio

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

Year	Current Assets (£m)	Current Liabilities (£m)	Current Ratio
2024	242,494	158,291	1.53
2023	258,851	161,148	1.60

2022	338,040	216,473	1.56
2021	337,146	216,787	1.56
2020	326,843	179,510	1.82

Quick Ratio

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

Year	Current Assets (£m)	Inventories (£m)	Current Liabilities (£m)	Quick Ratio
2024	242,494	79,355	158,291	1.03
2023	258,851	88,273	161,148	1.06
2022	338,040	140,181	216,473	0.92
2021	337,146	134,469	216,787	0.94
2020	326,843	120,430	179,510	1.14

3. Efficiency Ratios

Asset Turnover

$$\text{Asset Turnover} = \frac{\text{Net Sales}}{\text{Total Assets}}$$

Year	Net Sales (£m)	Total Assets (£m)	Asset Turnover
2024	394,879	323,354	1.22
2023	420,457	355,872	1.18
2022	542,751	504,163	1.08
2021	601,602	510,348	1.18
2020	614,680	510,290	1.20

Inventory Turnover

$$\text{Inventory Turnover} = \frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

Year	Cost of Sales (£m)	Average Inventory (£m)	Inventory Turnover
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2024	280,885	79,355	3.54
2023	322,897	88,273	3.65
2022	390,459	140,181	2.78
2021	428,586	134,469	3.18
2020	438,424	120,430	3.64

4. Gearing Ratios

Debt to Equity Ratio

$$\text{Debt to Equity} = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

Year	Total Liabilities (£m)	Shareholders' Equity (£m)	Debt to Equity Ratio
2024	170,249	153,105	1.11
2023	176,952	178,920	0.99
2022	235,757	268,406	0.88
2021	234,399	275,949	0.85
2020	196,989	313,301	0.63

5. Investment Ratios

Earnings Per Share (EPS)

$$\text{EPS} = \frac{\text{Net Income}}{\text{Shares Outstanding}}$$

Year	Net Income (£m)	Shares Outstanding (Million)	EPS (£)
2024	-24,029	12,959	-1.85
2023	-98,238	12,855	-7.64
2022	407	12,779	0.03
2021	5,301	13,742	0.39
2020	38,572	14,166	2.72

6. Cash Flow Ratios

Operating Cash Flow to Debt Ratio

$$\text{Operating Cash Flow to Debt} = \frac{\text{Net Cash from Operating Activities}}{\text{Total Liabilities}}$$

Year	Net Cash from Operating Activities (£m)	Total Liabilities (£m)	Operating Cash Flow to Debt
2024	14,822	170,249	0.087
2023	25,190	176,952	0.142
2022	10,926	235,757	0.046
2021	40,283	234,399	0.172
2020	73,392	196,989	0.373