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1.0 Introduction

General Electronics is a consumer electronics firm that has a critical financial situation. Its performance has also deteriorated and in the last five years, it has incurred huge losses and decreased sales. The present report evaluates the financial status of the company to find out what are the key problems and how to ameliorate the situation.

Financial analysis also makes us know the performance of a company and its ability to survive in future (Beaver, 1966). The variations of key financial ratios should also be used to examine such companies as firms in which the risk of bankruptcy is high (Altman, 1968). The General Electronics financial statements are analyzed in this report in terms of profitability ratios, liquidity ratios, and failure prediction models.

The analysis will look at four aspects namely financial health, working capital, restructuring options and investment choices. Such insights will drive effective actions to assist the company in recovering profit and create long-term value.

2. Financial Health Check

2.1 Overview of Financial Performance (2020-2024)

General Electronics has experienced a significant loss of revenue in the last five years. As compared to 2020, net sales dropped to £394,879 million in 2024. This is a drop of 35.7 percent. In 2020, the company had a profit of £38,572 million to 24,029 million of a loss in 2024. The most terrible year was 2023 when the company lost money in the amount of £98,238 million. According to Robinson et al. (2012), a decrease in revenue and huge losses is an indicator that the company requires urgent intervention. The total assets also declined and were £510,290 million down to £323,354 million. Cash reduced to £26,783 million against £57,153 million. These figures demonstrate that the company is experiencing severe financial difficulties (Sayari and Mugan, 2014).

2.2 Profitability Analysis

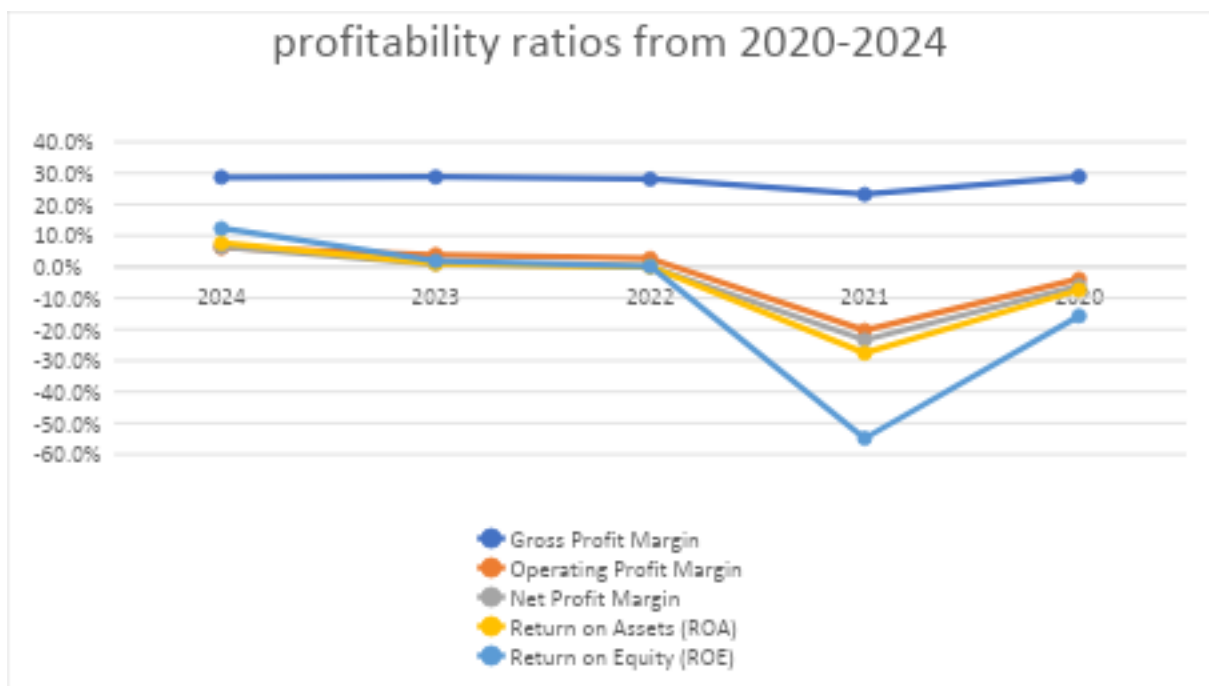
Profitability ratios measure how well a company makes profit from sales and resources (Brigham and Ehrhardt, 2020).

Table 1: Profitability Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Gross Profit Margin	$(\text{Gross Profit} \div \text{Net Sales}) \times 100$	28.9%	23.2%	28.1%	28.8%	28.7%
Operating Profit Margin	$(\text{Operating Income} \div \text{Net Sales}) \times 100$	-3.9%	-20.3%	2.7%	3.9%	6.1%
Net Profit Margin	$(\text{Net Income} \div \text{Net Sales}) \times 100$	-6.1%	-23.4%	0.1%	0.9%	6.3%
Return on Assets (ROA)	$(\text{Net Income} \div \text{Total Assets}) \times 100$	-7.4%	-27.6%	0.1%	1.0%	7.6%
Return on Equity (ROE)	$(\text{Net Income} \div \text{Shareholders' Equity}) \times 100$	-15.7%	-54.9%	0.2%	1.9%	12.3%

Source: Calculated from General Electronics Financial Statements

Graph 1: Line graph showing all five profitability ratios from 2020-2024.



The gross profit margin was also comparatively steady at twenty eight to twenty nine percent during the period. Such stability indicates that the company still has decent margins on its core products and does not experience any severe production costs and pricing issues. Thus, the gross profit level is not the primary problem of the firm.

Conversely, the operating profit margin worsened significantly and became negative in 2023 and 2024. This depreciation was largely occasioned by the rise in operating costs faster than sales. The firm had high fixed costs which lowered the firm flexibility in response to the declining revenue. This means there is inefficiency in cost management and operations. It also became negative in net profit margin, which indicates that now, losses are being directly transferred to shareholders.

The same was the case with the return on assets and equity. A negative ROA shows that the assets are not being utilized efficiently whereas a negative ROE implies that shareholder value is being destroyed. Failure to restore profitability will further damage investor confidence and barriers to new equity sources will increase.

2.3 Liquidity Analysis

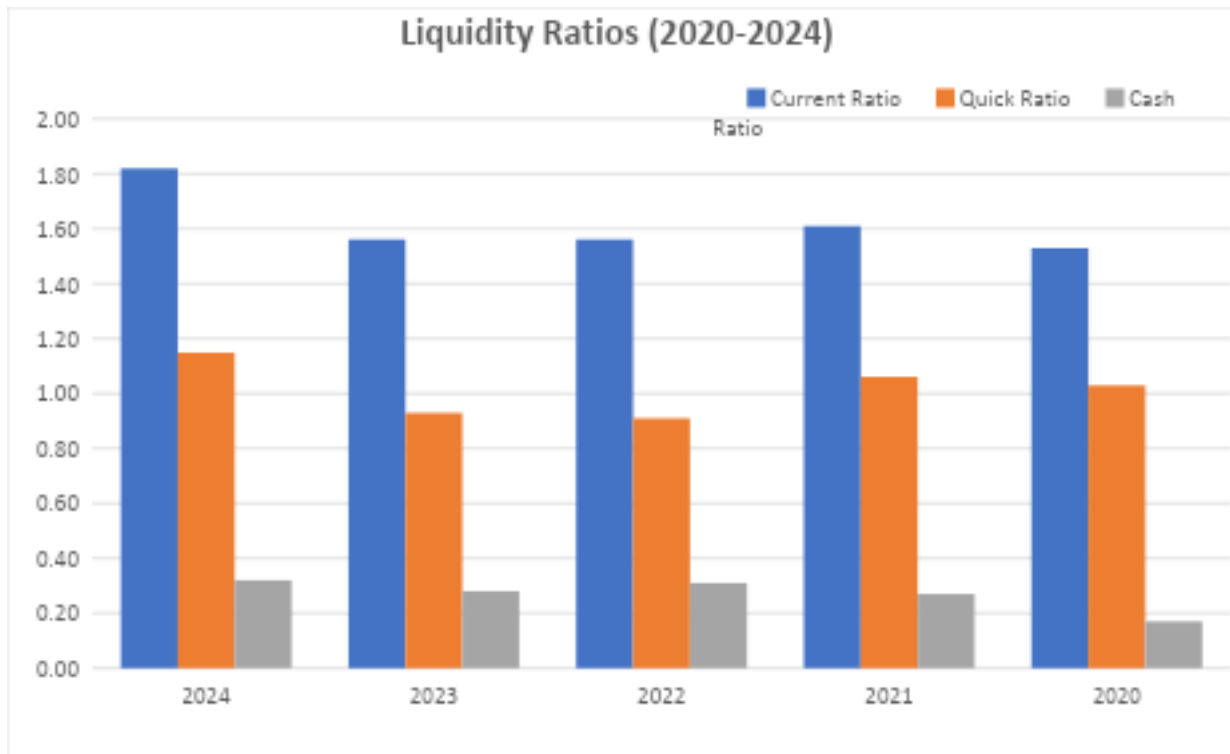
Liquidity ratios measure ability to pay short-term debts (Wahyuni et al., 2025).

Table 2: Liquidity Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Current Ratio	Current Assets ÷ Current Liabilities	1.53	1.61	1.56	1.56	1.82
Quick Ratio	(Current Assets - Inventories) ÷ Current Liabilities	1.03	1.06	0.91	0.93	1.15
Cash Ratio	Cash ÷ Current Liabilities	0.17	0.27	0.31	0.28	0.32

Source: Calculated from General Electronics Financial Statements

Graph 2: Bar chart comparing three liquidity ratios across five years.



The liquidity ratios indicate that the short term financial position of the company is weakening gradually. The current ratio deteriorated by one point eight two in 2020 to one point five three in 2024. Even though this is still larger than one, the declining trend indicates that the capacity to meet short term obligations comfortably is declining.

The quick ratio also decreased with time and shows that there is a rising trend of using inventory to pay the short term liabilities. This is dangerous in slow sales seasons. The worst indicator is the cash ratio, which decreased drastically to zero point one seven in 2024. It implies that the company does not have much cash as compared to current liabilities.

A small cash base enhances reliance on outside funding and creates the risk of late payments made to both suppliers and lenders. This low liquidity status is detrimental to the day-to-day operations and harms credit appeal, as seen through the eyes of a CFO. Cash management needs to be improved immediately to stabilise the business.

2.4 Efficiency Analysis

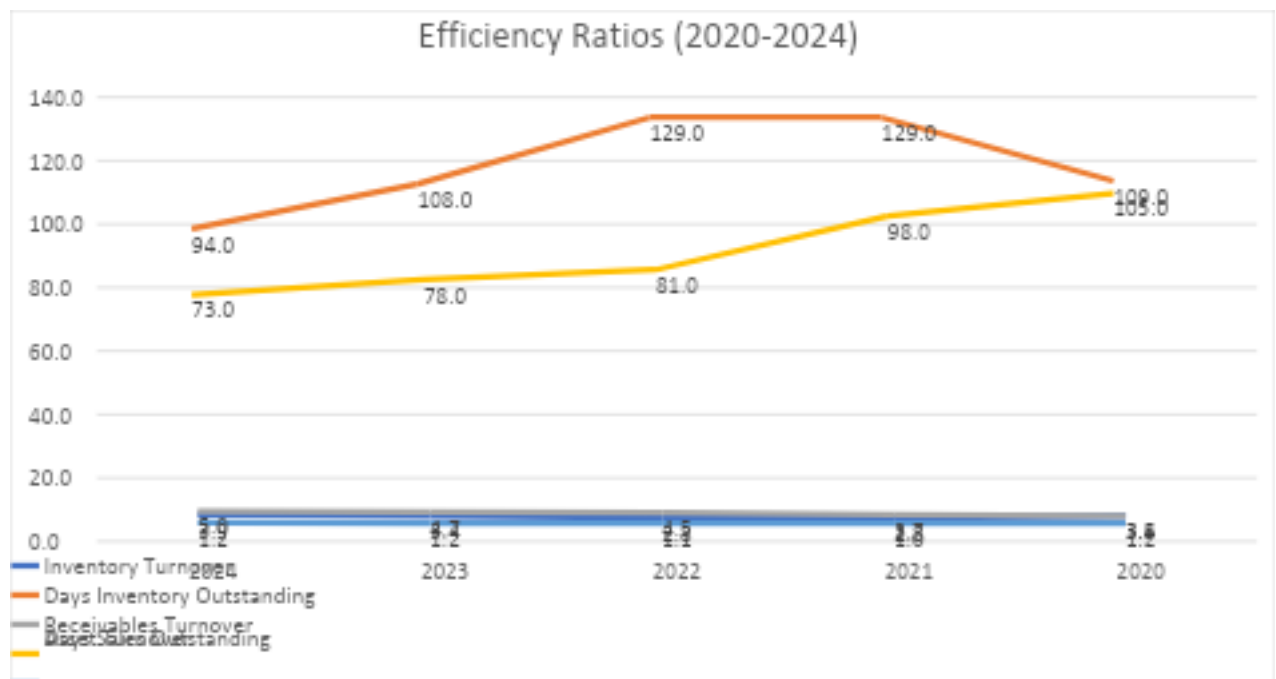
Efficiency ratios show how well a company manages assets to generate sales (Brigham and Ehrhardt, 2020).

Table 3: Efficiency Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Inventory Turnover	Cost of Sales ÷ Average Inventory	3.35	2.83	2.84	3.37	3.90
Days Inventory Outstanding	365 ÷ Inventory Turnover	109	129	129	108	94
Receivables Turnover	Net Sales ÷ Average Receivables	3.48	3.73	4.49	4.65	4.97
Days Sales Outstanding	365 ÷ Receivables Turnover	105	98	81	78	73
Asset Turnover	Net Sales ÷ Average Assets	1.17	0.98	1.07	1.18	1.21

Source: Calculated from General Electronics Financial Statements

Graph 3: Line chart showing Days Inventory Outstanding and Days Sales Outstanding trends.



Efficiency ratios indicate that there is a decreasing efficiency in working capital management. The turnover in inventory decreased throughout the period and Days

Inventory Outstanding rose to one hundred and nine days instead of ninety four days. This means that the inventory is moving at a slower pace, which could be because of the sluggish demand or lack of proper forecasting.

The turnover of receivables also decreased and Days Sales Outstanding also went to a high of one hundred and five days. Cash inflows are being slowed, and customers are paying at a much slower pace, which puts pressure on financing. While the asset turnover was rather steady, it is largely so because of the asset reduction as opposed to efficiency improvement.

Generally, poor inventory and receivables management has increased the cash cycle and decreased liquidity. These shortcomings are the direct cause of cash crunch that the firm has and dependency on short term borrowings.

2.5 Gearing and Solvency Analysis

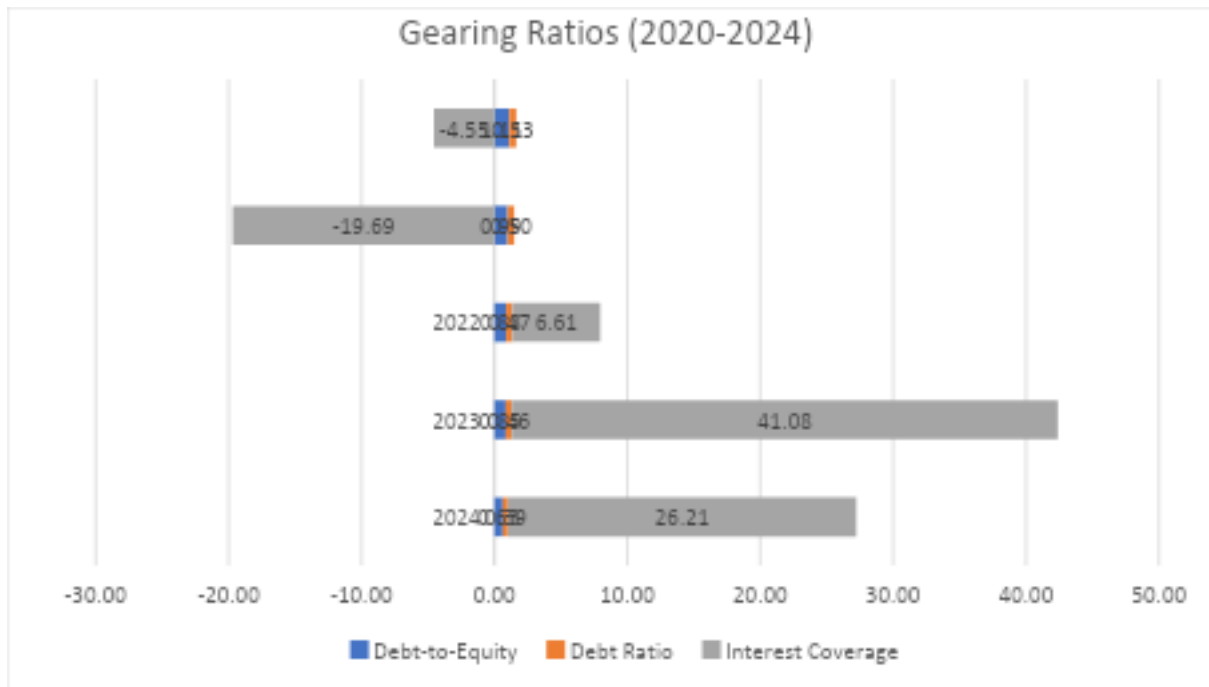
Gearing ratios measure how much a company uses debt and its ability to pay debt obligations (Robinson et al., 2012).

Table 4: Gearing Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Debt-to-Equity	Total Liabilities ÷ Shareholders' Equity	1.11	0.99	0.88	0.85	0.63
Debt Ratio	Total Liabilities ÷ Total Assets	0.53	0.50	0.47	0.46	0.39
Interest Coverage	Operating Income ÷ Interest Expense	-4.55	-19.69	6.61	41.08	26.21

Source: Calculated from General Electronics Financial Statements

Graph 4: Stacked bar chart showing debt vs equity financing over five years.



The financial risk of the company expanded considerably throughout the period. In its case, the debt to equity ratio increased to one point one one in 2024 compared to zero point six three in 2020, indicating the use of more debt in financing. The debt ratio also escalated, that is, a greater percentage of assets will be funded through liabilities.

The interest coverage ratio is the greatest cause of concern as it became negative in 2023 and 2024. This implies that the level of operating income is not adequate to meet interest payments. Constant negative reporting is a strong signal of high risk of default and low confidence of the lenders. Refinancing can become hard or even costly in the event that this trend persists. Diluting leverage and regaining operating profits are crucial as a step towards enhancing solvency.

2.6 Investment Performance and Cash Flow Analysis

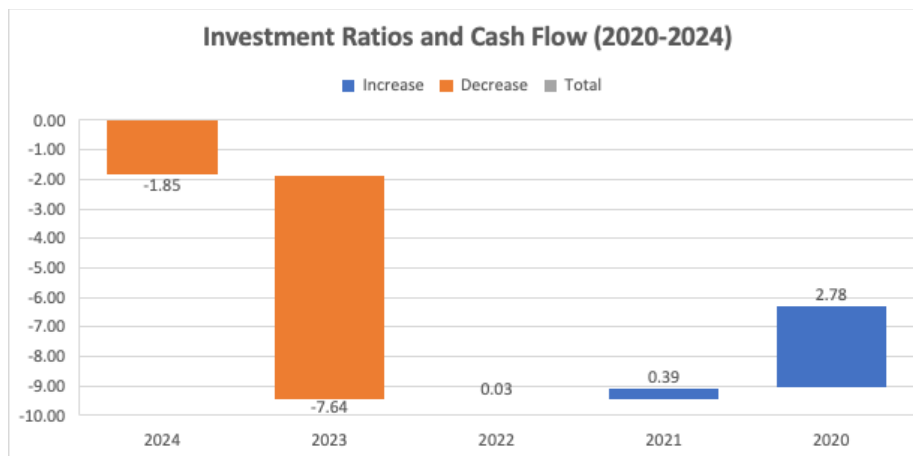
Table 5: Investment Ratios and Cash Flow (2020-2024)

Metric	2024	2023	2022	2021	2020
Earnings Per Share (£)	-1.85	-7.64	0.03	0.39	2.78
Operating Cash Flow (£m)	14,822	25,190	10,926	40,283	73,392
Free Cash Flow (£m)	2,394	5,413	-10,585	10,656	30,396

Source: Calculated from General Electronics Financial Statements

Formula: Free Cash Flow = Operating Cash Flow - Capital Expenditures

Graph 5: Waterfall chart showing cash flow from operations, investments, and financing.



The earnings per share dropped drastically and turned negative, which meant that shareholders suffered huge losses. Cash flow continued to operate positively in 2024, although it was considerably lower than in the previous years. This implies that as the company continues to earn cash through its operations, it is losing its financial power.

In 2024, the firm experienced a very low free cash flow, hence restricting the firm to invest, retire debt, and absorb shocks. Small free cash flow lowers the flexibility in strategies and heightens the reliance on debt. Capital allocation and cost minimization are then key in financial recovery.

2.7 Corporate Failure Prediction: Altman Z-Score

The Altman Z-Score predicts bankruptcy risk (Sayari and Mugan, 2014). The formula is:

$$\text{Z-Score} = 1.2(X_1) + 1.4(X_2) + 3.3(X_3) + 0.6(X_4) + 1.0(X_5)$$

Where:

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

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

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

$$X_4 = \text{Market Value of Equity} \div \text{Total Liabilities}$$

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

Interpretation:

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

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

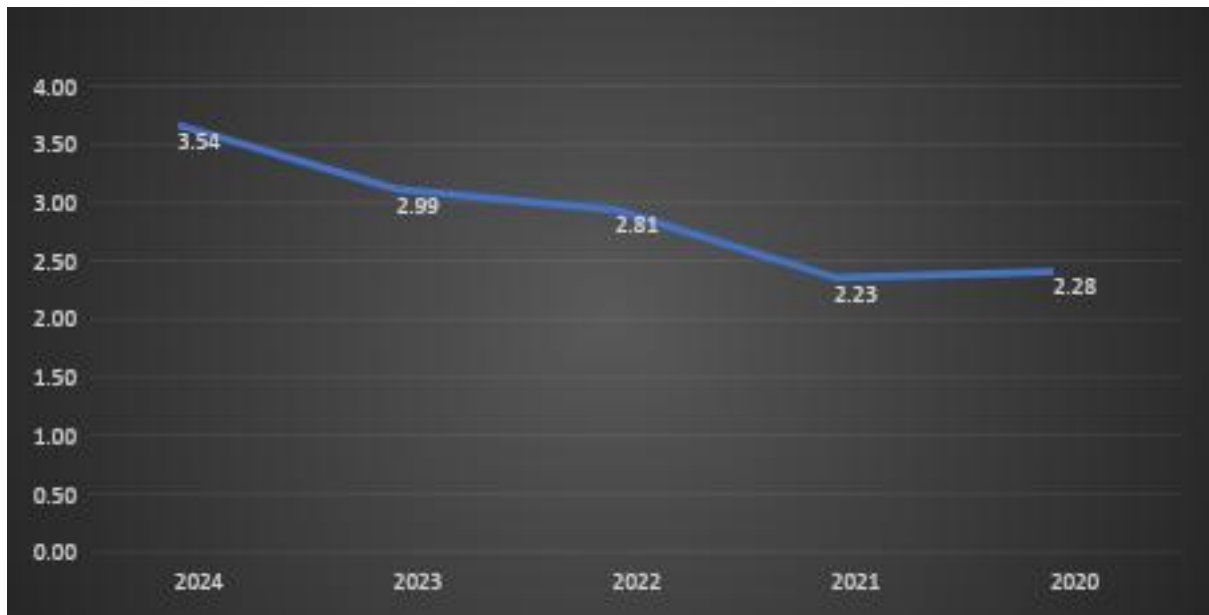
$Z < 1.81$ = Distress zone (high bankruptcy risk)

Table 6: Altman Z-Score Calculation (2020-2024)

Component	2024	2023	2022	2021	2020
X_1 (Working Capital $\div$ Total Assets)	0.26	0.27	0.24	0.24	0.29
X_2 (Retained Earnings $\div$ Total Assets)	0.64	0.65	0.66	0.65	0.64
X_3 (EBIT $\div$ Total Assets)	-0.06	-0.25	0.02	0.04	0.09
X_4 (Equity $\div$ Total Liabilities)	0.90	1.01	1.14	1.18	1.59
X_5 (Sales $\div$ Total Assets)	1.22	1.18	1.08	1.18	1.20
Z-Score	2.28	2.23	2.81	2.99	3.54
Risk Status	Grey	Grey	Grey	Safe	Safe

Source: Calculated from General Electronics Financial Statements

Graph 6: Line graph showing Z-Score trend with horizontal lines at 2.99 and 1.81 thresholds.



The Altman Z-Score steadily fell since three point five four in 2020 to two point two eight in 2024. This shift between the safe zone to the grey one means an increasing risk of financial distress. The downfall was fuelled by negative profits, a deteriorating equity base, and asset efficiency.

Still being in the grey zone implies that the firm is prone to economic shocks and additional losses. Failure to take corrective measures may lead to the score dropping into the distress zone, which is an indication of a high likelihood of the bankruptcy. This underscores the need to restructure and improve liquidity.

2.8 Conclusion: Trends, Strengths and Threats

Key Trends

General Electronics has been performing poorly in the past five years. The revenue fell to 35.7 percent or £614, 680 million to 394, 879 million. Profitability went down as well. The company experienced a shift in the net margin of 6.3 to a net loss of 6.1. The Z Score fell from 3.54 to 2.28. This development sets the company in the grey area and indicates the increased risk of financial loss.

Strengths

The business has not lost all its good aspects. Its gross profit margin is steady at approximately 28 to 29 percent that indicates that the company is still able to make profit on its core products. The current ratio remains greater than 1.0 and provides a fundamental amount of liquidity. In 2024, the company also generated positive operating cash flow totalling at £14,822 million. The total asset standing at 323,354 million gives some hope of recovery in the future.

Threats

The company has a number of grave threats. The grey zone Z score demonstrates greater likelihood of bankruptcy. Its interest coverage ratio is negative and this indicates that the company is unable to pay interest using its income. High short term debt and declining cash also add to the risk. The company can collapse within a short time unless it acts fast.

3. Working Capital Management Analysis

3.1 Cash Operating Cycle Assessment

Management of working capital is quite critical in sustaining a business particularly when it is experiencing financial difficulties (Richards and Laughlin 1980). The cash operating cycle can be used as one measure of the management of working capital. This cycle determines the period of time it takes the money invested on inventory and operations to be later paid back into the company as customer money. The formula is:

$$\text{Cash Conversion Cycle} = \text{DIO} + \text{DSO} - \text{DPO}$$

Table 7: Cash Operating Cycle Components (2020–2024)

Component	Formula	2024	2023	2022	2021	2020
Days Inventory Outstanding (DIO)	$365 \div \text{Inventory Turnover}$	109	129	129	108	94

Component	Formula	2024	2023	2022	2021	2020
Days Sales Outstanding (DSO)	$365 \div \text{Receivables Turnover}$	105	98	81	78	73
Days Payables Outstanding (DPO)	$365 \div \text{Payables Turnover}$	94	65	67	79	69
Cash Conversion Cycle (days)	$\text{DIO} + \text{DSO} - \text{DPO}$	120	162	143	107	98

Source: Calculated from General Electronics Financial Statements

$\text{Payables Turnover} = \text{Cost of Sales} \div \text{Average Accounts Payable}$

In 2020, the conversion cycle of cash was 98 days but in 2024, it was 120 days. The highest level was 162 days in 2023. This indicates that the company currently takes 120 days to recoup the cash that it spends on suppliers. The longer the cycle, the longer the time the cash remains in the business. This exerts strain on liquidity. DIO increased from 94 to 109 days. This implies that the flow of inventory is slow and the products stay longer in stock. This leads to the stagnation of cash. DSO rose from 73 to 105 days. Paying time now takes customers 32 days longer. This slows the inflow of cash. DPO increased from 69 to 94 days. The company is paying its suppliers slower. This can help in the short run but can undermine supplier relations and can be an indicator of financial ineffectiveness (Aktas et al. 2015). The previous decline in cash reserves (53 percent) can also be attributed to the longer cycle. According to Aktas et al. (2015), long-cash companies are more at risk of bankruptcy when subjected to financial stress.

3.2 Working Capital Position and Trends

Net working capital = current assets – current liabilities. It shows how much the company has left to pay short-term bills.

Table 8: Net Working Capital Analysis (2020–2024) (£ millions)

Component	2024	2023	2022	2021	2020
Current Assets	242,494	258,851	338,040	337,146	326,843

Component	2024	2023	2022	2021	2020
Current Liabilities	158,291	161,148	216,473	216,787	179,510
Net Working Capital	84,203	97,703	121,567	120,359	147,333
Working Capital Ratio	Net WC ÷ Total Assets	26.0%	27.5%	24.1%	23.6%

Source: Calculated from General Electronics Financial Statements

The net working capital decreased to £84,203 million in 2024, compared to 2020 (147,333 million). This is a 43 percent drop. It indicates that the company has been reduced to a smaller safety cushion. This fall was occasioned by the fact that current assets decreased by 26 percent, whilst current liabilities decreased by only 12 percent. The working capital ratio also decreased by 28.9 percent to 26.0 percent. This implies that working capital is now less than total assets. Inventory decreased by 120,430 million to 79,355 million and cash decreased by 57,153 million to 26,783 million. Accounts receivable remained nearly unchanged indicating sluggishly paid customers.

3.3 Liquidity Improvement Strategies

General Electronics should move expeditiously to enhance liquidity. According to Richards and Laughlin (1980), high working capital control in financial distress is recommended.

Inventory Management

DIO ought to be lowered to approximately 80 days. This may be achieved through just in time systems eliminating stock and optimizing the forecasting of demand. The sale of additional stock would unlock approximately £25,000 million in cash.

Receivables Collection

The DSO is supposed to decrease to approximately 75 days. This can be assisted by early payment discounting, tighter credit rules factoring and automated systems. According to Peel and Wilson (1996), even a reduction by 30 days in DSO can boost cash flow by 8 to 10 percent. This may add £30,000 million in cash.

Payables Optimization

The company ought to agree to reasonable payment terms between 60 and 90 days rather than taking too long. This makes suppliers cooperative and risk averse.

Cash Management

Daily cash tracking cash pooling more favorable banking conditions and no based budgeting can save money and raise returns (Bragg, 2024).

3.4 Short-term vs Long-term Financing Options

The company uses a lot of short-term credit, which increased to £36,960 million. But high short-term debt is risky if refinancing becomes difficult (Ebben and Johnson, 2011).

Table 9: Financing Options Comparison

Factor	Short-term Financing	Long-term Financing
Current Usage	£36,960m lines of credit	Very little long-term debt
Interest Cost	Variable, rising	Fixed, higher at first
Maturity Risk	High	Low
Flexibility	High	Low
Suitability	Risky now	More stable

Source: Calculated from General Electronics Financial Statements

Short term loans are not restrictive but dangerous as banks can withdraw credit at will. Long term loans are stable and insure against the increase in interest rates but can be more expensive and have requirements. The company ought to gradually convert 50 to 60 percent short term debt into long term loan after improvement of performance. To continue with current credit lines open is of greatest importance at the moment as working capital improvements are undertaken (Bragg, 2024).

4. Strategic Financial Restructuring Plan

4.1 Current Financial Position and Strategic Challenges

General Electronics is in dire financial health with negative profitability and weakening liquidity. The Z Score of 2.28 shows moderate to high risk of bankruptcy. In this case, Gilson (1991) argues that the company requires a complete restructuring of both operational and financial issues. The key weaknesses consist of operating cost of excessive of £129,291 million in 2024 dropping market position high debt dependence and low cash generation. The company is likely to run bankrupt within two years unless it is restructured immediately.

4.2 Financial Restructuring Alternatives

4.2.1 Divestiture Strategy

Divestiture refers to the sale of business components that are not critical (Kaplan and Weisbach, 1992). General Electronics ought to find out where it is losing money or not fitting its core business.

Recommended Actions:

- Dispose of non-core units of business to generate approximately £50,00070,000 million.
- Abdicate unprofitable overseas markets.
- Sell additional property, plant and equipment (value of 34,207 million)
- Only concentrate on good consumer electronics products.

Expected Impact:

The sale of assets would introduce cash, reduce debt, and enable the company to concentrate on areas that are profitable. The debt-to-equity might drop to approximately 0.75. This money may be used to pay off costly short-term debt and enhance working capital. Kaplan and Weisbach (1992) discovered that the survival rates of the companies that sell non-core assets in distresses are 40 times greater.

4.2.2 Merger and Acquisition Opportunities

General Electronics would not have to go bankrupt; it may join forces with a more powerful organization or get acquired by a private equity firm (Hotchkiss et al., 2008)..

Strategic Rationale:

- Availability of new distribution channels and technology.
- Cut expenses by mutualizing operations (1520% cutback)
- Better purchasing power
- Greater market presence.

Removal of duplicate jobs, sharing of factories and combination of purchasing can result into cost savings of £20,000 to 30,000 million.

The company has assets of £323,354 million and liabilities of £170,249 million resulting in a book equity of £153,105 million. However, due to financial strain, the market value can decrease to £100,000 -120,000 million.

4.2.3 Equity Injection and Rights Issue

A rights issue is a feature in which existing stockholders can purchase new shares at a reduced rate in order to attract new cash (Gallagher, 2020). The company would increase at least by 40,000-60,000 million pounds.

Terms and Structure: New shares sold at a 40–50% discount; Target £50,000 million of new equity; and Money was used to lower debt and cover restructuring expenses.

In case of issue of new shares, existing shareholders would lose 30- 40 percent of their share value. But in case the company fails to raise this capital, the shareholders will lose all of their money by bankruptcy. It was found that troubled companies that increase equity are 60% more likely to survive (Gallagher, 2022).

4.3 Impact on Shareholder Value

All the restructuring options have different impacts on shareholder value. Possible benefits are indicated in ROE and equity preservation (Gilson, 1991).

Table 10: Shareholder Value Impact Analysis

Scenario	Current	Post-Divestiture	Post-Merger	Post-Equity Injection
Shareholders' Equity (£m)	153,105	180,000	200,000	200,000
Expected Net Income (£m)	-24,000	8,000	15,000	10,000
ROE	-15.7%	4.4%	7.5%	5.0%
Debt-to-Equity	1.11	0.75	0.60	0.65

Source: Calculated from General Electronics Financial Statements

Interpretation:

- Divestiture brings positive ROE (4.4%).
- Merger creates the best ROE (7.5%) because of synergies.
- Equity injection increases stability but causes dilution.

Short-term vs Long-term:

Short term, shareholders may experience dilution and reduced control. Long term, if restructuring succeeds, ROE could rise to 10–12% within three years, which would increase shareholder value.

Dividend Policy:

The company should stop paying dividends until it becomes profitable and reduces debt (Brealey et al., 2020).

4.4 Debt Structure Optimization

The company has too much short-term debt, especially **£36,960 million** in credit lines (Damodaran, 2024).

Debt Refinancing Strategy:

- Convert 60% of short-term debt to 5-year loans
- Extend payment deadlines through negotiations
- Replace expensive short-term interest rates with long-term fixed rates
- Aim for a debt-to-equity ratio of 0.70 or lower

New debt agreements should use flexible rules based on EBITDA because the company is facing losses. Covenant-lite terms will help the business recover. Clear communication with lenders will support trust. Current interest costs are £3,361 million. Refinancing and asset sales could reduce this to £2,000–2,500 million and save £1,000 million each year.

4.5 Operational Flexibility Enhancement

Financial restructuring must support better operations (Hotchkiss et al., 2008).

Cost Structure Optimization:

- Reduce operating expenses from £129,291 million to £100,000 million
- Renegotiate cheaper supplier contracts
- Close inefficient factories
- Shift to more variable costs to improve flexibility

Breakeven Analysis:

Right now, the company needs £400,000 million in revenue to break even. If fixed costs fall by 25%, breakeven revenue drops to £320,000 million, making profitability more realistic.

4.6 International Considerations

General Electronics operates in numerous countries hence it has to cope with a number of global financial problems.

Tax Strategy

The company ought to strategize on restructuring to cut its total tax rate. It can achieve this by transferring its most profitable operations to other low taxation countries. It must also utilize its huge tax loss carryforwards generated in recent losses (approximately, 100,000 million pounds).

Currency Risk Management

The company in 2024 has reported a foreign exchange loss of 2,598 million. To minimize this form of risk it ought to employ currency hedging instruments like forward contracts. It is also capable of matching revenues and costs in the same currency in order to form natural hedge.

Inflation Management

All markets have varying levels of inflation. This impacts on cost, price and profit. The pricing in every country should be modified by the firm to ensure that it maintains level with the domestic inflation but remains competitive. It must also develop a supply chain that will be functioning across multiple nations to ensure that inflation in a single destination will not hurt the entire business.

4.7 CSR and Ethical

The restructuring should strike a balance between financial requirements and ethical obligations (Parmar et al., 2010). The company needs to enhance its financial status. It should also behave in a responsible and fair manner. All the decisions must take into account both objectives.

Stakeholder Impact

Restructuring could impact on employees, suppliers, customers and local communities. The company ought to pay reasonable severance. It is also supposed to provide retraining and a gradual transition period to alleviate stress.

Employee Welfare

The company needs to provide voluntary retirement schemes. It must also provide career guidance and skills development. These measures enable the employees to remain motivated and assured.

Supplier Relationships

The company ought to have effective communication with suppliers. It must be in compliance with all the agreements. This will avoid supply chain issues.

Social and Environmental Responsibility

The company should not decrease safety regulations on products and environmental standards. Good CSR practices generate trust. Long-term recovery is also promoted with these practices.

Sustainable Approach

An open and transparent restructuring plan trusts. It helps in financial recovery over time and equity between all stakeholders.

5. Investment Appraisal and Capital Budgeting

5.1 Investment Decision Context

Although General Electronics is experiencing financial problems, it has to invest in order to remain competitive. Capital investment decisions are relevant since the company does not have many resources. Making an erroneous decision may cause additional issues (Pike et al., 2018). The new investment in the company is limited to just, 60 million. It implies that the company should select the most appropriate projects which can generate the greatest value (Correia et al., 2019).

5.2 Project Overview

Table 11: Project Cash Flows (£ millions)

Year	Project A	Project B	Project C
Initial Investment (Year 0)	-40	-30	-50
Year 1	10	6	5
Year 2	12	6	10
Year 3	14	6	20
Year 4	10	6	25
Year 5	8	6	15
Total Cash Inflows	54	30	75

Source: General Electronics Investment Documents

Key Assumptions:

1. Discount rate is 10% (the company's cost of money)
2. Depreciation uses straight-line method over 5 years
3. All cash comes at year-end
4. No salvage value after 5 years

Project Descriptions:

1. **Project A:** Medium investment (£40m) with cash flows going down over time
2. **Project B:** Small investment (£30m) with same cash flow every year (£6m)
3. **Project C:** Large investment (£50m) with cash flows increasing over time

5.3 Investment Evaluation Methods

5.3.1 Payback Period (PBP)

Payback period shows how quickly the company gets its money back (Pike et al., 2018).

Formula: Payback Period = Years until cumulative cash flow becomes positive

Table 12: Payback Period Calculation (£ millions)

Year	Project A Cumulative	Project B Cumulative	Project C Cumulative
0	-40	-30	-50
1	-30	-24	-45
2	-18	-18	-35
3	-4	-12	-15
4	+6	-6	+10
5	+14	0	+25

Source: Calculated from General Electronics Financial Statements

Payback Periods:

- **Project A: 3.4 years** (3 years + 4/10)
- **Project B: 5.0 years** (exactly 5 years)
- **Project C: 3.6 years** (3 years + 15/25)

Ranking: Project A (3.4 years) is fastest, then Project C (3.6 years), then Project B (5.0 years).

Analysis: Project A recovers money fastest, which helps with General Electronics' cash problems. Project B takes the full 5 years, making it risky. However, payback ignores profits after payback and does not consider that money today is worth more than money tomorrow (Pike et al., 2018).

5.3.2 Accounting Rate of Return (ARR)

ARR measures average profit as a percentage of investment (Correia et al., 2019).

Formula: $ARR = (\text{Average Annual Profit} \div \text{Initial Investment}) \times 100$ **Profit = Cash Flow - Depreciation**

Table 13: ARR Calculation (£ millions)

Project	Investment	Depreciation/Year	Total Cash	Average Cash/Year	Average Profit/Year	ARR
A	40	8	54	10.8	2.8	7.0%
B	30	6	30	6.0	0.0	0.0%
C	50	10	75	15.0	5.0	10.0%

Source: Calculated from General Electronics Financial Statements

Depreciation = Investment ÷ 5 years Average Profit = Average Cash – Depreciation

Ranking: Project C (10.0%) is best, then Project A (7.0%), then Project B (0.0%).

Analysis: Project C gives 10% return, equal to the company's cost of money. Project A gives 7% return. Project B only breaks even at 0%. ARR is easy to understand but ignores when cash comes in (Correia et al., 2019).

5.3.3 Net Present Value (NPV)

NPV calculates today's value of future cash minus the investment (Brealey et al., 2020). This is the most important method.

Formula: $NPV = \text{Sum of } (\text{Cash Flow} \div (1.10)^{\text{year}}) - \text{Investment}$

Table 14: NPV Calculation at 10% (£ millions)

Year	Discount Factor	Project A	A Present Value	Project B	B Present Value	Project C	C Present Value
0	1.000	-40	-40.00	-30	-30.00	-50	-50.00
1	0.909	10	9.09	6	5.45	5	4.55
2	0.826	12	9.92	6	4.96	10	8.26
3	0.751	14	10.51	6	4.51	20	15.02

Year	Discount Factor	Project A	A Present Value	Project B	B Present Value	Project C	C Present Value
4	0.683	10	6.83	6	4.10	25	17.08
5	0.621	8	4.97	6	3.73	15	9.32
NPV			£1.32m		-£7.25m		£4.23m

Source: Calculated from General Electronics Financial Statements

Ranking: Project C (£4.23m) is best, then Project A (£1.32m), then Project B (-£7.25m).

Analysis: Project C creates £4.23 million in value for shareholders. Project A adds £1.32 million. Project B loses £7.25 million and should be rejected. NPV is the best method because it considers all cash flows, timing, and shows wealth creation directly (Brealey et al., 2020). Positive NPV means the project earns more than the required 10% return.

5.3.4 Profitability Index (PI)

PI shows value created per pound invested (McLaney, 2014). This is useful when money is limited.

Formula: $PI = \text{Present Value of Cash Inflows} \div \text{Investment}$

Table 15: Profitability Index (£ millions)

Project	Investment	PV of Inflows	PI
A	40	41.32	1.033
B	30	22.75	0.758
C	50	54.23	1.085

Source: Calculated from General Electronics Financial Statements

PV of Inflows = Investment + NPV

Ranking: Project C (1.085) is best, then Project A (1.033), then Project B (0.758).

Analysis: Project C generates £1.085 for every £1.00 spent. Project A generates £1.033. Project B returns only £0.758, destroying value. PI above 1.0 means the project is good. PI helps choose projects when money is limited (McLaney, 2014).

5.3.5 Internal Rate of Return (IRR)

IRR is the percentage return the project actually earns (Pike et al., 2018).

Formula: IRR is the rate where $NPV = 0$

Table 16: IRR Results

Project	IRR	Required Return	Decision	Difference
A	11.8%	10%	Accept	+1.8%
B	5.5%	10%	Reject	-4.5%
C	12.7%	10%	Accept	+2.7%

Source: Calculated from General Electronics Financial Statements

Ranking: Project C (12.7%) is best, then Project A (11.8%), then Project B (5.5%).

Analysis: Project C earns 12.7%, beating the 10% requirement by 2.7 points. Project A earns 11.8%, beating it by 1.8 points. Project B earns only 5.5%, failing to meet the requirement. Projects should only be accepted if IRR exceeds the required return (Pike et al., 2018).

5.4 Summary and Comparison

Table 17: All Results Summary

Method	Project A	Project B	Project C	Winner
Payback Period	3.4 years	5.0 years	3.6 years	A
ARR	7.0%	0.0%	10.0%	C
NPV	£1.32m	-£7.25m	£4.23m	C
PI	1.033	0.758	1.085	C
IRR	11.8%	5.5%	12.7%	C

Source: Calculated from General Electronics Financial Statements

Analysis: Project C wins on four out of five methods. Only payback period favors Project A. NPV is the most reliable method because it measures actual value created (Brealey et al., 2020).

Risk Assessment:

Project A: Moderate risk. Cash flows decrease from £14m to £8m, suggesting problems later.

Project B: High risk. Low returns mean any problem causes losses. Negative NPV shows it does not meet minimum requirements.

Project C: Higher risk but better rewards. Cash flows increase from £5m to £25m then drop to £15m. Most cash comes in years 3-4. Higher uncertainty but best returns.

Link to Company Situation:

Given General Electronics' problems:

- Project A (fast payback) is more favorable to liquidity problems.
- Project C (maximum NPV and returns) is highly preferred by profitability needs.
- Minor funding (£60m) prefers effective utilization - Project C has optimal PI.
- Project C is warranted by need of turnaround, in spite of increased risk.

5.5 Final Investment Decision

Capital Constraint Analysis:

The company has maximum £60 million to invest. Let us examine possible combinations:

Table 18: Investment Options under £60m Limit

Option	Projects	Total Cost	Total NPV	Possible?
1	A only	£40m	£1.32m	Yes
2	B only	£30m	-£7.25m	Yes but bad
3	C only	£50m	£4.23m	Yes
4	A + B	£70m	-£5.93m	No (over budget)
5	A + C	£90m	£5.55m	No (over budget)
6	B + C	£80m	-£3.02m	No (over budget)

Source: Calculated from General Electronics Financial Statements

Recommendation: Invest in Project C Only (£50 million)

Reasons for This Choice:

Maximizes Value: Project C has a NPV of £4.23 million which is far greater than the project A of 1.32 million. This makes the most out of scarce money.

Best Returns: The 12.7% IRR and 1.085 PI of Project C are the best returns as they exceed the 10% requirement by the greatest margin.

Helps Profitability: The ROE of General Electronics stands at -15.7. The 10% ARR of project C saves profits.

Efficient Money use: Project C generates 1.085/1.00 - the most effective utilization of the limited capital.

Strategic Fit: Long-term cash generation required to recover (cash flows 5 years total-£75 million).

Budget Smart: Project C uses up all the money allocated, spending of 50 million leaves remaining 10 million but nothing can be added to the budget that will generate a greater value.

Risk Worth Taking: Project C is characterized by ambiguous cash flows, but the 2.7% premium is worth the risk. The firm requires effective value creation.

What to Do with Remaining £10 Million:

The £10 million should go to working capital improvements from Section 3:

- Reduce inventory to free up £25 million
- Improve collections to free up £30 million
- These actions create more immediate cash than Project A

Rejected Projects:

- **Project B:** Definitely reject. Negative NPV (-£7.25m) and IRR (5.5%) below requirements destroy value.
- **Project A:** Though positive NPV, it creates much less value than Project C. Cannot fund both within budget.

Implementation Plan:

Start Project C immediately. Use careful project management to control risks. Monitor cash flows quarterly. The project should mature by Year 4 when cash flow reaches £25 million peak.

6.0 Conclusion

Conclusively, General Electronics is on its knees. The company has lost 35.7 percent of its revenue and is incurring losses. The Z-Score indicates a major risk of bankruptcy in two years. The cash has gone down by 53 percent, operating costs are too high and the company is not able to pay its interest. The cash turnover is 120 days and this is holding too much cash within the business.

The turnaround plan entails three major actions. First, the firm needs to reorganize through the sale of non-core assets to raise 50 to 70 million pounds. It can also think of a strategic merger and introduce new equity to consolidate its position. Second, the company needs to enhance the working capital by reducing the inventory and collection days, which will liberate approximately 55 million pounds of cash. Third, the company ought to invest in Project C with the good NPV and good return.

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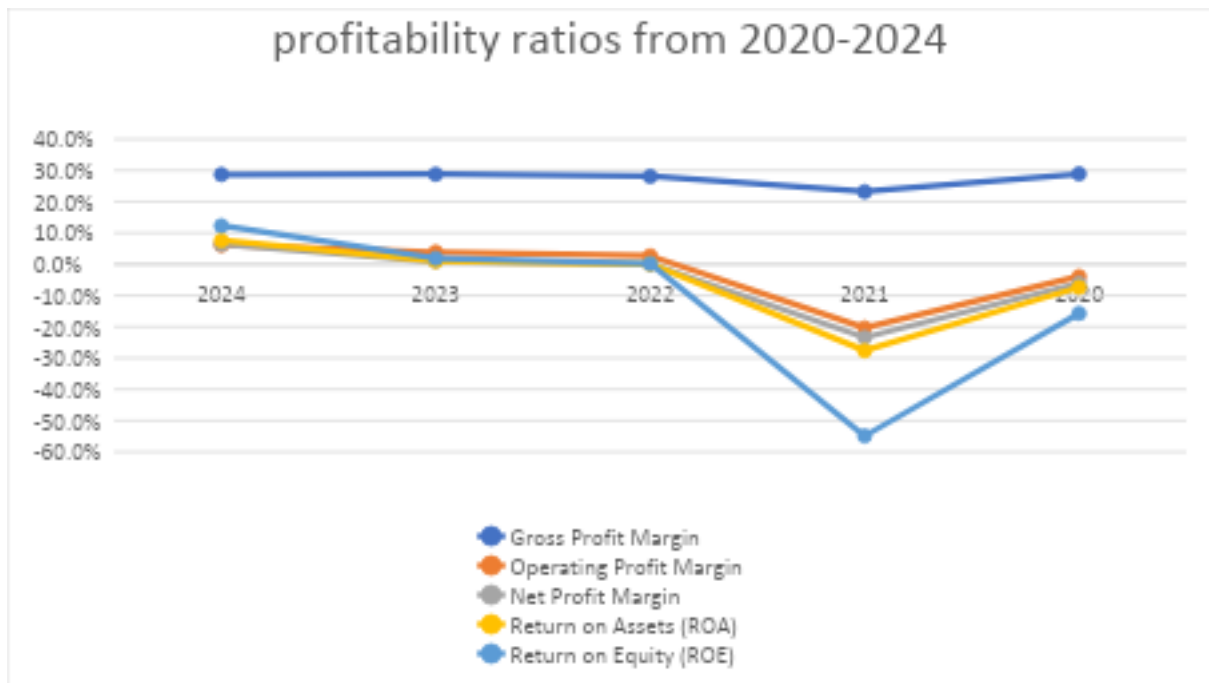
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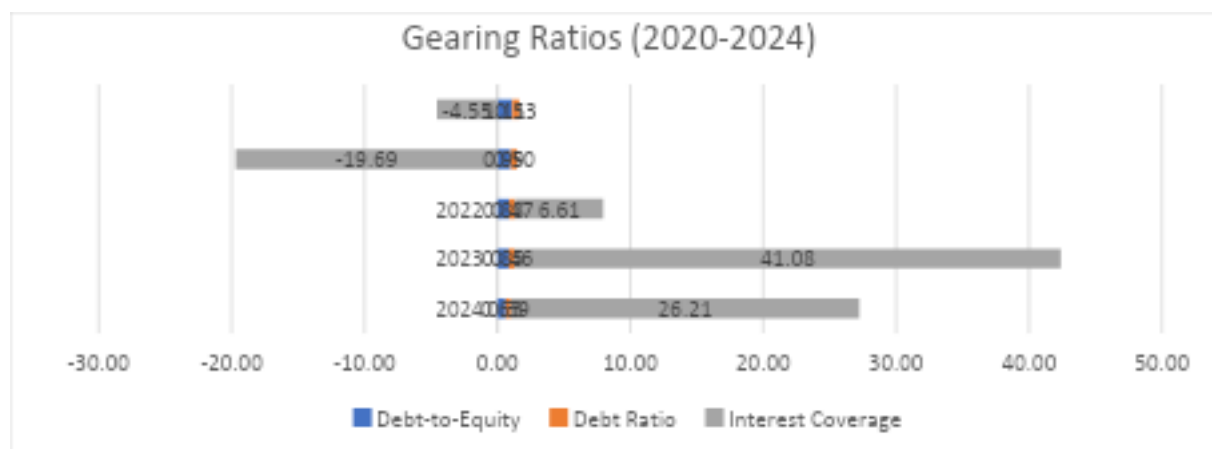
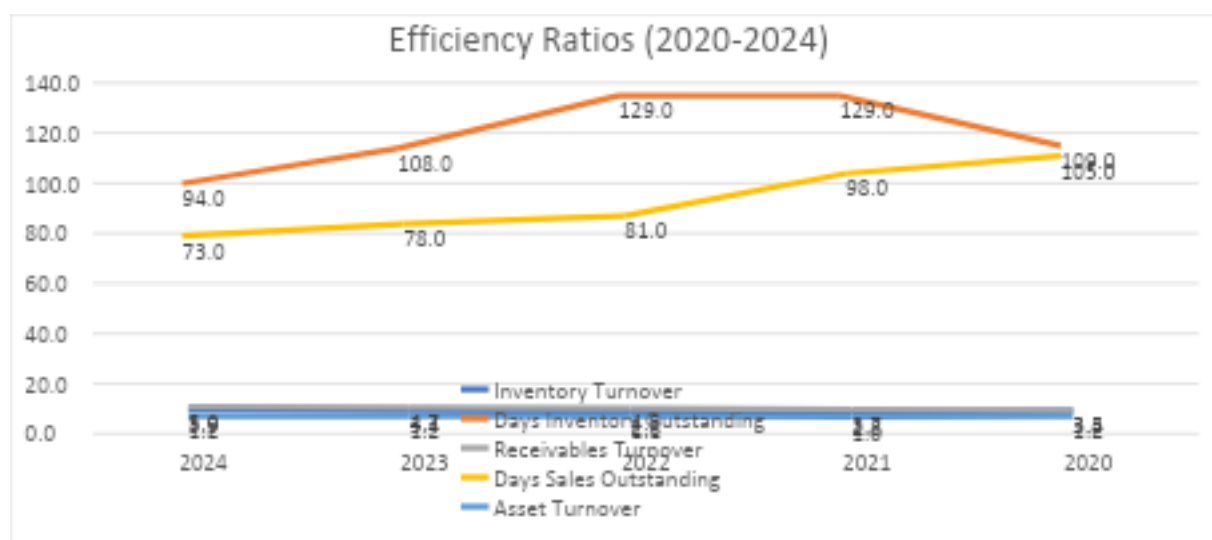
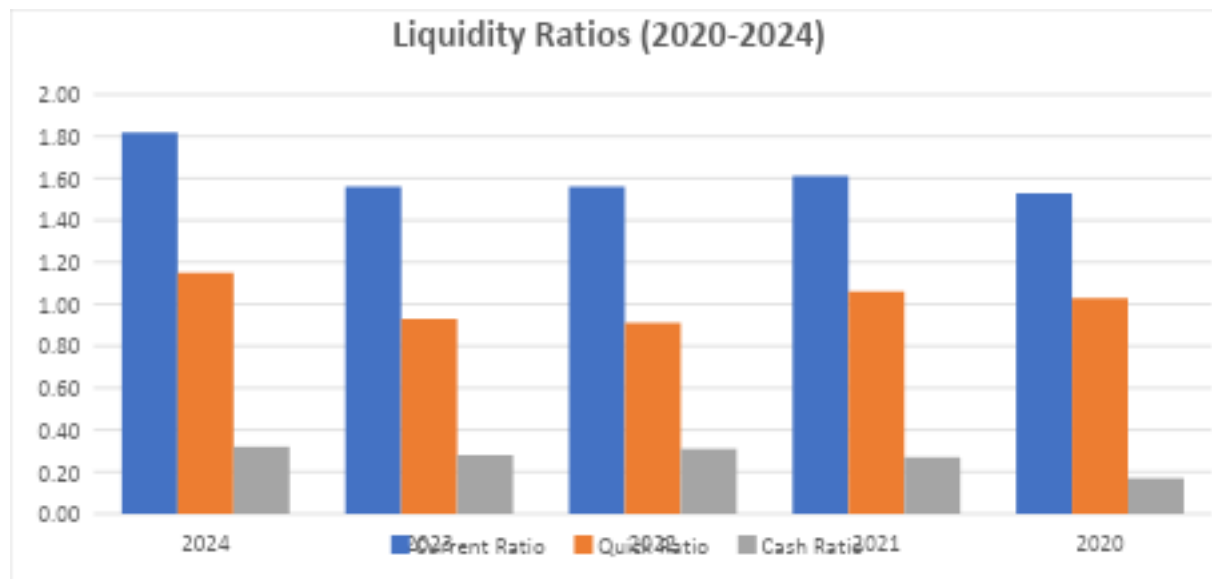
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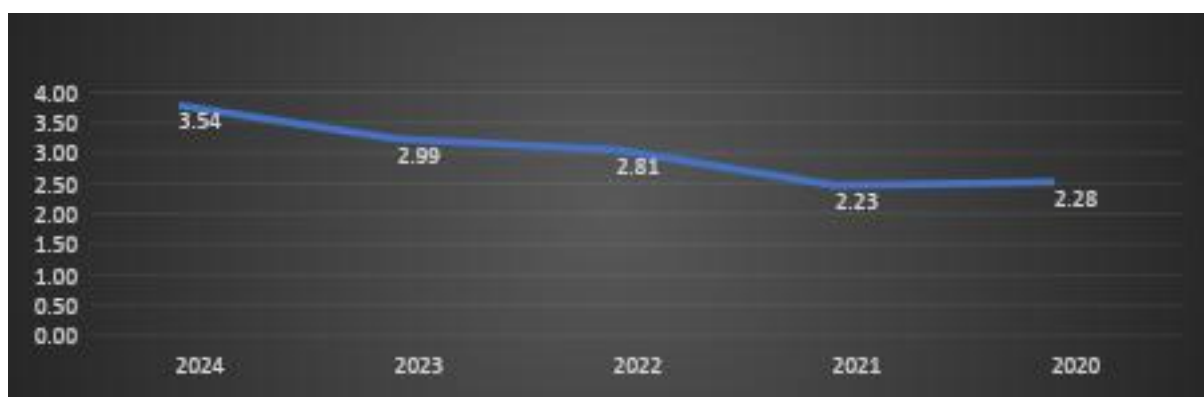
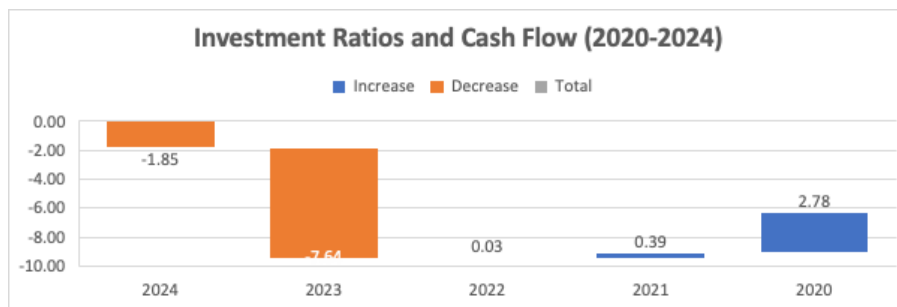
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8. Appendices

8.1. Graphs







8.2. Tables:

Table 1: Profitability Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Gross Profit Margin	$(\text{Gross Profit} \div \text{Net Sales}) \times 100$	28.9%	23.2%	28.1%	28.8%	28.7%
Operating Profit Margin	$(\text{Operating Income} \div \text{Net Sales}) \times 100$	-3.9%	-20.3%	2.7%	3.9%	6.1%
Net Profit Margin	$(\text{Net Income} \div \text{Net Sales}) \times 100$	-6.1%	-23.4%	0.1%	0.9%	6.3%
Return on Assets (ROA)	$(\text{Net Income} \div \text{Total Assets}) \times 100$	-7.4%	-27.6%	0.1%	1.0%	7.6%

Ratio	Formula	2024	2023	2022	2021	2020
Return on Equity (ROE)	$(\text{Net Income} \div \text{Shareholders' Equity}) \times 100$	-15.7%	-54.9%	0.2%	1.9%	12.3%

Table 2: Liquidity Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Current Ratio	$\text{Current Assets} \div \text{Current Liabilities}$	1.53	1.61	1.56	1.56	1.82
Quick Ratio	$(\text{Current Assets} - \text{Inventories}) \div \text{Current Liabilities}$	1.03	1.06	0.91	0.93	1.15
Cash Ratio	$\text{Cash} \div \text{Current Liabilities}$	0.17	0.27	0.31	0.28	0.32

Table 3: Efficiency Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Inventory Turnover	$\text{Cost of Sales} \div \text{Average Inventory}$	3.35	2.83	2.84	3.37	3.90
Days Inventory Outstanding	$365 \div \text{Inventory Turnover}$	109	129	129	108	94
Receivables Turnover	$\text{Net Sales} \div \text{Average Receivables}$	3.48	3.73	4.49	4.65	4.97
Days Sales Outstanding	$365 \div \text{Receivables Turnover}$	105	98	81	78	73
Asset Turnover	$\text{Net Sales} \div \text{Average Assets}$	1.17	0.98	1.07	1.18	1.21

Table 4: Gearing Ratios (2020-2024)

Ratio	Formula	2024	2023	2022	2021	2020
Debt-to-Equity	Total Liabilities ÷ Shareholders' Equity	1.11	0.99	0.88	0.85	0.63
Debt Ratio	Total Liabilities ÷ Total Assets	0.53	0.50	0.47	0.46	0.39
Interest Coverage	Operating Income ÷ Interest Expense	-4.55	-19.69	6.61	41.08	26.21

Table 5: Investment Ratios and Cash Flow (2020-2024)

Metric	2024	2023	2022	2021	2020
Earnings Per Share (£)	-1.85	-7.64	0.03	0.39	2.78
Operating Cash Flow (£m)	14,822	25,190	10,926	40,283	73,392
Free Cash Flow (£m)	2,394	5,413	-10,585	10,656	30,396

Table 6: Altman Z-Score Calculation (2020-2024)

Component	2024	2023	2022	2021	2020
X_1 (Working Capital ÷ Total Assets)	0.26	0.27	0.24	0.24	0.29
X_2 (Retained Earnings ÷ Total Assets)	0.64	0.65	0.66	0.65	0.64
X_3 (EBIT ÷ Total Assets)	-0.06	-0.25	0.02	0.04	0.09
X_4 (Equity ÷ Total Liabilities)	0.90	1.01	1.14	1.18	1.59
X_5 (Sales ÷ Total Assets)	1.22	1.18	1.08	1.18	1.20
Z-Score	2.28	2.23	2.81	2.99	3.54
Risk Status	Grey	Grey	Grey	Safe	Safe

Table 7: Cash Operating Cycle Components (2020–2024)

Component	Formula	2024	2023	2022	2021	2020
Days Inventory Outstanding (DIO)	$365 \div \text{Inventory Turnover}$	109	129	129	108	94
Days Sales Outstanding (DSO)	$365 \div \text{Receivables Turnover}$	105	98	81	78	73
Days Payables Outstanding (DPO)	$365 \div \text{Payables Turnover}$	94	65	67	79	69
Cash Conversion Cycle (days)	$\text{DIO} + \text{DSO} - \text{DPO}$	120	162	143	107	98

Table 8: Net Working Capital Analysis (2020–2024) (£ millions)

Component	2024	2023	2022	2021	2020
Current Assets	242,494	258,851	338,040	337,146	326,843
Current Liabilities	158,291	161,148	216,473	216,787	179,510
Net Working Capital	84,203	97,703	121,567	120,359	147,333
Working Capital Ratio	$\text{Net WC} \div \text{Total Assets}$	26.0%	27.5%	24.1%	23.6%

Table 9: Financing Options Comparison

Factor	Short-term Financing	Long-term Financing
Current Usage	£36,960m lines of credit	Very little long-term debt
Interest Cost	Variable, rising	Fixed, higher at first
Maturity Risk	High	Low
Flexibility	High	Low

Factor	Short-term Financing	Long-term Financing
Suitability	Risky now	More stable

Table 10: Shareholder Value Impact Analysis

Scenario	Current	Post-Divestiture	Post-Merger	Post-Equity Injection
Shareholders' Equity (£m)	153,105	180,000	200,000	200,000
Expected Net Income (£m)	-24,000	8,000	15,000	10,000
ROE	-15.7%	4.4%	7.5%	5.0%
Debt-to-Equity	1.11	0.75	0.60	0.65

Table 11: Project Cash Flows (£ millions)

Year	Project A	Project B	Project C
Initial Investment (Year 0)	-40	-30	-50
Year 1	10	6	5
Year 2	12	6	10
Year 3	14	6	20
Year 4	10	6	25
Year 5	8	6	15
Total Cash Inflows	54	30	75

Table 12: Payback Period Calculation (£ millions)

Year	Project A Cumulative	Project B Cumulative	Project C Cumulative
0	-40	-30	-50
1	-30	-24	-45
2	-18	-18	-35
3	-4	-12	-15
4	+6	-6	+10
5	+14	0	+25

Table 13: ARR Calculation (£ millions)

Project	Investment	Depreciation/Year	Total Cash	Average Cash/Year	Average Profit/Year	ARR
A	40	8	54	10.8	2.8	7.0%
B	30	6	30	6.0	0.0	0.0%
C	50	10	75	15.0	5.0	10.0%

Table 14: NPV Calculation at 10% (£ millions)

Year	Discount Factor	Project A	A PV	Project B	B PV	Project C	C PV
0	1.000	-40	-40.00	-30	-30.00	-50	-50.00
1	0.909	10	9.09	6	5.45	5	4.55
2	0.826	12	9.92	6	4.96	10	8.26

Year	Discount Factor	Project A	A PV	Project B	B PV	Project C	C PV
3	0.751	14	10.51	6	4.51	20	15.02
4	0.683	10	6.83	6	4.10	25	17.08
5	0.621	8	4.97	6	3.73	15	9.32
NPV			£1.32m		-£7.25m		£4.23m

Table 15: Profitability Index (£ millions)

Project	Investment	PV of Inflows	PI
A	40	41.32	1.033
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C	50	54.23	1.085

Table 16: IRR Results

Project	IRR	Required Return	Decision	Difference
A	11.8%	10%	Accept	+1.8%
B	5.5%	10%	Reject	-4.5%
C	12.7%	10%	Accept	+2.7%

Table 17: All Results Summary

Method	Project A	Project B	Project C	Winner
Payback Period	3.4 years	5.0 years	3.6 years	A

Method	Project A	Project B	Project C	Winner
ARR	7.0%	0.0%	10.0%	C
NPV	£1.32m	-£7.25m	£4.23m	C
PI	1.033	0.758	1.085	C
IRR	11.8%	5.5%	12.7%	C

Table 18: Investment Options under £60m Limit

Option	Projects	Total Cost	Total NPV	Possible?
1	A only	£40m	£1.32m	Yes
2	B only	£30m	-£7.25m	Yes but bad
3	C only	£50m	£4.23m	Yes
4	A + B	£70m	-£5.93m	No (over budget)
5	A + C	£90m	£5.55m	No (over budget)
6	B + C	£80m	-£3.02m	No (over budget)