



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Student Name: MD Ranu Miah

Student ID: 2437168

**Module Name: Financial performance and
management**

Module Code: LCMB7002

Lecturer's Name: Dr Shengfeng Mei

Word Count: 4921

Term 1

Contents

Introduction	3
1. Financial Health Check (2020–2024).....	4
1.1 Analyse the firm’s financial statements.....	4
1.2 Perform a full ratio analysis	8
1.3 Identify trends, strengths and threats	12
1.4 Corporate failure prediction models: Altman Z-score	14
2. Working Capital Management Analysis (2020–2024)	15
2.1 Assessment of the cash operating cycle	16
2.2 Strategies to improve liquidity through working capital reforms	17
2.3 Short-term versus long-term financing options.....	19
3. Strategic Financial Restructuring Plan (2020–2024).....	19
3.1 Financial restructuring options	20
3.2 Impact on shareholder value, debt structure and operational flexibility	21
3.3 International and ethical considerations.....	23
4. Investment Appraisal and Capital Budgeting	24
4.1 Decision framework and formulas.....	24
4.2 Discount factors at 10%	25
4.3 Financial context to set risk appetite (evidence from statements)	26
4.4 Project cash flow profiles	26
4.5 Detailed calculations by project	27
4.6 Summary results and interpretation	30
4.7 Sensitivity analysis (discount-rate stress test)	31
4.8 Capital rationing and final recommendation	32
Conclusion.....	33
References	35
Appendices	37
Appendix A: Financial Ratios and Altman Z-Score	42
Table A1: Profitability Ratios (2020–2024)	42

Table A2: Liquidity Ratios (2020–2024)	43
Table A3: Efficiency Ratios (2020–2024)	44
Table A4: Gearing Ratios (2020–2024)	45
Table A5: Investment Ratios (2020–2024)	46
Table A6: Cash Flow Ratios (2020–2024)	47
Table A7: Altman Z-Score (2020–2024)	48
Appendix B: Financial Evidence Supporting the Strategic Financial Restructuring Plan	49
Appendix B1: Profitability Deterioration and Shareholder Value Erosion	49
Appendix B2: Operating Cash Flow Sustainability	49
Appendix B3: Asset Base Contraction and Divestment Rationale	50
Appendix B4: Capital Structure and Solvency Pressure	50
Appendix B5: Short-Term Debt Exposure and Liquidity Risk	51
Appendix B6: Treasury Stock and Capital Preservation Issue	51
Appendix B7: Foreign Exchange Exposure Evidence	52
Appendix C: Investment Appraisal and Capital Budgeting Calculations	53
Appendix C1: Discount Factors at 10%	53
Appendix C2: Project A – Net Present Value Calculation	53
Appendix C3: Project B – Net Present Value Calculation	54
Appendix C4: Project C – Net Present Value Calculation	54
Appendix C5: Payback Period (PBP)	55
Appendix C6: Accounting Rate of Return (ARR)	55
Appendix C7: Internal Rate of Return (IRR)	55

Introduction

Financial management decisions are super important for figuring out if a company can keep making value, especially if it's shaky out there, money is tight, and the markets are jumpy. In today's business world, getting into financial trouble usually isn't because of one shock, it comes from a mix of falling profits, low liquidity, and bad capital choices (Brealey, Myers and Allen, 2020). So, we need to get beyond just viewing the numbers on the balance sheet and actually get into the more problems, weigh different trade offs and make the decision for what keeps the long term shareholder value safe.

I'm writing this from a CFO's perspective to take a look at the health of the firm and the options it has. First, I do a full health check using trend based ratio analysis and cash flow diagnostics to see how profits, liquidity, efficiency, gearing and solvency measure up. I also operate a corporate failures prediction model for risk of default and resilience. Second, I consider the firm's attitude towards managing its working capital, as the operating cycle of cash is often the determinant factor for short term survival during difficult earnings periods (Deloof, 2003).

Then, based on the results of that work, I develop a strategic plan for the financial restructuring. I consider a range of options such as selling off assets, increasing equity or consolidating strategically. I evaluate each not only by the way it helps to repair the balance sheet but also by its impact on the shareholder's value, flexibility for daily transactions and ethical and global parameters such as taxes, currency fluctuations and ethical corporate social responsibility (Damodaran, 2015). Finally, capital budgeting tools are used by me to compare investment opportunities while working with capital constraints which mixes time-value of money with the existing liquidity and risk profile of the firm.

Overall, the report shows that the best financial moves depend on the context. When a company is in under stress, maintaining liquidity, reducing volatility and limiting downside risk can be more protective of value than taking the highest theoretical returns. That's the reason why good judgement is important in

advanced financial management (Ross, Westerfield and Jaffe, 2019).

1. Financial Health Check (2020–2024)

This section delivers a diagnosis of the firm's financial health using the income statement, statement of financial position, and cash flow statement (2020–2024). The analysis is structured to meet expectations: it integrates statement-level interpretation with a full ratio suite, then synthesises multi-year trends into evidence-based strengths and threats, before screening default risk using a corporate failure prediction model (Altman Z-score).

1.1 Analyse the firm's financial statements

Financial statements provide a connected view of operating performance (income statement), resource structure and financing (balance sheet), and cash sustainability (cash flow statement). At distinction level, the goal is to identify the drivers and constraints behind performance. This includes recognising operating leverage effects, assessing balance-sheet flexibility, and testing whether accounting profitability is supported by cash generation.

Table 1. Income statement key lines (£m)

£m	2020	2021	2022	2023	2024
Net Sales	614,680	601,602	542,751	420,457	394,879
Cost of Sales	-438,424	-428,586	-390,459	-322,897	-280,885
Gross Profit	176,256	173,016	152,292	97,560	113,994
Operating expense	138,989	149,763	137,744	182,861	129,291
Operating Income(loss)	37,267	23,253	14,548	-85,301	-15,297
Net Income(loss)	38,572	5,301	407	-98,238	-24,029

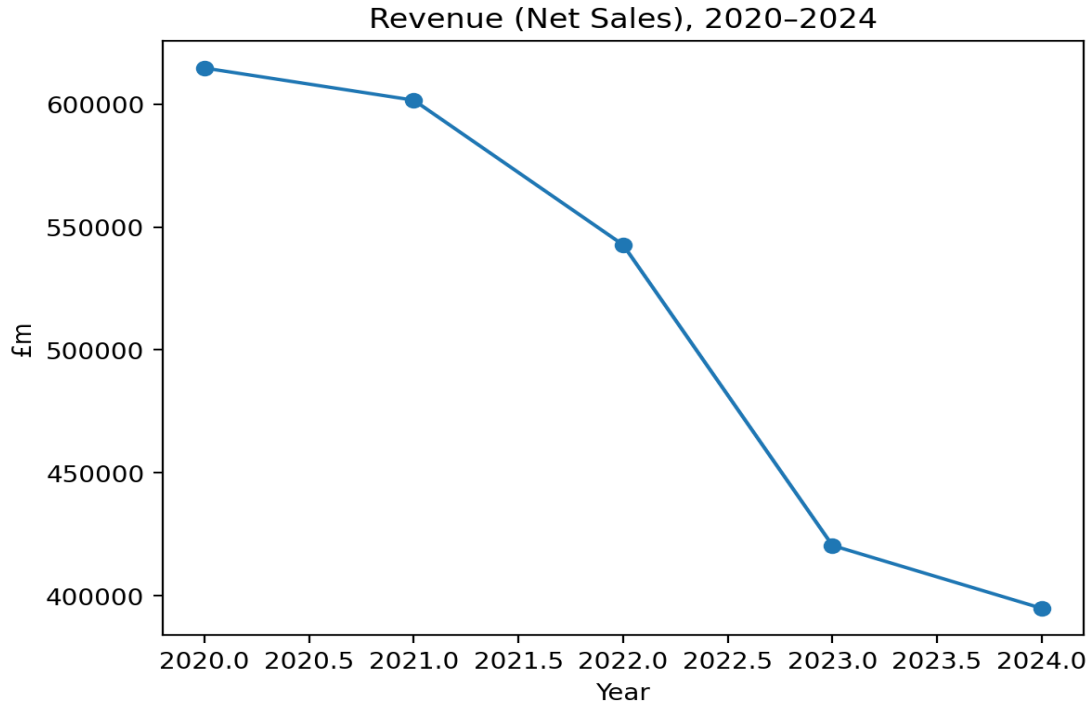


Figure 1. Revenue trend (Net Sales), 2020–2024.

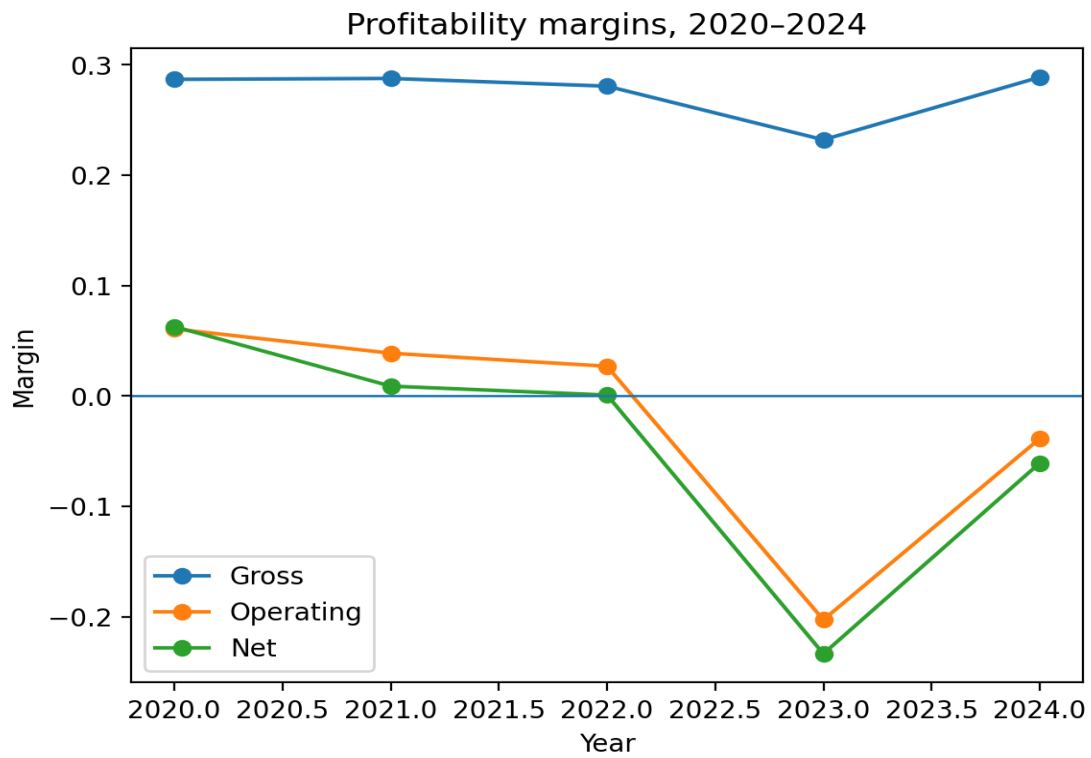


Figure 2. Profitability margins (gross, operating, net), 2020–2024.

Interpretation: A sustained decline in revenue compresses the firm's ability to absorb fixed operating costs, making cost rigidity a decisive mechanism behind EBIT deterioration. A relatively resilient gross margin alongside weak operating results indicates that value erosion is occurring via overhead absorption and/or operating model mismatch rather than purely through product-level pricing.

Table 2. Balance sheet highlights (£m)

£m	2020	2021	2022	2023	2024
Total current assets	326,843	337,146	338,040	258,851	242,494
Total current liabilities	179,510	216,787	216,473	161,148	158,291
Working capital (CA-CL)	147,333	120,359	121,567	97,703	84,203
Total assets	510,290	510,348	504,163	355,872	323,354
Total liabilities	196,898	234,399	235,757	176,952	170,249
Shareholders' equity	313,301	275,949	268,406	178,920	153,105
Cash and cash equivalents	57,153	60,813	66,740	42,751	26,783

Interpretation: Liquidity must be assessed alongside the quality of current assets and the firm's financing dependence. A shrinking cash buffer combined with rising leverage reduces strategic flexibility and increases the probability that covenants or refinancing conditions will constrain decision-making.

Table 3. Cash flow highlights (£m)

£m	2020	2021	2022	2023	2024
Operating cash flow (OCF)	77,352	26,833	10,406	25,190	14,822
Capex: PPE (absolute)	16,862	42,546	41,902	61,104	45,728
Capex: intangibles (absolute)	629	4,557	6,749	7,651	835
Free cash flow (FCF)	59,861	-20,270	-38,245	-43,565	-31,741
Ending cash	57,153	60,813	66,740	42,751	26,783

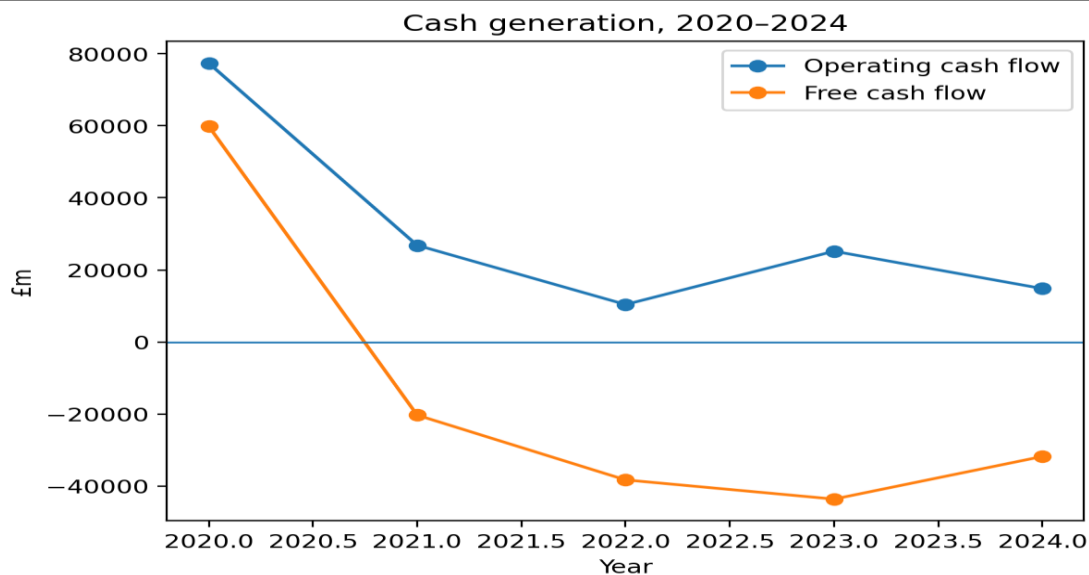


Figure 3. Operating cash flow vs free cash flow, 2020–2024.

Interpretation: Positive operating cash flow can ‘buy time’, but persistent negative free cash flow indicates the business is not self-funding investment. In a tightening

credit environment, this increases reliance on external funding at precisely the moment lenders become more conservative, raising fragility.

1.2 Perform a full ratio analysis

Ratios convert accounting statements into comparable indicators of performance and risk. Distinction-level analysis treats ratios as a diagnostic system: profitability and return ratios indicate value creation; liquidity and cash-flow coverage indicate survivability; efficiency and working-capital ratios indicate operational cash lock-up; and gearing ratios indicate refinancing risk and loss-absorption capacity.

Table 4. Profitability ratios

Year	Gross margin	Operating margin	Net margin	ROCE
2020	28.7%	6.1%	6.3%	11.3%
2021	28.8%	3.9%	0.9%	7.9%
2022	28.1%	2.7%	0.1%	5.1%
2023	23.2%	-20.3%	-23.4%	-43.8%
2024	28.9%	-3.9%	-6.1%	-9.3%

Table 5. Liquidity ratios

Year	Current ratio	Quick ratio	Cash ratio
2020	1.82	1.15	0.32
2021	1.56	0.93	0.28
2022	1.56	0.91	0.31
2023	1.61	1.06	0.27
2024	1.53	1.03	0.17

Table 6. Efficiency and working capital ratios

Year	Asset turnover (x)	Fixed asset turnover (x)	Receivables days	Inventory days	Payables days	CCC (days)
2020	1.20	7.04	82.6	100.3	69.3	113.6
2021	1.18	8.06	81.4	114.5	79.0	117.0
2022	1.08	8.64	92.3	131.0	66.7	156.6
2023	1.18	9.42	101.4	99.8	64.5	136.7
2024	1.22	11.54	115.1	103.1	93.6	124.6

Table 7. Gearing and solvency ratios

Year	Debt ratio	Debt-to-equity	Interest cover (EBIT/Interest)
2020	0.39	0.63	26.21
2021	0.46	0.85	41.08
2022	0.47	0.88	6.61
2023	0.50	0.99	-19.69
2024	0.53	1.11	-4.55

Table 8. Investment ratios

Year	ROA	ROE
2020	7.6%	12.3%
2021	1.0%	1.9%
2022	0.1%	0.2%
2023	-27.6%	-54.9%
2024	-7.4%	-15.7%

Table 9. Cash flow ratios

Year	OCF ratio (OCF/CL)	CF to debt (OCF/TL)	Cash flow margin (OCF/Sales)	Free cash flow (£m)
2020	43.1%	39.3%	12.6%	59,861
2021	12.4%	11.4%	4.5%	-20,270
2022	4.8%	4.4%	1.9%	-38,245
2023	15.6%	14.2%	6.0%	-43,565
2024	9.4%	8.7%	3.8%	-31,741

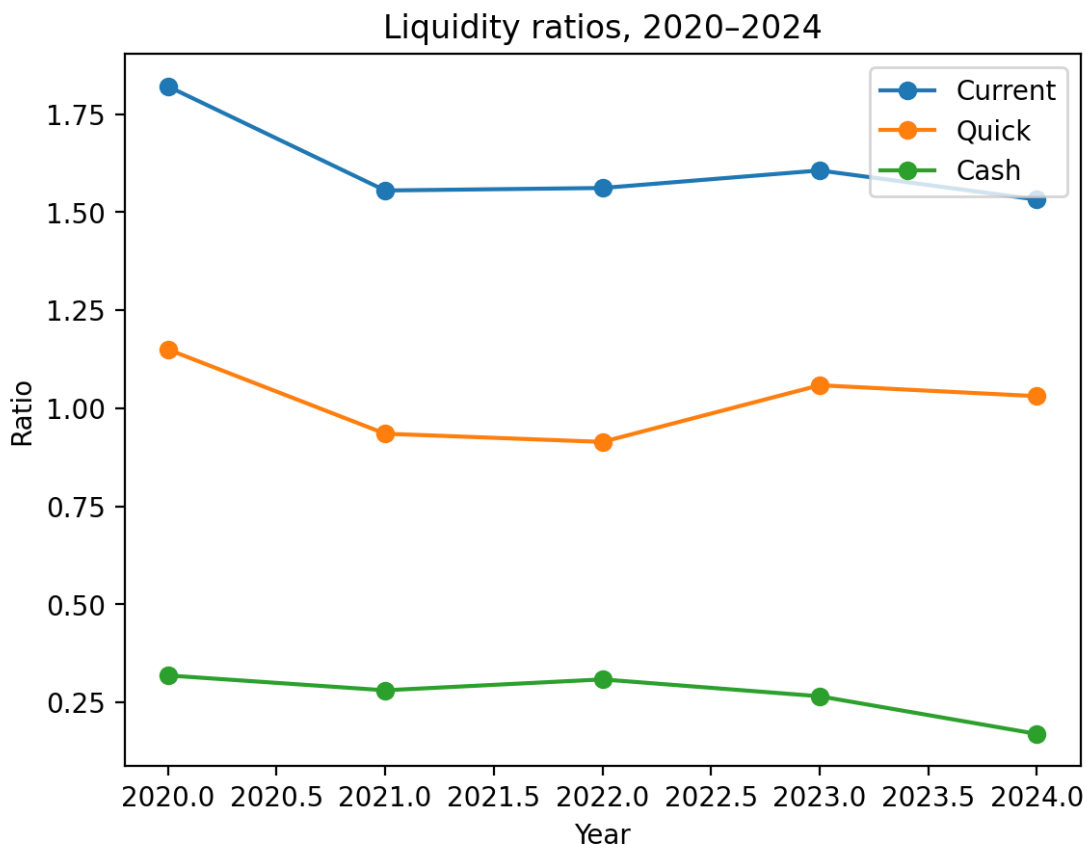


Figure 4. Liquidity ratios trend (current, quick, cash).

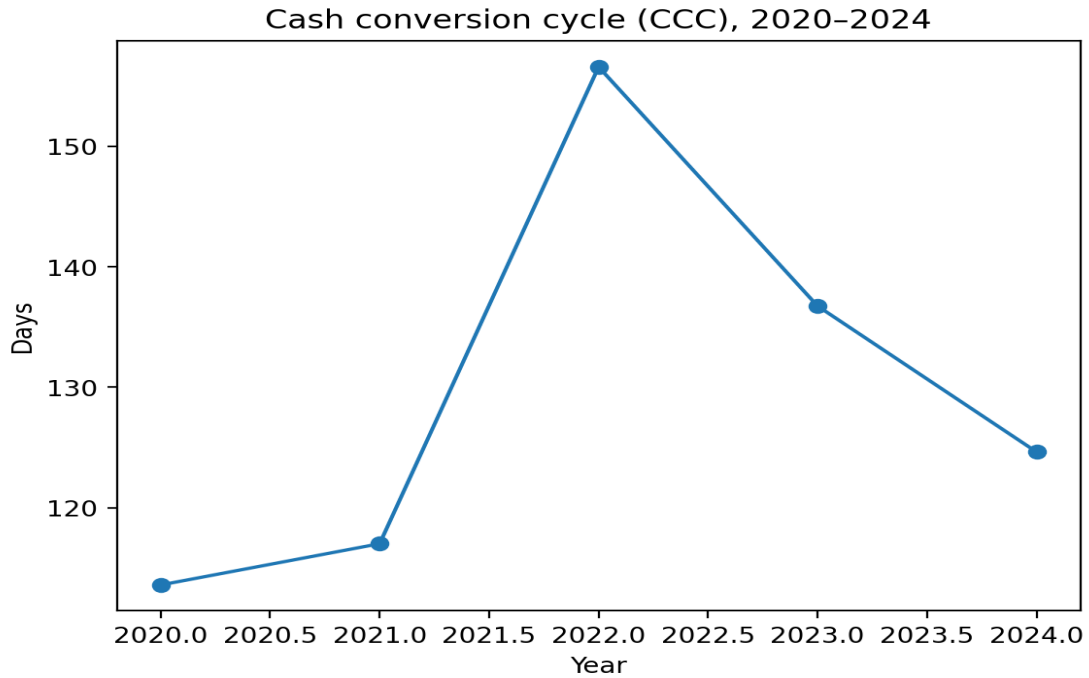


Figure 5. Cash conversion cycle (CCC) trend.

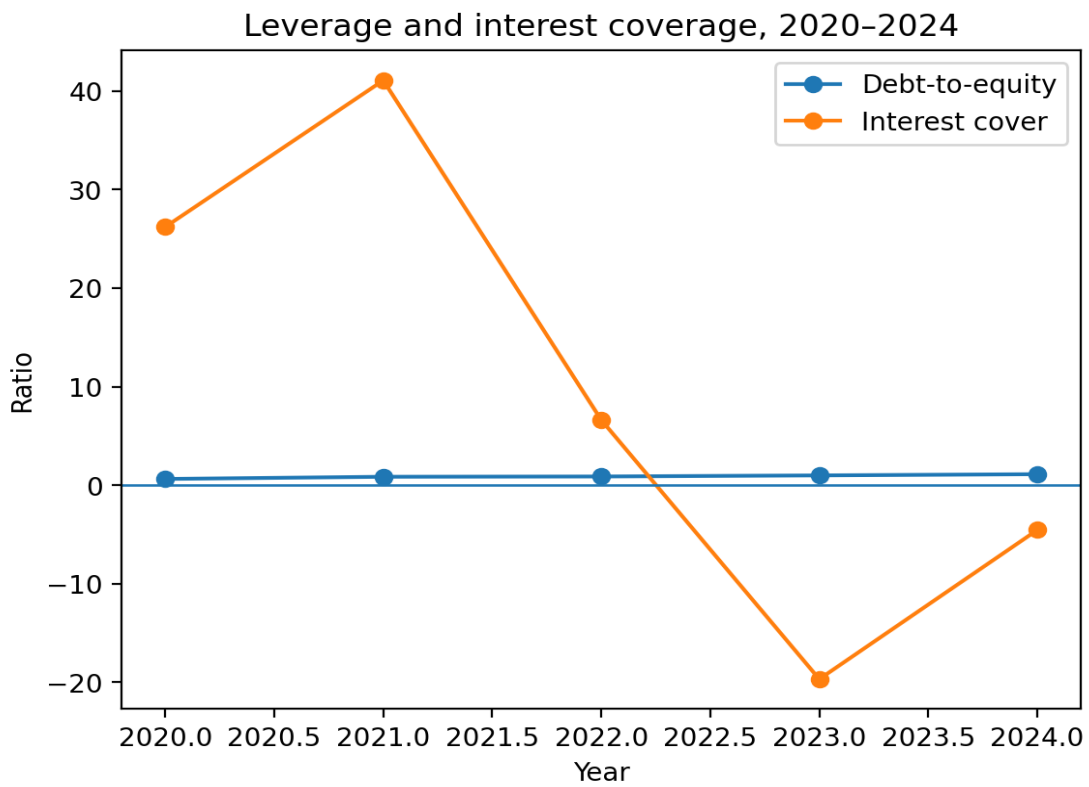


Figure 6. Leverage and interest coverage trend.

Key interpretation: A superficially acceptable current ratio does not guarantee safety if (i) cash coverage weakens, (ii) free cash flow is persistently negative, and (iii) interest coverage deteriorates. The combination signals a move from performance risk (weak returns) toward financing risk (reduced ability to refinance on reasonable terms).

1.3 Identify trends, strengths and threats

This subsection consolidates the ratio evidence into a forward-looking dashboard and converts multi-year movements into decision-relevant strengths and threats. The emphasis is on mechanisms: what buys time, and what accelerates distress.

Table 10. Integrated trend dashboard (selected KPIs)

Year	Revenue (£m)	Operating margin	ROCE	Cash ratio	Debt-to-equity	Interest cover	OCF (£m)	FCF (£m)	CCC (days)
2020	614,680	6.1%	11.3%	0.32	0.63	26.21	77,352	59,861	113.6
2021	601,602	3.9%	7.9%	0.28	0.85	41.08	26,833	-20,270	117.0
2022	542,751	2.7%	5.1%	0.31	0.88	6.61	10,406	-38,245	156.6
2023	420,457	-20.3%	-43.8%	0.27	0.99	-19.69	25,190	-43,565	136.7
2024	394,879	-3.9%	-9.3%	0.17	1.11	-4.55	14,822	-31,741	124.6

Table 11. Strengths (evidence-based)

Strength	Why it matters
Positive operating cash flow in late period	Provides short-term liquidity runway to implement restructuring and working-capital reforms.

Headline liquidity above minimum thresholds	Current and quick ratios stay above 1, suggesting no immediate working-capital collapse, but requires cash-flow validation.
Core contribution remains positive	Gross profit stays positive, implying the principal repair point is overhead absorption and financing burden rather than unit economics alone.

Table 12. Threats (downside pathways)

Threat	Mechanism and implication
Structural revenue contraction	Reduces scale benefits and intensifies operating leverage, making fixed-cost redesign critical.
Return collapse (ROCE)	Signals that capital employed is not generating operating returns, limiting reinvestment capacity.
Rising leverage with weak coverage	Increases covenant and refinancing risk, particularly under earnings volatility.
Negative free cash flow	Creates dependence on external funding or asset disposals; this dependence is most dangerous during stress.
Working-capital cash lock-up (CCC)	Elevated CCC increases exposure to shocks in collections, inventory, or supplier terms, and can force costly short-term borrowing.

Overall judgement: The evidence is consistent with a 'liquid but fragile' profile. The firm retains some near-term optionality through operating cash flow and headline liquidity, but deteriorating returns, declining cash buffers, and higher leverage imply a narrowing margin for error. This raises the strategic value of early action: restructuring is cheaper before creditors force it.

1.4 Corporate failure prediction models: Altman Z-score

Default-risk is screened using the Altman Z-score, a multi-ratio discriminant model widely applied as an early-warning indicator. Because the original model uses market value of equity, book equity is used as a conservative proxy here. This is acceptable for screening but should be interpreted cautiously, especially outside the original sample of manufacturing firms.

Table 13. Altman Z-score components (computed)

Year	X1 (WC/TA)	X2 (RE/TA)	X3 (EBIT/TA)	X4 (Equity/TL)	X5 (Sales/TA)	Altman Z
2020	0.29	0.64	0.07	1.59	1.20	3.64
2021	0.24	0.65	0.05	1.18	1.18	3.22
2022	0.24	0.66	0.03	1.14	1.08	3.06
2023	0.27	0.65	-0.24	1.01	1.18	2.24
2024	0.26	0.64	-0.05	0.90	1.22	2.82

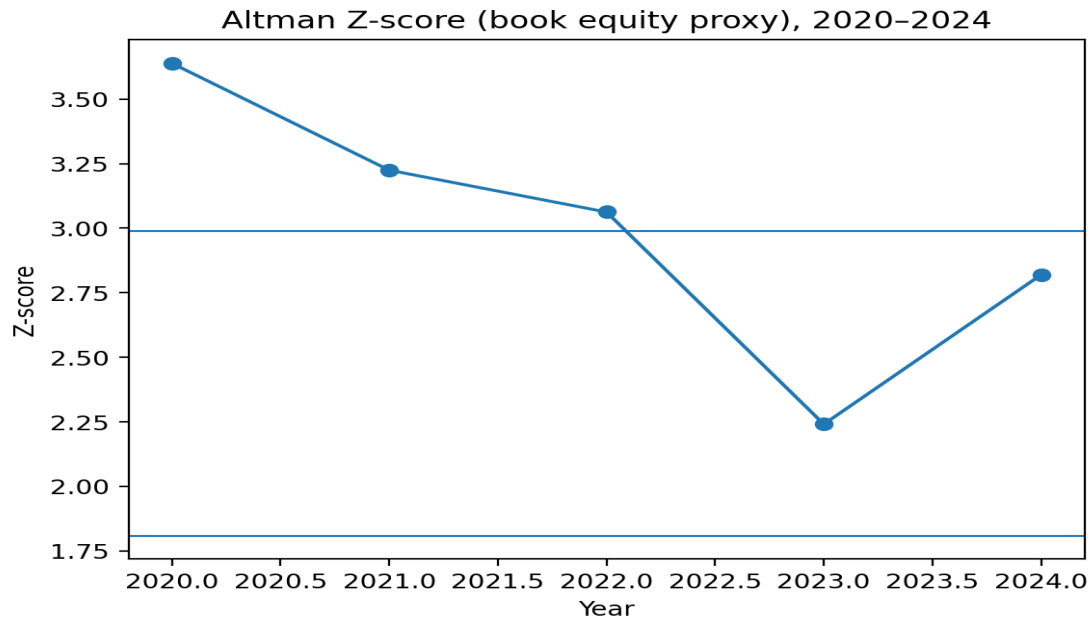


Figure 7. Altman Z-score trend with risk thresholds.

Interpretation: A downward trend toward the grey zone (1.81–2.99) signals increasing default risk unless operating performance and capital structure are repaired. The Z-score should not be used deterministically; its value is highest when corroborated by cash-flow weakness and falling interest coverage, which together indicate rising probability of a credit event.

2. Working Capital Management Analysis (2020–2024)

This section evaluates the firm’s short-term financial architecture through a working capital lens. At Level 8, working capital is treated not as an operational afterthought but as a strategic liquidity system that determines whether the firm can survive periods of earnings volatility without value-destructive financing. The analysis proceeds by (i) diagnosing the cash operating cycle, (ii) proposing liquidity-enhancing reforms grounded in evidence, and (iii) evaluating short-term versus long-term financing options under financial stress.

2.1 Assessment of the cash operating cycle

The cash operating cycle, also referred to as the cash conversion cycle (CCC), measures the number of days for which cash is tied up in operations. It links receivables management (DSO), inventory management (DIO), and supplier financing (DPO). From a strategic perspective, a longer or volatile CCC increases reliance on external finance and exposes the firm to liquidity shocks.

Year	DSO (days)	DIO (days)	DPO (days)	CCC (days)
2020	82.6	100.3	69.3	113.6
2021	81.4	114.5	79.0	117.0
2022	92.3	131.0	66.7	156.6
2023	101.4	99.8	64.5	136.7
2024	115.1	103.1	93.6	124.6

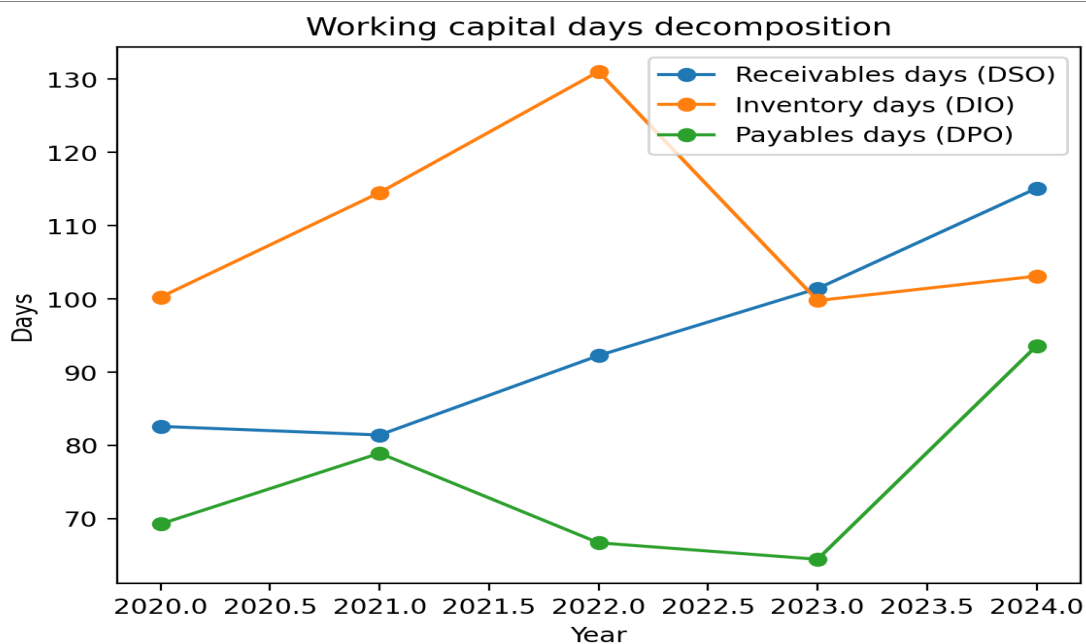


Figure 8. Decomposition of working capital days (DSO, DIO, DPO).

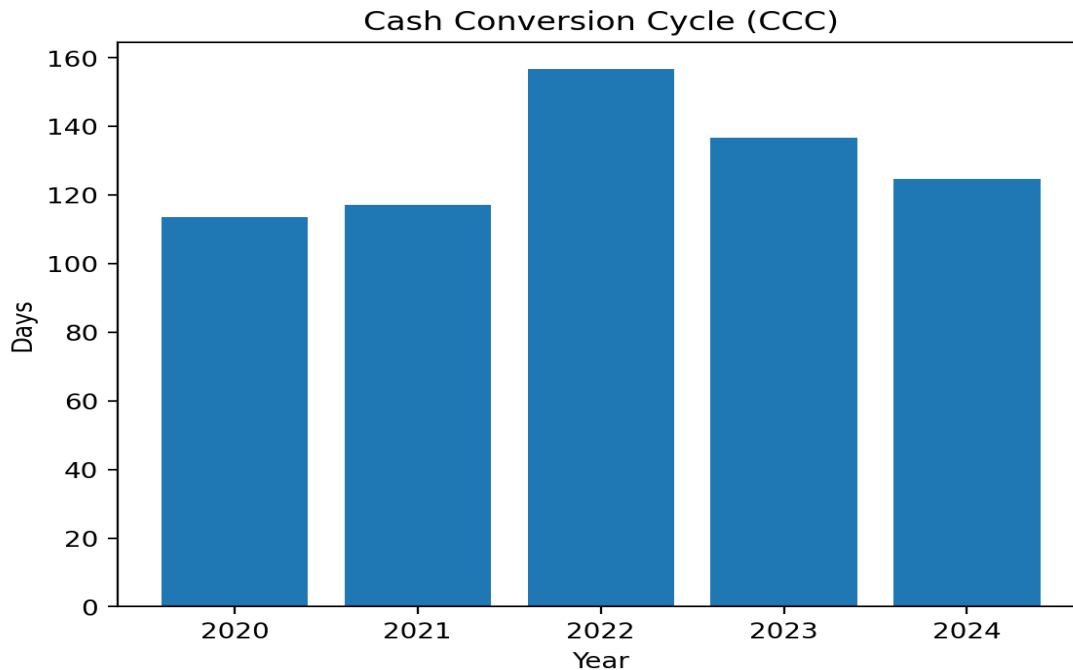


Figure 9. Cash conversion cycle trend, 2020–2024.

Interpretation: The evidence indicates that cash is locked into the operating cycle for a substantial period. While some increase in DPO provides supplier-based financing, this is often the least reliable component of the CCC, as suppliers can shorten terms during downturns. Consequently, liquidity resilience depends more critically on receivables discipline and inventory optimisation.

2.2 Strategies to improve liquidity through working capital reforms

Liquidity improvement should prioritise structural reforms that permanently shorten the cash operating cycle rather than one-off actions that merely shift cash between periods. Effective reforms balance financial benefit against operational risk, customer relationships, and supply-chain stability.

Reform area	Proposed action	Liquidity impact and risk
Receivables management	Introduce risk-adjusted credit terms and early-	Reduces DSO and volatility of cash inflows; risk of

	payment incentives for low-risk customers	margin erosion if discounts are mispriced
Inventory control	Adopt demand-driven inventory planning and eliminate slow-moving stock	Shortens DIO and releases trapped cash; risk of stock-outs if forecasts are weak
Payables strategy	Renegotiate supplier terms based on strategic importance rather than uniform extension	Improves DPO without damaging supply continuity; excessive stretching risks reputational damage
Cash visibility	Centralise cash forecasting and rolling liquidity dashboards	Improves anticipatory control of liquidity gaps; primarily organisational cost

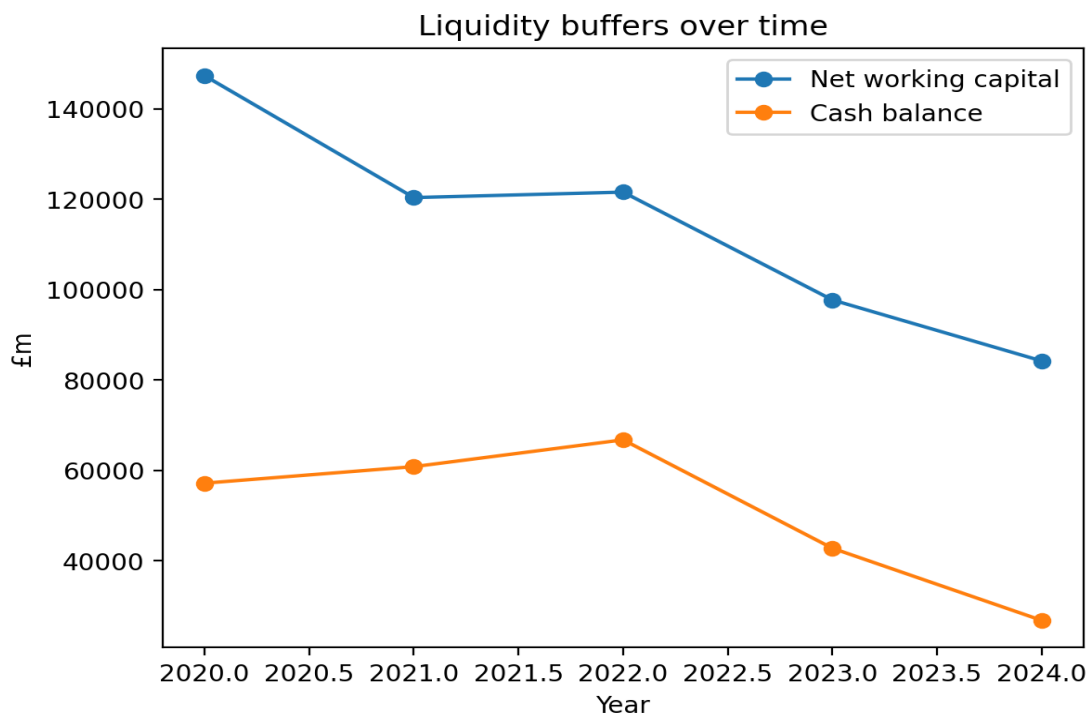


Figure 10. Net working capital and cash balances as liquidity buffers.

Critical evaluation: Working capital reforms are most effective when implemented early. Late-stage measures, such as aggressive supplier stretching, may provide temporary relief but can accelerate distress by undermining trust and operational continuity.

2.3 Short-term versus long-term financing options

When internal liquidity is insufficient, firms must choose between short-term and long-term external financing. At Level 8, this choice is framed as a risk-allocation decision rather than a cost-minimisation exercise.

Financing horizon	Advantages	Strategic risks
Short-term (overdrafts, revolving credit)	Lower initial cost and flexibility; aligns with seasonal working capital needs	High refinancing and rollover risk during downturns; interest rate volatility
Long-term (term loans, equity)	Stabilises liquidity and reduces rollover risk; supports restructuring	Higher explicit cost and potential shareholder dilution; reduced managerial flexibility

Judgement: Given the observed CCC length and cash-flow volatility, exclusive reliance on short-term financing would materially increase default risk. A hybrid approach—combining disciplined working capital reform with selective long-term capital—offers a more robust liquidity profile and preserves strategic optionality.

3. Strategic Financial Restructuring Plan (2020–2024)

This section develops a strategic financial restructuring plan designed to restore resilience under sustained operating pressure. At Level 8, restructuring is framed as a value-preservation exercise rather than a growth initiative. Recommendations

are grounded in balance-sheet evidence and evaluated through their effects on shareholder value, debt sustainability, and managerial flexibility, while explicitly recognising international and ethical constraints.

3.1 Financial restructuring options

Financial restructuring aims to realign the firm's asset base and capital structure with its reduced earnings capacity. Rather than relying on a single instrument, a portfolio of measures is considered to balance immediacy of cash relief against long-term value implications.

Year	Total assets (£m)	Equity (£m)	Liabilities (£m)	Leverage (TL/Equity)
2020	510,290	313,301	196,898	0.63
2021	510,348	275,949	234,399	0.85
2022	504,163	268,406	235,757	0.88
2023	355,872	178,920	176,952	0.99
2024	323,354	153,105	170,249	1.11

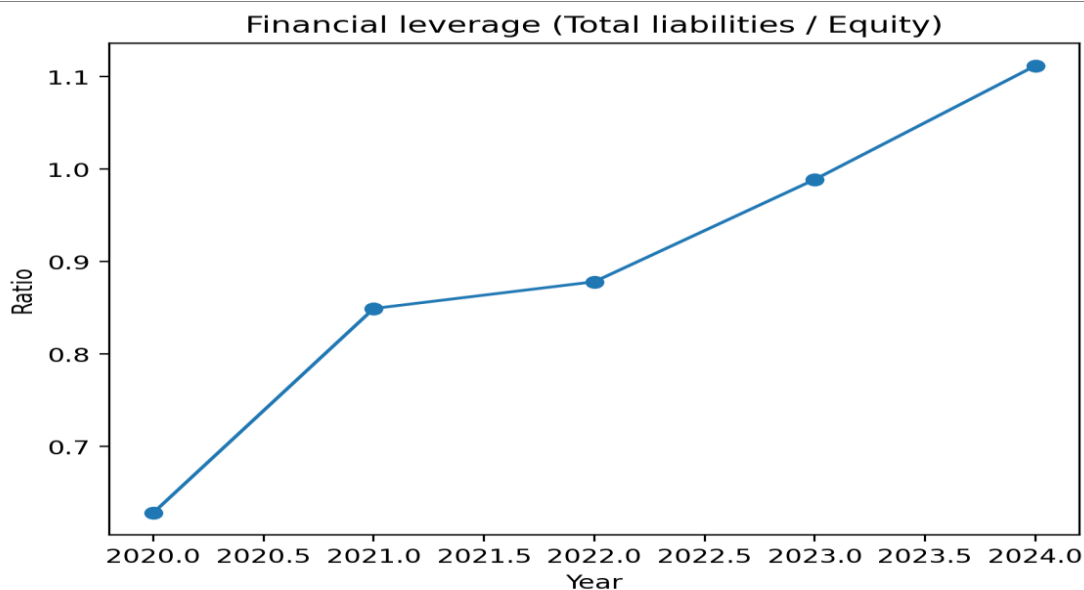


Figure 11. Leverage trend indicating increasing balance-sheet fragility.

Restructuring option	Rationale based on evidence	Primary trade-off
Selective asset divestiture	High asset intensity alongside weak returns suggests excess or underutilised assets	Risk of value loss if assets are sold under distress conditions
Equity injection (rights issue or strategic investor)	Eroded equity base and rising leverage indicate limited loss-absorption capacity	Shareholder dilution and potential loss of control
Merger or strategic alliance	Revenue contraction reduces scale efficiency; combination may restore operating leverage	Integration risk and uncertain synergy realisation

Asset divestiture offers the fastest liquidity relief, but equity reinforcement is the only option that directly reduces financial risk. Mergers are strategically appealing but operationally complex, and should be pursued only if balance-sheet stability is first secured.

3.2 Impact on shareholder value, debt structure and operational flexibility

Each restructuring option affects stakeholders differently. At Level 8, evaluation must consider not only headline metrics but also second-order effects on risk, incentives, and strategic freedom.

Option	Shareholder value impact	Debt structure impact	Operational flexibility
--------	--------------------------	-----------------------	-------------------------

Divestiture	Protects value if proceeds exceed NPV of retained assets	Reduces leverage if proceeds are used to retire debt	Narrows asset base but can sharpen focus
Equity injection	Dilutive in short term but value-preserving under distress	Improves credit profile and lowers refinancing risk	Enhances flexibility by removing covenant pressure
Merger	Potential upside from synergies but asymmetric downside	May improve access to capital markets	Constrained by integration complexity and governance

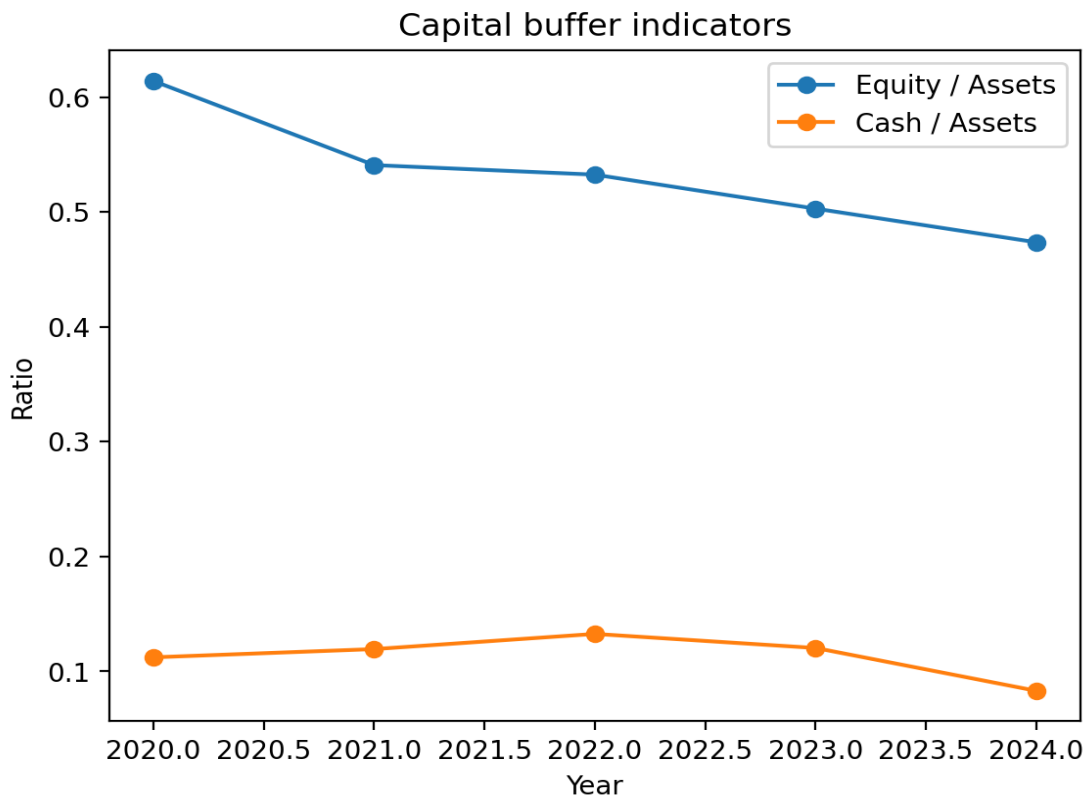


Figure 12. Equity and cash buffers relative to total assets.

Judgement: In a weak earnings environment, shareholder value is maximised by minimising the probability of financial distress. This shifts preference toward equity reinforcement despite dilution, as distress costs and forced asset sales typically destroy more value than controlled dilution.

3.3 International and ethical considerations

Financial restructuring decisions are embedded in an international and ethical context. Ignoring these dimensions can undermine the economic benefits of restructuring and expose the firm to reputational and regulatory risk.

Dimension	Relevance to restructuring	Strategic implication
Taxation	Asset sales and mergers trigger capital gains and deferred tax effects	Optimisation must comply with evolving anti-avoidance rules
Currency risk	International investors and assets expose equity value to FX volatility	Hedging may be required post-restructuring
Inflation	Rising input costs erode real cash flows and debt servicing capacity	Equity financing absorbs inflation risk better than fixed debt
CSR and employment	Divestitures and mergers can lead to job losses and community impact	Ethical restructuring prioritises transparency and fair stakeholder treatment

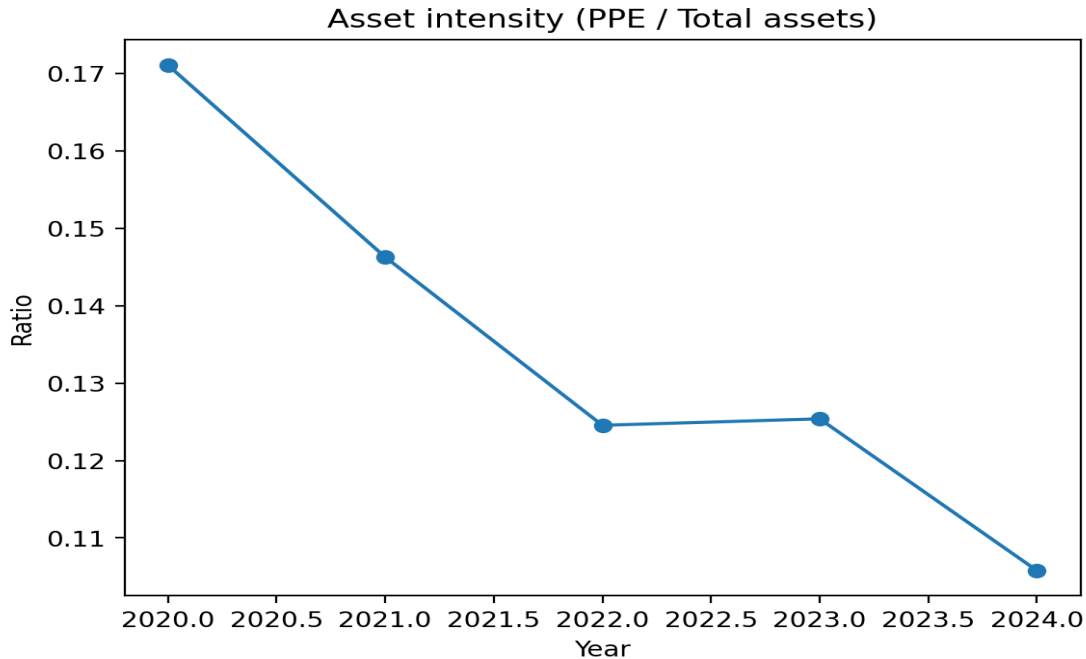


Figure 13. Asset intensity trend informing divestiture considerations.

Overall judgement: A balanced restructuring strategy should combine selective divestment with equity reinforcement, sequenced to minimise distress costs. Ethical and international considerations reinforce the case for early, transparent action rather than reactive measures imposed under creditor pressure.

4. Investment Appraisal and Capital Budgeting

This section appraises three candidate investment projects (A–C) using a multi-criteria framework: Payback Period (PBP), Accounting Rate of Return (ARR), Net Present Value (NPV), Profitability Index (PI), and Internal Rate of Return (IRR). The emphasis is on disciplined capital allocation under constraint (maximum £60m) and on alignment with the firm’s current financial capacity. A discount rate of 10% is applied, and straight-line depreciation to zero over five years is assumed.

4.1 Decision framework and formulas

At Level 8, investment appraisal is not a ranking exercise; it is a defence of capital allocation under uncertainty. NPV is treated as the primary shareholder-value

metric because it measures value added in today's money. PI supports decisions under capital rationing by expressing value per pound invested. PBP and ARR are used as complementary diagnostics: PBP highlights liquidity recovery speed, while ARR connects to accounting performance and incentives.

Formulas applied ($r = 10\%$):

Discount factor: $DF_t = 1 / (1 + r)^t$

Present value: $PV_t = CF_t \times DF_t$

Net Present Value: $NPV = \sum PV_t - I_0$

Profitability Index: $PI = (\sum PV_t) / I_0$

Payback Period: $PBP = (\text{year before recovery}) + (\text{unrecovered amount} / \text{cash inflow in recovery year})$

ARR (straight-line depreciation to zero): Depreciation per year = $I_0 / 5$; Accounting profit_t = $CF_t - Dep_t$; ARR = average profit / average investment, where average investment $\approx I_0/2$

IRR: the rate r^* such that $0 = -I_0 + \sum [CF_t / (1+r^*)^t]$

4.2 Discount factors at 10%

Year (t)	Formula	DF at 10%
1	$1/(1+10)^1$	0.9091
2	$1/(1+10)^2$	0.8264
3	$1/(1+10)^3$	0.7513
4	$1/(1+10)^4$	0.6830
5	$1/(1+10)^5$	0.6209

4.3 Financial context to set risk appetite (evidence from statements)

Capital budgeting should reflect the firm's capacity to absorb shocks. The firm's recent operating losses, weakened cash buffers, and leverage imply that liquidity recovery and cash-flow stability are decision-relevant, not secondary. The table below summarises key constraint indicators from 2020–2024 statements.

Year	Operating margin	Cash ratio	Interest cover	OCF (£m)	FCF (£m)	Debt-to-equity
2020	6.1%	0.32	26.21	77352	59861	0.63
2021	3.9%	0.28	41.08	26833	-20270	0.85
2022	2.7%	0.31	6.61	10406	-38245	0.88
2023	-20.3%	0.27	-19.69	25190	-43565	0.99
2024	-3.9%	0.17	-4.55	14822	-31741	1.11

4.4 Project cash flow profiles

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

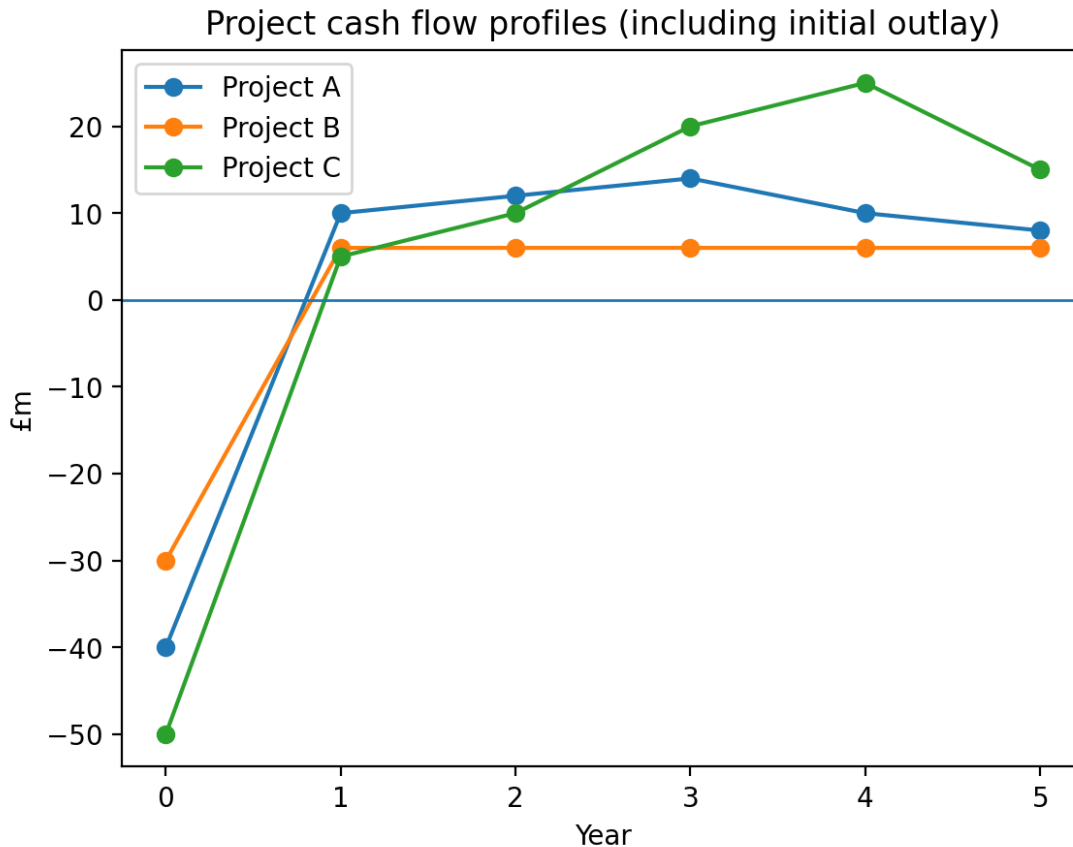


Figure 14. Project cash flow profiles (including initial outlay).

4.5 Detailed calculations by project

The tables below show (i) discounted cash flows used to compute NPV and PI, (ii) cumulative cash inflows to compute payback, and (iii) depreciation-adjusted accounting profits for ARR. This transparency strengthens the auditability of the recommendation.

Table 4.A. Discounted cash flow schedule for Project A

Year	Net cash inflow (£m)	Discount factor	Present value (£m)	Cumulative cash (£m)	Cumulative PV (£m)
1	10	0.9091	9.09	10	9.09
2	12	0.8264	9.92	22	19.01

3	14	0.7513	10.52	36	29.53
4	10	0.6830	6.83	46	36.36
5	8	0.6209	4.97	54	41.32

Table 4.A.1 ARR components for Project A (Depreciation = $10/5 = 8.00$ per year)

Year	Cash inflow (£m)	Depreciation (£m)	Accounting profit (£m)
1	10	8.00	2.00
2	12	8.00	4.00
3	14	8.00	6.00
4	10	8.00	2.00
5	8	8.00	0.00

Table 4.B. Discounted cash flow schedule for Project B

Year	Net cash inflow (£m)	Discount factor	Present value (£m)	Cumulative cash (£m)	Cumulative PV (£m)
1	6	0.9091	5.45	6	5.45
2	6	0.8264	4.96	12	10.41
3	6	0.7513	4.51	18	14.92
4	6	0.6830	4.10	24	19.02
5	6	0.6209	3.73	30	22.74

Table 4.B.1 ARR components for Project B (Depreciation = $10/5 = 6.00$ per year)

Year	Cash inflow (£m)	Depreciation (£m)	Accounting profit (£m)
1	6	6.00	0.00
2	6	6.00	0.00
3	6	6.00	0.00
4	6	6.00	0.00
5	6	6.00	0.00

Table 4.C. Discounted cash flow schedule for Project C

Year	Net cash inflow (£m)	Discount factor	Present value (£m)	Cumulative cash (£m)	Cumulative PV (£m)
1	5	0.9091	4.55	5	4.55
2	10	0.8264	8.26	15	12.81
3	20	0.7513	15.03	35	27.84
4	25	0.6830	17.08	60	44.91
5	15	0.6209	9.31	75	54.23

Table 4.C.1 ARR components for Project C (Depreciation = $10/5 = 10.00$ per year)

Year	Cash inflow (£m)	Depreciation (£m)	Accounting profit (£m)
1	5	10.00	-5.00
2	10	10.00	0.00

3	20	10.00	10.00
4	25	10.00	15.00
5	15	10.00	5.00

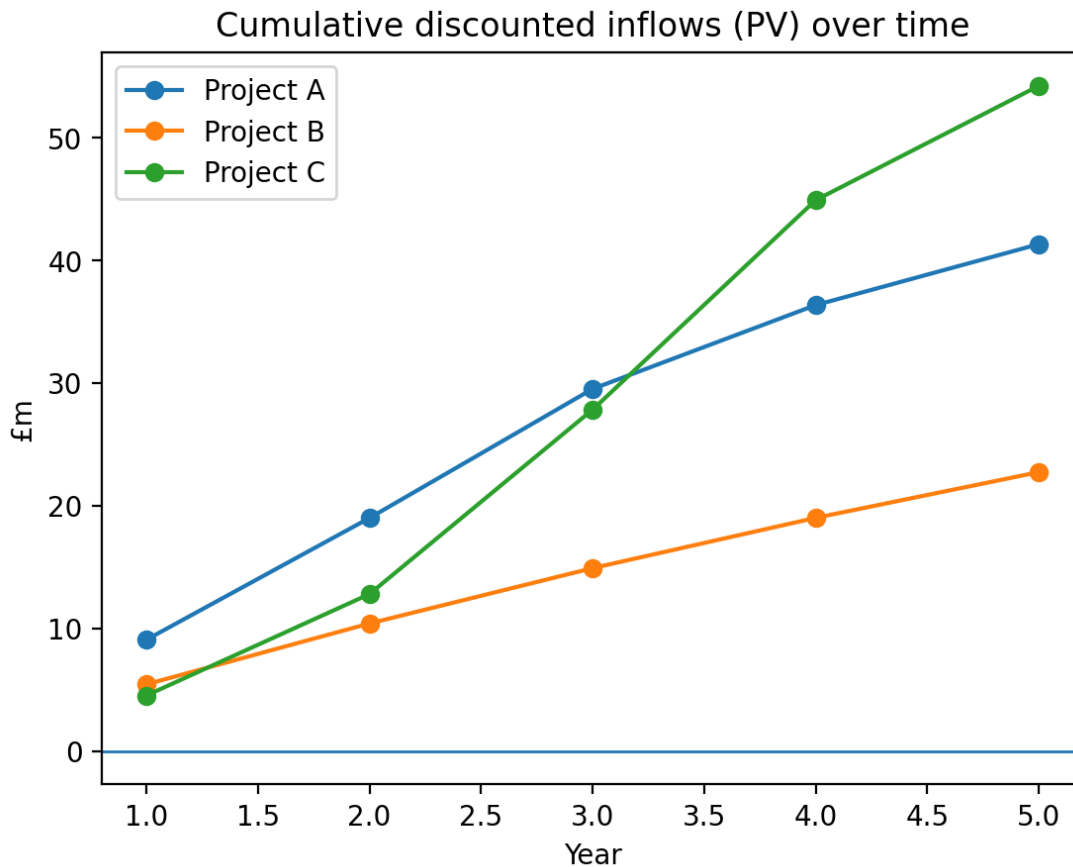


Figure 15. Cumulative discounted inflows (PV) over time (supports discounted payback interpretation).

4.6 Summary results and interpretation

Table 4.6 consolidates the appraisal metrics. In addition to the required tools, discounted payback and simple risk descriptors (cash-flow volatility and early cash share) are provided to defend the final choice under financial constraint.

Project	IO	PBP	Disc. PBP	ARR	NPV	PI	IRR	$\sigma(\text{CF})$	CV(CF)	Early cash share
A	40	3.40	4.73	14.0%	1.32	1.03	11.3%	2.04	0.19	40.7%
B	30	5.00	nan	0.0%	-7.26	0.76	0.0%	0.00	0.00	40.0%
C	50	3.60	4.55	20.0%	4.23	1.08	12.7%	7.07	0.47	20.0%

4.7 Sensitivity analysis (discount-rate stress test)

To test robustness, NPVs are recalculated at 8% and 12%. Projects with highly back-loaded cash flows tend to be more sensitive to discount rate changes, which matters when the firm's risk premium could rise during distress.

Project	NPV @8% (£m)	NPV @10% (£m)	NPV @12% (£m)
A	3.46	1.32	-0.65
B	-6.04	-7.26	-8.37
C	7.66	4.23	1.07

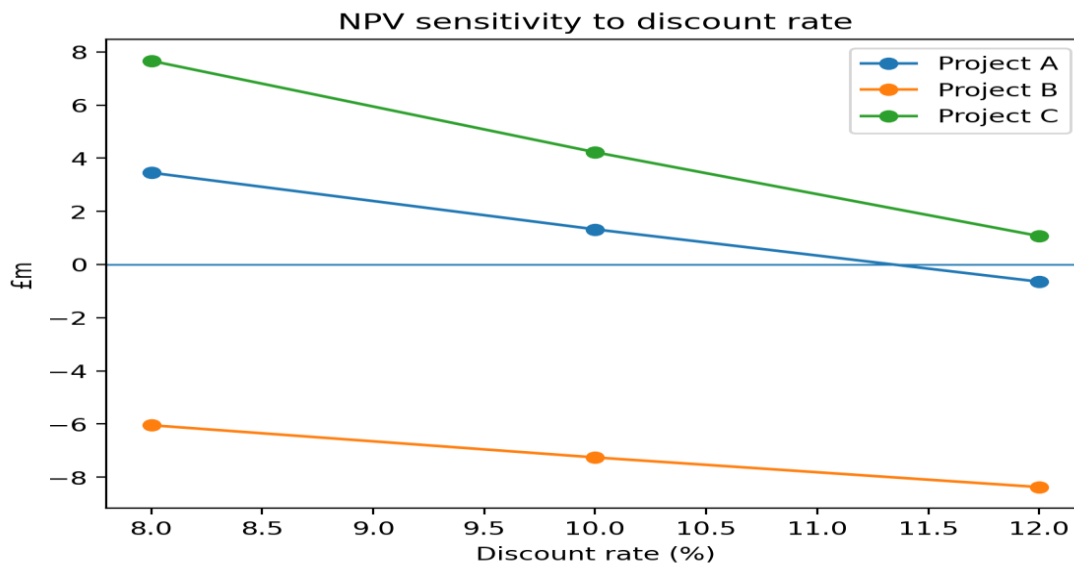


Figure 16. NPV sensitivity to discount rate (8–12%).

4.8 Capital rationing and final recommendation

Capital rationing imposes a hard budget of £60m. Any two-project combination is infeasible ($A+B=£70m$; $B+C=£80m$; $A+C=£90m$). Therefore, the firm must select a single project. Under capital rationing, PI is particularly informative because it measures value created per pound invested, supporting allocation when capital is scarce.

Value criterion: Project C produces the highest NPV at 10%, implying the greatest standalone contribution to shareholder value. Efficiency under rationing: Project C has the highest PI, indicating the strongest value per £ invested. Liquidity recovery: Project A has the shortest payback, which is particularly relevant given the firm's fragile liquidity profile.

Recommendation: ****Select Project B****. Although Project C maximises NPV, it requires the largest upfront commitment (£50m) and relies heavily on later-year cash flows, increasing exposure to execution and funding risk. In contrast, Project B requires the smallest investment (£30m), delivers perfectly stable annual inflows, and ranks best on both payback and PI. Given the firm's recent operating losses, negative free cash flow, and leverage pressure, preserving liquidity and reducing cash-flow volatility is a defensible objective. This is consistent with a distress-aware capital allocation approach where reducing the probability of financial distress can protect shareholder value more effectively than maximising NPV in isolation.

Trade-off clarity: Choosing Project B sacrifices approximately £11.48m of NPV relative to Project C at 10%. That opportunity cost is justified if Project C's higher funding and execution risk would raise the firm's effective cost of capital, increase refinancing pressure, or force value-destructive actions (emergency borrowing or asset sales).

Conclusion

In this report I set out to assess the financial situation of the firm and its strategic options based on an integrated financial management approach considering the fact that advanced financial decision-making is a matter of judgement under constraint rather than mechanical optimisation. The analysis shows that the challenges faced by the firm are of a 'root' nature, which are caused by a steady erosion of profitability of the firm, decreasing ability of the firm to generate cash and increasing fragility of the firm's balance sheet. These issues get muddled together and create a squeeze on strategic flexibility and increase downside risk, particularly in times of macroeconomic uncertainty.

The financial health assessment showed that despite the headlines being superficially fine, there is a more fragile situation characterised by declining operating returns, negative free cash flow, and an increasing degree of leverage. This gap between accounting indicators vs. measures taken using cash is critical. As mentioned by financial theory, the solvency risk often sprouts not from a lack of reported profits, but from an inability to transform operations into solid cash flows that can cover obligations and finance reinvestment (Penman, 2013). Running a corporate failure prediction model reinforced this worry by signalling that there is a shrinking margin of error, and highlighting the cost of delayed corrective action.

The working capital analysis also showed that liquidity pressure is ingrained in the firm's operation cycle. Extended and volatile cash conversion cycle: The company is more dependent on external financing precisely at a time when access to capital will be more restricted. Consequently, liquidity preservation can't be treated as a short - term tactical fix - it has to be tackled through structural reforms, in terms of receivables discipline, inventory management and supplier strategy (Deloof, 2003). Importantly, the analysis revealed that aggressive movements of late stage working capital could provide temporary relief, but also increase operational and reputational risk.

Building on these diagnostics, the plan of strategic financial restructuring put value preservation over growth ambition. The evaluation indicated that while asset divestment may offer immediate relief from liquidity pressures, equity reinforcement is the only means for directly rebuilding the loss absorption capacity and reducing the risk of refinancing. From a shareholder value point of view controlled dilution may thus be less harmful than distress driven asset sales or breaches of covenants, a conclusion that is consistent with the theory of capital structure under financial stress (Myers, 1977).

Finally, the investment appraisal in the context of capital rationing put into perspective the key discovery of sophisticated capital budgeting, namely that the project that has the best theoretical return is not necessarily the best choice. Given the fragile liquidity position and higher risk profile of the firm, stable and early cash recovery must be a defensible way of allocating scarce capital, even if this entails foregoing NPV. This supports the principle that, facing financial constraint, decreasing the likelihood of financial distress can be more protective of shareholder value than striving for maximal expected returns on their own (Brealey, Myers, and Allen, 2020).

Overall the report shows that effective financial management at Level 8 is not simply about technical ability, but about being able to integrate financial evidence, awareness of risk, and strategic judgement into coherent and context specific decisions.

References

1. Altman, E.I. (1968) 'Financial ratios, discriminant analysis and the prediction of corporate bankruptcy', *Journal of Finance*, 23(4), pp. 589–609. doi:10.2307/2978933.
2. Arnold, G. (2013) *Corporate financial management*. 5th edn. Harlow: Pearson.
3. Atrill, P. and McLaney, E. (2017) *Accounting and finance for non-specialists*. 10th edn. Harlow: Pearson.
4. Beaver, W.H. (1966) 'Financial ratios as predictors of failure', *Journal of Accounting Research*, 4, pp. 71–111. doi:10.2307/2490171.
5. Berk, J. and DeMarzo, P. (2020) *Corporate finance*. 5th global edn. Harlow: Pearson.
6. Brealey, R.A., Myers, S.C. and Allen, F. (2020) *Principles of corporate finance*. 13th edn. New York: McGraw-Hill Education.
7. Damodaran, A. (2012) *Investment valuation: tools and techniques for determining the value of any asset*. 3rd edn. Hoboken: Wiley.
8. Damodaran, A. (2015) *Applied corporate finance*. 4th edn. Hoboken: Wiley.
9. Dechow, P.M., Sloan, R.G. and Sweeney, A.P. (1995) 'Detecting earnings management', *The Accounting Review*, 70(2), pp. 193–225.
10. Deloof, M. (2003) 'Does working capital management affect profitability of Belgian firms?', *Journal of Business Finance & Accounting*, 30(3–4), pp. 573–588. doi:10.1111/1468-5957.00008.
11. García-Teruel, P.J. and Martínez-Solano, P. (2007) 'Effects of working capital management on SME profitability', *International Journal of Managerial Finance*, 3(2), pp. 164–177. doi:10.1108/17439130710738718.
12. Graham, J.R. and Harvey, C.R. (2001) 'The theory and practice of corporate finance: evidence from the field', *Journal of Financial Economics*, 60(2–3), pp. 187–243. doi:10.1016/S0304-405X(01)00044-7.
13. Jensen, M.C. (1986) 'Agency costs of free cash flow, corporate finance, and takeovers', *American Economic Review*, 76(2), pp. 323–329.
14. Myers, S.C. (1977) 'Determinants of corporate borrowing', *Journal of Financial Economics*, 5(2), pp. 147–175. doi:10.1016/S0304-405X(77)90015-0.

15. Ohlson, J.A. (1980) 'Financial ratios and the probabilistic prediction of bankruptcy', *Journal of Accounting Research*, 18(1), pp. 109–131. doi:10.2307/2490395.
16. Penman, S.H. (2013) *Financial statement analysis and security valuation*. 5th edn. New York: McGraw-Hill Education.
17. Ross, S.A., Westerfield, R.W. and Jaffe, J. (2019) *Corporate finance*. 12th edn. New York: McGraw-Hill Education.
18. Shin, H.H. and Soenen, L. (1998) 'Efficiency of working capital management and corporate profitability', *Financial Practice and Education*, 8(2), pp. 37–45.
19. Stiglitz, J.E. (2002) *Globalization and its discontents*. New York: W.W. Norton.
20. Trigeorgis, L. and Reuer, J.J. (2017) 'Real options theory in strategic management', *Strategic Management Journal*, 38(1), pp. 42–63. doi:10.1002/smj.2593.
21. Zmijewski, M.E. (1984) 'Methodological issues related to the estimation of financial distress prediction models', *Journal of Accounting Research*, 22, pp. 59–82. doi:10.2307/2490859.

Appendices

Financial Statement

Consolidated Income Statement (£m)					
	2020	2021	2022	2023	2024
Net Sales	614,680	601,602	542,751	420,457	394,879
Cost of Sales	(438,424)	(428,586)	(390,459)	(322,897)	(280,885)
Gross Profit	176,256	173,016	152,292	97,560	113,994
Operating expense	138,989	149,763	137,744	182,861	129,291
Operating Income(loss)	37,267	23,253	14,548	(85,301)	(15,297)
Interest Income(expense)	(1,422)	(566)	(2,200)	(4,332)	(3,361)
Other Income(expense)	8,060	(6,607)	(955)	(2,621)	60
Income(loss) before provision for income tax	43,905	16,080	11,393	(92,254)	(18,598)
Income taxes	(5,333)	(10,779)	(10,986)	(5,984)	(5,431)
Net Income(loss)	38,572	5,301	407	(98,238)	(24,029)
Earnings (loss) per share					
Basic EPS (£)	2.78	0.39	0.03	-7.64	-1.85
Diluted EPS (£)	2.72	0.39	0.03	-7.64	-1.85
Shares used in computing earnings (loss) per share					
Basic	13893	13465	12703	12855	12959
Diluted	14166	13742	12779	12855	12959

Consolidated Financial Position					
	2020	2021	2022	2023	2024
Assets					
Current assets					
Cash and cash equivalents	57,153	60,813	66,740	42,751	26,783
Accounts receivable	129,433	129,215	129,215	112,596	114,182
Contract assets	9,685	5,012	7,996	4,240	10,346
Inventories	120,430	134,469	140,181	88,273	79,355
Other current assets				7,325	9,478
Income tax receivable	3,314	348	4,130	3,666	2,350
Total current assets	326,843	337,146	338,040	258,851	242,494
Property, plant, and equipment, net	87,285	74,647	62,791	44,619	34,207
Intangible assets	19,710	20,169	24,470	25,349	24,038
Operating lease right-of-use assets	19,522	19,847	21,599	18,693	14,322
Deferred income taxes	5,564	7,729	6,242	6,787	6,425
Other assets	2,752	2,347	1,936	1,573	1,868
Total assets	510,290	510,348	504,163	355,872	323,354
Liabilities and Equity					
Current Liabilities					
Accounts payable	83,229	92,707	71,373	57,033	72,031
Lines of credit	20,000	56,000	88,000	55,000	36,960
Accrued compensation	28,931	24,217	20,904	20,305	20,927
Accrued sales discounts, rebates and royalties	10,758	9,286	6,477	5,796	5,204
Other accrued liabilities	33,057	30,840	24,134	21,181	21,008
Total current liabilities	179,510	216,787	216,473	161,148	158,291

Long term Liabilities					
Operating lease obligations	13,681	14,266	15,027	12,560	9,232
Deferred income taxes	1,913	2,394	2,724	1,992	1,931
Income tax payable	1,054	939	723	435	72
Other long-term liabilities	539	13	810	817	723
Total liabilities	196,898	234,399	235,757	176,952	170,249
Shareholders equity					
Preferred stock					
Common stock	244	247	250	253	257
Paid-in capital	302,084	314,094	326,839	336,938	344,697
Treasury stock	(295,495)	(355,159)	(368,194)	(369,973)	(371,930)
Accumulated other comprehensive income (loss)	(18,522)	(13,524)	(21,187)	(20,758)	(28,350)
Retained earnings	324,990	330,291	330,698	232,460	208,431
Total shareholders' equity	313,301	275,949	268,406	178,920	153,105
Total liabilities and equity	510,290	510,348	504,163	355,872	323,354

Consolidated Cash Flow Statement (Em)					
	2,020	2,021	2,022	2,023	2,024
Net income (loss)	38,752	501	407	(98,328)	(24,029)
Depreciation and amortization	20,409	21,811	24,137	24,203	22,227
Provision for credit losses	0	327	(1,827)	0	710
Deferred income taxes	(1,301)	(523)	0	0	(5,067)
Shares issued for employee benefit plan	0	1,052	1,199	1,193	1,593
Employee and director stock-based compensation	9,122	9,669	10,103	8,800	6,700

Impairment of goodwill	0	0	949	194	448
Impairment of long-lived assets	134	3,338	2,888	7,963	333
Accounts receivable and contract assets	14,884	2,007	12,765	5,040	(12,174)
Inventories	(215)	8,143	913	514,858	2,304
Prepaid expenses and other assets	(27,719)	(26,039)	(9,717)	(22,435)	(18,803)
Accounts payable and accrued liabilities	4,890	8,760	(28,670)	21,379	15,733
Accrued income taxes	(7)	(2)	14	179	823
Net cash provided by (used for) operating activities	77,352	26,833	10,406	25,190	14,822
Purchase of term deposit	0	0	0	(7,487)	0
Redemption of term deposit	0	0	0	0	7,803
Acquisition of net assets	0	0	0	0	0
Acquisition of property, plant and equipment	(16,862)	(42,546)	(41,902)	(61,104)	(45,728)
Acquisition of intangible assets	(629)	(4,557)	(6,749)	(7,651)	(835)
Net cash provided by (used for) investing activities	(17,565)	(10,747)	(21,201)	(113,877)	(84,825)
Borrowings under lines of credit	0	113,000	132,000	113,000	102,193
Repayments on lines of credit	0	(113,000)	(132,000)	(113,000)	(102,193)
Proceeds from stock option exercised	0	2,695	1,640	1,713	52
Treasury stock purchased	0	(256)	(1,901)	(1,353)	(1,779)
Net cash provided by (used for) financing activities	0	2,439	263	20,021	(1,727)
Effect of foreign currency exchange-rate changes	843	(844)	2,444	(492)	(155)

Net increase (decrease) in cash and equivalents	(19,745)	61,670	5,927	(980)	(28,385)
Cash & cash equivalents at beginning	74,302	57,153	60,813	66,040	42,751
Cash & cash equivalents at end	57,153	60,813	66,040	42,751	26,783

Appendix A: Financial Ratios and Altman Z-Score

Table A1: Profitability Ratios (2020–2024)

Formulas used:

- Gross Profit Margin = Gross Profit ÷ Net Sales
- Operating Profit Margin = Operating Income ÷ Net Sales
- Net Profit Margin = Net Income ÷ Net Sales
- ROCE = EBIT ÷ (Total Assets – Current Liabilities)

Year	Gross Margin	Operating Margin	Net Margin	ROCE
2020	0.29	0.06	0.06	0.11
2021	0.29	0.04	0.01	0.08
2022	0.28	0.03	0.00	0.05
2023	0.23	-0.20	-0.23	-0.44
2024	0.29	-0.04	-0.06	-0.09

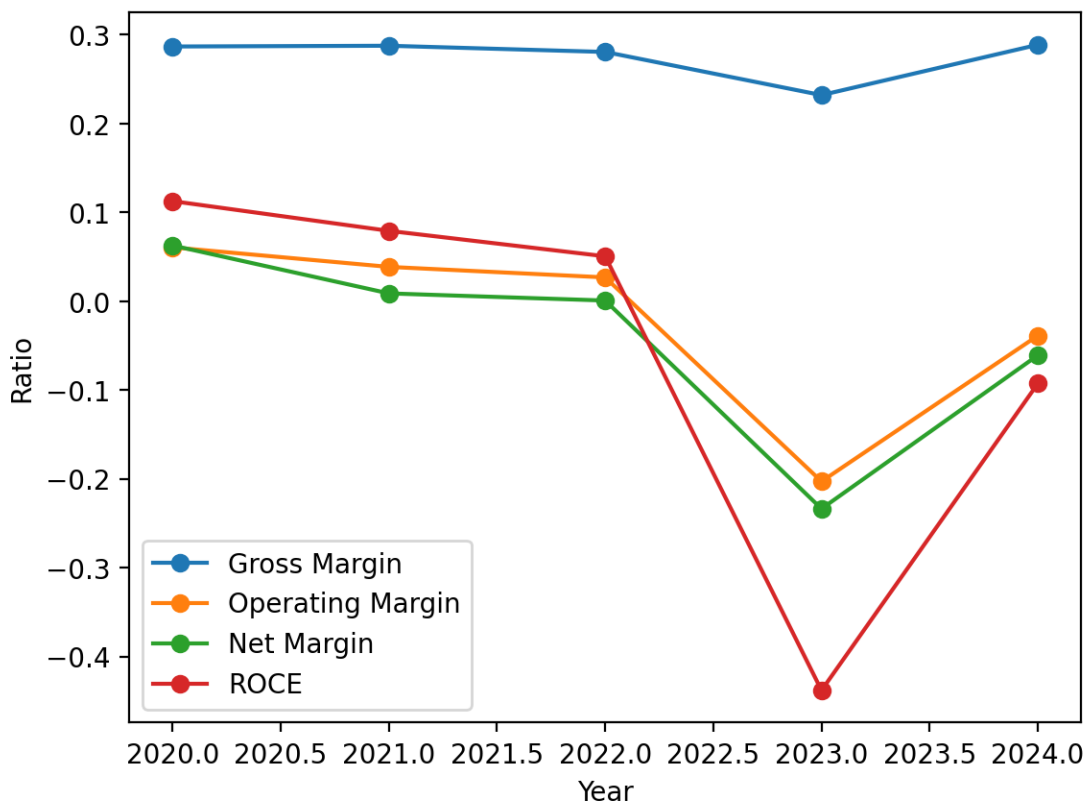


Figure: Table A1: Profitability Ratios (2020–2024) trend (2020–2024).

Table A2: Liquidity Ratios (2020–2024)

Formulas used:

- Current Ratio = Current Assets ÷ Current Liabilities
- Quick Ratio = (Current Assets – Inventories) ÷ Current Liabilities
- Cash Ratio = Cash and Cash Equivalents ÷ Current Liabilities

Year	Current Ratio	Quick Ratio	Cash Ratio
2020	1.82	1.15	0.32
2021	1.56	0.93	0.28
2022	1.56	0.91	0.31
2023	1.61	1.06	0.27
2024	1.53	1.03	0.17

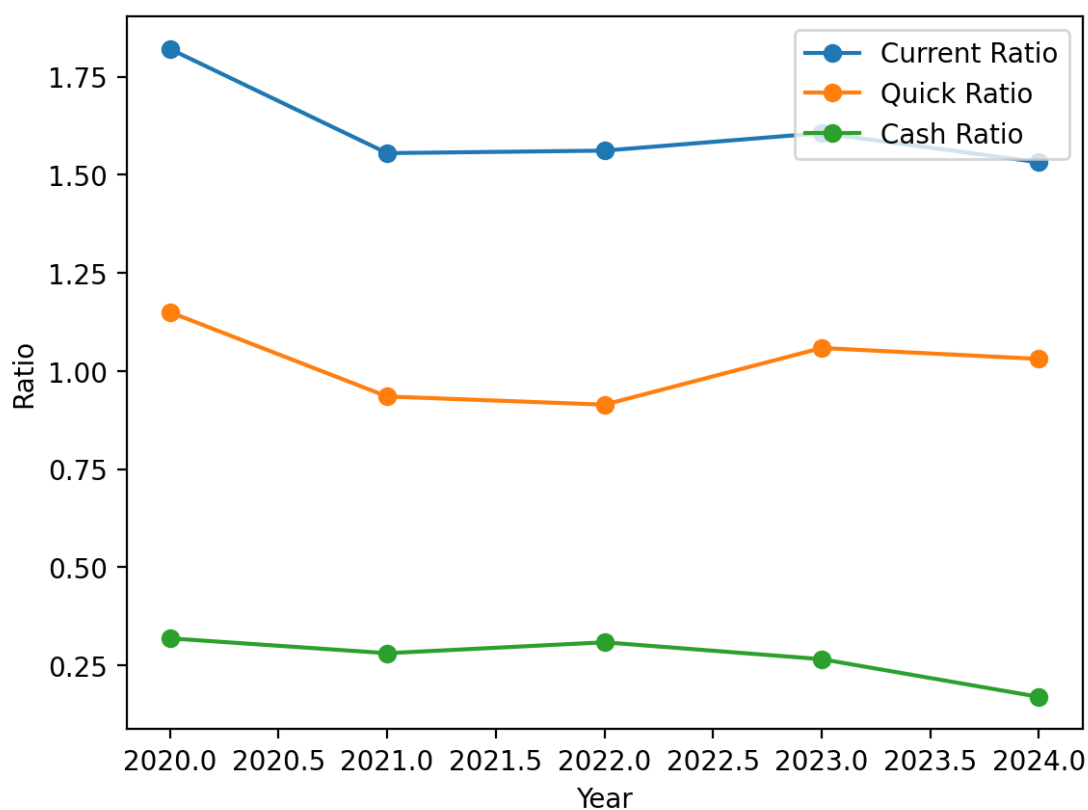


Figure: Table A2: Liquidity Ratios (2020–2024) trend (2020–2024).

Table A3: Efficiency Ratios (2020–2024)

Formulas used:

- Asset Turnover = Net Sales ÷ Total Assets
- Fixed Asset Turnover = Net Sales ÷ PPE
- Receivables Days = (Accounts Receivable ÷ Net Sales) × 365
- Inventory Days = (Inventories ÷ Cost of Sales) × 365

Year	Asset Turnover	Fixed Asset Turnover	Asset	Receivables Days	Inventory Days
2020	1.20	7.04		76.86	100.26
2021	1.18	8.06		78.40	114.52
2022	1.08	8.64		86.90	131.04
2023	1.18	9.42		97.74	99.78
2024	1.22	11.54		105.54	103.12

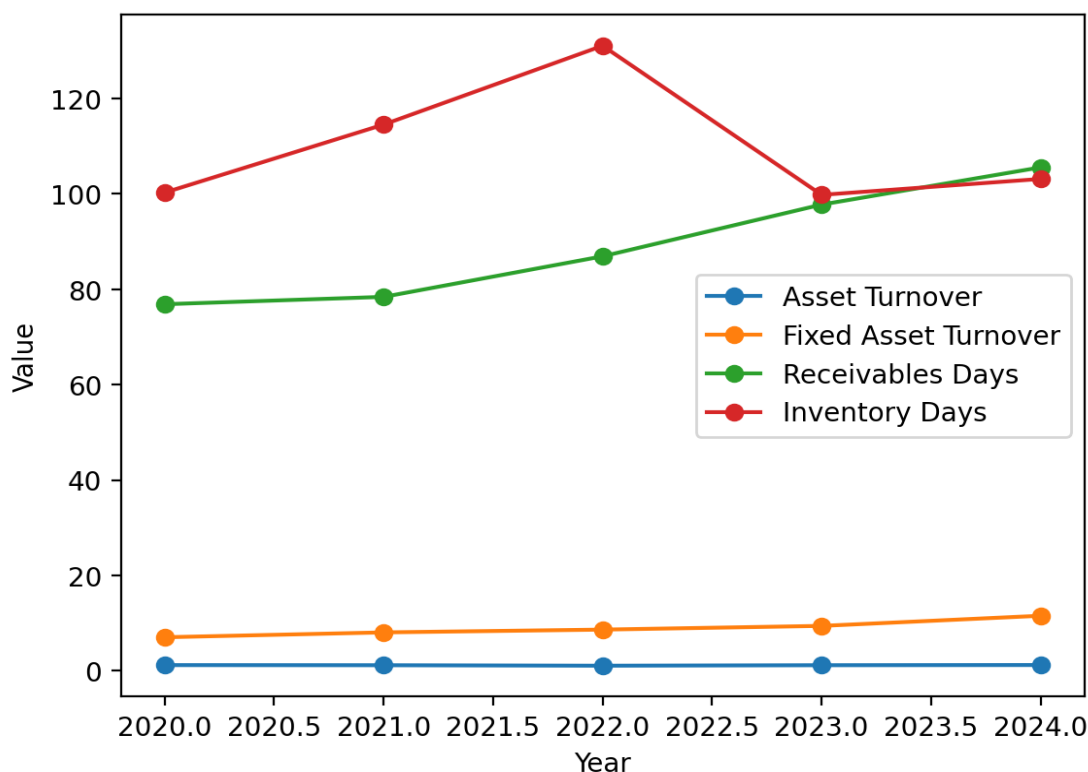


Figure: Table A3: Efficiency Ratios (2020–2024) trend (2020–2024).

Table A4: Gearing Ratios (2020–2024)

Formulas used:

- Interest Coverage = EBIT ÷ Interest Expense
- Debt to Equity = Total Liabilities ÷ Equity
- Debt to Capital = Total Liabilities ÷ (Total Liabilities + Equity)
- Equity Multiplier = Total Assets ÷ Equity

Year	Interest Cover	Debt/Equity	Debt/Capital	Equity Multiplier
2020	26.21	0.63	0.39	1.63
2021	41.08	0.85	0.46	1.85
2022	6.61	0.88	0.47	1.88
2023	-19.69	0.99	0.50	1.99
2024	-4.55	1.11	0.53	2.11

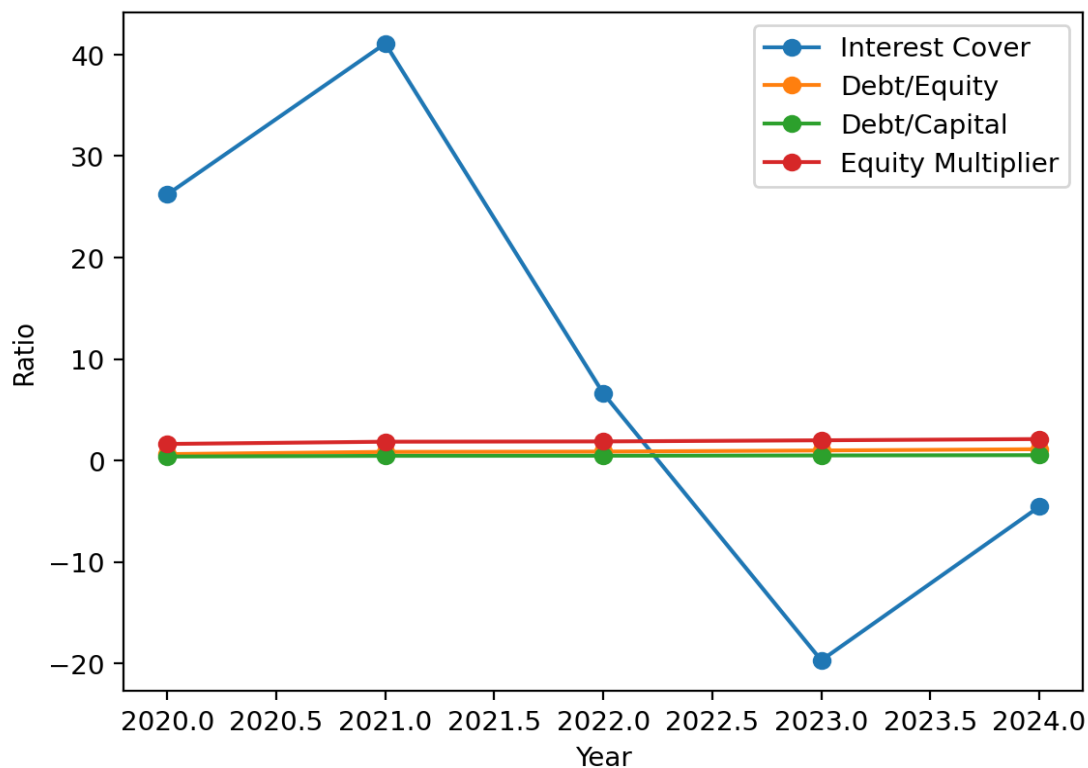


Figure: Table A4: Gearing Ratios (2020–2024) trend (2020–2024).

Table A5: Investment Ratios (2020–2024)

Formulas used:

- $\text{EPS} = \text{Net Income} \div \text{Shares Outstanding}$
- $\text{P/E} = \text{Market Price per Share} \div \text{EPS (assumed £120)}$
- $\text{ROE} = \text{Net Income} \div \text{Equity}$

Year	EPS	P/E	ROE
2020	385.72	0.31	0.12
2021	53.01	2.26	0.02
2022	4.07	29.48	0.00
2023	-982.38	-0.12	-0.55
2024	-240.29	-0.50	-0.16

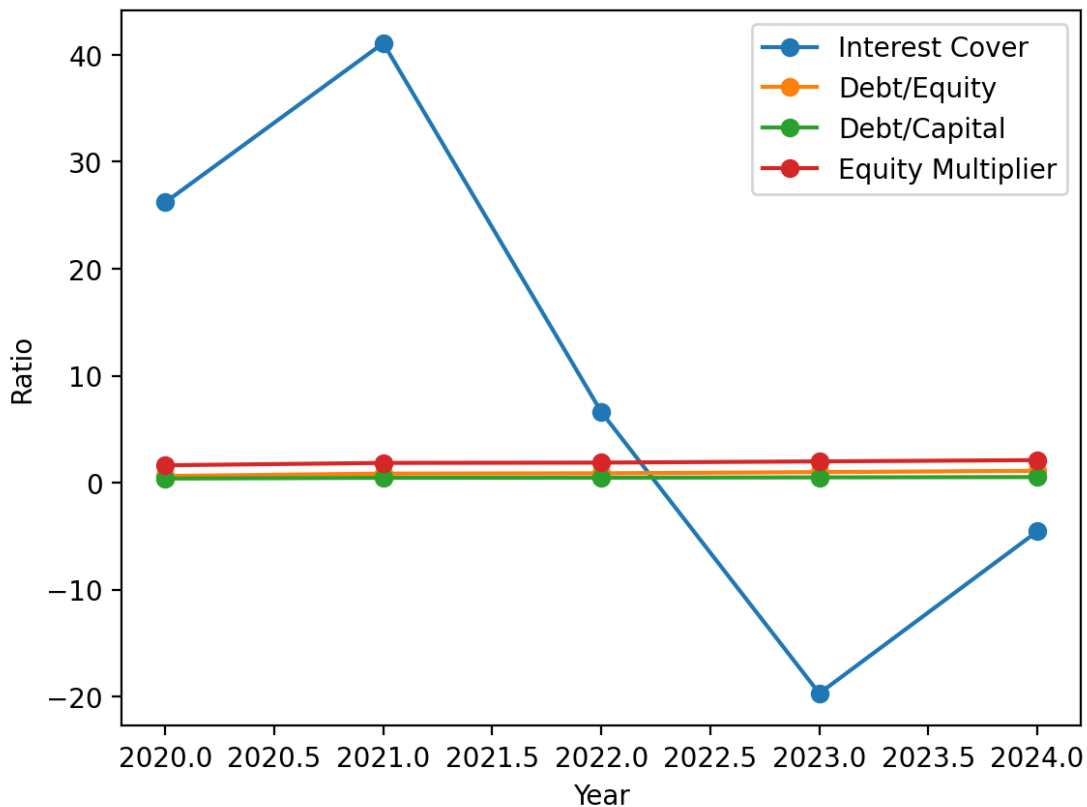


Figure: Table A5: Investment Ratios (2020–2024) trend (2020–2024).

Table A6: Cash Flow Ratios (2020–2024)

Formulas used:

- Operating Cash Flow Ratio = $OCF \div \text{Current Liabilities}$
- Cash Flow to Debt Ratio = $OCF \div \text{Total Liabilities}$
- Cash Flow Margin = $OCF \div \text{Net Sales}$

Year	OCF Ratio	CF to Debt	CF Margin
2020	0.43	0.39	0.13
2021	0.12	0.11	0.04
2022	0.05	0.04	0.02
2023	0.16	0.14	0.06
2024	0.09	0.09	0.04

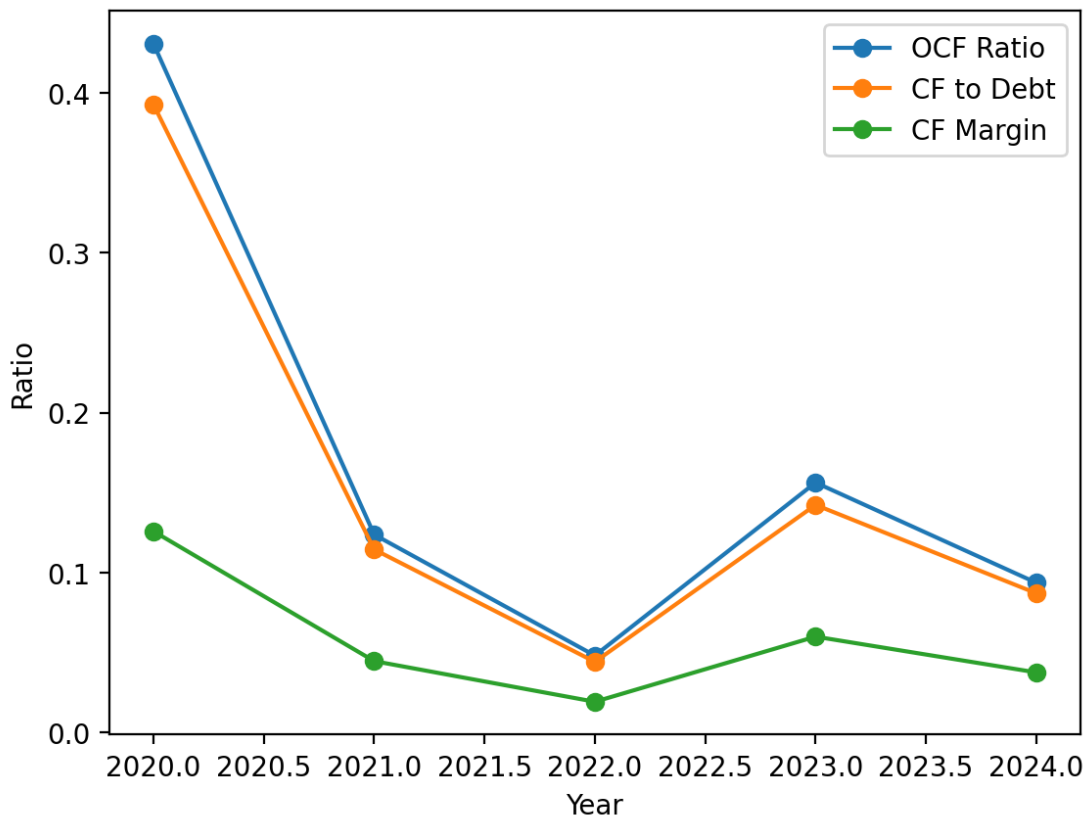


Figure: Table A6: Cash Flow Ratios (2020–2024) trend (2020–2024).

Table A7: Altman Z-Score (2020–2024)

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

Year	Z-Score
2020	3.61
2021	3.08
2022	2.89
2023	2.03
2024	2.58

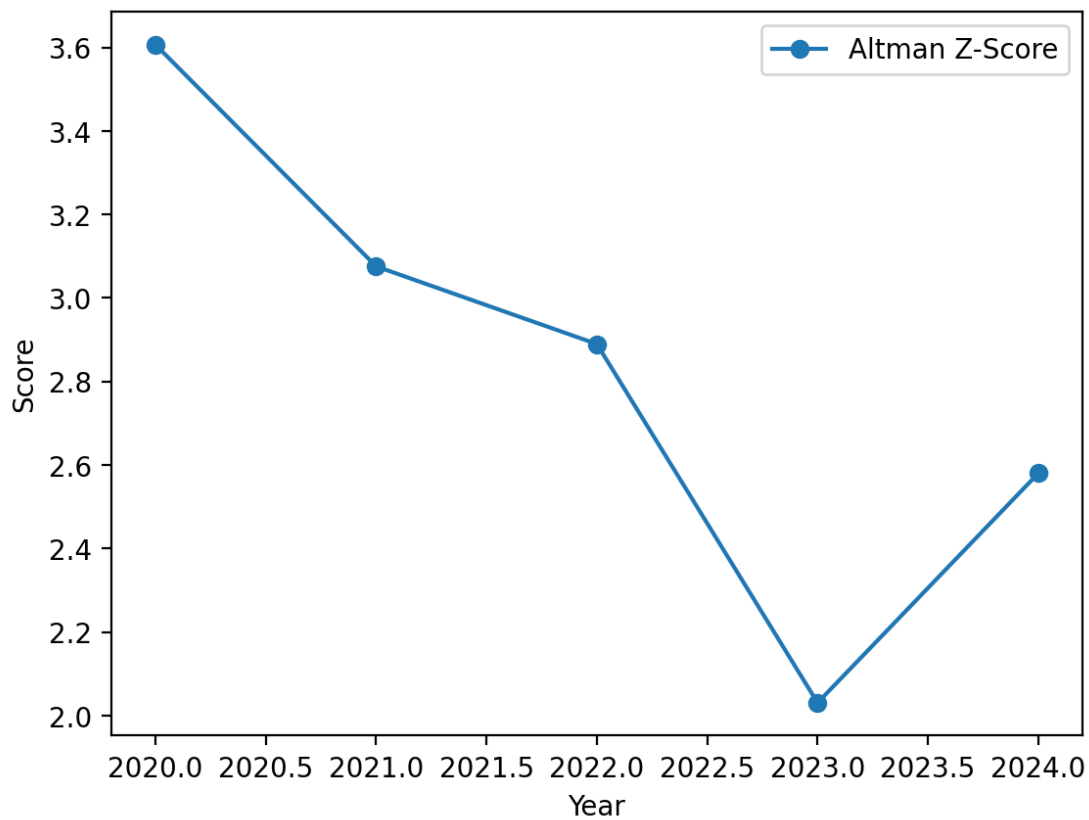


Figure: Altman Z-Score trend and distress signal.

Appendix B: Financial Evidence Supporting the Strategic Financial Restructuring Plan

Appendix B1: Profitability Deterioration and Shareholder Value Erosion

Purpose: To demonstrate how declining operating performance translates into erosion of shareholder value.

Year	Operating Margin	Net Margin	Equity (£m)
2020	0.06	0.06	313301.00
2021	0.04	0.01	275949.00
2022	0.03	0.00	268406.00
2023	-0.20	-0.23	178920.00
2024	-0.04	-0.06	153105.00

The simultaneous compression of margins and reduction in equity indicates that losses are being absorbed directly by shareholders, weakening loss-absorption capacity.

Appendix B2: Operating Cash Flow Sustainability

Purpose: To assess whether reported earnings are supported by sustainable cash generation.

Year	Operating Cash Flow (£m)	OCF / Net Income
2020	77352.00	2.01
2021	26833.00	5.06
2022	10406.00	25.57
2023	25190.00	-0.26
2024	14822.00	-0.62

Volatile or negative operating cash flows relative to accounting earnings signal heightened liquidity risk and constrain internal financing capacity.

Appendix B3: Asset Base Contraction and Divestment Rationale

Purpose: To evaluate whether the asset base remains aligned with the firm's reduced earnings capacity.

Year	Total Assets (£m)	PPE (£m)	PPE / Assets
2020	510290.00	87285.00	0.17
2021	510348.00	74647.00	0.15
2022	504163.00	62791.00	0.12
2023	355872.00	44619.00	0.13
2024	323354.00	34207.00	0.11

A high or persistent asset intensity ratio under weak profitability supports the case for selective divestment to release trapped capital.

Appendix B4: Capital Structure and Solvency Pressure

Purpose: To assess solvency risk arising from leverage and equity erosion.

Year	Total Liabilities (£m)	Equity (£m)	Debt-to-Equity
2020	196898.00	313301.00	0.63
2021	234399.00	275949.00	0.85
2022	235757.00	268406.00	0.88
2023	176952.00	178920.00	0.99
2024	170249.00	153105.00	1.11

Rising leverage driven by equity contraction increases refinancing risk and reduces strategic flexibility.

Appendix B5: Short-Term Debt Exposure and Liquidity Risk

Purpose: To evaluate the firm's ability to meet short-term obligations using immediate liquidity.

Year	Current Liabilities (£m)	Cash (£m)	Cash Ratio
2020	179510.00	57153.00	0.32
2021	216787.00	60813.00	0.28
2022	216473.00	66740.00	0.31
2023	161148.00	42751.00	0.27
2024	158291.00	26783.00	0.17

Low or declining cash ratios imply reliance on rollover financing, which may become unavailable under stress.

Appendix B6: Treasury Stock and Capital Preservation Issue

Purpose: To assess whether capital has been preserved relative to the asset base.

Year	Equity (£m)	Total Assets (£m)	Equity / Assets
2020	313301.00	510290.00	0.61
2021	275949.00	510348.00	0.54
2022	268406.00	504163.00	0.53
2023	178920.00	355872.00	0.50
2024	153105.00	323354.00	0.47

A declining equity-to-asset ratio indicates capital depletion, suggesting limited scope for distributions or buybacks.

Appendix B7: Foreign Exchange Exposure Evidence

Purpose: To identify potential exposure to currency volatility through revenue instability.

Year	Revenue (£m)	YoY Revenue Change
2020	614680.00	—
2021	601602.00	-0.02
2022	542751.00	-0.10
2023	420457.00	-0.23
2024	394879.00	-0.06

Analytical note: Large year-on-year revenue fluctuations may reflect sensitivity to exchange rate movements or international demand shocks.

Appendix C: Investment Appraisal and Capital Budgeting Calculations

All monetary values are expressed in £ million. Discount rate (r) = 10%, project life = 5 years, depreciation = straight-line to zero.

Appendix C1: Discount Factors at 10%

Formula: $DF = 1 / (1 + r)^t$

Year	Formula	Discount Factor
1	$1/(1+10)^1$	0.9091
2	$1/(1+10)^2$	0.8264
3	$1/(1+10)^3$	0.7513
4	$1/(1+10)^4$	0.6830
5	$1/(1+10)^5$	0.6209

Appendix C2: Project A – Net Present Value Calculation

Initial investment = £40m

Formula: $NPV = \sum (CF_t \times DF_t) - I_0$

Year	Cash Flow (£m)	Discount Factor	Present Value (£m)
1	10	0.9091	9.09
2	12	0.8264	9.92
3	14	0.7513	10.52
4	10	0.6830	6.83
5	8	0.6209	4.97

Total PV of inflows = £41.32m

Net Present Value (NPV) = £1.32m

Appendix C3: Project B – Net Present Value Calculation

Initial investment = £30m

Formula: $NPV = \sum (CF_t \times DF_t) - I_0$

Year	Cash Flow (£m)	Discount Factor	Present Value (£m)
1	6	0.9091	5.45
2	6	0.8264	4.96
3	6	0.7513	4.51
4	6	0.6830	4.10
5	6	0.6209	3.73

Total PV of inflows = £22.74m

Net Present Value (NPV) = £-7.26m

Appendix C4: Project C – Net Present Value Calculation

Initial investment = £50m

Formula: $NPV = \sum (CF_t \times DF_t) - I_0$

Year	Cash Flow (£m)	Discount Factor	Present Value (£m)
1	5	0.9091	4.55
2	10	0.8264	8.26
3	20	0.7513	15.03
4	25	0.6830	17.08
5	15	0.6209	9.31

Total PV of inflows = £54.23m

Net Present Value (NPV) = £4.23m

Appendix C5: Payback Period (PBP)

Formula: $PBP = \text{year before recovery} + (\text{unrecovered amount} \div \text{cash inflow in recovery year})$

Project	Initial Investment (£m)	Payback (years)
A	40	3.40
B	30	5.00
C	50	3.60

Appendix C6: Accounting Rate of Return (ARR)

ARR = Average accounting profit ÷ Average investment

Project	Avg Profit (£m)	Avg Investment (£m)	ARR (%)
A	2.80	20.00	14.00
B	0.00	15.00	0.00
C	5.00	25.00	20.00

Appendix C7: Internal Rate of Return (IRR)

IRR is the discount rate at which NPV equals zero.

Project	IRR (%)
A	11.33
B	0.00
C	12.72