



Assessment Component:

Financial Performance and Management

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1.0 Introduction

General Electronics is a major competitor in the consumer electronics industry worldwide, but due to the high financial pressure, it is under threat of going out of business in the long run. The company should take into consideration different restructuring strategies to recover the financial stability, increase shareholder value, and increase operational flexibility. This assignment examines three main financial restructuring opportunities, including divestitures, mergers, and equity injections that present different opportunities and risks. Through the analysis of these strategies, we would like to evaluate the possible effects on shareholder wealth, stock price, debt structure and operational flexibility. Further, this report takes into account key international and ethical considerations required when making any restructuring decision and they include tax, currency risks, and corporate social responsibility (CSR). It is hoped that through such analyses, a detailed insight into what General Electronics can do to come out of its financial troubles and emerge as a thriving successful company will be achieved.

2.0 Financial Health Check

2.1 Overview of the Firm's Financial Position

General Electronics has been experiencing major problems in terms of revenue and finances in the past five years as indicated in the income statement, balance sheet and cash flow statement. The net sales of the company have fallen down to 394,879 million since 2020, when it was 614,680 million, which is a significant loss of revenue. Cost of sales has also decreased during the same period and it has resulted in the decrease of the gross profit margin. Operation costs have been changing widely, especially in 2023, which experienced a huge growth in operation costs, hence affecting the operating income negatively.

In the balance sheet, the current assets of the company have dropped by around £83.5 billion between 2020 and 2024, with the main causes being in the inventories and accounts receivable declines. Nevertheless, its long term assets like property, plant and equipment have also depreciated massively. This has raised concerns about the liabilities of the company and the current liabilities, as well as long-term debt obligations have grown which has led to the increase of the debt-to-equity ratios.

Cash flows have been fluctuating, and the net cash flow through operating activities fell considerably in 2024, which indicates that the firm has problems with operations. Nevertheless, the company has tried to fund its operations by borrowing and stock options leading to variabilities in funding operations. Cash reserves have also been affected by the impact of changes in foreign currency exchange rates.

2.2 Ratio Analysis

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

Table 1Ratio Analysis

General Electronics ratio analysis shows that it has performed in a mixed manner in the last five years, having both strength and weaknesses in the main areas of financial performance. The gross profit margin has been fairly stable, averaging between 23.2 per cent and 28.9 per cent which implies that the company can fund its production and make stable profit out of its sales. But the turnover of assets (ROA) is at its lowest, with 7.6 in 2020 falling to -7.4 in 2024, which is the indication of decreasing efficiency in the use of assets to make a profit. Its liquidity ratios such as the current ratio (1.53 in 2024), and the quick ratio (1.03 in 2024) indicate that General Electronics possesses sufficient short-term assets to cover its short-term liabilities; however, there has been that slight fluctuation in the last few years. The asset turnover ratio has been fairly steady and low with 1.22 in 2024, indicating a moderate efficiency in the asset utilization to generate revenues. The 3.54 inventory turnover ratio of 2024 indicates a good management of inventory and products are sold and replaced within a reasonable time period. On the negative side, debt to equity ratio has risen up to 1.11

in 2024 which means it is associated with a greater degree of dependence on debt financing and hence, financial risk. Furthermore, the negative value of earnings per share (EPS) in 2024 and decreasing operating cash flow/debt ratio (0.087 in 2024) are the indicators of the difficulty of the company to maintain stable profits and control the debt service.

2.3 Trend Analysis

The trend analysis of the performance of the financial performance of the General Electric in the last five years shows some areas of concern (SARI, FAUZAN and GUNTUR, 2024). According to the financial data provided, these trends indicate that the company is experiencing some problems in terms of profitability, liquidity and efficiency as well as the overall financial stability of the company.

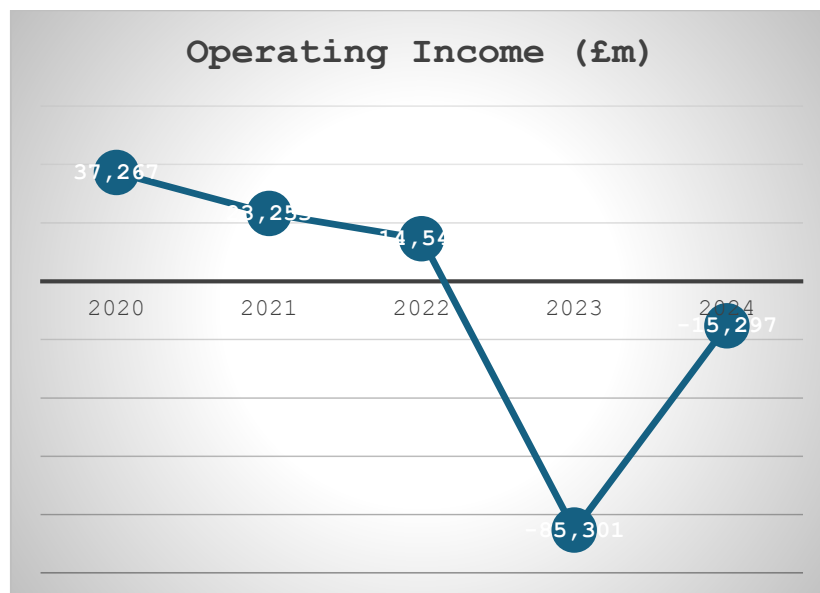


Figure 1 Operating Income

Operating Income: The company has experienced sizable operating losses during the past two years, and at the year 2024, the company has incurred a major operating loss of £15,297 million, whereas in the year 2020, the company made an operating income of £37,267 million. This demonstrates a significant decline in operational efficiency.

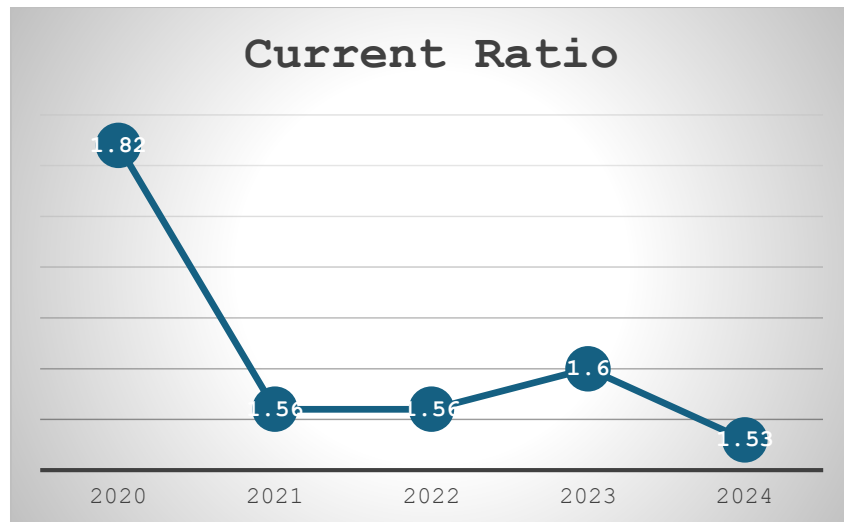


Figure 2 Current Ratio

Current Ratio: The current ratio has also dropped marginally with the company now having a current ratio of 1.53 in 2024 as compared to 1.82 in the year 2020. This reduction means that General Electronics may not be able to fulfill its short term obligations soon but it is still higher than the average of 1.0 (Rachman, Karyatun and Digdowiseiso, 2023).

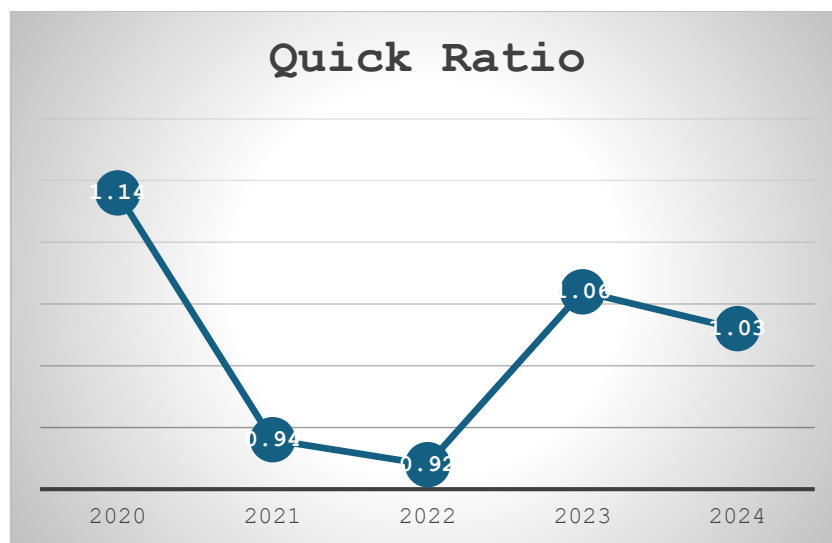


Figure 3 Quick Ratio

Quick Ratio: The quick ratio has also fallen, in the same way, it has fallen by 1.14 in 2020 to 1.03 in 2024. This development also indicates possible liquidity issues with the short-term assets of the company failing to meet its short-term liabilities (Lufiyandi Supriatman and Judiarni, 2023).

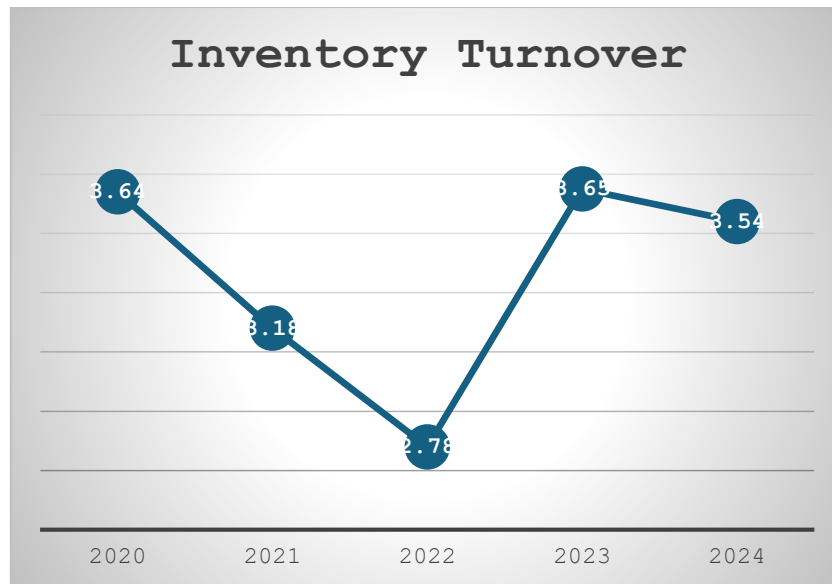


Figure 4 Inventory Turnover

Inventory Turnover: The inventory turnover ratio has not been constant, however it remains quite high meaning that General Electronics is managing its inventory efficiently. Nevertheless, this trend was observed to reduce significantly in 2022 (2.78) possibly due to the overstocking or slow sales in the year.

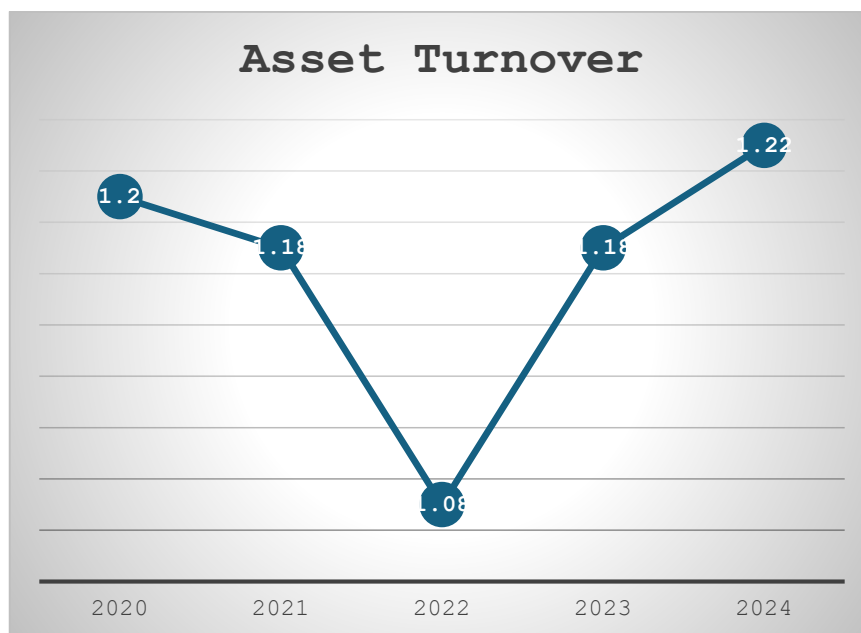


Figure 5 Asset Turnover

Asset Turnover: The asset turnover ratio has been pretty constant in the last five years but at an average of approximately 1.2. This demonstrates the fact that the company has been operating at a steady rate of efficiency in the use of its assets to generate revenue even as the sales have decreased (Utami, Muslih and Csra, 2022).

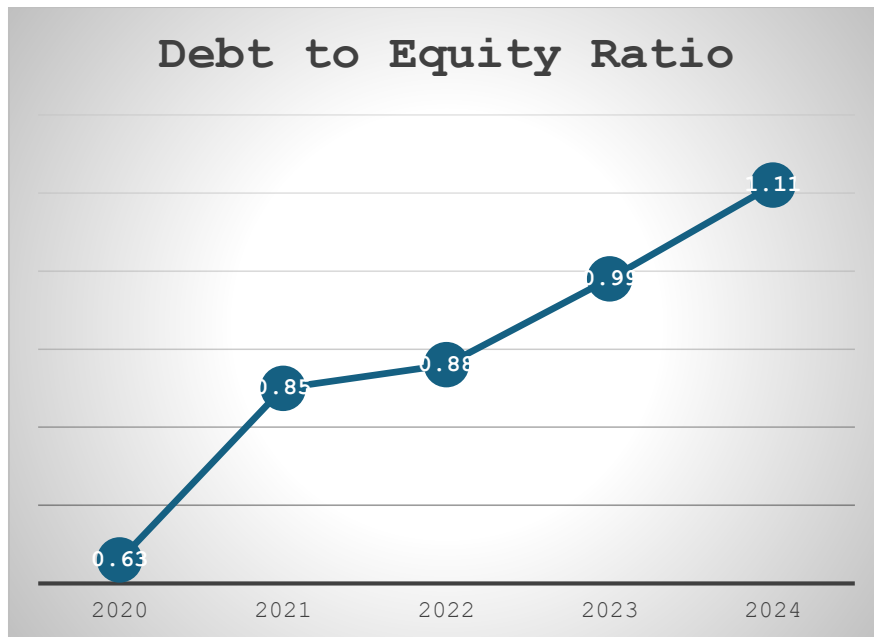


Figure 6 Debt to Equity Ratio

Debt to Equity Ratio: The debt to equity ratio has gradually risen in 2020 (0.63) to 2024 (1.11), which means that the company has been more dependent on debt to fund its operations (Heliani et al., 2022). This casts doubt on the financial strength and future servicing of the debt of the company.

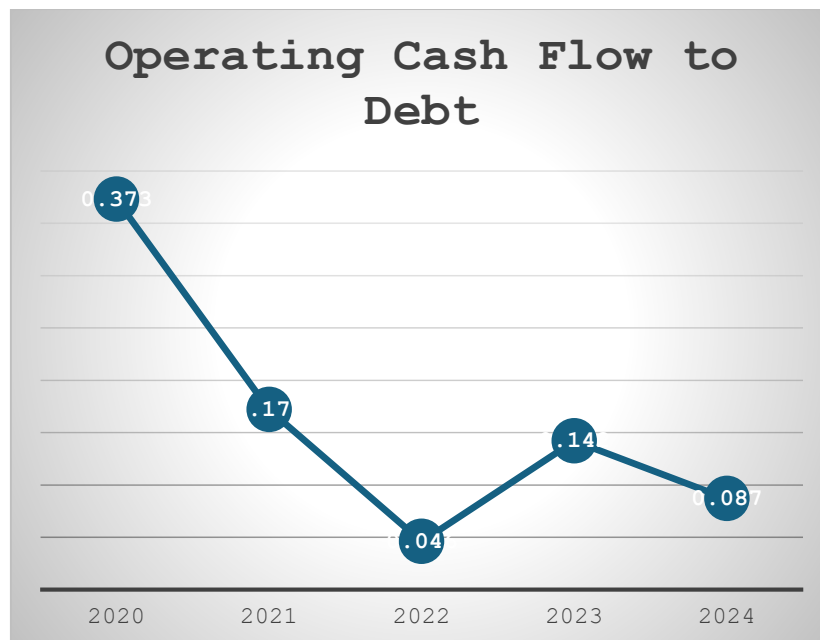


Figure 7 Operating Cash Flow to Debt Ratio

Operating Cash Flow to Debt Ratio: Operating cash flow to debt ratio has been very low and more so in 2024 at 0.087 showing that the company is having a difficulty in raising enough cash to service the debt (Sunmola, 2021).

2.4 Strengths and Threats

Strengths

1. **Constant stable Gross Profit Margin:** General Electronics has been recording a stable gross profit margin with a record of between 23.2% in 2023 up to 28.9% in 2024. This shows how the firm is able to control the cost of production and be able to make profit through its core business even during times of financial difficulties.
2. **Solid Liquidity Ratios:** In the year 2024, the company has shown to have strong liquidity ratios, currently having a ratio of 1.53 and a quick ratio of 1.03. These ratios imply that General Electronics possesses enough short term assets to meet its immediate obligations which means that it has got good financial flexibility to meet any unexpected challenges (Hasidi, Baheri and Hajar, 2024).
3. **Efficient Asset Management:** General Electronics has been able to maintain an aspect of efficiency of asset turnover ratio of 1.22 in 2024. Although this is a mild decrease in comparison to the past years it still indicates that the company is able to generate revenue on its assets. Also, 3.54 inventory turnover implies good inventory management as it means that the company sells and replaces inventory fast.

Threats

1. **Declining Return on Assets (ROA):** The ROA has gone down significantly to -7.4 percent in 2024 compared to 7.6 percent in 2020 indicating that the company is no longer able to make profits on the assets it has. It is a significant issue of declining efficiency to the profitability in the long run.
2. **High Debt Levels:** General Electronics is the company that is becoming more dependent on debt financing with its debt to equity ratio of 1.11 in 2024. This increases the chances of becoming financial distress especially in a low-profit condition since servicing debt is harder (Heimberger, 2022).
3. **Negative Earnings per Share (EPS):** The negative 2024 EPS of -£1.85 shows that the company is already unprofitable. This may destroy investor confidence and harm stock value.

2.5 Corporate Failure Prediction Models (Altman Z-Score)

Altman Z-Score is applied to forecast the possibility of a company becoming bankrupt (Cindik and Armutlulu, 2021).

The Z-Score may be represented by the following formula:

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

Calculation of Altman Z-Score for 2024

We will use approximate figures based on the balance sheet and income statement data for 2024.

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

Now, substituting these values into the Z-Score formula

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

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

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

Interpretation of Z-Score

Now the Altman Z-Score of 2024 stands at 2.819 and the company is in the grey zone. This means that General Electronics is at a risk financially and must make serious remedial measures to prevent bankruptcy (Rashid, Khan and Qureshi, 2024).

3.0 Working Capital Management Analysis

3.1 Cash Operating Cycle

Cash Operating Cycle (COC) is also an important indicator used in working capital management and it gives an understanding of the time period a company requires to convert its working capital into cash. It simply represents the period between cash expenditure on inventory and cash inflow of customers (Asman et al., 2022). The shortest cash cycle is preferable, as it means that the company can turn its resources into the cash within the shortest possible period of time. A longer cycle on the other hand may indicate inefficiency in stock management or slow debts.

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

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

Days Inventory Outstanding (DIO) for 2024:

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

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

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

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

Days Sales Outstanding (DSO):

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

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

Days Payables Outstanding (DPO) for 2024:

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

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

Cash Operating Cycle (COC):

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

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

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

This means that the General Electronics has a very long cycle of converting working capital to cash and it takes 120.8 days. The reason why this cycle is long is that the company may be experiencing inefficiencies in inventory turnover and receivables collection which could affect its cash flow and liquidity.

3.2 Liquidity Recommendations

With the long cash operating cycle of General Electronics, it is possible to apply a number of strategies to improve the liquidity and working capital management, the cash flow management, and the debt-dependence reduction, as well as the operational efficiency.

3.2.1 Improve Inventory Management

General Electronics ought to adopt just-in-time (JIT) inventory management in order to reduce the cash operating cycle. This plan helps to minimize the oversupply of stock since orders are made in response to demand, and not oversupply. JIT reduces the time the inventory spends in storage, which is useful in the reduction of Days Inventory Outstanding (DIO). The audit of the inventory should also take place regularly to detect the slow moving products, which will enable an improvement in cash flow by diminishing the amount held as inventory.

3.2.2 Strengthen Receivables Collection

The Days Sales Outstanding (DSO) of General Electronics is 105.7 days which is excessive, making payment of cash slow. To enhance this, the company would provide early payment discounts to the customers who make earlier payments to the company. Furthermore, there would be an introduction of tightening of credit policy and more aggressive collection procedures to hasten receivables. Selling receivables to a third party at a discount (the so-called factoring) can also be a short-term source of cash.

3.2.3 Optimize Payables

General Electronics has a Days Payable Outstanding (DPO) of 93.5 days, which is slowing down the payments of suppliers. Although this increases the short term liquidity, it can lead to straining of supplier relationship. The company ought to re-

examine the terms of payment and as far as possible, negotiate extended terms with suppliers without ruining these essential relationships.

3.3 Short-Term vs. Long-Term Financing Options

General Electronics needs to be keen on both the short term and long term financing plans to cope with the liquidity problems. They have their own pros and cons, and the decision of the company will be based on its short-term and long-term plans.

3.3.1 Short-Term Financing

Short-term financing, such as lines of credit, working capital loans and trade credit may help acquire a short-term liquidity to meet the running expenses (Nicolas, 2021). These facilities are best suited in filling short-term cash flow gaps especially since the company has a long cash operating cycle. Nonetheless, short-term financing usually has high interest rates, and thus may add an extra burden on the finances in case they are not well managed. In case of General Electronics, the use of lines of credit or commercial paper may provide a short-term liquidity as the company tries to streamline its cash cycle. Moreover, there are supplier financing or factoring which might enable the inflow of cash more quickly, through sales of receivables.

3.3.2 Long-Term Financing

Long term sources of funds can be the issue of equity, issuance of bonds or long term loans where the capital amounts are raised without the high rate of repayment as would be the case with short term sources. These can be used to stabilize the financial position of the company and make strategic investments (Li et al., 2021). There are however its own disadvantages of long- term financing, including interest payments on the debt or even dilution of ownership through issuing shares. Since General Electronics was financially challenged, a long-term debt or equity issue may be a solution, but an increase in debt is not recommended since its debt to equity ratio needs to be reduce first.

4.0 Strategic Financial Restructuring

4.1 Financial Restructuring Options

General Electronics has to consider different financial restructuring strategies to recover its financial stability, increase shareholder value and be more flexible in its operations. These are the strategies of divestitures, mergers as well as equity

injections. Both options have their own advantages and difficulties, and the decision will be made basing on long-term objectives of the company, its financial status at the moment, and external market conditions.

4.1.1 Divestitures

Divestiture is the sale of non-core assets, non-performing divisions and subsidiaries to increase capital and decrease debt, which is helpful to financially crippled companies such as General Electronics (Chen, 2019). Divestitures help increase the value of shares by unlocking cash tied up in assets that are not performing well to allow the company to concentrate on the activities that are most profitable. The debt may be improved through the use of proceeds into making the finances stable. Nonetheless, in improving operational effectiveness, shedding off the non-core business can decrease its diversification and hence the company can be more susceptible to risk in the core business.

4.1.2 Mergers

Merger is where General Electronics will be merged with another company to form a bigger and more competitive organization. Mergers have the ability to increase the shareholder value due to economies of scales, cost reduction and expansion of market share, but it is important that they do not fail at the integration process (Alkaraan, 2021). The merger with a company that is financially healthy will make the balance sheet stronger and available to access cheaper financing. The assumption that the other company liabilities would add to the debt could however jeopardize this and restructuring might lead to a decrease in flexibility as it would be difficult to integrate the operations.

4.1.3 Equity Injections

An equity injection is the increase in capital through the issuance of new shares or luring in of strategic investors. Although this may water down the ownership of current shareholders, which could decrease the short-term EPS and stock prices, it enhances the liquidity and decreases the extent of debt, generating long-term value (Xiong, Liu and Wang, 2022). Equity issues add strength to the balance sheet and decrease the interest of debt-equity ratio, which improves the creditworthiness. It can however change the form of governance, which affects decision making and flexibility of

operations as new investors are added, which affect the strategic direction of the company.

4.2 Impact on Shareholder Value

Shareholder Return

The shareholder value outcome of the restructuring is dependent on the strategy. Short-term divestiture can help provide cash to boost liquidity and decrease debt and the short-term benefits to the shareholders, but long-term returns can be harmed by selling vital assets (Ikwuo et al., 2025). Cost, expansion of market reach and efficiencies can be created through a merger which can add value to the shareholder provided that there is realisation of synergies. Nevertheless, the issues with integration can damage the profitability and market trust. The issuance of equity lowers debt and enhances liquidity, which builds the long-term financial stability but dilutes ownership, decreases EPS, and stock prices in the short-term. When strategically invested, it has the capability of increasing the share holder value in the long run.

Stock Price Impact

The effectiveness will determine how the market will react to restructuring. Sale of non-core assets could also raise stock prices in case of a divestiture as the company will be able to concentrate and concentrate on its profitable businesses. Nevertheless, in case of selling the necessary assets the market may have a negative perception of it, and the stock prices will fall (Ge et al., 2024).

A merger has the potential to increase the stock prices in case the investors anticipate synergies and increased profitability but integration issues or uncertainty will decrease the stock prices. The dilution normally causes a short-term decline in stock prices with the effect of equity issuance. Nevertheless, in the event where the restructuring boosts the financial wellbeing of the company, stock prices would increase in long run as confidence would have bounced back.

4.3 Debt Structure and Operational Flexibility

Debt-to-Equity Ratio

The debt-to-equity ratio will be affected by the restructuring, especially, debt reduction or equity issue by General Electronics. Debt reduction enhances financial flexibility and reduces the ratio and future financing becomes easy (Sukma, Nurtina and MH

Nainggolan, 2022). Another way of reducing the ratio is through equity issuance which increases equity and thus dilutes ownership which may not be a good thing to the existing shareholders.

Operational Flexibility

Reorganization will be able to increase flexibility. A merger provides the new resources and markets which enhances decision making. Nonetheless, integration can interfere with business and minimize flexibility. A divestiture would enable General Electronics to concentrate on core business making it more efficient but less diversified. Reduction of the debt enhances the cash flow which will offer greater flexibility to invest in the growth opportunities resulting in increased operational agility.

4.4 International and Ethical Considerations

Since General electronics is a global organization, financial restructuring should overcome multiple international and ethical challenges.

International Tax Issues

Rearrangement of business like the sale of assets or mergers can be done cross-border and each will be taxed differently. General Electronics has to take into consideration the tax effects including the capital gains taxes on the sale of assets and the tax avoidance issues that may arise in international mergers (Zakaria, 2022). It is also important to consult international tax experts in order to avoid substantial liabilities.

Currency Risk

The fluctuations of currency may also have a serious effect on restructuring especially in international divestitures or mergers. The exchange rate fluctuations are capable of influencing the value of the assets, liabilities, and cash flows in the future. General Electronics can hedge against this risk by spreading out the risk to stabilize its financial status via forward contract or currency options.

Inflation

The markets that General Electronics is operating in can be affected by inflation that will force the price of raw materials, labor and energy up to squeeze the profit margin (Braggion et al., 2024). To remain profitable in an inflationary environment, the company might require to change its pricing policy and cost management practices.

Corporate Social Responsibility (CSR)

General Electronics needs to think about the ethical aspects of restructuring, especially with regard to layoffs of employees, relationship with suppliers and environmental consideration. Moves like termination of employees or the selling of assets can be done in a responsible manner where the individuals concerned can be compensated fairly and assisted in ensuring that there is a high level of CSR.

Ethical Implications of Proposed Restructuring

All restructuring alternatives of divesting, mergers, and equity injections all have ethical concerns. General Electronics needs to consider these implications to be sure that the decisions made by the company are in agreement with the ethical values and responsibility of the company.

5.0 Investment Appraisal and Capital Budgeting.

5.1 Financial Evaluation Techniques

5.1.1 Payback Period (PBP)

Payback Period (PBP) is obtained by adding the annual cash inflows until the initial investment is recovered.

Project A

Year	Cash Inflows (£m)	Cumulative Cash Inflows (£m)
1	10	10
2	12	22
3	14	36
4	10	46
5	8	54

Table 2 Cash Inflows

The initial investment of 40M is repaid in Year 3 to 4. Precisely, the recovery will be via the following: £36m in Years 3 and the remaining 4m in Years 4 of 10m inflows.

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

Project B

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

Table 3 Cash Inflows

The initial investment of £30 million is fully recovered in **Year 5**.

Payback Period = 5 years

Project C

Year	Cash Inflows (£m)	Cumulative Cash Inflows (£m)
1	5	5
2	10	15
3	20	35
4	25	60
5	15	75

Table 4 Cash Inflows

Recovery of initial investment of £50 million takes place in the Year 3-4. Particularly, Year 3 recovers £35m, and Year 4 recovers the rest of the proceeds, which consists of intra-Year 4 inflow of 25m.

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

5.1.2 Accounting Rate of Return (ARR)

Accounting rate of return (ARR) is calculated as the yearly rate of return on the investment of a company

Project A

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

Table 5 Accounting Rate of Return

Project B

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

Table 6 Accounting Rate of Return

Project C

Description	Value
Total Cash Inflows	$\text{£}5\text{m} + \text{£}10\text{m} + \text{£}20\text{m} + \text{£}25\text{m} + \text{£}15\text{m} = \text{£}75\text{m}$
Average Annual Cash Inflow	$\text{£}75\text{m} / 5 = \text{£}15\text{m}$
Initial Investment	$\text{£}50\text{m}$
ARR	$(\text{£}15\text{m} / \text{£}50\text{m}) \times 100 = \mathbf{30\%}$

5.1.3 Net Present Value (NPV)

NPV is determined by discounting the cash inflows by 10 percent discount rate, and the initial investment is deductible.

Project A

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

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

Project B

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

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

Project C

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

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

5.1.4 Profitability Index (PI)

PI involves dividing the value of the future cash inflows presently, by the initial investment.

Project A

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

Project B

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

Project C

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

5.1.5 Internal Rate of Return (IRR)

Project A

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

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

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

$$IRR \approx 12.5\%$$

Project B

With initial IRR of 10, we get that NPV is negative. The inflows of cash will be the same on all the years and the NPV is negative even at a discount rate of 10, thus the IRR will be less than 10. The IRR is less than 0 since the NPV is negative at the value of 10.

Project C

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

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

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

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

$$IRR \approx 14\%$$

5.2 Comparative Analysis of Projects

5.2.1 Financial Performance Comparison

There are major metrics used to evaluate the financial performance of three proposed projects Payback Period (PBP), Accounting rate of return (ARR), Net present value (NPV), profitability index (PI), and internal rate of return (IRR).

Project A boasts of a relatively small Payback Period (PBP) of 3.4 years, such that the initial investment of £40 million is recouped quickly which is beneficial to the capital-constrained environment. ARR stands at 27 which is good although not the best compared to Project C. The NPV of 1.31 million is a value creation; however, it is not high compared to Project C. The PI of 1.033 does indicate that each pound that is invested yields a profit of 1.033, and therefore, is profitable. The IRR of 12.5% is good though average as compared to other projects.

Project B on its side will take a Payback Period of 5 Years which is the highest of the three projects. This increases the time to recover the initial investment of £30 million thus being less appealing particularly in respect of liquidity requirements. ARR is 20% which is the minimum in the three projects with NPV of negative at -7.29 million, which means that the project is not going to be value creating. The value of PI of 0.243 indicates that the returns obtained will not be worth the investment. Also, the IRR is negative which substantiates its financial infeasibility.

Project C The most profitable financial profile is found in project C. It was at 3.6 years Payback Period, a little longer than project A, yet still quite short. The highest is the ARR of 30%, which has the best return on investment. NPV is the highest of the projects at 4.23 million, which is an indication that it will yield a great value to the company. The PI of 1.085 indicates that project C is very profitable as at every one pound invested the project earns a profit of 1.085. Project C is also the most financially appealing with the highest IRR of 14 percent since it provides the best pay off when compared to the discount rate.

5.2.2 Risk and Cash Flow Volatility

The volatility of the cash flow is also a significant variable to be considered in evaluating the risk profile of individual projects.

Project A, possesses quite predictable cash flows of between 8 million and 14 million within the 5-year horizon. This uniformity is good, but the steep decline in the cash inflows in Year 5 is a matter of concern as to the sustainability in the long run. Although it has a rather short payback period, the volatility during the later years may pose certain threats to the financial stability of the project.

Project B, has stable annual cash flows of 6 million pounds within a period of five years. Although this stability is usually beneficial, the negative NPV and IRR render it unviable. Although the cash flows are steady, they do not warrant the investment and it is the risky part of the project and eventually not a viable solution given that this is Project B.

Project C, although having the highest level of cash flow volatility, has the highest potential returns as well. The inflows of cash are as follows: the cash inflow is 5 million in the Year 1 and 25 million in the Year 4 and declines to 15 million in the Year 5. The NPV and IRR are high to warrant the risk, and the project material has higher volatility.

The volatility in the cash flows can be compensated with the high returns in general and the Project C is the best even though it is volatile.

5.3 Final Investment Recommendation

5.3.1 Decision on the Project to Investment

Project C, should be chosen to be invested in taking into account the constraint of capital rationing, which is based on the amount of 60 million. The starting investment of 50 million pounds is not out of the budget and the project presents the greatest NPV (4.23 million), ARR (30 percent) and IRR (14 percent). These powerful financial variables indicate that Project C will bring the greatest value to the General Electronics and will be the most appropriate decision in terms of the long-term recovery of the company.

5.3.2 Justification of the Recommendation

Project C, offers the highest profitability and that which is of long-term value. The NPV of 4.23 million and IRR of 14 percent show good financial returns whereas the ARR of 30 percent is a high return on investment. The cash flow is more volatile in the project, but the high returns outweigh the risk hence the most desirable in the capital rationing. Project C will assist General Electronics in achieving its strategic objectives and hence provide the most viable prospects of recovering its financial status and growth sustainability. Project A, as a good option, has not shown the same profitability and long-term value and should not be included in the portfolio of investments.

6.0 Conclusion

its operations, yet each of them has some set of difficulties. Divestitures would enhance liquidity and concentrate resources on the core operations and mergers can provide the chance of synergies and market expansion. Dilutive in the short-term, equity injections may still drive the required capital needed to minimize debt and improve the financial health condition. Nevertheless, the options should be cautiously considered considering the international taxation issues, exchange rates risks, inflation and ethics. With appropriate choice of the appropriate restructuring strategy, General Electronics may overcome the financial troubles, improve its competitive positioning, and generate shareholder value in the long run, which will see sustainable growth in the competitive global market.

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Appendices

Appendix- 1 Profitability Ratios

Gross Profit Margin (GPM)

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

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

Return on Assets (ROA)

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

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

Appendix- 2 Liquidity Ratios

Current Ratio

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

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

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

Quick Ratio

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

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

Appendix- 3 Efficiency Ratios

Asset Turnover

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

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

Inventory Turnover

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

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

Appendix- 4 Gearing Ratios

Debt to Equity Ratio

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

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

Appendix- 5 Investment Ratios

Earnings Per Share (EPS)

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

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

Appendix- 6. Cash Flow Ratios

Operating Cash Flow to Debt Ratio

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

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