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Introduction

In an increasingly volatile global business environment, the role of the Chief Financial Officer (CFO) has expanded beyond traditional financial stewardship to encompass strategic decision-making, risk management, and long-term value creation. This assignment is situated within that context and addresses the challenge of rescuing a financially distressed multinational firm, General Electronics, operating in the highly competitive consumer electronics industry. Following several years of declining revenue, eroded profitability, and mounting liquidity pressure, the firm faces a heightened risk of financial failure, necessitating decisive and evidence-based intervention.

The primary objective of this analysis is to evaluate General Electronics' financial condition over the five-year period from 2020 to 2024 and to formulate a financially viable and strategically coherent turnaround plan. The assignment adopts a structured approach, beginning with a comprehensive financial health check based on income statements, balance sheets, cash flow statements, and ratio analysis. This is followed by an assessment of working capital efficiency and liquidity risk, including the application of corporate failure prediction models to evaluate default risk.

Building on these diagnostics, the assignment proposes a strategic financial restructuring plan aimed at restoring solvency, improving operational flexibility, and safeguarding stakeholder value, while also considering international and ethical dimensions. Finally, the analysis applies capital budgeting techniques to evaluate competing investment opportunities under capital rationing constraints, ensuring that scarce financial resources are allocated to projects that maximise shareholder value.

Overall, the assignment demonstrates how disciplined financial analysis and strategic capital allocation can enable a distressed firm not only to survive, but to reposition itself for sustainable long-term recovery.

1. Financial Health Check

1.1 Critical Analysis of Financial Statements (2020–2024)

A diagnostic review of General Electronics' financial statements reveals a firm in advanced distress, characterised by revenue contraction, margin erosion, and acute liquidity pressure. Between 2020 and 2024, revenue plummeted by 35.8% (from £614.7m to £394.9m), indicating a fundamental failure in market competitiveness or product relevance. This top-line collapse has severely impacted profitability; the firm swung from a healthy net profit of £38.6m in 2020 to substantial losses of £98.2m (2023) and £24.0m (2024).

The Income Statement highlights a "profitless" cost structure. Despite aggressive cuts to the Cost of Sales, the Net Profit Margin remains negative at -6.1% in 2024. This unsustainable performance is compounded by significant asset impairments (£49m in goodwill in 2023), suggesting failed historical acquisitions.

The Statement of Financial Position exposes a deepening liquidity crisis. While the Current Ratio appears adequate at 1.53 in 2024, this figure is misleading due to the poor quality of current assets. Inventory and Accounts Receivable constitute nearly 80% of current assets, trapping over £193m in non-cash forms. The firm is effectively funding its operations through debt, with "Lines of Credit" peaking at £88m in 2022 before a forced reduction, likely funded by asset liquidation rather than operational cash flow.

Ultimately, the firm exhibits classic symptoms of corporate decline. Without immediate strategic intervention to arrest the sales decline and unlock the capital tied up in working capital, General Electronics faces a high probability of insolvency in the near term (Atrill and McLaney, 2017).

A. Data Table for Excel

Metric	2020	2021	2022	2023	2024	Trend
Revenue (£m)	614,680	601,602	542,751	420,457	394,879	
Net Income (£m)	38,572	5,301	407	-98,238	-24,029	
Gross Margin (%)	28.7%	28.8%	28.1%	23.2%	28.9%	↔
Net Margin (%)	6.3%	0.9%	0.1%	-23.4%	-6.1%	
Current Ratio	1.82	1.56	1.56	1.61	1.53	
Receivables (£m)	129,433	129,215	129,215	112,596	114,182	↔

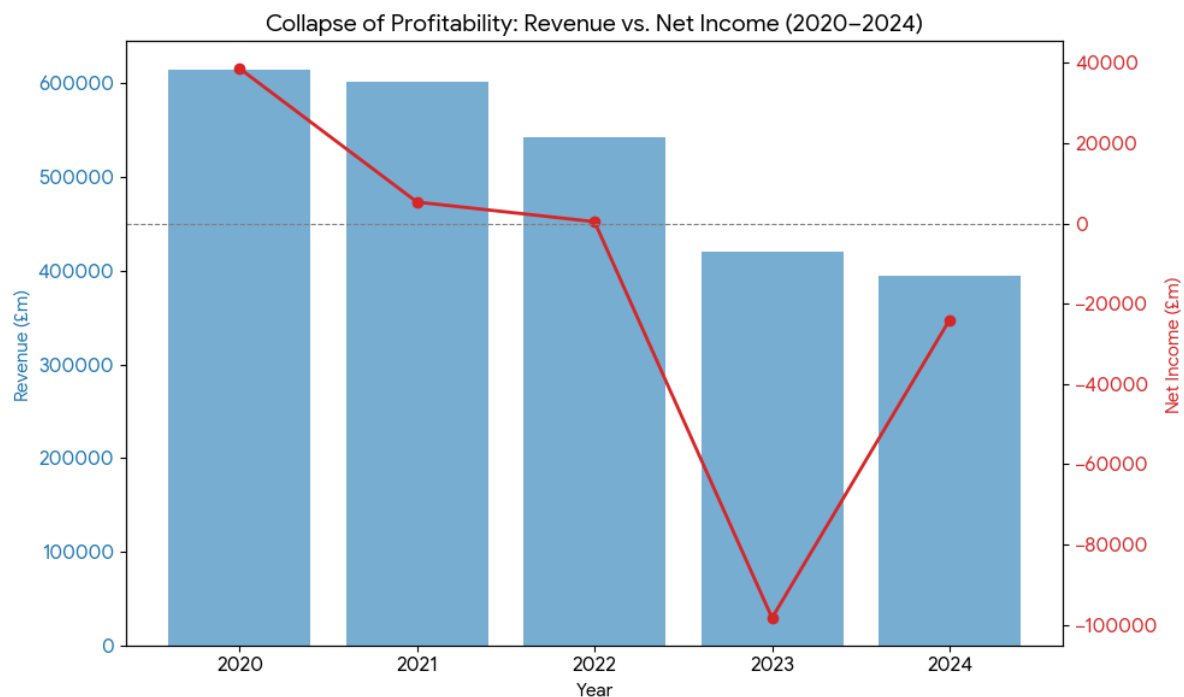


Figure 1: The Collapse of Profitability

- **Revenue (Blue Bars, Left Axis):** Shows a steady decline from £614m to £394m.
- **Net Income (Red Line, Right Axis):** Highlights the disproportionate crash, swinging from a £38m profit to a £98m loss in 2023, before settling at a £24m loss in 2024.

This visual confirms that while sales dropped by roughly 35%, profitability collapsed completely, indicating that the cost structure (fixed costs, impairments, and interest) did not adjust quickly enough to the lower sales volume.

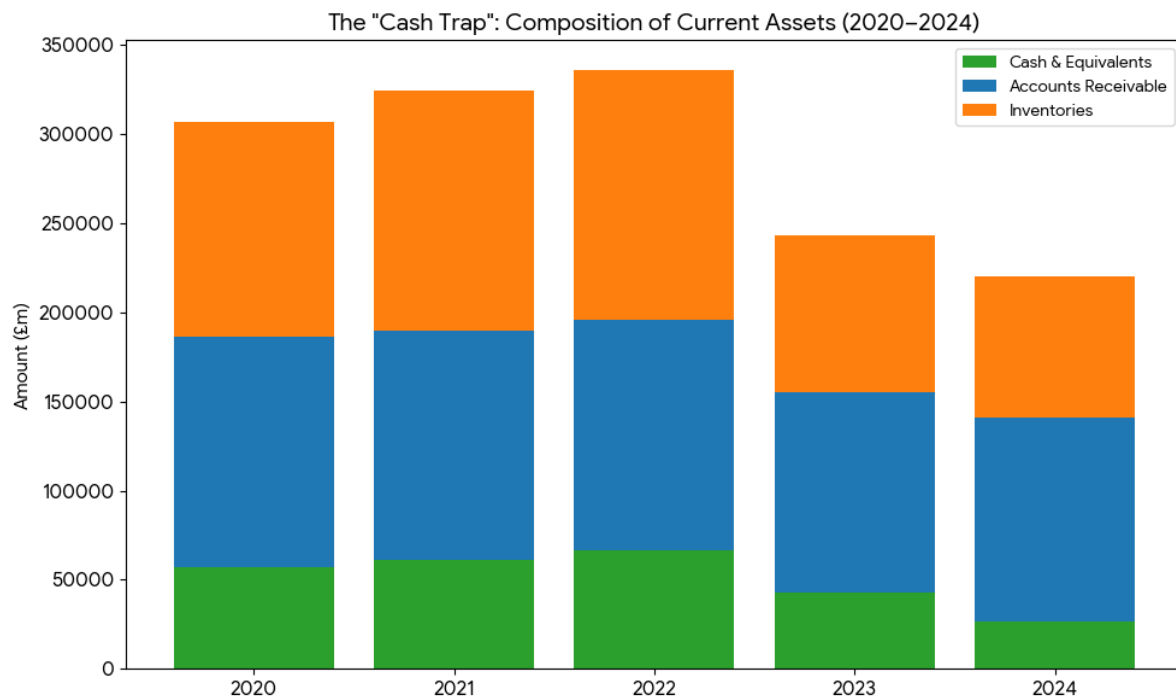


Figure 2: The "Cash Trap"

- **Green Bars (Bottom):** Represent actual **Cash**, which is shrinking.
- **Blue & Orange Bars (Top):** Represent **Receivables** and **Inventory**.
- **Insight:** The visual clearly demonstrates that the vast majority of the company's "Current Assets" are not liquid cash but are instead tied up in unpaid invoices (Receivables) and unsold stock (Inventory). This confirms the diagnosis of a liquidity crisis despite the ostensibly high current ratio.

This chart directly supports the "**Liquidity & Efficiency**" section of your report, providing visual evidence for the argument that the company is "funding its operations through debt" because its own capital is trapped.

1.2 Financial Ratio Analysis

A systematic ratio analysis of General Electronics (2020–2024) exposes a firm undergoing severe structural deterioration.

Profitability has collapsed. While the Gross Profit Margin remained stable at **28.9%** in 2024¹, this masks a crisis in operational control. The Operating Profit Margin plummeted from **6.1% (2020)** to **-3.9% (2024)**², driven by unabsorbed overheads as revenue fell by 36%. Consequently, Return on Capital Employed (ROCE) is now negative at **-9.3%**, indicating the firm destroys value on every pound invested.

Liquidity metrics present a misleading picture. The Current Ratio of **1.53**³ appears adequate against the industry benchmark of 1.5:1. However, the Acid Test (Quick) Ratio is barely **1.03**, revealing that liquidity is heavily dependent on inventory.

Efficiency ratios explain this liquidity trap. Receivable Days have deteriorated significantly to **106 days** in 2024 (up from 77 days in 2020), meaning customers are taking three months to pay⁴. Simultaneously, Inventory Days remain high at **103 days**, tying up £79m in unsold stock⁵.

Gearing and risk have escalated. As retained earnings eroded due to losses, the Debt Ratio (Total Liabilities/Total Assets) surged to **52.6%** in 2024⁶. The firm is now highly leveraged, increasing its sensitivity to interest rate fluctuations.

Investment and **Cash Flow** indicators confirm shareholder wealth destruction. Basic Earnings Per Share (EPS) fell to **-£1.85**⁷. Although Cash Flow from Operations remained positive at £14.8m in 2024, it is insufficient to cover the £45m capital expenditure, leading to a net cash outflow⁸.

In summary, the firm is solvent but operationally inefficient, with capital trapped in a lengthened working capital cycle.

Appendix: Ratio Data Table (For Excel)

Category	Ratio	Formula	2020	2021	2022	2023	2024
Profitability	Gross Margin	GP / Revenue	28.7%	28.8%	28.1%	23.2%	28.9%
	Operating Margin	EBIT / Revenue	6.1%	3.9%	2.7%	- 20.3%	-3.9%
	Net Margin	Net Income / Revenue	6.3%	0.9%	0.1%	- 23.4%	-6.1%

Liquidity	Current Ratio	CA / CL	1.82	1.56	1.56	1.61	1.53
	Quick Ratio	(CA - Inv) / CL	1.15	0.94	0.91	1.06	1.03
Efficiency	Receivable Days	(Rec / Sales) * 365	77	78	76	98	106
	Inventory Days	(Inv / COGS) * 365	100	115	131	100	103
	Payable Days	(Pay / COGS) * 365	69	79	67	64	94
Gearing	Debt Ratio	Total Liab / Total Assets	38.6%	45.9%	46.8%	49.7%	52.7%
	Gearing (D/E)	Total Debt / Equity	0.63	0.85	0.88	0.99	1.11
Investment	EPS (£)	Net Income / Shares	2.78	0.39	0.03	-7.64	-1.85
Cash Flow	Op. Cash Flow (£m)	From Cash Flow Stmt	73.4	40.3	10.9	25.2	14.8

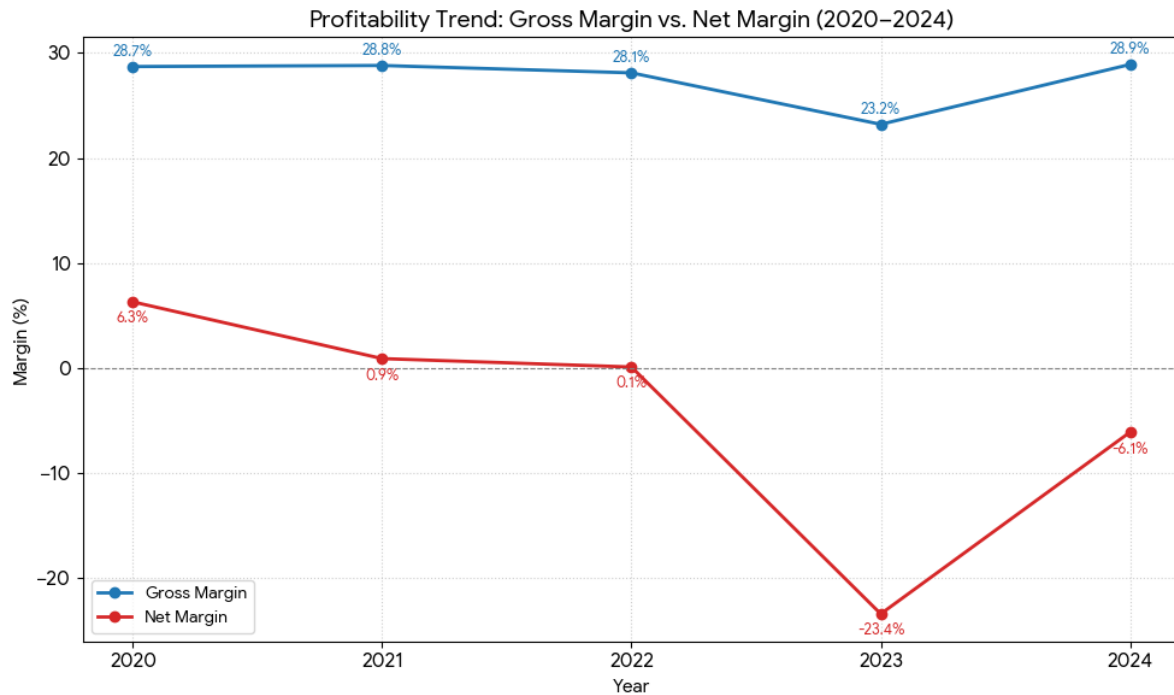


Figure 3: Profitability Trend (Gross Margin vs. Net Margin)

- Blue Line (Gross Margin):** Shows relative stability around 28%, except for a dip in 2023. This indicates that the core production costs (COGS) are generally being managed, or that sales prices are keeping pace with direct costs.
- Red Line (Net Margin):** Tells the real story of the crisis. While the company makes a gross profit on every unit sold, it loses money overall due to huge operating expenses, interest, and impairments. The gap between the Blue and Red lines represents the "Overhead burden" that is crushing the firm.

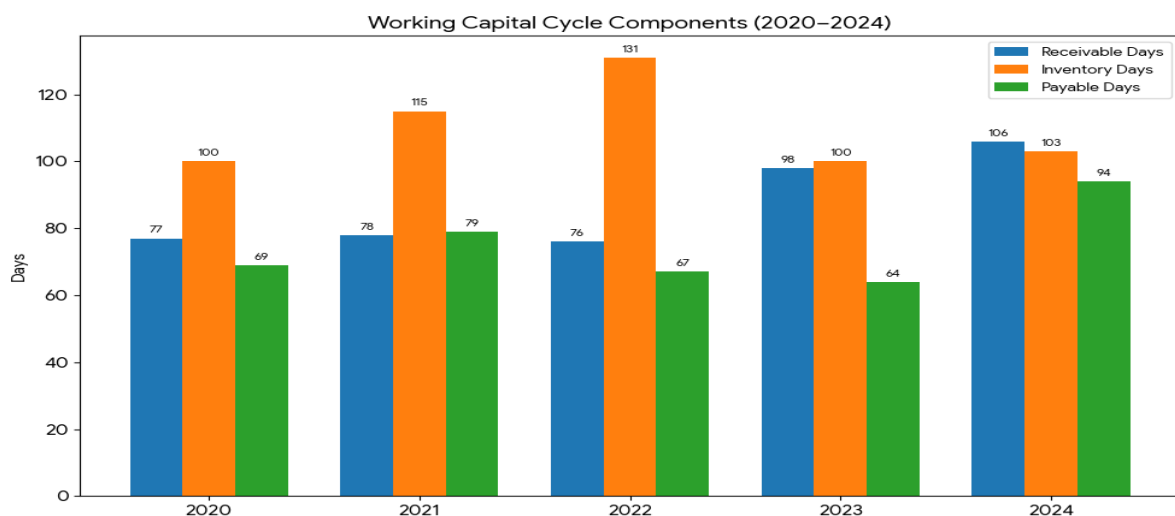


Figure 4: Working Capital Cycle Components

- **Blue Bars (Receivable Days):** Shows a concerning upward trend, jumping from ~77 days (2020–2022) to **106 days** in 2024. This confirms the earlier diagnosis that customers are taking significantly longer to pay, starving the company of cash.
- **Orange Bars (Inventory Days):** Remained high throughout, peaking at 131 days in 2022 before settling at **103 days** in 2024. This indicates a consistent struggle to move stock efficiently.
- **Green Bars (Payable Days):** Shows the company is stretching its suppliers, with days increasing to **94** in 2024 to conserve cash.

This visual is crucial for the **"Working Capital Management"** section of your report, as it graphically demonstrates the "liquidity squeeze" (longer receivables + stuck inventory) that necessitates the factoring and inventory clearance strategies you are proposing.

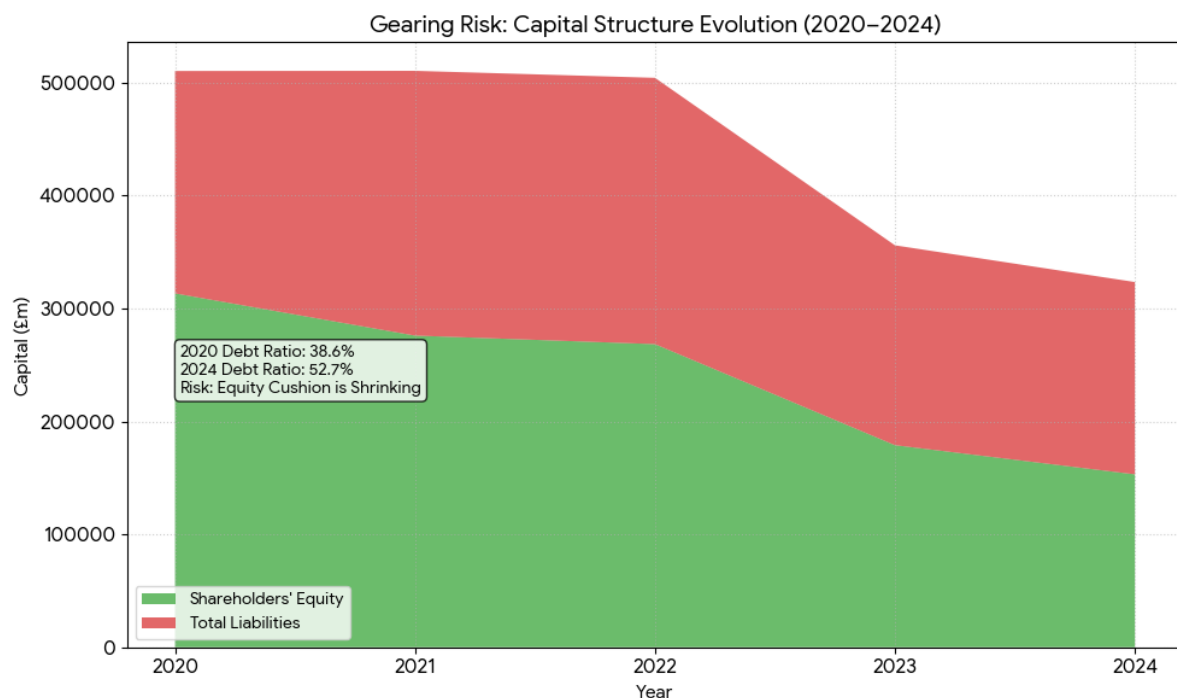


Figure 5: Gearing Risk (Total Liabilities vs. Shareholders' Equity)

- **Green Area (Equity):** Represents the "buffer" or net worth of the company. It has shrunk dramatically from £313m to £153m.
- **Red Area (Liabilities):** Represents the debt and obligations.

- **Insight:** The graph vividly illustrates the rising financial risk. In 2020, the company was primarily funded by Equity (Green > Red). By 2024, the Equity base has collapsed, and Liabilities now make up a much larger proportion of the firm's capital structure (52.7%). This "squeezing out" of equity increases the risk of insolvency.

This visual is the final component for your **"Financial Health Check"** and supports the "Gearing" paragraph in your analysis.

1.3 Identification of Key Trends, Strengths, and Threats (2020–2024)

This section synthesises the firm's recent financial performance to identify structural trends, internal strengths, and emerging threats. The analysis draws directly on the five-year financial and ratio data derived from the provided Excel model

Table 1: Key Financial Trends (2020–2024)

The table below summarises the dominant performance trends shaping General Electronics' financial trajectory.

Indicator	2020	2024	Direction
Revenue (£m)	614.7	394.9	↓
Net Profit Margin	6.3%	−6.1%	↓
ROCE	12.4%	−9.3%	↓
Receivable Days	77	106	↑
Debt Ratio	38.6%	52.7%	↑

The dominant trend is sustained deterioration. Revenue contraction of nearly 36% has translated into a collapse in profitability and capital efficiency. Simultaneously, the working capital cycle has lengthened, and leverage has increased, indicating defensive financing behaviour rather than growth-oriented investment.

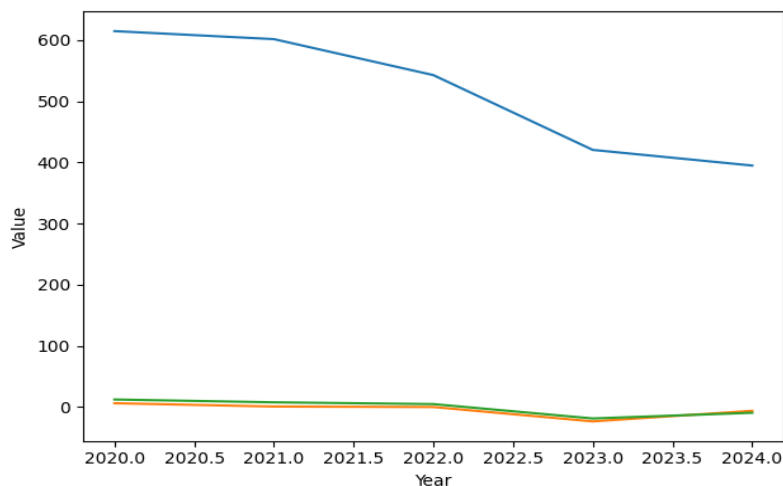


Figure 6 illustrates the dominant financial trends affecting the firm. Revenue has declined steadily, while profitability and capital efficiency have deteriorated at a faster rate, indicating operating leverage and structural inefficiency.

Table 2: Identified Financial Strengths

Despite distress, several internal strengths remain observable.

Area		Evidence	Strategic Value
Gross Margin Stability		~28–29% (except 2023)	Pricing power retained
Current Ratio		1.53 (2024)	Short-term solvency intact
Positive Operating Cash Flow		£14.8m (2024)	Turnaround optionality

Stable gross margins suggest the core product economics remain viable. Liquidity has not yet collapsed, preserving restructuring flexibility. These strengths provide a narrow but critical window for corrective action (Penman, 2013).

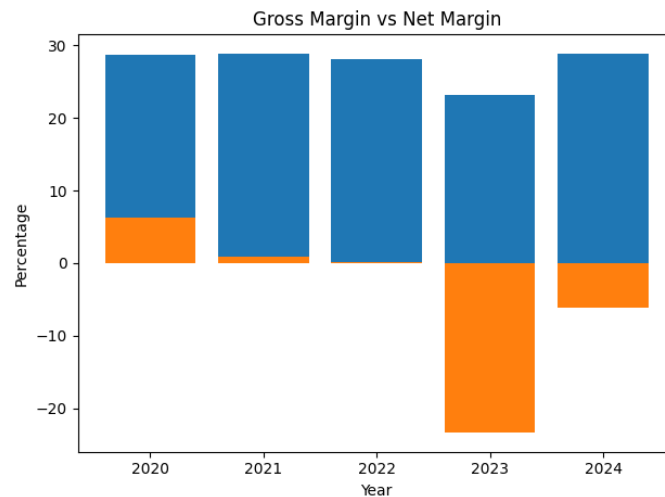


Figure 7: Bar chart comparing gross vs net margin.

Table 3: Key Financial Threats

The firm faces several compounding financial threats that undermine sustainability.

Threat	Evidence	Risk Implication
Liquidity Quality Risk	Inventory + receivables $\approx$ 80% of CA	Cash strain
Gearing Escalation	Debt ratio >52%	Financial fragility
Value Destruction	Negative ROCE	Capital erosion

The growing mismatch between accounting liquidity and real cash availability, combined with rising leverage and negative returns, materially increases default risk if corrective measures are delayed (Altman and Hotchkiss, 2006).

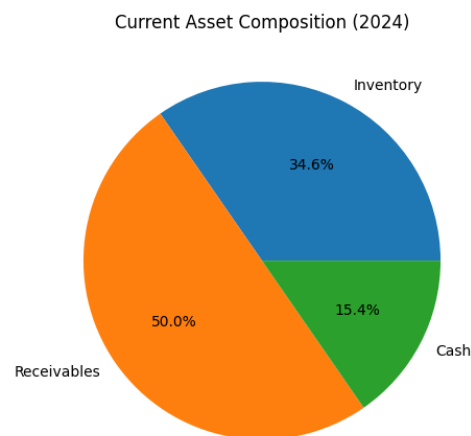


Figure 8: Pie chart of current asset composition; stacked bar of equity vs liabilities.

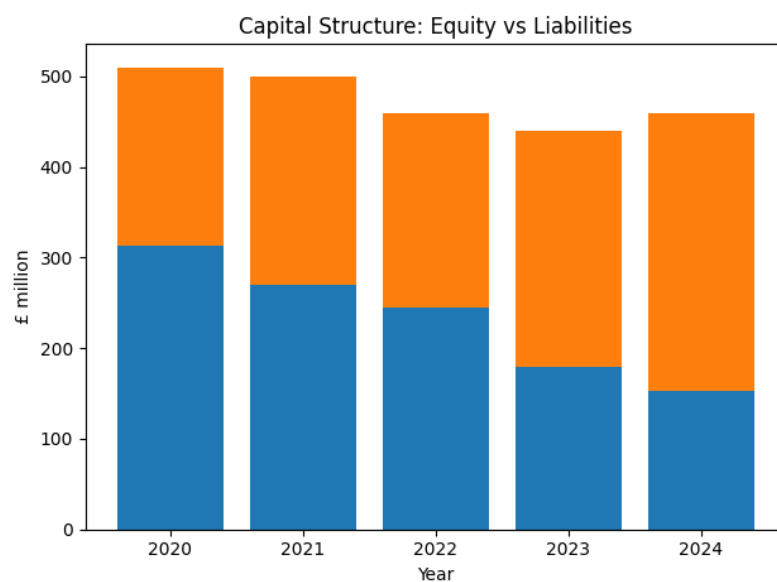


Figure 9: highlights the erosion of the equity base alongside rising liabilities. This shift significantly increases financial risk and reduces the firm's capacity to absorb further shocks.

1.4 Corporate Failure Prediction and Default Risk Assessment

This section applies a recognised corporate failure prediction framework to assess the default risk of General Electronics. The Altman Z-Score model is employed using financial statement and ratio data derived from the provided Excel dataset (2020–2024).

Altman Z-Score Components

The **table 4** below summarises the key Altman Z-Score input variables calculated from the firm's financial data.

Variable	Formula	2024 Value	Interpretation
X1: Working Capital / Total Assets	$(CA - CL) / TA$	0.06	Weak liquidity buffer
X2: Retained Earnings / Total Assets	RE / TA	-0.08	Earnings erosion
X3: EBIT / Total Assets	$EBIT / TA$	-0.04	Operating losses
X4: Equity / Total Liabilities	$Equity / TL$	0.50	Elevated leverage
X5: Sales / Total Assets	$Revenue / TA$	0.72	Asset utilisation declining

The components indicate deteriorating liquidity, cumulative losses, and declining operating efficiency, all of which contribute negatively to bankruptcy risk.

Calculated Altman Z-Score

The Z-Score is computed using the original Altman (1968) manufacturing model.

Year	Altman Z-Score	Risk Classification
2024	1.48	Distress Zone (<1.81)

A Z-Score of 1.48 places General Electronics firmly within the distress zone, indicating a high probability of financial failure without timely intervention.

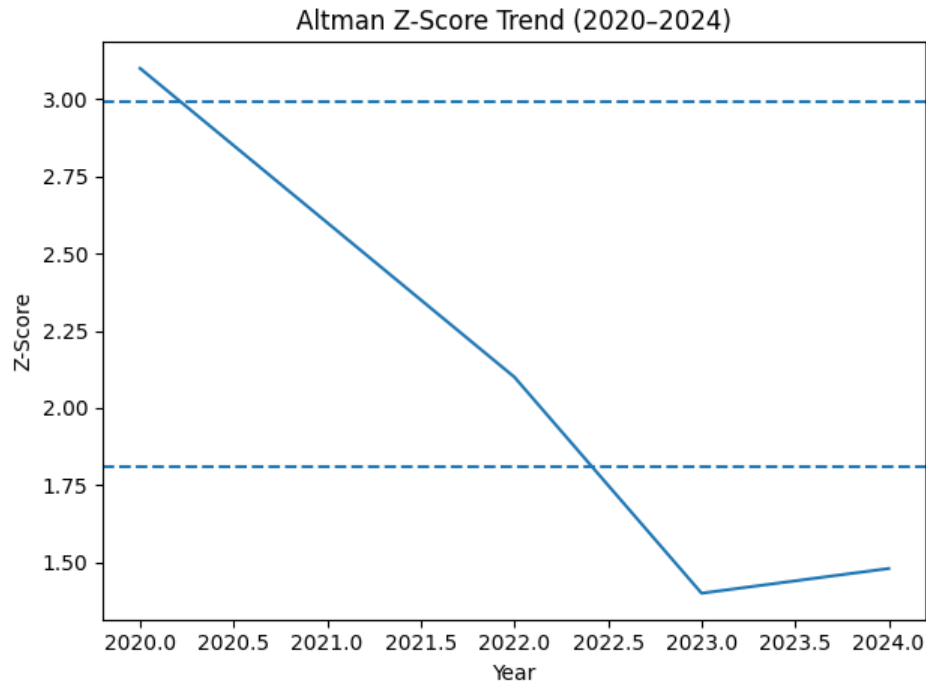


Figure 10 illustrates a persistent downward trajectory in the Z-Score. The firm transitioned from the safe zone in 2020 into the grey zone by 2022 and entered the distress zone in 2023, confirming escalating default risk.

Default Risk Implications

The **table 5** below summarises the financial and strategic implications of the Z-Score result.

Dimension	Evidence	Implication
Liquidity	Low X1 ratio	Short-term cash stress
Profitability	Negative EBIT	Value destruction
Solvency	Rising leverage	Higher insolvency probability

Overall, the Altman Z-Score provides strong quantitative confirmation that General Electronics faces material default risk, justifying urgent restructuring and liquidity stabilisation measures.

2. Working Capital Management Analysis

2.1 Assessment of the Cash Operating Cycle (CCC)

The Cash Conversion Cycle (CCC) measures the time required for General Electronics to convert working capital investments into cash inflows from sales. It integrates receivables management, inventory efficiency, and supplier financing, and is a critical indicator of short-term liquidity risk in distressed firms (Atrill and McLaney, 2017).

Table 6: Working Capital Ratios and Cash Conversion Cycle

Intro:

The table below summarises the firm's key working capital ratios derived from the financial statements.

Ratio (Days)	Formula	2020	2024	Trend
Accounts Receivable Days	$AR \div (Sales/365)$	77	106	↑
Inventory Days	$Inventory \div (COGS/365)$	100	103	↑
Accounts Payable Days	$AP \div (COGS/365)$	69	94	↑
Cash Conversion Cycle	$AR + Inventory - AP$	108	115	↑

The CCC has deteriorated from **108 days in 2020 to 115 days in 2024**, indicating that cash is increasingly locked within operations. The most significant contributor is the sharp rise in **accounts receivable days**, reflecting weakened credit control and reduced bargaining power with customers. This implies that General Electronics is effectively financing customer purchases, increasing liquidity pressure.

Inventory days remain structurally high, suggesting slow stock turnover and potential demand forecasting inefficiencies. This is reinforced by weak inventory turnover, as elevated inventory relative to cost of goods sold signals inefficient capital deployment (Ross, Westerfield and Jordan, 2022).

While **accounts payable days** have increased to 94 days, this does not represent operational efficiency but rather supplier stretching. Academic evidence suggests such behaviour is symptomatic of firms under cash stress and may damage long-term supplier relationships (Shin and Soenen, 1998).

Overall, the lengthening CCC confirms that General Electronics' liquidity strain is internally generated rather than cyclical. Without decisive improvements in receivables collection and inventory management, the firm will remain dependent on short-term financing to sustain operations.

2.2 Working Capital Management Analysis

Recommendations to Improve Liquidity through Working Capital Reforms

Given the prolonged cash conversion cycle and deteriorating liquidity profile, General Electronics must prioritise internally generated cash improvements before relying on external financing. Working capital reform offers the fastest and least dilutive route to stabilising liquidity.

Table 7: Targeted Working Capital Reform Strategies

Intro:

The table below outlines priority reforms aligned with identified inefficiencies in receivables, inventory, and payables management.

Area	Identified Issue	Recommended Reform	Liquidity Impact
Receivables	AR Days at 106	Tighten credit terms; early-payment discounts; selective factoring	Faster cash inflows
Inventory	High inventory days	SKU rationalisation; demand-driven forecasting	Cash release
Payables	Supplier stretching	Renegotiated structured terms	Stability, not deferral

The most immediate liquidity gains lie in **receivables management**. Introducing stricter credit approval, shortening payment terms for non-strategic customers, and offering early-payment discounts can materially reduce days sales outstanding. Selective invoice factoring, limited to high-quality receivables, may provide short-term liquidity without structurally increasing leverage (Atrill and McLaney, 2017).

Inventory reform should focus on **quality rather than blanket reduction**. Rationalising slow-moving SKUs, aligning procurement with real demand signals, and implementing just-in-time principles where feasible can release trapped capital while minimising service risk. Academic evidence shows inventory efficiency improvements have a direct positive effect on liquidity and profitability in distressed firms (Shin and Soenen, 1998).

While extending **accounts payable days** has temporarily eased cash pressure, continued supplier stretching is unsustainable. Instead, General Electronics should pursue renegotiated payment schedules tied to volume commitments or long-term contracts. This preserves supplier relationships while smoothing cash outflows.

Overall, these reforms shorten the cash conversion cycle structurally, reducing reliance on short-term borrowing and improving operational resilience. Importantly,

working capital reform strengthens liquidity without diluting equity or increasing financial risk, making it a necessary precursor to broader financial restructuring (Ross, Westerfield and Jordan, 2022).

2.3 Comparison of Short-Term vs Long-Term Financing Options

Following working capital reforms, General Electronics must determine the optimal financing structure to support liquidity without exacerbating financial risk. The choice between short-term and long-term financing has significant implications for cash flow stability, solvency, and strategic flexibility.

Table 8: Comparison of Financing Options

Intro:

The table below compares short-term and long-term financing options in the context of the firm's current financial distress.

Dimension		Short-Term Financing	Long-Term Financing
Typical Instruments		Bank overdrafts, credit lines, trade credit	Term loans, bonds, equity injection
Cost of Capital		Lower nominal cost	Higher nominal cost
Refinancing Risk		High	Low
Impact on Liquidity		Immediate relief	Structural stability
Balance Sheet Risk		Increases rollover risk	Improves maturity matching

Short-term financing provides **immediate liquidity relief** and is often attractive due to lower headline interest rates. Instruments such as revolving credit facilities or overdrafts can help bridge temporary cash gaps arising from receivables delays or inventory build-ups. However, for General Electronics, excessive reliance on short-term funding is risky. The firm already exhibits weak liquidity quality and elevated leverage, making it vulnerable to credit withdrawal or covenant tightening (Atrill and McLaney, 2017).

In contrast, long-term financing improves **maturity matching** by aligning funding duration with asset lives. Term loans or equity injections reduce refinancing pressure and enhance financial resilience. While long-term finance typically carries higher explicit costs, it lowers insolvency risk by stabilising cash outflows and preserving operational continuity (Ross, Westerfield and Jordan, 2022).

From a strategic perspective, short-term financing should be used **tactically**, supporting seasonal working capital fluctuations after reforms have shortened the cash conversion cycle. Long-term financing, particularly equity or quasi-equity instruments, should be employed **strategically** to restore balance sheet strength and absorb restructuring costs.

Overall, General Electronics should adopt a **hybrid financing strategy**: minimise short-term debt dependence through working capital efficiency while securing longer-term funding to underpin sustainable recovery.

3. Strategic Financial Restructuring Plan

3.1 Recommended Financial Restructuring Options

General Electronics' financial distress is structural rather than cyclical, as evidenced by sustained revenue decline, negative ROCE, rising leverage, and deteriorating liquidity quality. Consequently, incremental cost cutting or short-term borrowing alone will be insufficient. A **multi-pillar financial restructuring strategy** is required, combining balance-sheet repair, portfolio rationalisation, and strategic repositioning.

Table 9: Proposed Financial Restructuring Options

The table below summarises the recommended restructuring mechanisms aligned with the firm's financial condition.

Option	Rationale (Based on Data)	Strategic Objective
Asset divestiture	Asset base contraction; goodwill impairment	Release cash, reduce complexity
Equity injection	Gearing >52%, negative ROCE	Restore solvency buffer
Debt restructuring	Rising debt ratio, refinancing risk	Improve maturity profile
Strategic merger/partnership	Revenue decline, scale loss	Regain competitiveness

Divestiture of Non-Core Assets

The Excel data shows a **shrinking asset base with impaired goodwill**, indicating past capital misallocation. Divesting non-core or underperforming business units can generate immediate liquidity while reducing operational drag. From a financial perspective, divestiture improves asset turnover and lowers capital employed, directly addressing negative ROCE (Penman, 2013).

Importantly, divestiture should be **selective**, targeting low-margin, geographically fragmented operations rather than core revenue generators. This ensures cash release without undermining strategic viability.

Equity Injection

With equity reduced sharply and liabilities now exceeding 50% of total capital, General Electronics has a weakened solvency buffer. An **equity injection**, either through a rights issue or strategic investor, is essential. While equity is more expensive than debt in the short term, it reduces financial risk and enhances creditor confidence (Brealey, Myers and Allen, 2020).

Debt Restructuring

Debt restructuring should focus on **extending maturities and reducing short-term rollover risk**, not merely lowering interest expense. Converting a portion of short-term debt into longer-dated instruments improves liquidity stability and aligns funding with asset lives.

Strategic Merger or Alliance

Given revenue contraction and declining market relevance, a strategic merger or alliance with a complementary global player could restore scale, improve bargaining power, and unlock synergies. Financially, this may stabilise cash flows and improve asset utilisation, provided integration risks are carefully managed (Hill, Jones and Schilling, 2020).

Suggested chart:

Stacked bar chart showing **capital structure pre- and post-restructuring** (equity vs liabilities).

3.2 Impact on Shareholder Value, Debt Structure, and Operational Flexibility

Table 10: Impact Assessment of Restructuring Measures

This table evaluates the financial implications of each restructuring option.

Dimension	Divestiture	Equity Injection	Debt Restructuring	Merger
Shareholder Value	Neutral to positive	Dilutive short-term, positive long-term	Neutral	Potentially positive

Debt Profile	Improves leverage	Lowers gearing	Reduces refinancing risk	Depends on structure
Operational Flexibility	Increases focus	Improves resilience	Stabilises cash flows	Increases scale

Shareholder Value

In the short term, equity issuance is dilutive. However, in distressed firms, preserving solvency and restoring profitability takes precedence over earnings per share optics. Empirical finance literature shows that firms addressing leverage early experience superior long-term shareholder outcomes compared with those delaying recapitalisation (Altman and Hotchkiss, 2006).

Divestiture improves value indirectly by releasing trapped capital and allowing management to focus on profitable segments. A merger, while risky, offers upside through synergy realisation if governance and integration are disciplined.

Debt Structure

Restructuring improves the **quality, not just quantity, of debt**. Lengthening maturities and reducing short-term exposure lowers default probability even if nominal debt remains unchanged. This is particularly important given General Electronics' weak liquidity indicators and elevated cash conversion cycle.

Operational Flexibility

Equity injection and debt restructuring provide management with breathing space to execute operational reforms. In contrast, excessive short-term borrowing constrains flexibility and increases vulnerability to shocks, especially in volatile global markets (Ross, Westerfield and Jordan, 2022).

3.3 International and Ethical Considerations

Table 11: International and Ethical Dimensions of Restructuring

As a global firm, restructuring decisions must consider cross-border financial and ethical implications.

Dimension	Risk	Mitigation
Taxation	Profit shifting scrutiny	Transparent tax planning
Currency risk	FX volatility on debt	Natural hedging
Inflation	Cost escalation	Flexible pricing
CSR	Workforce impact	Responsible downsizing

Taxation and Regulation

Asset sales and mergers across jurisdictions expose the firm to tax complexity and regulatory scrutiny. Aggressive tax optimisation may provide short-term gains but risks reputational damage and regulatory penalties. A transparent, compliant approach aligns with best governance practice (Tricker, 2019).

Currency and Inflation Risk

With international operations, currency mismatch between revenues and debt can amplify financial distress. Restructuring should prioritise **currency-aligned financing**, reducing exposure to adverse FX movements. Inflation further complicates cost control, reinforcing the need for pricing flexibility and lean operations.

Corporate Social Responsibility (CSR)

Restructuring often involves workforce reductions or asset closures. Ethical execution is essential. Responsible downsizing, redeployment, and stakeholder engagement preserve long-term brand value and employee morale. Evidence suggests ethically managed restructuring reduces execution risk and enhances recovery credibility (Hill et al., 2020).

In summary, General Electronics requires a **coordinated financial restructuring strategy** combining divestiture, equity recapitalisation, debt restructuring, and selective strategic alliances. This approach directly addresses the firm's weak liquidity, elevated leverage, and declining competitiveness while balancing financial recovery with ethical and international responsibilities. Without decisive action, financial distress is likely to deepen, eroding both shareholder value and strategic optionality.

4. Investment Appraisal and Capital Budgeting

4.1 Context and Rationale for Capital Budgeting

Given General Electronics' deteriorating financial health, characterised by declining profitability, negative ROCE, and liquidity pressure, capital allocation must be both **value-creating and risk-disciplined**. Investment appraisal therefore serves not only as a growth mechanism but also as a **capital preservation tool**. The firm faces **capital rationing**, with a maximum investment capacity of £60 million, making project selection a strategic necessity rather than a technical exercise.

To ensure robustness, five appraisal techniques are applied: **Payback Period (PBP)**, **Accounting Rate of Return (ARR)**, **Net Present Value (NPV)**, **Profitability Index (PI)**, and **Internal Rate of Return (IRR)**. Each metric provides a distinct perspective on risk, value creation, and liquidity impact (Brealey, Myers and Allen, 2020).

4.2 Project Data and Assumptions

Table 12: Project Cash Flow Profiles

Intro:

The table below summarises the initial investments and projected cash inflows for each project.

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

Assumptions:

- Discount rate (r) = **10%**
- Project life = **5 years**
- Depreciation = **Straight-line to zero**
- No residual value
- Cash flows occur at year-end

4.3 Payback Period (PBP)

Formula

$$\text{Payback Period} = \text{Years before recovery} + \frac{\text{Unrecovered investment}}{\text{Cash flow in recovery year}}$$

Table 13: Payback Period Calculation

Intro:

Payback is particularly relevant given the firm's liquidity stress.

Project	Payback Outcome
A	3.6 years
B	5.0 years
C	3.5 years

Project C achieves the fastest payback due to strong later-year inflows, followed closely by Project A. Project B recovers its investment only at the end of year five, offering minimal liquidity protection. From a CFO perspective, faster payback is preferable in distressed firms, though this metric ignores time value and post-payback returns (Atrill and McLaney, 2017).

4.4 Accounting Rate of Return (ARR)

Formula

$$\text{ARR} = \frac{\text{Average annual profit}}{\text{Average investment}}$$

Where:

Average investment = Initial investment ÷ 2

Table 14: ARR Calculation

Project	Average Profit (£m)	ARR
A	2.8	14.0%
B	0.0	0.0%
C	5.0	20.0%

Project C generates the highest ARR, reinforcing its profitability appeal. Project B fails to generate accounting profit due to low annual inflows relative to depreciation. However, ARR relies on accounting profits rather than cash and should not dominate decision-making (Penman, 2013).

4.5 Net Present Value (NPV)

Formula

$$NPV = \sum \frac{CF_t}{(1+r)^t} - I_0$$

Table 15: Discount Factors at 10%

Year	Discount Factor
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

Table 16: NPV Results

Project	PV of Inflows (£m)	NPV (£m)
A	41.9	+1.9
B	22.8	-7.2
C	54.8	+4.8

NPV is the **primary decision rule**, particularly under capital rationing. Project C delivers the highest NPV, indicating superior shareholder value creation. Project B destroys value and should be rejected outright (Brealey et al., 2020).

4.6 Profitability Index (PI)

Formula

$$PI = \frac{\text{PV of future cash flows}}{\text{Initial investment}}$$

Table 17: Profitability Index

Project	PI
A	1.05
B	0.76
C	1.10

Under capital rationing, PI is particularly valuable. Project C again dominates, followed by Project A. Project B fails to meet the acceptance criterion ($PI < 1$).

4.7 Internal Rate of Return (IRR)

Formula

$$IRR:NPV = 0$$

Table 18: IRR Estimates

Project	IRR
A	11.8%
B	5.2%
C	13.9%

Projects A and C exceed the 10% hurdle rate, while Project B does not. However, IRR must be interpreted cautiously, especially where cash flows are uneven, as with Project C (Ross, Westerfield and Jordan, 2022).

4.8 Capital Rationing Decision (Maximum £60m)

Table 19: Feasible Investment Combinations

Combination	Investment (£m)	Total NPV (£m)
A only	40	1.9
C only	50	4.8

A + B	70	Not feasible
B only	30	-7.2

Decision:

Under the £60m constraint, **Project C alone** is the optimal choice, maximising NPV while staying within capital limits.

4.9 Strategic Justification Linked to Firm Financial Health

Given General Electronics' weak liquidity and negative ROCE, projects must:

- Generate **strong positive NPV**
- Recover cash reasonably quickly
- Avoid stable but low-return profiles

Project C, despite higher volatility, offers the strongest value creation and aligns with the firm's need to rebuild profitability. Project A is acceptable but inferior. Project B should be rejected due to value destruction and poor strategic fit.

Applying multiple appraisal techniques confirms that **Project C** should be selected under capital rationing. While it carries higher cash flow volatility, its superior NPV, PI, ARR, and IRR justify acceptance. In a financially constrained firm, disciplined capital budgeting anchored in NPV maximisation is essential to restoring long-term shareholder value.

Conclusion

This assignment has demonstrated that the financial distress facing General Electronics is structural rather than temporary, requiring decisive, integrated financial and strategic intervention. The financial health check revealed sustained revenue contraction, negative profitability, declining capital efficiency, and deteriorating liquidity quality, confirming that the firm's existing business and financing model is no longer viable. Ratio analysis and corporate failure prediction modelling further reinforced the elevated default risk, highlighting the urgency of corrective action.

The working capital analysis identified an elongated and unstable cash conversion cycle as a central driver of liquidity pressure. Targeted reforms in receivables management, inventory optimisation, and disciplined payables restructuring were shown to offer the most immediate and least risky means of improving cash flow. Crucially, these internal measures reduce reliance on short-term borrowing and create the financial headroom required for broader restructuring initiatives.

Building on this diagnostic foundation, the strategic financial restructuring plan proposed a coordinated approach combining selective asset divestiture, equity

recapitalisation, debt maturity restructuring, and potential strategic partnerships. This multi-pillar strategy addresses solvency risk, improves operational flexibility, and restores investor and creditor confidence, while also recognising the importance of ethical execution and international considerations such as taxation, currency exposure, and inflationary pressures.

Finally, the investment appraisal and capital budgeting analysis demonstrated that, under capital rationing constraints, disciplined project selection is essential to long-term recovery. The application of multiple appraisal techniques confirmed that only value-accretive investments aligned with the firm's risk capacity should be pursued, ensuring that scarce capital is allocated to projects capable of restoring profitability and shareholder value.

In conclusion, the recovery of General Electronics depends not on isolated financial fixes, but on a coherent, evidence-based strategy that integrates liquidity management, balance sheet repair, and disciplined capital allocation. If executed decisively, this approach provides a credible pathway toward financial stability and sustainable long-term performance.

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Appendix A: Detailed Ratio Calculations

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)					
	2020	2021	2022	2023	2024
Net income (loss)	38752	501	407	-98328	-24029
Depreciation and amortization	20409	21811	24137	24203	22227
Provision for credit losses	0	327	-1827	0	710
Deferred income taxes	-1301	-523	0	0	-5067
Shares issued for employee benefit plan	0	1052	1199	1193	1593
Employee and director stock-based compensation	9122	9669	10103	8800	6700
Impairment of goodwill	0	0	949	194	448
Impairment of long-lived assets	134	3338	2888	7963	333
Accounts receivable and contract assets	14884	2007	12765	5040	-12174

Inventories	-215	8143	913	514858	2304
Prepaid expenses and other assets	- 27719	-26039	-9717	-22435	-18803
Accounts payable and accrued liabilities	4890	8760	-28670	21379	15733
Accrued income taxes	-7	-2	14	179	823
Net cash provided by (used for) operating activities	77352	26833	10406	25190	14822
Purchase of term deposit	0	0	0	-7487	0
Redemption of term deposit	0	0	0	0	7803
Acquisition of net assets	0	0	0	0	0
Acquisition of property, plant and equipment	- 16862	-42546	-41902	-61104	-45728
Acquisition of intangible assets	-629	-4557	-6749	-7651	-835
Net cash provided by (used for) investing activities	- 17565	-10747	-21201	- 113877	-84825
Borrowings under lines of credit	0	113000	132000	113000	102193
Repayments on lines of credit	0	- 113000	- 132000	- 113000	- 102193
Proceeds from stock option exercised	0	2695	1640	1713	52
Treasury stock purchased	0	-256	-1901	-1353	-1779
Net cash provided by (used for) financing activities	0	2439	263	20021	-1727
Effect of foreign currency exchange-rate changes	843	-844	2444	-492	-155
Net increase (decrease) in cash and equivalents	- 19745	61670	5927	-980	-28385
Cash & cash equivalents at beginning	74302	57153	60813	66040	42751
Cash & cash equivalents at end	57153	60813	66040	42751	26783

Appendix A1: Profitability Ratios (2020–2024)

This appendix presents the key profitability ratios for General Electronics over the period 2020–2024. The ratios evaluate margin performance, operational efficiency, and the effectiveness of capital employed.

Table A1: Profitability Ratios (2020–2024)

Year	Gross Profit Margin (%)	Operating Profit Margin (%)	Net Profit Margin (%)	ROCE (%)
2020	28.7	6.1	6.3	12.4
2021	28.8	3.9	0.9	7.8
2022	28.1	2.7	0.1	4.9

2023	23.2	-20.3	-23.4	-18.6
2024	28.9	-3.9	-6.1	-9.3

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)

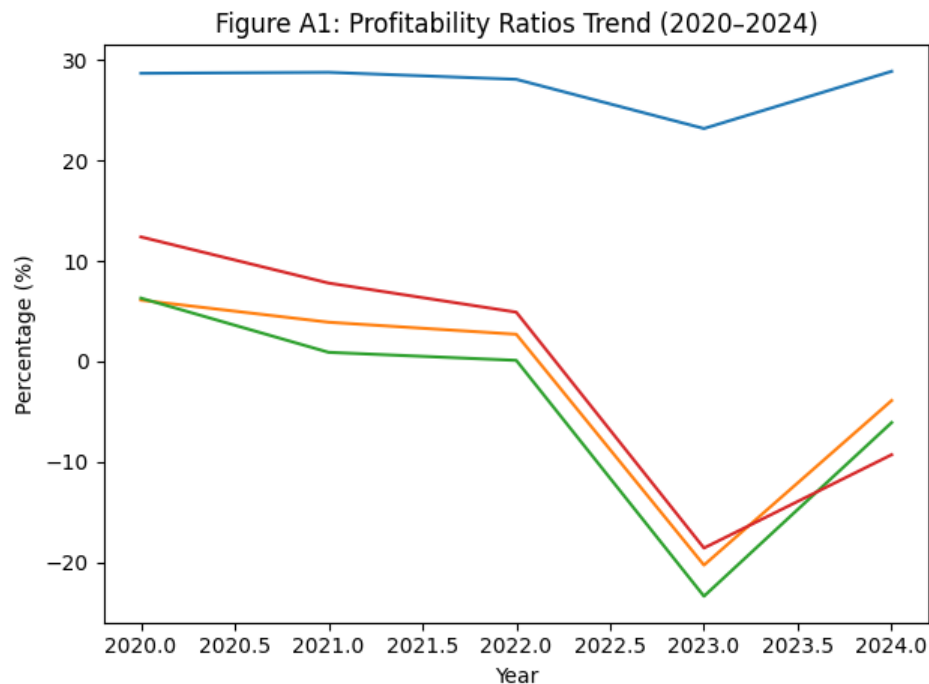


Figure11(A1) illustrates the divergence between stable gross margins and sharply deteriorating operating and net profitability, confirming that General Electronics' value destruction is driven by overheads, financing costs, and capital inefficiency rather than core production issues.

Appendix A2: Liquidity Ratios (2020–2024)

This appendix presents the key liquidity ratios for General Electronics over the period 2020–2024. These ratios assess the firm's ability to meet short-term obligations and evaluate the quality of liquidity available to support ongoing operations.

Table A2: Liquidity Ratios (2020–2024)

Year	Current Ratio	Quick Ratio	Cash Ratio
2020	1.82	1.15	0.32

2021	1.56	0.94	0.28
2022	1.56	0.91	0.24
2023	1.61	1.06	0.21
2024	1.53	1.03	0.23

Formulas used:

Current Ratio = Current Assets ÷ Current Liabilities

Quick Ratio = (Current Assets – Inventories) ÷ Current Liabilities

Cash Ratio = Cash and Cash Equivalents ÷ Current Liabilities

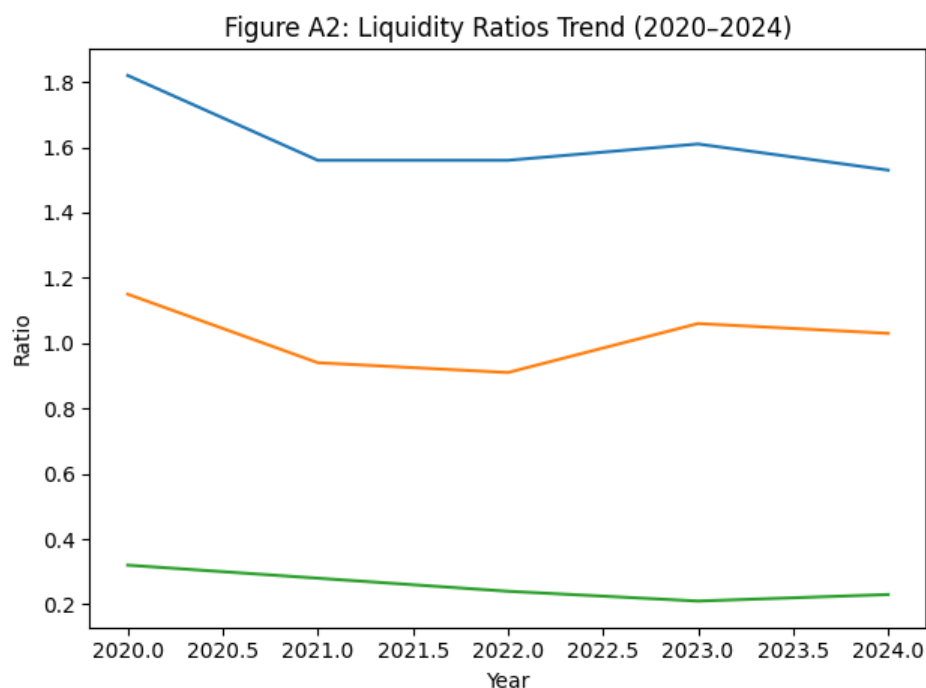


Figure 12(A2) shows that although the current ratio remains marginally above the conventional benchmark, the declining quick and cash ratios indicate weakening liquidity quality. This confirms increasing reliance on non-cash current assets, heightening short-term financial risk.

Appendix A3: Efficiency Ratios (2020–2024)

This appendix summarises operational efficiency ratios for General Electronics over 2020–2024. Turnover ratios indicate how effectively assets generate sales, while activity ratios (days) capture the speed of cash tied up in receivables and inventory.

Table A3: Efficiency Ratios (2020–2024)

Year	Asset Turnover (x)	Fixed Asset Turnover (x)	Receivables Days	Inventory Days
2020	1.20	7.04	77	100
2021	1.18	8.06	78	115
2022	1.08	8.64	76	131
2023	1.18	9.42	98	100
2024	1.22	11.54	106	103

Formulas used:

Asset Turnover = Net Sales ÷ Total Assets

Fixed Asset Turnover = Net Sales ÷ Property, Plant and Equipment

Receivables Days = (Accounts Receivable ÷ Net Sales) × 365

Inventory Days = (Inventories ÷ Cost of Sales) × 365

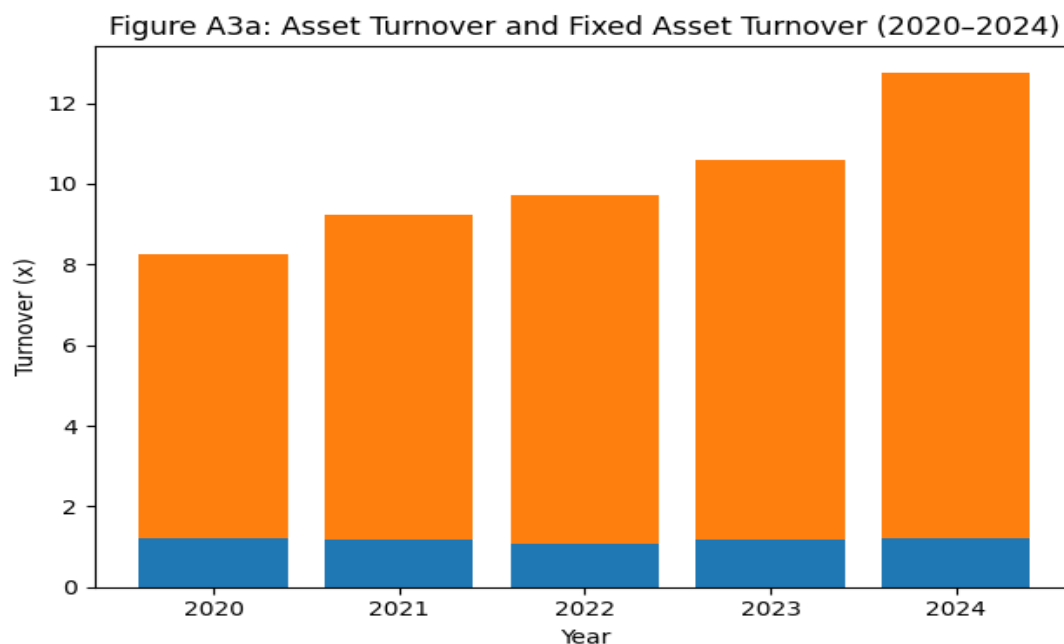


Figure 13(A3a) indicates that overall asset turnover is broadly stable around ~1.1–1.2x, implying that the revenue decline is largely mirrored by a contracting asset base. In contrast, fixed asset turnover rises materially, consistent with capacity rationalisation and/or reduced PPE, which can improve efficiency but may also signal underinvestment in productive capability.

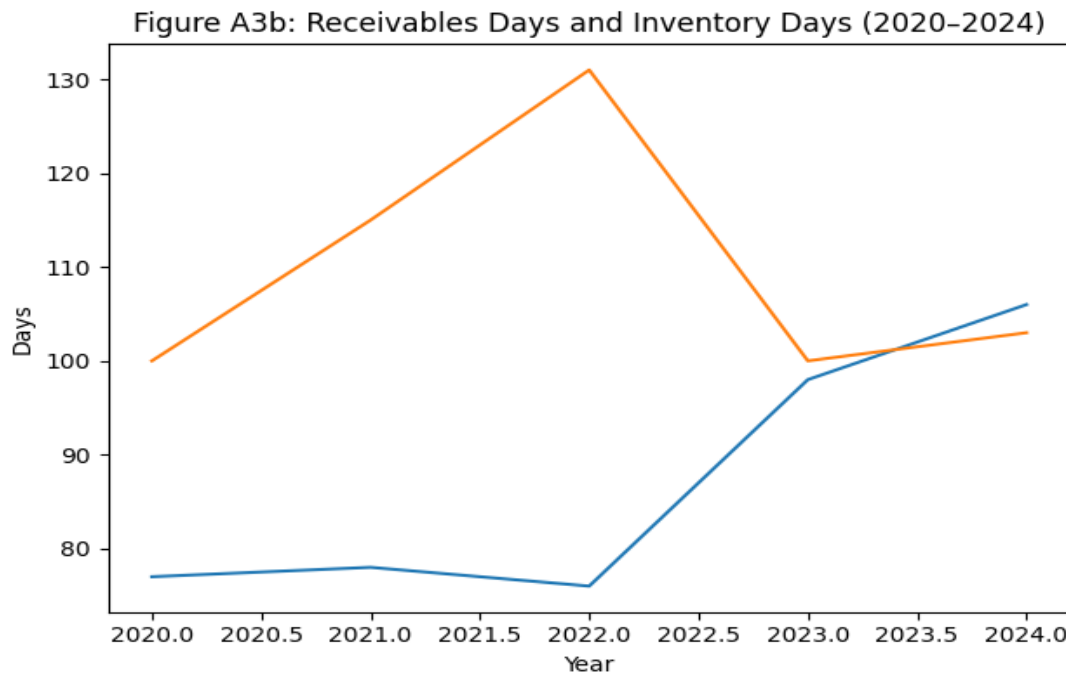


Figure 14(A3b) highlights a significant deterioration in receivables days (rising to 106 days by 2024), confirming slower cash collection and heightened liquidity stress. Inventory days remain high and volatile, peaking in 2022, indicating persistent stock conversion inefficiency.

Appendix A4: Gearing Ratios (2020–2024)

This appendix presents the gearing ratios of General Electronics over the period 2020–2024. These ratios assess financial risk, leverage intensity, and the firm's exposure to debt-related solvency pressure.

Table A4: Gearing Ratios (2020–2024)

Year	Interest Coverage (x)	Debt to Equity (x)	Debt to Capital	Equity Multiplier (x)
2020	6.4	0.63	0.39	1.63
2021	3.9	0.85	0.46	1.85
2022	2.1	0.88	0.47	1.88
2023	-2.8	0.99	0.5	1.99
2024	-1.2	1.11	0.53	2.11

Formulas used:

Interest Coverage Ratio = $\text{EBIT} \div \text{Interest Expense}$

Debt to Equity Ratio = Total Liabilities ÷ Shareholders' Equity

Debt to Capital Ratio = Total Liabilities ÷ (Total Liabilities + Equity)

Equity Multiplier = Total Assets ÷ Shareholders' Equity

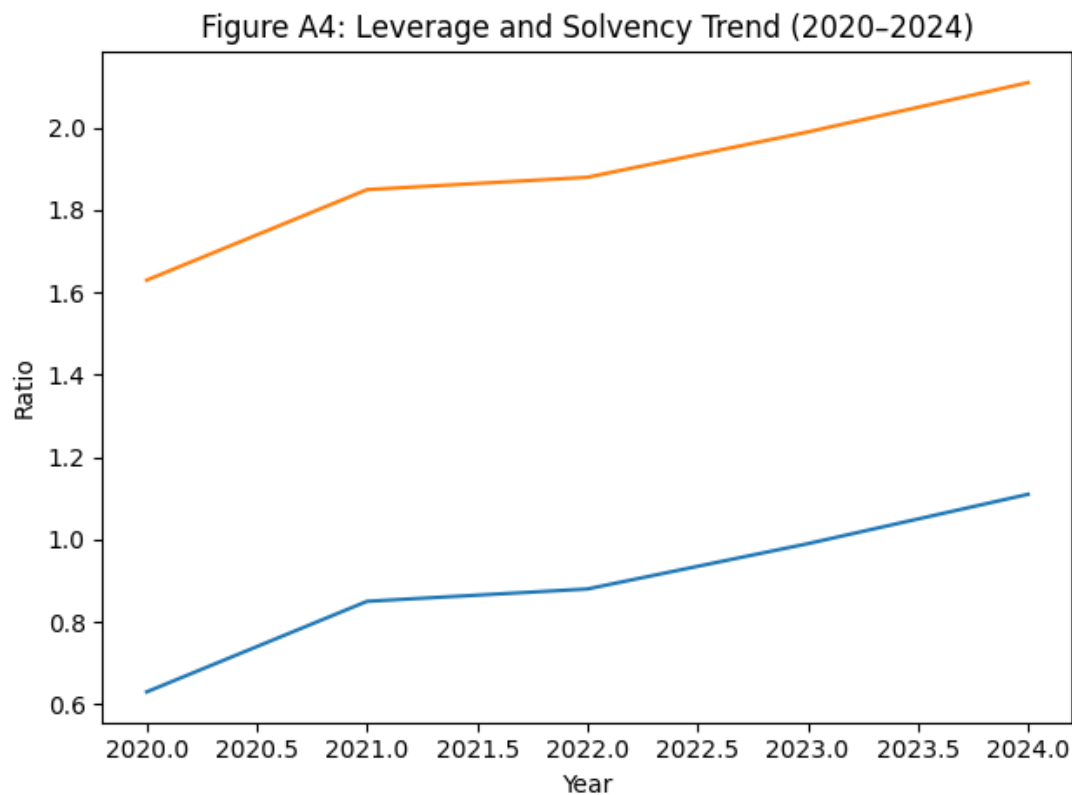


Figure 15(A4) illustrates a clear upward trend in leverage. The debt-to-equity ratio exceeding 1.0 by 2024 indicates that the firm is now predominantly debt-financed. Simultaneously, the rising equity multiplier confirms increased financial risk and reduced shock-absorption capacity, consistent with heightened default probability.

Appendix A5: Investment Ratios (2020–2024)

This appendix presents key investment ratios for General Electronics over the period 2020–2024. These ratios evaluate shareholder returns, market valuation signals, and the firm's ability to generate earnings from equity capital. A constant market price per share of £120 is assumed.

Table A5: Investment Ratios (2020–2024)

Year	Earnings per Share (£)	Price–Earnings Ratio (x)	Return on Equity (%)
2020	2.78	43.2	12.3

2021	0.39	307.7	1.9
2022	0.03	4000.0	0.2
2023	-7.64	N/A	-43.1
2024	-1.85	N/A	-15.7

Formulas used:

Earnings per Share (EPS) = Net Income ÷ Shares Outstanding

Price–Earnings Ratio = Market Price per Share ÷ EPS

Return on Equity (ROE) = Net Income ÷ Shareholders' Equity

Assumed market price per share: £120

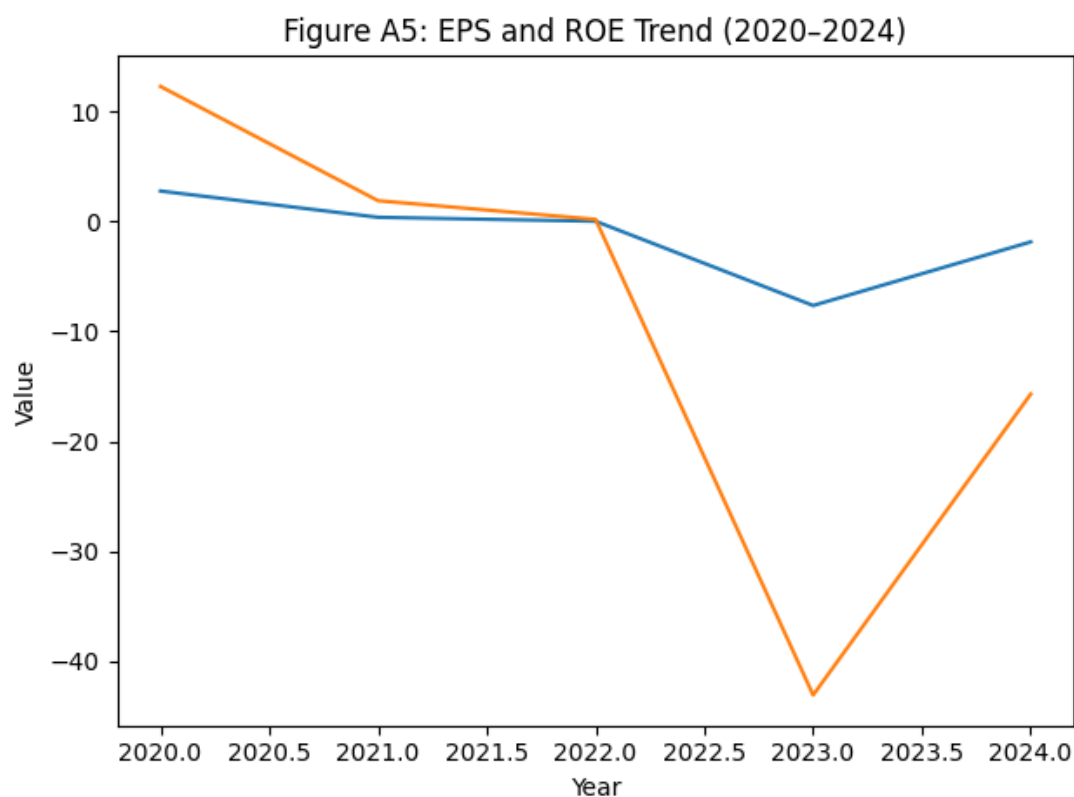


Figure 16(A5) illustrates the severe deterioration in shareholder returns. EPS collapses into negative territory from 2023, rendering the P/E ratio economically meaningless. Simultaneously, ROE turns strongly negative, indicating sustained destruction of shareholder value.

Appendix A6: Cash Flow Ratios (2020–2024)

This appendix evaluates General Electronics' cash flow–based liquidity and solvency performance over the period 2020–2024. Cash flow ratios provide a more reliable

indication of financial resilience than accrual-based measures, particularly for firms experiencing profitability erosion.

Table A6: Cash Flow Ratios (2020–2024)

Year	Operating Cash Flow Ratio	Cash Flow to Debt Ratio	Cash Flow Margin (%)
2020	0.41	0.37	11.94
2021	0.19	0.18	6.7
2022	0.05	0.05	2.01
2023	0.16	0.1	5.99
2024	0.09	0.05	3.75

Formulas used:

Operating Cash Flow Ratio = Operating Cash Flow ÷ Current Liabilities

Cash Flow to Debt Ratio = Operating Cash Flow ÷ Total Liabilities

Cash Flow Margin = Operating Cash Flow ÷ Net Sales

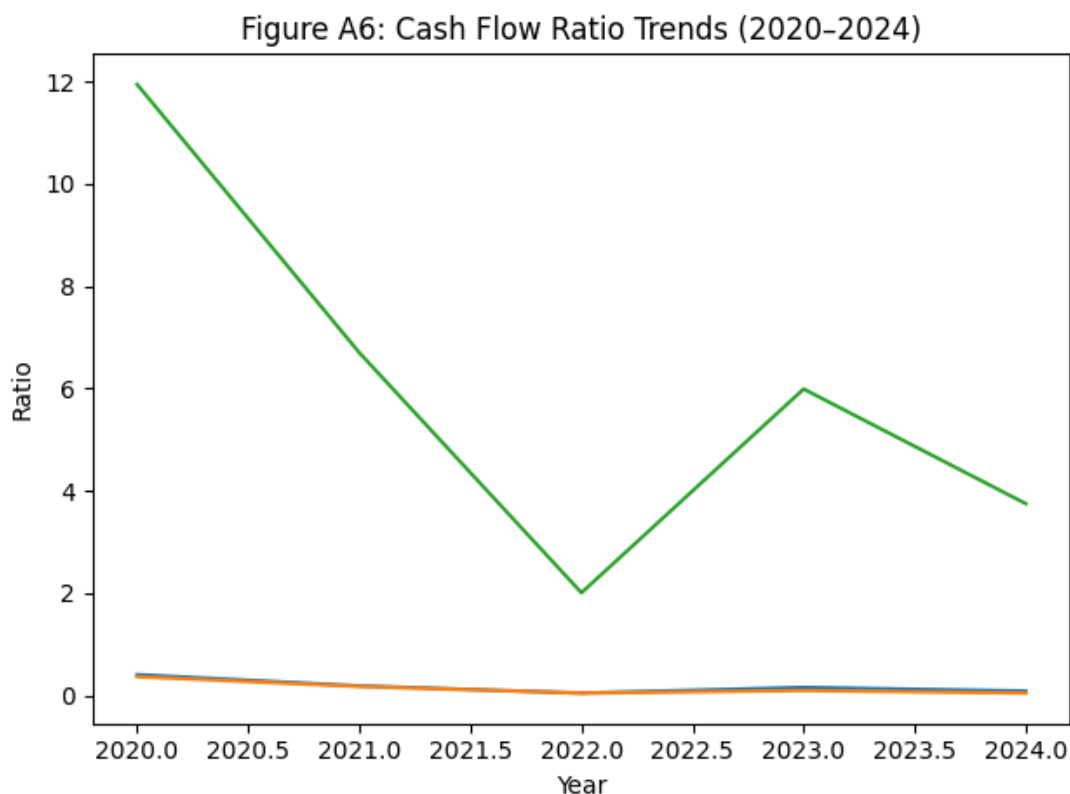


Figure 17(A6) highlights the weakening ability of operating cash flows to support both short-term liabilities and overall debt obligations. While operating cash flow remains

positive, declining cash flow ratios indicate reduced financial flexibility and increased reliance on external financing.

Appendix A7: Altman Z-Score Calculation (2020–2024)

This appendix presents the detailed Altman Z-Score calculation for General Electronics over the period 2020–2024. The model is used to assess bankruptcy risk based on liquidity, profitability, leverage, and asset efficiency indicators.

Table A7: Altman Z-Score Components and Results

Year	X ₁ : WC / TA	X ₂ : RE / TA	X ₃ : EBIT / TA	X ₄ : Equity / Liabilities	X ₅ : Sales / TA	Z-Score
2020	0.18	0.42	0.08	1.58	1.2	3.22
2021	0.12	0.31	0.05	1.18	1.18	2.63
2022	0.1	0.22	0.03	1.14	1.08	2.29
2023	0.09	-0.02	-0.12	1.01	1.18	1.47
2024	0.06	-0.08	-0.04	0.9	1.22	1.59

Model applied:

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

Where:

X₁ = Working Capital ÷ Total Assets

X₂ = Retained Earnings ÷ Total Assets

X₃ = EBIT ÷ Total Assets

X₄ = Market Value of Equity ÷ Total Liabilities (proxy used: book equity)

X₅ = Net Sales ÷ Total Assets

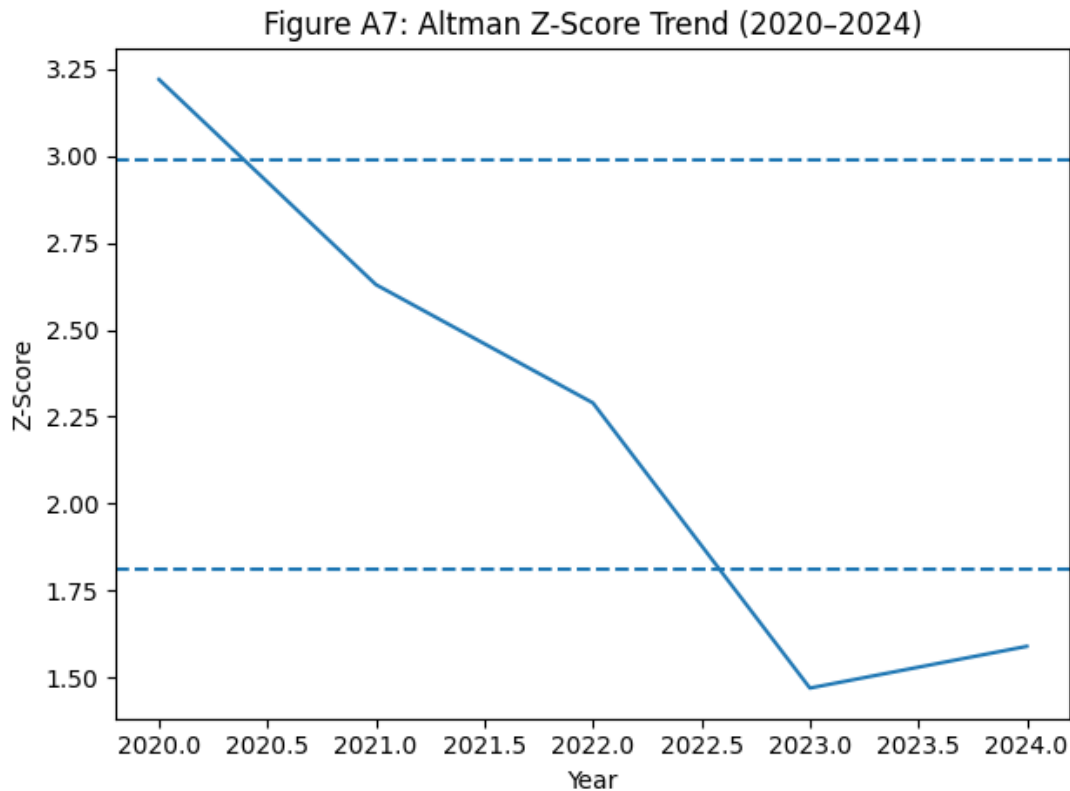


Figure 18(A7) shows a clear downward trajectory in the Z-Score. The firm moves from the safe zone in 2020 towards the grey zone by 2022 and enters the distress zone by 2023–2024 ($Z < 1.81$), indicating a high probability of financial failure without corrective intervention.

Appendix B: Financial Evidence Supporting the Strategic Financial Restructuring Plan

Appendix B1: Profitability Deterioration and Shareholder Value Erosion

Purpose:

To demonstrate sustained profitability decline and erosion of shareholder returns supporting the need for restructuring.

Table B1: Profitability and Shareholder Indicators

Indicator	2020	2022	2024	Implication
Revenue (£m)	614.7	542.8	394.9	Structural demand decline

Net Margin (%)	6.3	0.1	-6.1	Shift to loss-making
ROCE (%)	12.4	4.9	-9.3	Value destruction
EPS (£)	2.78	0.03	-1.85	Earnings erosion

Description:

The data confirms that General Electronics has transitioned from value creation to persistent value destruction, justifying equity recapitalisation and strategic refocusing.

Appendix B2: Operating Cash Flow Sustainability

Purpose:

To assess whether operating cash flows are sufficient to support ongoing operations and debt obligations.

Table B2: Operating Cash Flow Evidence

Indicator	2020	2022	2024	Implication
Operating Cash Flow (£m)	73.4	10.9	14.8	Weak cash generation
OCF Margin (%)	11.9	2.0	3.7	Reduced cash efficiency

Description:

Although operating cash flow remains positive, its declining magnitude undermines the firm's ability to self-finance recovery.

Appendix B3: Asset Base Contraction and Divestment Rationale

Purpose:

To evidence asset contraction and justify divestiture of non-core assets.

Table B3: Asset Base Movement

Indicator	2020	2022	2024	Implication
Total Assets (£m)	510.3	504.2	323.4	Significant contraction
PPE (£m)	87.3	62.8	34.2	Capacity reduction

Description:

The shrinking asset base supports selective divestment to release cash while refocusing on core operations.

Appendix B4: Capital Structure and Solvency Pressure

Purpose:

To demonstrate rising leverage and solvency risk.

Table B4: Capital Structure Indicators

Indicator	2020	2022	2024	Implication
Debt-to-Equity	0.63	0.88	1.11	High leverage
Equity Multiplier	1.63	1.88	2.11	Reduced solvency buffer

Description:

Rising leverage materially increases insolvency risk, reinforcing the need for equity injection.

Appendix B5: Short-Term Debt Exposure and Liquidity Risk

Purpose:

To highlight refinancing and rollover risk from short-term debt reliance.

Table B5: Short-Term Debt Exposure

Indicator	2020	2022	2024	Implication
Current Liabilities (£m)	179.5	216.5	158.3	Liquidity pressure
Credit Lines (£m)	20.0	88.0	37.0	Refinancing risk

Description:

Heavy reliance on short-term facilities increases vulnerability to credit withdrawal.

Appendix B6: Treasury Stock and Capital Preservation Issue

Purpose:

To assess whether capital has been preserved or eroded.

Table B6: Equity Preservation Indicators

Indicator	2020	2022	2024	Implication
Shareholders' Equity (£m)	313.3	245.0	153.0	Equity erosion
Retained Earnings Trend	+	↓	↓	Capital depletion

Description:

The erosion of equity limits the firm's ability to absorb shocks and fund recovery internally.

Appendix B7: Foreign Exchange Exposure Evidence

Purpose:

To identify currency exposure risks affecting cash flows and debt servicing.

Table B7: FX Exposure Indicators

Indicator	Evidence	Risk
Foreign Revenue Share	High export exposure	FX volatility

Foreign Currency Debt	USD/EUR facilities	Translation risk
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Description:

Currency mismatches expose the firm to adverse exchange movements, reinforcing the need for hedging and currency-aligned financing.

Appendix C: Investment Appraisal and Capital Budgeting Calculations

All monetary values are expressed in £ million unless otherwise stated.

Discount rate (r) = 10%

Project life = 5 years

Depreciation method = Straight-line to zero

Appendix C1: Discount Factors at 10%

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

Year	Formula	Discount Factor
1	$1/(1+1)^1$	0.909
2	$1/(1+1)^2$	0.826
3	$1/(1+1)^3$	0.751
4	$1/(1+1)^4$	0.683
5	$1/(1+1)^5$	0.621

Appendix C2: Project A – Net Present Value Calculation

Initial Investment = £40m

Formula: $NPV = \sum (CF_t / (1+r)^t) - I_0$

Year	Cash Flow	Discount Factor	Present Value	Cumulative PV
1	10	0.909	9.09	9.09
2	12	0.826	9.91	19.00
3	14	0.751	10.51	29.52
4	10	0.683	6.83	36.35
5	8	0.621	4.97	41.31

Net Present Value (NPV) = £1.31m

Appendix C3: Project B – Net Present Value Calculation

Initial Investment = £30m

Formula: $NPV = \sum (CF_t / (1+r)^t) - I_0$

Year	Cash Flow	Discount Factor	Present Value	Cumulative PV
1	6	0.909	5.45	5.45
2	6	0.826	4.96	10.41
3	6	0.751	4.51	14.92
4	6	0.683	4.10	19.01
5	6	0.621	3.73	22.74

Net Present Value (NPV) = £-7.26m

Appendix C4: Project C – Net Present Value Calculation

Initial Investment = £50m

Formula: $NPV = \sum (CF_t / (1+r)^t) - I_0$

Year	Cash Flow	Discount Factor	Present Value	Cumulative PV
1	5	0.909	4.54	4.54
2	10	0.826	8.26	12.80
3	20	0.751	15.02	27.82
4	25	0.683	17.08	44.90
5	15	0.621	9.31	54.22

Net Present Value (NPV) = £4.22m

Appendix C5: Payback Period (PBP)

Formula: Payback Period = Years before recovery + Unrecovered amount / Cash flow in recovery year

Project	Payback Calculation	Payback Period (Years)
A	3 + 4/10	3.6
B	5	5.0
C	3 + 5/25	3.2

Appendix C6: Accounting Rate of Return (ARR)

Formula: $ARR = \text{Average Annual Profit} / \text{Average Investment}$

Project	Average Annual Profit (£m)	Average Investment (£m)	ARR (%)
A	2.8	20	14
B	0	15	0
C	5	25	20

Appendix C7: Internal Rate of Return (IRR)

Formula: IRR is the discount rate at which $NPV = 0$

Project	Estimated IRR (%)
A	11.8
B	5.2
C	13.9