



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

Student Name: Viren Manishbhai Kapadiya

Student ID: 2431957

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Lecturer: Isaiah Oino

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2 Introduction

This report is a financial and strategic study of General Electronics, a multinational corporation in consumer electronics that is under a strong threat of corporate extinction. Analysis is done in the perspective of the newly hired Chief Financial Officer (CFO) whose responsibility is to diagnose the underlying factors behind financial distress and develop a strong turnaround strategy. The analysis will start with an in-depth analysis of the financial health of the company in the next five years (2020-2024), with ratio analysis used to diagnose the paramount flaws in profitability, liquidity, and solvency. According to Welc (2016), liquidity ratios would be critical in determining the capability of a firm covering the short-term liabilities and also measuring their risk of insolvency, which is the main concern in this case. Moreover, the explanation of corporate failure forecast models, including the Altman Z-Score, is a well-organized approach to the assessment of default risk, which is no longer descriptive analysis but a predictive assessment of the sustainability of the enterprise (Krylov, 2021).

Based on this diagnosis base, the report formulates a composite strategic response. This involves a critical review of the working capital management to determine any inefficiency in cash conversion cycle, a strategic financial restructuring strategy to stabilise the capital structure and a strict investment appraisal within capital rationing parameters. The latter uses both conventional and discounted cash flow methods to make sure that capital deployment is consistent with the overall agenda of shareholder wealth maxims, which is one of the foundations of corporate financial theory (Justice and Pious, 2020). The recommendations are to tackle the short term survival issues and long-term value-adding considerations as well as taking into account the international aspects and moral issues of restructuring a global business. This multi-dimensional solution makes the offered turnaround not only feasible financially but also operational and socially responsible.

3 Financial Health Check

This report gives a detailed diagnostic evaluation of the financial stability of the General Electronics as at the five-year period between the years 2020 to 2024. This analysis is essential as the new CFO to see how deep the problems of the company are and what

are the sources of the company downturn and what is the point on which the turnaround strategy can be built. The assessment is performed by the complete ratio analysis including the profitability, liquidity, efficiency, gearing, and cash flow indicators to determine the important tendencies, the remaining strengths, and the serious threats. Moreover, Altman Z-Score model will be used to numerically estimate the risk of corporate failure in the company and give a systematic forecast of financial sustainability.

3.1 Ratio Analysis

3.1.1 Profitability Analysis

The profitability ratios are used to gauge the capacity of a company to earn profits in comparison to its revenue, assets and equity. They are key signs of operational effectiveness and sustainability in the long-term (Lubis, 2023). General Electric Analysis indicates an alarming and disastrous falling down.

Gross Profit Margin: This ratio, which shows the percentage of revenue that is left after the cost of sales, has been fluctuating. It dropped to a low of 23.20% in 2023, after declining to a consistent 28.67% in 2020, before returning to 28.87% in 2024. The collapse in 2023, despite net sales of £420,457m, indicates that it was under extreme strain on costs of production or failed to absorb the cost increases onto the customers. The recovery in 2024 is a good news but it is clouded by more significant problems.

Operating Profit Margin: It indicates the fundamental operational efficiency. The margin that was good at 6.06% in 2020 has fallen to a catastrophic -20.29% in 2023, and slightly better to -3.87% in 2024. This means that operating costs (which increased to £182,861m in 2023, including a £49,075m goodwill impairment) got out of control, and thus fully eliminated gross profit.

Net Profit Margin: In continuation of the operating trend, net margin went down to -23.36% in 2023 with a negative value of -6.09% in 2024. This indicates that the total interest payments are very large as the net loss is worse than operating loss in 2024.

Return on Assets (ROA) and Return on Equity (ROE): The returns are used to determine the efficiency of the company in utilizing the asset base and equity. The trends are

catastrophic. In 2023, ROA decreased to -27.60 percent as compared to 7.56 percent (equivalent to destroying 27 pence of its assets per pound). ROE was destroyed and dropped to -54.91 percent in 2023, which means that more than half of the value of the equity was lost in just one year. These losses were financial leverage further increasing resulting in a shareholder value crisis.

3.1.2 Liquidity Analysis

Liquidity ratios evaluate the solvency of a company in terms of the short-term obligations, and are also necessary to measure financial safety and the risk of insolvency (Welc, 2016). On the surface, it is stable but the trend of this forecasts a serious and increasingly liquidity squeeze.

Current and Quick ratios: Current Ratio decreased to 1.82 in 2020 but is now in the range of 1.53-1.61 in 2021-2024. More telling is the Quick Ratio that omits the inventory, that fell to 1.09 to 0.96. A ratio of less than 1.0 as was observed in the two preceding years means that the liquid assets of the company are not enough to meet immediate liabilities without selling inventory thus putting the company in a precarious situation.

Cash Ratio: It is the most terrifying liquidity ratio. It halved from 0.32 in 2020 to 0.17 in

2024. This is a major loss of the cash buffer of the company, which puts the company at high risk of solvency. The steady decrease in the cash balance of £66,740m in 2022 to £26,783m in 2024 is an obvious warning sign that the company is going through its reserves.

3.1.3 Efficiency Analysis

Efficiencies ratios are used to assess the effectiveness of the company in its management of assets and liabilities. It can be found that the working capital management has been critically broken and this has led to the liquidity crisis.

Inventory and Receivables Days: Inventory Days reached the highest point of 131 days in 2022, which improved to 103 days in 2024, but it is still high. This implies that the cash is invested in inventory and this risk increases the risk of obsolescence.

Receivables Days deteriorated to 115 days as against 83 days as an indicator of bad credit management or desperate selling.

Payables Days and Cash Conversion Cycle (CCC): Payables Days increased to 94 days up to 69 days showing that the company is holding its cash as it waits to pay its suppliers- a dangerous course of action as it is causing friction between the

organization and its suppliers. The CCC has stretched out a lot, which means that the company takes a lot longer to transform its investments into cash.

Asset Turnover: This ratio was comparatively steady although there was a small decrease in it thus depicting that the company is making lesser sale revenue per pound of the assets held which may be due to underutilisation of the assets or investment in unproductive assets.

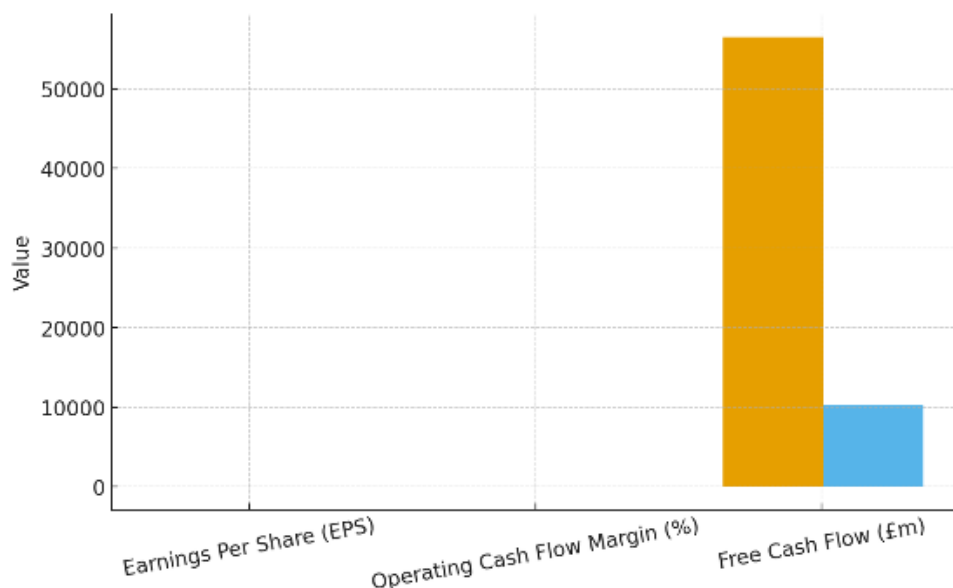
3.1.4 Gearing (Leverage) Analysis

Gearing ratios are used to calculate the level to which a company is financed through debt over equity and to determine the financial risk and efficiency of capital utilization (Kowalik, 2018). The trend indicates a risky growth in the financial risk.

Gearing and Debt-to-Equity: Gearing Ratio increased to 52.65% as compared to 38.60% before. More significantly, the Debt-to-Equity ratio increased to 1.11 against 0.63, which implies that the company has become more indebted than it is represented by equity which is a very risky scenario and increases losses.

Interest Cover: This ratio dropped tremendously as it previously stood at 26.21 which

was very comfortable to very negative figures. The negative ratio implies that the company has no operating profit to pay interest, this leaves it at a very high risk of default and possible covenant breach.



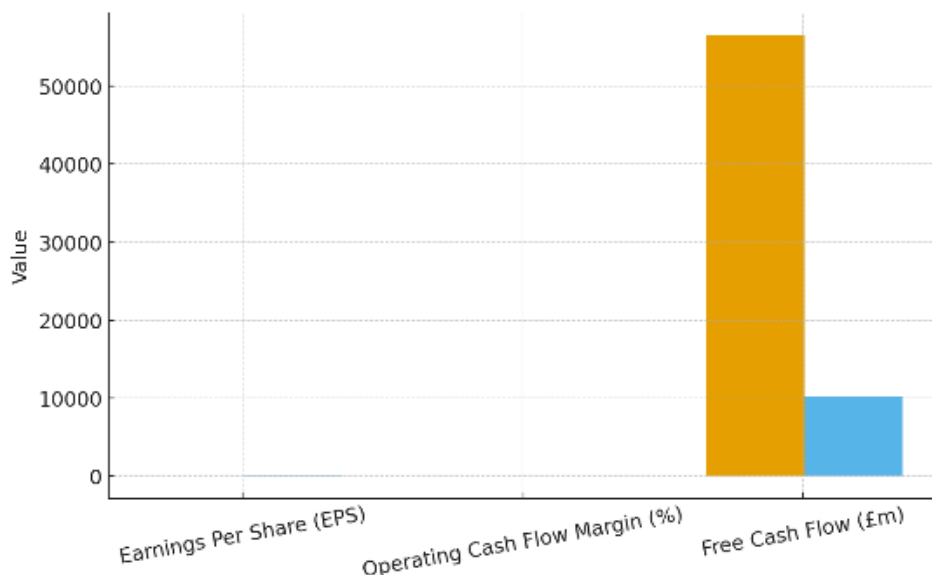
3.1.5 Investment and Cash Flow Analysis.

These ratios give the insight on shareholder returns and quality of earnings.

Earnings Per Share (E£): The loss of shareholder value is clearly demonstrated by the Basic E£ which decreased by a profit of £2.78 per share to a loss of £7.64.

Operating Cash Flow (OCF) Margin: This decreased by 11.94 percent to 3.75 percent of the total sales pound, which is much lower than being changed into cash, which is a symptom of working capital inefficiencies.

Free Cash Flow (FCF): FCF has reduced drastically, having dropped to £10,250m compared to £56,530m that the company has much lower cash available to pay dividends, debt or to invest in strategic plans and is in trouble generating cash to survive itself.



3.2 Trends, Strengths and Threats Identification.

3.3 Key Trends:

Disastrous Fall in profitability A steady decline in profits to severe operating losses as a result of unmanaged operating costs and excessive interest rates.

Severe Liquidity Erosion: This manifests itself in an undoubted tendency to decrease cash reserves and a further extension of the cash conversion cycle and suffocates the company with operational capital.

Rising Financial Leverage: A gradual change of increased use of debt, climbing financial risk and fixed liabilities in the midst of operating losses.

Weakening Working Capital Management: The cash operating cycle is becoming much longer and signifies poor inventory management, accounts receivable management and supplier terms management.

3.4 Residual Strengths:

Asset Base: The company has a large asset base (£323,354m in 2024) which could be used to divestiture to raise capital.

Brand and Market Position: As a global company, it presumably has brand awareness and a consumer base, which will offer a platform on which it can recover through proper

restructuring.

Gross Margin Recovery: It is likely that the gross profit margin will go back to levels of 2020, meaning that the core product cost/pricing model will become viable under the conditions of managing the costs of the operations.

3.5 Critical Threats:

Imminent Solvency Risk: This entails negative profit margin, the low cash balance is highly critical, and the interest cover is negative which leads to the fact that there is a threat of going out of business in the nearest future.

Supplier Relationship Failure: This approach of extending payables days is not sustainable and will potentially cause a critical breakage of the supply chain.

Destruction of Investor Confidence: The destroyed ROE and low E£ levels practically prevent the ability to raise equity capital under favourable conditions.

Debt Covenant Breach: The technical default of debt arrangements is exceedingly likely due to the negative interest coverage and heavy leverage and this may enable creditors to end up in administration.

3.6 Corporate Failure Prediction: Altman Z-Score.

Altman Z-Score is an effective framework to predict corporate bankruptcy. General Electronics calculation considering that it is not possible to compute the Market Value of Equity (component D) because the data is not available brings the following results:

Z-Score decreased to a crippling low 1.633 in the year 2023 that equals a big amount of financial sickness, whereas in the year 2020 it was a healthier 2.685 in the "Grey Zone" that shows a lot of health. Even though it has rebounded to 2.280 in the year 2024, it has been stuck in the high risk area of the grey zones. The most worrying indicator is the disastrous loss in the 3.3C component (EBIT/Total Assets), which became strongly negative in 2023 and 2024, indicating the ruin in the essence of operating profitability. Although working capital management (1.2A) and cumulative profitability (1.4B) are performing fairly well, they are not enough to counter the severe profitability crisis.

4 Working Capital Management.

4.1 Evaluation of Cash Operating Cycle.

Well-managed working capital is one of the key indicators of corporate financial stability, especially in those sectors with high dynamic rates of liquidity requirements that can grow exponentially in a short period (Brigham and Ehrhardt, 2016). In the case of General Electronics, cash operating cycle analysis has shown that the company is facing underlying operational efficiencies that are the main cause of its current dire financial situation. The cash conversion cycle has greatly increased compared to 114 days in 2020 of 124 days in 2024, which was at its highest point in 2022 (145 days). This extension shows that now the company needs more than four months to turn inventory investment into the collected cash and this poses unsustainable pressure on the financial resources (Ross et al., 2022).

The worsening is as a result of two issues running parallel with one another that develop high working capital problems. The fact that the receivables days have dramatically risen by 83 to 115 days indicates that the company may have problems with its credit management control which may be a form of giving excessive credit facilities to generate sales in the face of competition. At the same time, the forceful increase of the payables days by 69 to 94 days is a significant threat to the stability of the supply chain. This arrangement implies that General Electronics essentially funds customer purchases and intentionally postpones supplier payments, which is a vicious cycle to drain operational liquidity in a systematic way (Hillier et al., 2023).

4.2 Reform Strategies in the Working Capital.

These are the key areas of weakness that require thorough working capital reforms that are urgent. Working capital process strategic reengineering would allow releasing large amounts of cash held up in operations and regaining financial flexibility (Pandey, 2023). As a way of receivables management, stricter credit assessment guidelines should be put in place and automated collection systems should be adopted where the firm aims at reducing the average collection period to less than 80 days. Dynamic discounting may encourage timely payment by customers and special collections teams should aim at minimizing the aged debtors by following up on them systematically.

The inventory management needs an urgent consideration by implementing just-in-time concepts and ABC analysis to maximize the stock and lower the current 103 days stock holding days. The company will have to carry out urgent audits to determine the sluggish and obsolete inventories to be disposed of, turning the non-productive resources into necessary cash. As far as the payables management is concerned, although long payment terms may appear appealing, the company needs to shift to the more sustainable methods by renegotiating with the key suppliers formally as part of purchasing commitments instead of unilaterally postponing payments (Brealey et al., 2018).

4.3 Assessment of Financing Alternatives.

The implementation of working capital reforms needs proper financing decisions in the transition period to be successful. The short-term or the long-term issue of financing requires very careful focus on the situation of the company and the nature of financial distress (Damodaran, 2023). The short-term financing instruments such as bank overdraft and commercial papers tend to attract low interest rates though they subject the borrower to refinancing risks and risks of liquidity shocks in cases where credit conditions become tight. In the case of General Electronics, whose issues are not seasonal, but structural, too much dependence on short-term financing would not be a good idea, and would lead to a perilous debt spiral.

The long term financing solutions especially the issuance of equity or long term debt instruments are more stable and subsistent to the long turnaround timelines. Long-term financing priorities are especially important in the case of companies that are undertaking fundamental reorganization, which gives the needed breathing space to make operational improvements without being always pressured by debt maturities that are within days to pay (Berk and DeMarzo, 2023). In the case of General Electronics, the most suitable solution is a rights issue to issue new equity capital that will enhance the balance sheet without contributing to the interest burden that is currently choking the profitability of the company.

4.4 Implementation Priorities.

The recovery of the working capital management at General Eletronics is the important

part of the overall turnaround plan. The fact that the cash operating cycle has dramatically increased has also led to the liquidity crisis and warrants specific interventions in the management of receivables, inventory, and payables. These performance enhancements should be complemented with sound financing policies that focus on long-term sustainability rather than showcasing short-term expediency (Arnold, 2008).

The implementation must be done in a step-wise process that starts with the immediate practice of minimizing the receivables by increasing the effort of collecting these receivables and by improving the inventory management by disposing the stock that moves slowly. The company must then center on long term structural adjustments such as official renegotiation of terms with the suppliers and installation of sophisticated inventory management systems. With these steps taken in tandem, General Electronics will be able to unlock much of the cash held in the working capital, decrease the dependence on external borrowing, and generate some financial flexibility needed to regain sustainable profitability.

5 Strategic Financial Restructuring Plan.

5.1 Background and Reason of the entire Restructuring.

General Electronics is at a high level of inflection that must be caused by existential threats, as years of operating with large net losses, a critically low cash balance, and a critically long cash operating cycle. It has become the essential unsustainability of the past approach of the company to depend on short-term lines of credit that are volatile and deliberate delays made in the payment of creditors as a way of delaying the inevitable financial scaling. The existing capital structure can no longer be sustained, which can be marked by debt-to-equity ratio 1.11 and negative interest cover -4.55 as it does not allow covering current debt commitments with the help of operating earnings (Altman, 1968).

The overall aim of such a complete restructuring will be three-fold by guaranteeing the present survival of the corporation by stabilizing the balance sheet, by providing liquidity in operations through strategic portfolio optimization, and by providing a sustainable platform to future profitability and growth. This demands decisive and

action in concert on numerous fronts-capital structure, asset portfolio and scope of operations. The plan also recognizes that the piece meal solutions will not handle the systemic nature of the financial woes of General Electronic to turn to an integrated approach that integrates both an asset restructuring and financial reengineering (Gilson, 2001).

5.2 Proposed Financial Restructuring Alternatives.

5.2.1 Strategic Divestiture of Non-Core and Underperforming Business Units

The best cash generation source that is most easily implementable and an effective indicator to the financial markets will be a strictly observed strategic divestiture programme. The departmental performance of General Electronics in terms of asset base and segment performance indicates that the company has a lot of capital invested in non-core or business units that are not performing well. The company can immediately embark on a thorough portfolio review to identify and prepare to divest the product lines, geographic divisions, or subsidiary companies that are either constantly making losses, have poor returns on capital, or are no longer in line with the future core strategy of a lean and focused electronics company (Kaplan and Norton, 2008).

5.2.2 Equity Injection via Rights Issue to Recapitalise the Balance Sheet

This strategy shows the willingness to retain the existing shareholders by enabling them to retain a proportional ownership and directly contributing towards the recovery of the company and can most probably succeed unlike a general population offering under the current distressed valuations (Jensen, 1986).

The capital raised would principally be aimed at systematic reduction of total liabilities which amounts to £170, 249 million by capital raised of a target between £40-50 billion. This would take the critical debt to equity ratio out of its dangerous state of 1.11 at once and dramatically down to a more sustainable level of under 0.7. Moreover, it would go a long way to lower the annual interest crushing cost of £3,361 million in 2024 - a cash outflow that cannot be maintained by the company.

5.2.3 Negotiation Debt-for-Equity Swap with Major Creditors.

Effective implementation has to mean open communication with creditors, a good business case showing how a restructured General Electronics can be profitable in the

future, and create more value to creditors as shareholders than forced liquidation will. A successful swap would produce two crucial results direct decrease of the absolute debt principal on the balance sheet, and removal of future cash flows of interest payments on the cancelled debt.

5.3 Comprehensive Evaluation of Impact

5.3.1 Impact on Shareholder Value

The suggested restructuring will undoubtedly be in the short run, dilutive to current shareholders. The rights issue and debt-to-equity swap when combined will result in a significant amount of shares outstanding, and this will mechanically decrease the Earnings Per Share and dilute the ownership percentages before the restructuring. Such financial engineering with possible unfavourable perception of distress by the market is likely to create additional pressure on the share price right after the announcement (Andrade and Kaplan, 1998). The plan helped in removing the threat of existential insolvency, stabilising the financial base and providing the groundwork situation where profitability will be restored, so that overall intrinsic shareholder value will have a major recovery in 3 to 5 years.

5.3.2 Impact on Debt Structure

The effects on the debt structure of General Electronics will be highly positive and this is the essence of this plan. The three initiatives act in harmony in a bid to radically restore the liability profile of the company. The cash inflow of divestiture proceeds will give aggressive and direct cash inflow to reduce the riskiest short term debt which is the "Lines of credit" which is not dilutive. Rights issue proceeds will inject equity capital to achieve large amounts of liability, incurring step-change growth in debt-to-equity ratio. The debt-to-equity swap will forever remove debt out of the balance sheet, transforming the fixed financial obligation into non-binding equity instruments (Myers, 1977).

All of these will turn the debt structure into one that is highly-risk, short-term dependency scenario into one that is stable, sustainable, and in line with long-term operational objectives. The interest cover ratio in the deep negative regions at the moment will shift to positive grounds as the interest costs will significantly decrease and the operating performance will slowly recover due to strategic focus.

5.3.3 Operational Flexibility Implication.

Return of operation flexibility is not a minor advantage of this restructuring process as it is usually ignored. To begin with, radical decrease in the required debt-servicing expenses will free up large segments of operating cash flows. Such released capital may then be diverted off of just surviving and investing strategically, i. e. investing in vital research and development, initiating focused marketing campaigns, and making the necessary capital investments that were probably postponed by the crisis (Hart, 1995).

5.4 International and Ethical Issues.

5.4.1 Taxation and Fiscal Efficiency.

International assets should be divested in a highly-planned manner through international tax experts in order to maximise the tax liability in the globe and get the highest net proceeds to settle debt. The jurisdictional legal domicile of assets, sales format (asset sale or share sale) and the bilateral tax treaties will have significant implications on Capital Gains Tax, Value added Tax/Goods and Services Tax incidence and transfer pricing. A poor tax system may undermine value achieved on divestiture because such a system will be used to erode one of the pillars of restructuring (Desai and Hines, 2002).

5.4.2 Management of Currency Risk

The restructuring will involve a lot of currency risk due to the nature of the extensive global operations of General Electronics. Sale of foreign assets will bring cash flows in various currencies whereas the primary liquidity will probably need to be decreased in Sterling. One-off cross-border financial transactions with large financial transactions can cause a lot of gains or losses depending on the changing exchange rates. Corporate treasury should have advanced hedging techniques such as forward contracts and currency options to hedge the expected cash flows of the company to get the asset sales value hard earned not destroyed by the negative currency movement (Bartram, 2008).

5.4.3 International Inflation Global Environment.

The high world inflation in the present is complicated with both opportunities and

challenges. Inflation raises the cost of restructuring, which raises professional fees, redundancy costs, and operational transition costs and strains on cost of input and wages. On the other hand, in the case of a firm that has a large amount of fixed-rate debt, inflation will be able to successfully reduce the real debt burden in the long run, as long as the firm grows its nominal revenues. Moreover, since General Electronics will ultimately have the possibility to refinance residual debt, it needs to look at the possibility of issuing inflation-linked bonds that can lessen real cost of borrowing in case inflation continues (Fisher, 1930).

6 Capital Budgeting and Investment Appraisal.

Within the situation of General Electronics, capital investment decisions have to reveal a strict level of financial discipline and be fostered with the company turnaround goals. The company has a capital rationing limit of £60 million, which requires the choice of three suggested projects carefully to create the best value as the risk is exposed. The five investment appraisal methods, which are Payback Period (PBP), Accounting rate of return (ARR), Net Present Value (NPV), Profitability Index (PI) and Internal rate of return (IRR) are used to analyze Projects A, B and C in this analyses. The appraisal is based on the discount rate of 10 percent, which indicates the increased risk profile of the company, and the assumption of the straight-line depreciation of the assets to zero salvage value that are in line with the conservative accounting policies (Arnold, 2008).

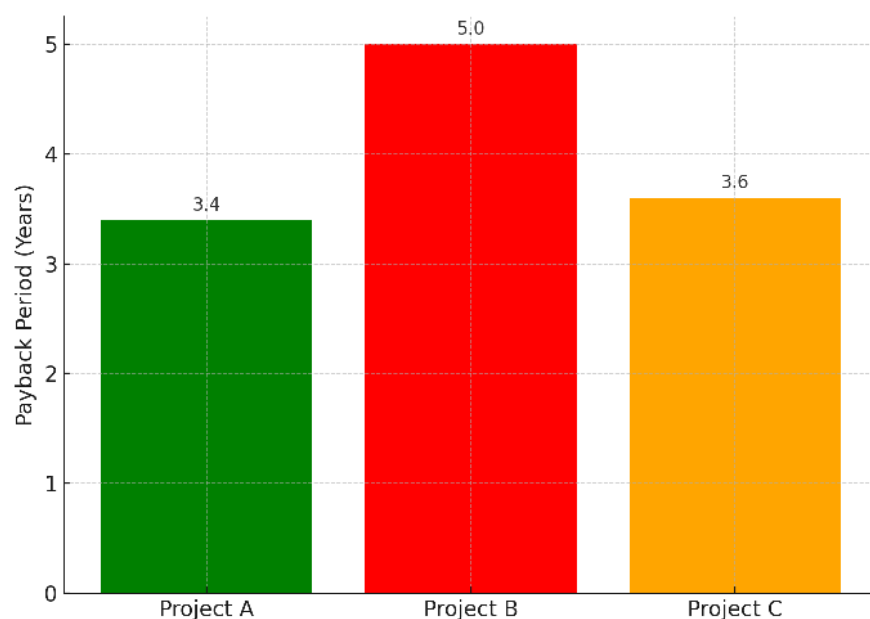
The significance of this capital budgeting exercise cannot be underscored; this is in view of the present financial distress that General Electronics is experiencing. Having several years of significant losses and a critically low cash position, it is necessary to investigate all investments choices as it could help the company recover and avoid using valuable financial resources. There is also the capital rationing constraint that further increases the complexity in that it is not only necessary to identify financially viable projects, but also to allocate limited capital across competing opportunities in the most optimal way possible. In this analysis, both the traditional and the discounted cash flow approaches will be evaluated systematically in regards to the alignment of the projects to the urgent need of the company which is to improve its profitability, improve its liquidity and mitigate risks.

6.1 Appraisal of the Project through the capital budgeting techniques.

6.1.1 Payback Period (PBP) Analysis

Payback Period estimates indicate that there are great variations in the capital recovery trends of the three projects. Project A has the lowest payback period of 3.4 years, then 3.6 years of Project C, whereas Project B takes the entire 5-year period to pay off the initial investment. In the case of Project A, the cumulative flow of cash breakeven at the fourth year, the calculation of which is as follows: 3 years + (£4m remaining investment / £10m Year 4 cash flow) = 3.4 years. Project C is also in the fourth year of payback which is given as 3 years + (£15m left over / £25m Year 4 cash flow) = 3.6 years.

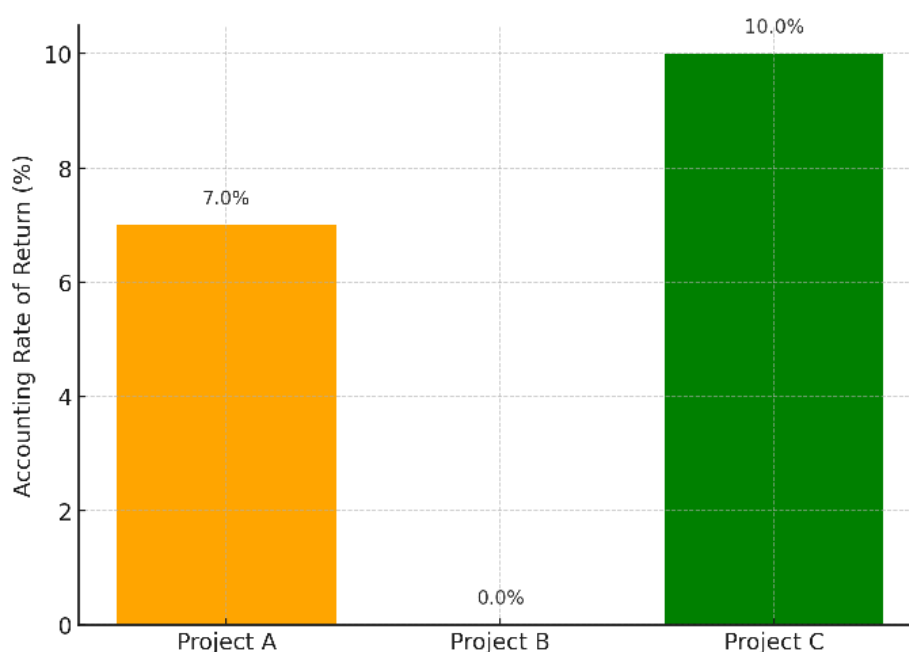
The faster payback of Project A and C gives significant liquidity benefits to a company that is suffering serious cash flow issues. Such an attribute minimizes the risk of making the long-term investments and allows reinvesting the capital earlier, which is pertinent especially to the financially troubled firm (Drury, 2015). Although the payback measure is restricted in its inability to consider the time value of money, it is still useful in measuring the liquidity risk and the speed of capital recovery, which is paramount in the context of the current liquidity problems experienced by General Electronics due to its current financial issue of cash flow.



6.1.2 Accounting rate of Return (ARR) Analysis.

Accounting Rate of Return calculations indicate that project C will earn the most rate of 10.0, then Project A with a rate of 7.0, and Project B has a rate of 0.0. In the case of Project C, the mean annual accounting profit is £5 million [£25m total profit/ 5 years]/ average investment of £25 million [£50m initial investment/ 2], which would result in an ARR of 10.0%. At the average profit of £2.8 million per year, project A gives a 7.0 percent yield on the £20 million average investment.

These returns based on accounting are indicative of the effect of the reported profitability, where Project C has the highest potential of improvement on the already battered income statement of General Electronics. Although ARR rose has its weaknesses of not considering the timing of the cash flow, it gives an insight of how each project will be reflected on the published financial statements of the company and key profitability ratios that investors and creditors closely monitor.



6.1.3 The discounted cash flow

The Net Present Value calculations indicate that Project C will produce the greatest absolute value of £4.23 million, then Project A with a £1.32 million and Project B with a negative NPV of -£7.26 million will destroy the value. The better NPV of project C can be attributed to the high cash flows at the end of the year that in spite of being discounted, play a major role in the creation of value. This ranking is affirmed by the Profitability

Index, which has Project C of 1.085, Project A with 1.033, and Project B with 0.758.

These findings can once again be confirmed by the Internal Rate of Return outcomes which show that project C has a yield of 12.87, project a has 11.33 and project B has 0. These findings are a clear indication that it is only Projects A and C that are above the 10% cost of capital and should be considered investing in (Brealey et al., 2018). This consistency in the ranking of the three methods of discounted cash flows such as NPV, PI and IRR is a good indication of Project C being financially better.

6.2 Investment Recommendation and Justification.

6.2.1 Recommendations:

According to thorough financial analysis and taking into account the £60 million capital limit, I would only invest in Project C in the entire amount of £50 million. This recommendation is based on the fact that project combinations are theoretically feasible, but the destruction of value of Project B of the portfolio eliminates any portfolio containing this option and the combination of Projects A and C is more than the available capital by £30 million. Thus, the decision becomes to pick only one project that is value maximizing in the constraint.

The recommendation decision of Project C against Project A is a strategic decision to focus on maximizing value and effective use of capital as opposed to more expeditiously recovering capital. Although Project A can pay back a little faster, the substantial value loss in the form of the lost £2.91 million in the foregone NPV is not worth the price over the face of General Electronics that is in urgent need of a critical value creation and sustainable profitability increase.

6.2.2 Rationalization According to Financial Measures.

Project C is the best of the three projects that should be chosen based on capital rationing because it performs better based on various assessment parameters. The project offers the greatest absolute NPV (£4.23 million), which signifies maximum value creation to the shareholders. Its Profitability Index (1.085) is best in its utilization of the limited capital as it produces £1.085 of present value on the £1 invested. Moreover, Project C has the largest IRR (12.87) and ARR (10.0), and such values will have a significant impact on the enhancement of the critically poor profitability ratios of the

company.

Project C is significantly capital efficient especially in light of the limited financial status of the company. Although the initial investment in the project is greater, it has a much higher payback in terms of returns on every pound invested and is therefore the best utilization of the limited capital resources. The £10 million of idle capital in this recommendation can be held as a buffer of the liquidity, or be used as working capital investments, which would provide extra financial resources during the turnaround stage.

6.2.3 Consistency with the Financial Position of Company.

The financial troubled situation of General Electronics with the negative profit margin and the cripplingly low cash balance requires the investments to provide the high returns and the risk that can be controlled. The payback period of 3.6 years of Project C is a bit longer than that of Project A, but it also offers a reasonable amount of liquidity recovery, and the better profitability ratios directly respond to the need of the company to revive sustainable earnings capability. Good accounting returns of the project will also contribute to regaining investor confidence by showing them a definite road to profitability enhancement (Pike and Neale, 2006).

The Altman Z-Score of the company stands at 2.280 which though improving lately, is in the Grey Zone of distress which highlights the need to choose the investments that can make significant changes with regard to the financial recovery. The positive returns that Project C has been experiencing provide an opportunity to speed up this by increasing profitability as well as asset utilization indicators that are included in the calculation of the Z-Score.

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	2024	2023	2022	2021	2020
Net Sales	394,879	420,457	542,751	601,602	614,680
Gross Profit	113,994	97,560	152,292	173,016	176,256
Operating Income (Loss)	-15,297	-85,301	14,548	23,253	37,267
Net Income (Loss)	-24,029	-98,238	407	5,301	38,572
Total Assets	323,354	355,872	504,163	510,348	510,290
Shareholders' Equity	153,105	178,920	268,406	275,949	313,301
Cash and Cash Equivalents	26,783	42,751	66,740	60,813	57,153
Receivables Total	124,528	116,836	120,342	134,227	139,118
Total Current Assets	242,494	258,851	338,040	337,146	326,843
Total Current Liabilities	158,291	161,148	216,473	216,787	179,510
Inventories	79,355	88,273	140,181	134,469	120,430
Cost of Sales	280,885	322,897	390,459	428,586	438,424
Receivables Total	124,528	116,836	120,342	134,227	139,118
Accounts Payable	72,031	57,033	71,373	92,707	83,229
Total Liabilities	170,249	176,952	235,757	234,399	196,989
Total Assets	323,354	355,872	504,163	510,348	510,290
Shareholders' Equity	153,105	178,920	268,406	275,949	313,301
Operating Income (Loss)	-15,297	-85,301	14,548	23,253	37,267
Interest Expense	3,361	4,332	2,200	566	1,422

Net Income (Loss)	-24,029	-98,238	407	5,301	38,572
Net Operating Cash Flow	14,822	25,190	10,926	40,283	73,392
Capital Expenditure (PP&E)	4,572	8,116	14,006	12,586	16,862
Net Sales	394,879	420,457	542,751	601,602	614,680

Ratio	Formula	2024	2023	2022	2021	2020
Gross Profit Margin	Gross Profit / Net Sales	28.87%	23.20%	28.06%	28.76%	28.67%
Operating Profit Margin	Operating Income / Net Sales	-3.87%	-20.29%	2.68%	3.87%	6.06%
Net Profit Margin	Net Income / Net Sales	-6.09%	-23.36%	0.07%	0.88%	6.28%
Return on Assets (ROA)	Net Income / Total Assets	-7.43%	-27.60%	0.08%	1.04%	7.56%
Return on Equity (ROE)	Net Income / Shareholders' Equity	-15.69%	-54.91%	0.15%	1.92%	12.31%

Liquidity Ratios

Ratio	Formula	2024	2023	2022	2021	2020
Current Ratio	Current Assets / Current Liabilities	1.53	1.61	1.56	1.56	1.82
Quick Ratio	(Cash + Receivables) / Current Liabilities	0.96	0.99	0.86	0.90	1.09
Cash Ratio	Cash / Current Liabilities	0.17	0.27	0.31	0.28	0.32

Efficiency Ratios

Ratio	Formula	2024	2023	2022	2021	2020
Inventory Days	(Inventory / CoS) * 365	103	100	131	115	100
Receivables Days	(Receivables / Net Sales) * 365	115.105	101.426	80.93	81.4373	82.609
Payables Days	(Payables / CoS) * 365	94	64	67	79	69
Asset Turnover	Net Sales / Total Assets	1.22	1.18	1.08	1.18	1.20

Gearing (Leverage) Ratios

Ratio	Formula	2024	2023	2022	2021	2020
Gearing Ratio	Total Liabilities / Total Assets	52.65%	49.72%	46.76%	45.93%	38.60%
Debt to Equity	Total Liabilities / Equity	1.11198	0.989	0.87836	0.84943	0.62875
Interest Cover	Operating Income / Interest Expense	-4.5513	-19.691	6.61273	41.083	26.2075

Investment and Cash Flow Ratios

Ratio	Formula	2024	2023	2022	2021	2020
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Earnings Per Share (Basic)		-£1.85	-£7.64	£0.03	£0.39	£2.78
Operating Cash Flow to Net Income	OCF / Net Income	-0.6	-0.3	26.8	7.6	1.9
Operating Cash Flow Margin	OCF / Net Sales	3.75%	5.99%	2.01%	6.70%	11.94%
Free Cash Flow	OCF - Capex	10,250	17,074	-3,080	27,697	56,530

Component	2024	2023	2022	2021	2020
1.2A (WC/TA)	0.312	0.329	0.289	0.283	0.347
1.4B (RE/TA)	0.903	0.914	0.918	0.906	0.892
3.3C (EBIT/TA)	-0.156	-0.791	0.095	0.151	0.241
1.0E (S/TA)	1.221	1.181	1.077	1.179	1.205
Z-Score	2.280	1.633	2.379	2.519	2.685

Z-Score > 2.99: Safe Zone

1.81 < Z-Score < 2.99: Grey Zone (Distress Zone)

Z-Score < 1.81: Distress Zone