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RESEARCH ARTICLE

False Recovery in Financial Distress Prediction: Evidence from Altman Z″-Score EMS at PT Supra Boga Lestari Tbk 2022-2025

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Abstract
Financial distress prediction models remain vulnerable to misclassification when firms report significant non-recurring income that obscures deteriorating operational fundamentals. In order to determine whether a 2024 improvement in the Altman Z-Score Emerging Market Scoring (EMS) signal truly reflects operational recovery or is distorted by transitory income, this study examines a false recovery phenomenon in PT Supra Boga Lestari Tbk (RANC), an Indonesian premium retailer undergoing digital transformation. The study calculates annual Z-Score values and does a what-if restatement analysis using audited financial data from the Indonesia Stock Exchange covering 2022–2025 using a quantitative descriptive single-case design. The findings verify that RANC spent the entire time in the financial difficulty zone. Crucially, the apparent improvement in 2024 was accompanied by a 42.7 percent drop in operating cash flow, which was caused by a non-recurring disposal gain of Rp110.7 billion that concurrently inflated total assets and earnings. A paradoxical Z-Score of 2.1546 (grey zone) was obtained from a what-if restatement that excluded this gain. This revealed a structural conundrum in which, when transient revenue is present, the model's component interactions generate noise rather than trustworthy diagnostic signals. These results show that gains in Z-Score may be a deceptive recovery signal that is unrelated to actual operational health. It is recommended that investors and analysts add operating cash flow analysis and earnings quality screening to distress model results, especially for companies going through post-acquisition digital transformation.

Keywords
Financial Distress; Altman Z″-Score EMS; False Recovery; Earnings Quality; Transitory Income; Digital Transformation.

1 | INTRODUCTION

The capital market in Indonesia has seen significant increases in retail investor involvement, with the tally of registered retail investors at the Indonesia Stock Exchange (IDX) hitting 13. 7 million in 2024. This surge in participation has amplified the demand for trustworthy financial evaluation tools that enable investors to gauge the stability and risk characteristics of publicly traded companies. In this scenario, financial distress the situation where a business fails to fulfill its financial commitments punctually and necessitates essential corrective measures like debt restructuring, selling off key assets, or negotiating with creditors continues to be a major issue for all parties involved in the financial system. (Tran *et al*., 2023; Sethi, 2024). The significance of precise forecasting of financial trouble is highlighted by evidence from international comparisons, indicating that models for predicting bankruptcy may demonstrate differing degrees of dependability when utilized in various economic and regulatory contexts (Gajdosikova *et al*., 2026). This difference indicates that examining individual cases of companies within particular institutional and market settings, like RANC in Indonesia, is still important for recognizing the limitations of models that might not appear in studies that look at multiple countries as a whole. The Altman Z″-Score Emerging Market Scoring (EMS) model is among the most widely used instruments for predicting financial distress in non-manufacturing firms operating in emerging markets, combining four ratios into the formula Z″ = 3.25 + 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4 (Altman, 2018; Braunsberger & Aschauer, 2025). Despite its transparency and interpretability, the model carries a fundamental structural limitation: it cannot distinguish whether an improvement in the X2 (retained earnings/total assets) and X3 (EBIT/total assets) components originates from sustained operational performance (permanent income) or from one-time, non-operational items (transitory income). This limitation creates a direct risk of signal distortion for firms that record significant non-recurring financial items (Dechow & Schrand, 2010; State *et al*., 2024). PT Supra Boga Lestari Tbk (RANC), the operator of the top rate supermarket chains Ranch marketplace and Farmers marketplace, have become majority-owned (70.56 percent) by using PT worldwide virtual Niaga Tbk (Blibli) in late 2021, initiating a transformation in the direction of an included omnichannel enterprise version. inside the years following this acquisition, RANC recorded internet losses of Rp83.7 billion (2022) and Rp120.6 billion (2023) a cumulative lack of Rp204.three billion in the first two years pushed no longer by means of declining revenue however by a 12.63 percent increase in promoting charges, from Rp459.6 billion to Rp517.1 billion, reflecting omnichannel infrastructure and virtual promotion charges. In 2024, RANC mentioned a marked development, consisting of a nice internet income of Rp26.7 billion following two consecutive years of losses. a closer analyzing exhibits that this internet profits turned into dominated by means of a Rp110.7 billion advantage on the sale of an investment in an companion a non-operational, non-routine (transitory) item.

Whilst prior research have raised important concerns about the accuracy of Z″-rating models (Adel *et al*., 2024; Tran *et al*., 2023 ; Kristanti *et al*., 2025; Sánchez *et al*., 2025) and studies demonstrating that non- operational income can distort misery-prediction components (State *et al*., 2024) restrained attention has been given to the false restoration mechanism or to its explicit connection with the transitory-as opposed to-permanent-earnings distinction and the earnings-satisfactory framework (Dechow & Schrand, 2010) as a ability motive of model failure in emerging-market contexts. furthermore, current research tends to be in large part descriptive-classificatory in orientation, hardly ever thinking the validity of the model's signal whilst extensive non-operational earnings gadgets are gift. The quantity to which virtual-transformation value stress proxied via accounting-based signs might also make contributions to false healing signals in post-acquisition retail corporations has acquired scant scholarly interest. the present examine extends the literature through addressing these intersecting gaps in the Indonesian retail context. This look at addresses those gaps via 3 goals: (1) to investigate and describe RANC's economic misery condition based totally on the Altman Z″-score EMS for 2022–2025; (2) to examine the divergence among the Z″-rating sign and fundamental overall performance indicators, and the elements explaining it; and (three) to investigate the fake healing indication in the 2024 Z″-rating improvement by way of isolating the effect of the non-operational divestment gain via a what-if restatement evaluation. Methodologically, the study adopts a quantitative descriptive single-case layout (Yin, 2023) the use of secondary facts from RANC's audited monetary statements posted thru IDX. The the rest of this text proceeds as follows. segment 2 opinions the theoretical heritage on economic distress prediction, earnings first-rate, and digital transformation fee strain. phase 3 describes the research approach. section 4 gives and discusses the empirical results. section five concludes with implications, obstacles, and guidelines for future research.

2 | BACKGROUND THEORY

2.1 Financial Distress and the Bankruptcy Process

Company financial disaster is most correctly understood no longer as a discrete prison occasion but as the terminal outcome of a prolonged, multidimensional procedure of monetary deterioration. This system usually progresses via identifiable levels: initial erosion of working profitability, observed via persistent insufficiency of

operational cash flows to provider duties, innovative deterioration of working capital, and in the end an irreversible solvency breakdown that renders reorganization or liquidation unavoidable (Sethi, 2024; Altman, 2018). Economic misery describes the intermediate and reversible levels of this continuum the condition wherein a company's cash era is structurally insufficient to cover its operational and economic commitments, necessitating corrective movement consisting of debt restructuring, asset divestiture, or essential strategic repositioning whereas financial ruin represents the endpoint whilst corrective movement fails or is foreclosed. Due to the fact misery manifests regularly throughout multiple reporting intervals, early-caution quantitative models that aggregate accounting signals bring sizeable realistic price for managers, lenders, and traders searching for to interfere before the method reaches its terminal level (Braunsberger & Aschauer, 2025). However, the predictive reliability of such fashions depends totally at the first-class in their accounting inputs. when the monetary announcement figures that feed a misery model are contaminated by way of non-routine, transitory objects profits that inflate reported profitability or retained income for a single length with out reflecting any improvement in sustainable center operations the version's output ceases to be a reliable indicator of the company's real trajectory alongside the misery continuum. This dependence of version accuracy on input fine is the central theoretical motivation for examining the profits exceptional measurement of misery prediction.

2.2 Earning Quality

The theoretical framework governing the relationship among accounting inputs and model reliability is income first-class principle (Dechow & Schrand, 2010). Earnings best is basically concerned with the degree to which mentioned profits faithfully represent the underlying financial overall performance of the firm's center operations and are predictive of destiny coins flows. inside this framework, a crucial difference is drawn between two structurally unique additives of pronounced income. permanent earnings refers to income generated via the company's routine, sustainable core operations the revenues and costs that repeat across intervals and carry meaningful records approximately the company's lengthy-run profitability trajectory. Transitory earnings refers to one-time, non-ordinary gadgets which includes gains on asset divestments, first-rate settlements, or proceeds from the sale of investments in associates that inflate said income in a unmarried length with out reflecting any development inside the underlying operational engine (State *et al*., 2024; Dechow & Schrand, 2010). This difference is theoretically consequential for aggregate accounting-primarily based misery fashions due to the fact such models are structurally incapable of disaggregating these profits components. while a company statistics a massive transitory gain, that benefit concurrently improves the retained earnings and profitability additives of the model, generating a composite rating that alerts obvious financial development. yet because the benefit is non-habitual, it includes no data about the firm's ability to service destiny duties the very criterion that distress prediction is intended to evaluate. The end result is signal distortion: the version registers a favorable reading that does not correspond to true operational recovery. while this distortion is sufficiently large to shift the composite rating closer to a more secure classification region, it constitutes what this have a look at terms a fake recovery an artifact of transitory income in place of evidence of structural development (State *et al*., 2024; Tran *et al*., 2023). Important thing is, the false recovery signal might go unnoticed when analysts only look at the composite score and don't check other signs of earnings quality, like operating cash flow. Unlike income that comes from accounting entries, operating cash flow can't be easily boosted by gains from non-business activities.

2.3 Altman Z”-Score EMS Model

The Altman Z-Score Emerging Market Scoring (EMS) model was created as a change to the original Z-Score system.It was made to work better for companies that aren't manufacturing firms and those that operate in emerging market countries.These companies have different financial structures, types of assets, and business environments compared to manufacturing companies in developed markets (Altman, 2018). The model is expressed as:

$$Z'' = 3.25 + 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$$

X_1 shows working capital divided by total assets, which tells us about short-term cash flow.X_2 is retained earnings divided by total assets, showing how much profit has been kept and how much debt the company has taken on over time.X_3 is earnings before interest and taxes divided by total assets, which shows the company's basic profit from its main operations.X_4 is the book value of equity divided by total liabilities, which shows how strong the company's financial position is and how much it relies on debt. Omitting ratios that depend on market value or sales makes the model more useful for private companies and those in emerging markets.The model is also clear and easy to understand, which is why it is commonly used by both academics and professionals to assess financial trouble (Braunsberger & Aschauer, 2025). This simplicity has also helped the model work better when predicting bankruptcy risk during a sudden major external shock, where new forecasting methods based on traditional accounting ratio models have still been found to be useful in predicting outcomes, even when a sector faces an

unexpected drop in demand (Mateji & Obradovi, 2022). The Altman Z-Score model can be used in more situations than just its original version for emerging markets: updated versions have been checked with Turkish companies (Cındık & Armutlulu, 2021) and on Slovenian companies (Dolinšek & Kovač, 2024), even though there are known issues with how well the model reflects the real economic value of reported earnings, a wider look across different industries shows that it is still widely used.(Rashid *et al*., 2023)(Rashid *et al*., 2023). This evidence from different countries and industries shows that looking at RANC is important because it clearly shows how the model misses temporary income changes. Classification zones for the Z″-Score EMS model need to be used carefully because they are different from the zones in the original Z-Score and Z′-Score models. The right limits for the EMS version are: a Safe Zone when Z″ is higher than 2.6 (meaning the company has a low chance of facing financial trouble), a Grey Zone when Z″ is between 1.1 and 2.6 (this is unclear, so the company needs to be watched closely), and a Distress Zone when Z″ is lower than 1.1 (this means the company is in danger of financial problems).(Altman, 2018). Using the original Z-Score thresholds (safe: Z > 2.99; distress: Z < 1.81) or the Z′-Score thresholds (safe: Z′ > 2.9; distress: Z′ < 1.23) with the EMS formula would be a serious methodological mistake. This would incorrectly classify the financial health of non-manufacturing companies in emerging markets and make it impossible to compare results across different studies. Even though the EMS model is widely used and has been proven to work in many cases, it still has a basic problem that is important for this study. Because X_2 and X_3 come from accounting numbers like retained earnings and EBIT, the model can't tell if improvements in these areas are because of real, long-term business recovery or because of temporary, non-business-related gains. As explained in the previous section, this sets up the exact situations where signal distortion and false recovery can happen, which means that analyzing earnings quality is very important when using Z-Scores to assess financial distress (Dechow & Schrand, 2010; State *et al*., 2024; Braunsberger & Aschauer, 2025).

3 | METHOD

This study uses a quantitative descriptive approach based on a single-case study model (Yin, 2023). The choice was made because the design focuses on analytical generalization instead of statistical generalization, and it's suitable for studying a phenomenon that can't be explored using large-sample methods (Shamsudin *et al*., 2026). PT Supra Boga Lestari Tbk (RANC), which is listed on the Indonesia Stock Exchange under the symbol RANC, is the unit of analysis. The fiscal years 2022 through 2025 are investigated. RANC was selected as the case because it satisfies three criteria for an extreme, unique, and revelatory case (Yin, 2023): first, RANC had ongoing financial difficulties from 2022 to 2025, with Z—EMS scores that are continuously below the distress level (Zscore < 1.1); second, in 2024, the ZscoreThird, the post-acquisition omnichannel transformation following Blibli's controlling stake creates a unique digital-transformation context not previously examined in Indonesian financial distress literature. The score improved significantly while operating cash flow decreased by 42.7 percent, an empirical divergence suggestive of false recovery. Secondary data were drawn from RANC's audited annual financial statements for 2022–2025, sourced from the official IDX website (idx.co.id). Working capital was computed as current assets minus current liabilities; retained earnings were taken from the equity section; EBIT was computed as operating income plus finance expenses; and book value of equity refers to equity attributable to the parent. Total assets and total liabilities were taken directly from the statement of financial position. These inputs were used to compute X1 (working capital/total assets), X2 (retained earnings/total assets), X3 (EBIT/total assets), and X4 (book value of equity/total liabilities) for each year, which were then applied to the formula $Z'' = 3.25 + 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$ and classified into the safe zone ($Z'' > 2.6$), grey zone ($1.1 < Z'' < 2.6$), or distress zone ($Z'' < 1.1$). To guarantee data integrity, a three-source validation and triangulation process was put in place. The IDX financial-statement portal, RANC's official Annual Reports (2022–2025), and the supporting Notes to the Financial Statements (Catatan atas Laporan Keuangan, CALK) were used to cross-check each reported figure. Specifically, the CALK sections on investment activities and other non-operating income/expenses were directly compared to the classification and isolation of the Rp110.7 billion non-recurring divestment gain in 2024, confirming that the gain was disclosed as a distinct, non-operational line item rather than embedded within core operating revenue. The audited/official report was given priority in order to settle any discrepancies across sources, and the reconciliation was recorded in the authors' working file. Seven processes comprised the analytical process: (1) data collection and verification; (2) X1 through X4 calculations for each year; (3) Z-Score computation; (4) zone categorization; and (5) interpretive analysis confronting the Z-(6) a hypothetical restatement scenario that eliminates the Rp110.7 billion divestment gain from the 2024 X2 and X3 components and recalculates the Z-score using fundamental indicators (operation cash flow, EBIT, gross margin, divestment gain, and selling expenses) to detect divergence(Dechow & Schrand, 2010; State *et al*., 2024); and (7) examination of three accounting proxies for digital-transformation cost pressure the selling-expense-to-gross-profit ratio, the gross-margin/EBIT-margin gap, and the OCF trend for 2022–2025. The difference between actual and restated scores (ΔZ^2) serves as a quantitative measure of the extent of false recovery.

4 | RESULTS AND DISCUSSION

4.1 Results

4.1.1 Altman Z″-Score EMS Results, 2022–2025

The calculated elements and Z-Score EMS for RANC between 2022 and 2025. An overview of RANC's financial distress trajectory across the four fiscal years under examination is provided by the table, which highlights the four predictor ratios (X1–X4) along with the composite Z-Score and its related zone categorization.

Table 1. Altman Z″-Score EMS Components and Distress Classification, PT Supra Boga Lestari Tbk, 2022–2025

Component	2022	2023	2024	2025
X1 (Working Capital/TA)	−0.0744	−0.1155	−0.0548	−0.0619
X2 (Retained Earnings/TA)	0.1044	0.0119	0.0321	−0.0148
X3 (EBIT/TA)	−0.0618	−0.0679	−0.0453	−0.0227
X4 (BVE/Total Liabilities)	0.4592	0.3156	0.3681	0.2911
Z″-Score (Altman EMS)	−1.1267	−4.3122	−0.4069	−0.2752
Zone classification	Distress	Distress	Distress	Distress

The findings indicate that RANC's ZThroughout the whole observation period, the score stayed negative not just below the 1.1 distress threshold, but in negative territory indicating financial strain that surpasses the theoretical bankruptcy barrier. The 6.56(X1) and 6.72(X3) terms typically made the biggest negative contributions, indicating underlying issues with operating profitability and liquidity. The most extreme value (−4.3122) occurred in 2023, when all four components concurrently reached their lowest points. This indicates that RANC's distress is multifaceted, encompassing liquidity (X1 negative), operating profitability (X3 negative), accumulated earnings (X2 collapsing), and capital structure (X4 declining). A working-capital deficit (X1 = −0.0744) and operational inefficiency (X3 = −0.0618) were the main causes of the Z^2-Score of −1.1267 in 2022, while X2 (0.1044) and X4 (0.4592) remained positive and served as the only buffers preventing a deeper decrease. The score fell precipitously to −4.3122 in 2023: X1 worsened to −0.1155, X3 worsened to −0.0679, and most critically, X2 collapsed to 0.0119 near zero, indicating that accumulated operating losses had nearly completely eroded RANC's historical retained-earnings buffer. This was consistent with an EBIT loss of roughly Rp51 billion driven by digital-channel development costs.

4.1.2 The 2024 Improvement and Its Divergence from Operating Cash Flow

The Z-Score significantly improved in 2024, moving from −4.3122 to −0.4069, which could appear to indicate a significant recovery. When the 2024 components (X1 = −0.0548, X2 = 0.0321, X3 = −0.0453, X4 = 0.3681) are broken down, it becomes clear that X1 and X3 the components that most closely represent core operating performance remain negative. The working-capital deficit and operating EBIT both remained negative. At the operational level, the structural flaws that have existed since 2022 have not much improved. Together with a slight improvement in X3, the increase in X2, from 0.0119 to 0.0321, is responsible for the full improvement in the Z-Score. The positive net income in 2024, which was primarily driven by a gain of Rp110.7 billion from the sale of an investment in a non-recurring, non-operational item, was the source of this improvement in X2. Core operational income was still negative after deducting this gain. Rather than a true strengthening of the capital structure, the improvement in X4 to 0.3681 also represents the equity increase produced by this one-time gain. Operating cash flow (OCF), an indication that is significantly less vulnerable to manipulation through non-operational accruals because it represents the firm's actual capacity to create cash from operations, provides confirmation of divergence. OCF decreased by 42.7 percent, from Rp136.1 billion (2023) to Rp78.0 billion (2024), in the same year that the Z-Score shown its greatest improvement. This was a clear indication of signal distortion. 2025 offers additional empirical support. For the first time during the observation period, X2 became negative (−0.0148) and the Z-Score declined once more to −0.2752, indicating that the company had "burned" more capital than it had previously produced. The company posted a net loss in the third quarter of 2025 and X1 and X3 remained negative throughout 2025, indicating that the transient impact of the 2024 disposal gain had been entirely absorbed and that the core earnings engine never truly recovered.

4.1.3 What-If Restatement Analysis: A Structural Paradox

A counterfactual restatement was carried out by subtracting the Rp110.7 billion divestment gain from the 2024 X2 and X3 components and recalculating the Z-Score in order to measure the distortion caused by the gain. The comparison of the actual and restated 2024 outcomes is shown in Table 2.

Table 2. What-If Restatement of the 2024 Z″-Score EMS

Component	Actual 2024	Restated 2024 (excl. divestment gain)	Δ (Change)
X1 (Working Capital/TA)	−0.0548	−0.0548	0.0000
X2 (Retained Earnings/TA)	0.0321	−0.0604	0.0925
X3 (EBIT/TA)	−0.0453	−0.1377	0.0924
X4 (BVE/Total Liabilities)	0.3681	0.3681	0.0000
Z″-Score (Altman EMS)	−0.4069	2.1546	+2.5615
Predicted zone	Distress (Red Zone)	Grey Zone	—

The restated scenario eliminates a positive income item, the real Z-Score of −0.4069 (distress zone) is actually lower than the restated score of 2.1546 (grey zone), indicating a major mismatch in earnings quality. This unexpected outcome is a symptom of signal distortion brought on by the model's structural incapacity to discern between temporary and permanent revenue rather than a defect in the Altman formula itself. Removing the divestiture gain results in a non-linear and directionally surprising reaction across components because it simultaneously increased X2 (retained earnings/total assets) and X3 (EBIT/total assets) while also increasing total assets in the denominator of both ratios. To put it another way, the model reports an apparent improvement when a large transitory item is present because the non-recurring gain taints both the numerator and denominator of the profitability and retention components (Dechow & Schrand, 2010; State *et al*., 2024). The observed earnings quality discrepancy is caused by this signal distortion rather than any mathematical problem in the model itself. The amount of noise added to the model's output when earnings quality is low is measured by the resulting ΔZ^2 of +2.5615, which may be attributed to a single non-operational item (State *et al*., 2024). The model produces a noisy signal that is unreliable as a description of the firm's actual economic position, as evidenced by the resulting ΔZ^2 of +2.5615, which may be attributed to a single non-operational item (Spence, 1973; Tran *et al*., 2023).(Spence, 1973; Tran *et al*., 2023). Crucially, the fake recovery thesis is strengthened rather than weakened by this earnings quality mismatch. The key evidence for false recovery comes from indicators that are structurally protected from manipulation through non-operational accruals rather than the Z-Score itself, which is exactly the point: (1) OCF dropped from Rp136.1 billion to Rp78.0 billion, a 42.7 percent decrease, in the same year as the actual Z—The score seemed to improve; (2) core operational EBIT (X3) was negative from 2022 to 2025; and (3) RANC recorded a net loss in the third quarter of 2025 once more. Therefore, the restatement exercise accomplishes its intended diagnostic goal, which is to separate the transitory component and show how much of the Z-An earnings item that contains no information regarding the company's potential for future cash creation was responsible for the score improvement. Together, these results show that the Altman Z-Score EMS model can produce a signal that is disconnected from actual operational substance when applied to companies with significant non-recurring income. This is a limitation that analysts must recognize and supplement with earnings quality screening (Braunsberger & Aschauer, 2025).

4.1.4 Digital Transformation Cost Pressure: The Gross Margin–EBIT Gap

The three accounting proxies gross profit margin, EBIT margin, and the ratio of selling expenses to gross profit as well as the consequent difference between gross margin and EBIT margin are shown in Table 3.

Table 3. Gross Margin, EBIT Margin, and Selling-Expense-to-Gross-Profit Ratio, PT Supra Boga Lestari Tbk, 2022–2025

Indicator	2022	2023	2024	2025
Gross profit margin (%)	22.4	23.6	24.6	24.9
EBIT margin (%)	−2.9	−3.0	−1.9	−0.9
Selling expenses / gross profit (%)	79.5	79.0	72.8	73.8
Gap (gross margin − EBIT margin), pp	25.3	26.6	26.5	25.8

From 22.4 percent in 2022 to 24.9 percent in 2025, the gross profit margin steadily increased, which alone may indicate a slow improvement in operations. However, EBIT margin remained negative throughout the time, with a disparity of 25 to 27 percentage points between gross margin and EBIT margin in every year. The selling-expense-to-gross-profit ratio, which stayed between 72.8 and 79.5 percent, is the main cause of this disparity. This indicates that selling expenses accounted for 72 to 80 cents of each rupiah of gross profit. The qualitative change narrative revealed in RANC's Annual Reports and MD&A sections for 2022–2024 is in line with this quantitative signal. The development of omnichannel integration with the Blibli digital platform, investment in technology infrastructure to support unified online and offline retail operations, costs associated with digital promotion across mobile and e-commerce channels, and supply chain restructuring necessary to serve both physical and digital customer touchpoints are all examples of the operating expense pressure associated with post-acquisition omnichannel transformation, according to RANC's management communications. According to these disclosures, RANC was purposefully absorbing costs to carry out its digital transformation mandate under Blibli's ownership, with revenue-facing gains (gross margin improvement) materializing faster than the cost base could be rationalized. This indicates that the persistent elevation of selling expenses above 72

percent of gross profit represents a structural investment overhang rather than operational inefficiency in the traditional sense. This pattern illustrates an investment overhang typical of post-acquisition omnichannel transformation: product-level efficiency gains (gross margin) are produced, but positive EBIT is never attained because the resulting margin is insufficient to cover the elevated digital operating cost base (Thaichon *et al*., 2024). Within Signaling Theory (Spence, 1973), This ongoing structural cost pressure was temporarily mitigated by the Rp110.7 billion disposal gain in 2024, which significantly raised X2 and X3 and gave the impression that the Z"-score signal, but the digitization agenda's underlying cost pressure persisted. According to (Dechow & Schrand, 2010), high-quality earnings must be consistent and indicative of future cash flows. The ensuing drop in OCF and the return to net losses in the third quarter of 2025 demonstrate that the 2024 disposal gain did not meet this requirement. When considered collectively, the results of this study have three clear and distinct connections to earlier research. First, the findings confirm the main claim of (Dechow & Schrand, 2010) In terms of earnings quality, RANC's 2024 data offer a single-case empirical confirmation that, as predicted by earnings quality theory, transitory income that is neither persistent nor predictive of future cash flows inflates distress model components and creates a false signal of financial improvement. Second, the findings go beyond Tran *et al*., 2023, who documented found general model limitations in an emerging-market context, this study shows that post-acquisition omnichannel transformation creates a sustained structural EBIT drag that makes firms in this category particularly vulnerable to false recovery signals when any non-recurring gain enters the income statement a mechanism neither modeled nor tested by Tran *et al*. Third, the findings conflict with interpretations of Z-Improvements in scores are reliable markers of better company health (Altman, 2018; Braunsberger & Aschauer, 2025): RANC's 2024 score improvement of almost 3.9 points coincided with declining OCF, ongoing negative EBIT, and declining working capital, indicating that Z-In the absence of earnings quality screening, score progress may be directionally deceptive rather than diagnostic. The false recovery mechanism described in this study is a combination of temporary signal distortion from the divestment gain and permanent structural cost pressure from the omnichannel transformation agenda. This configuration has not been previously noted in Indonesian financial distress literature and makes it difficult for analysts to handle Z-Every time a company records significant non-recurring income, score improvements under close examination.

4.2 Discussion

The analysis of financial distress at PT Supra Boga Lestari Tbk (RANC) reveals a complex interplay between operational performance and non-recurring income that significantly impacts the Altman Z″-Score EMS model's predictive accuracy. Despite a notable improvement in the Z″-Score from -4.3122 in 2023 to -0.4069 in 2024, this apparent recovery is misleading due to the substantial contribution of a one-time divestment gain of Rp110.7 billion, which inflated retained earnings and EBIT without reflecting genuine operational health. This situation aligns with findings from Dechow & Schrand (2010), who emphasize the importance of distinguishing between transitory and permanent earnings in assessing financial performance. Furthermore, the decline in operating cash flow by 42.7% during the same period raises concerns about the sustainability of this improvement, underscoring the need for rigorous quality screening of earnings when utilizing Z-Scores to predict financial distress. The research highlights that while the EMS model offers a structured approach to evaluating financial health, it is susceptible to distortions caused by non-operational items, a phenomenon that has been echoed in studies by Tran *et al*. (2023) and Sethi (2024), which illustrate the challenges of accurately predicting financial distress in emerging markets. Thus, the findings call for a more nuanced application of the Z-Score model, incorporating qualitative assessments of earnings quality to mitigate the risks of false recovery signals.

5 | CONCLUSIONS AND FUTURE WORK

This analysis verifies that from 2022 to 2025, PT Supra Boga Lestari Tbk (RANC) was in a state of ongoing, multifaceted financial distress, with Altman Z-Score EMS values continuously negative because of structural flaws in operating profitability (X3) and liquidity (X1). The 2024 Z-Score's apparent increase is a "false recovery," solely due to a non-recurring divestiture gain of Rp110.7 billion that raised retained earnings and EBIT without accurately reflecting operational health. The model's aggregate accounting inputs failed to discern between temporary income and sustained core performance, as indicated by a 42.7% fall in operational cash flow throughout the same time and a return to net losses in 2025. Following Blibli's acquisition, high omnichannel infrastructure and promotional costs consumed 72–80% of gross profit, limiting positive EBIT despite improved gross margins. This is the underlying cause behind this signal distortion. A structural paradox was discovered via the what-if restatement analysis: removing the transient gain caused the Z-The model's non-linear sensitivity to changes in the asset base and its blind spot with regard to earnings quality are shown by the score from the distress zone to the gray zone (+2.1546). Because it may conceal long-term structural deficiencies with transient accounting aberrations, relying just on Z-Score results is insufficient for companies going through major corporate activities or digital changes. In order to improve the detection of false recovery signals, future research should build hybrid distress prediction models that incorporate operating cash flow as a major variable in addition to conventional accrual-based ratios.

Using more precise proxies like IT expense-to-revenue ratios, comparative investigations across several Indonesian retail issuers experiencing digital disruption are advised to ascertain whether this tendency is systematic. Furthermore, modeling the continuous trajectories of Z using multivariate functional data-analysis techniquesWhile qualitative investigations into analyst behavior will shed light on how market experts interpret different signals across distress models and fundamental data, score components could enhance discriminant accuracy.

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