



A F R I C A

UNIVERSITY

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

**NMAC 309: FINANCIAL MANAGEMENT
END OF FIRST SEMESTER EXAMINATIONS**

NOVEMBER 2025

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TIME: 3 HOURS

INSTRUCTIONS

1. This paper contains **four** questions.
2. Answer **All** questions.
3. Start each question on a new page.

QUESTION 1 (25 Possible Marks)

ZimTech Solutions Ltd is a rapidly growing technology company based in Zimbabwe that has recently launched an innovative software product designed to revolutionize project management for small to medium-sized enterprises. Following initial success in the market, ZimTech is now looking to expand its operations, enhance its marketing efforts, and develop additional features for its software.

ZimTech Solutions Ltd has experienced a significant increase in customer demand and received positive feedback from early adopters. To capitalize on this momentum, the company is seeking additional financing. The management team is considering several financing options, including:

- **Equity Financing:** Issuing new shares to raise capital.
- **Debt Financing:** Taking on loans or issuing bonds.
- **Retained Earnings:** Utilizing profits from initial sales to fund expansion.
- **Venture Capital:** Attracting investment from venture capitalists specializing in tech startups.

As the CFO, you are tasked with evaluating various capital structure theories to determine the best financing approach that aligns with ZimTech's growth strategy and operational goals.

Required

Discuss at least five of the following capital structure theories and their implications for ZimTech Solutions Ltd financing decisions.

- Modigliani and Miller Irrelevance Theorem (5 Marks)**
- Static Trade-off Theory (5 Marks)**
- Pecking Order Theory (5 Marks)**
- Market Timing Theory (5 Marks)**
- Signaling Theory (5 Marks)**
- Life Cycle Theory (5 Marks)**

QUESTION 2 (25 Possible Marks)

ZimTech Innovations is a rapidly growing software development company based in Zimbabwe, known for its innovative project management tools that cater to small and medium-sized enterprises. Recently, ZimTech has experienced significant growth but faces increasing competition in the tech industry. To bolster its market position and expand its service offerings, ZimTech's management is considering a merger with **DataWise Solutions**, a well-established firm specializing in data analytics and business intelligence solutions.

ZimTech Innovations has a strong development team but lacks advanced analytics capabilities that could enhance its software products. DataWise Solutions possesses a robust portfolio of analytics tools and a client base that includes large corporations and government entities. The management of ZimTech believes that combining forces could create synergy, enabling both companies to enhance their product offerings and tap into new markets.

However, some board members are skeptical about the merger's benefits and are concerned about potential risks, including a hostile takeover attempt from a competing firm that has been eyeing ZimTech due to its growth trajectory.

Required:

(a) Define synergy and discuss the specific synergies that could arise from this merger? (5 marks)

(b) Describe several situations that might produce synergistic gains in the context of the proposed merger. (5 marks)

(c) Discuss the advantages of this diversification as a rationale for mergers the potential drawbacks the management should consider? (5 marks)

(d) What are the four economic types of mergers? Explain how each type applies to the merger between ZimTech Innovations and DataWise Solutions, providing specific examples relevant to their industries. (5 marks)

(e) What are some defensive tactics that firms can use to resist hostile takeovers? (5 marks)

QUESTION 3 (25 Possible marks)

ValuTech Corp. is a rapidly growing technology company that specializes in developing innovative software solutions for businesses. As the firm prepares for its upcoming initial public offering (IPO), its management team is focused on determining the company's valuation. Investors are eager to understand the factors influencing ValuTech's worth, including its revenue growth, market potential, and competitive positioning. The management is considering various valuation methods, such as discounted cash flow (DCF), comparable company analysis, and precedent transactions, to arrive at an accurate estimate.

The following are the company's financial details for the current year:

- **Sales:** \$150 million
- **Cost of Sales:** \$75 million
- **Distribution and Administrative Expenses:** \$15 million
- **Tax Allowable Depreciation:** \$25 million
- **Annual Capital Spending:** \$30 million
- **Corporation Tax Rate:** 25%
- **Current Value of Debt:** \$10 million
- **Weighted Average Cost of Capital (WACC):** 12%
- **Inflation Rate:** 5%

The company expects these cash flows to remain stable for the foreseeable future and is interested in determining the value of its equity.

Required

- a) **Discuss the primary valuation methods that ValuTech Corp. can use to determine its worth? (8 marks)**
- b) **Calculate the real discount rate, corporate value and value of Equity (10 Marks)**
- c) **Discuss the major advantages and disadvantages of ValuTech Corp becoming a Multi-National co (7 Marks)**

QUESTION 4 25 (Possible marks)

Greenfield Investments is a financial advisory firm that specializes in managing diverse portfolios for its clients. Recently, the firm has been evaluating the merits of passive versus active investment strategies amidst changing market conditions characterized by increased volatility. Some clients are focused on minimizing costs and achieving market returns through passive strategies, while others are seeking higher returns through active management and are curious about the potential benefits and drawbacks of each approach.

Required

- d) **What are passive and active investment strategies? Discuss the key differences between the two approaches in terms of management style, costs, and expected outcomes. (8 marks)**
- e) **Considering the current market volatility, analyze how a passive investment strategy could benefit clients at Greenfield Investments. (6 marks)**
- f) **Conversely, discuss the potential benefits and drawbacks of an active investment strategy in the same volatile market environment. (6 marks)**
- g) **What is the Efficient Market Hypothesis, and what are its three forms? Describe how these forms differ from one another. (5 Marks)**

END OF EXAMINATION