

Purchaser:	Odvoz a likvidácia odpadu a.s., in short : OLO a. s., Ivanská cesta 22, 821 04 Bratislava, Slovak Republic
Title of the tender:	ENGINEERING AND CONSTRUCTION-TECHNOLOGICAL SUPERVISION OF MODERNISATION AND ECOLOGISATION OF WEEE
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Prepared on:	August 9, 2023

Dear Sir or Madam,

Co. OLO, a.s. hereby publishes the answers to the questions received within the deadline for submission of applications for participation.

Question 1:

We are sending you a question/comments on the conditions of participation in the competition, specifically on the section defining the INDEX N05 formula used to assess the financial health of the company.

The model in question consists of 5 ratios (Y1 to Y5). Indicator Y2 is defined as the EBIT/interest expense ratio. If the company does not take out loans, zero is added in the denominator, which is mathematically problematic. Paradoxically, the fact that the company does not take out loans ultimately puts the company at a disadvantage in the final value of INDEX N05.

Question on Y2: How should such a company go about calculating Y2 if the above situation arises (interest expense equals zero)?

Note on Y3 and Y4: Y3 is defined as the EBIT/Assets ratio. This ratio puts the bidder with sufficient assets at a disadvantage in the final calculation. In some companies, a large part of the assets are financial accounts. This fact, coupled with the fact that such a company does not take out loans, is in itself a sufficient indication of the company's financial stability. Conversely, the greater the value of assets such a company reports in the formula, the smaller the INDEX result. Similarly, the Y4 ratio is defined as the ratio of Total Revenue/Assets. Also for this ratio, the above applies.

Purchaser reply:

The purpose of the given condition of participation, established in accordance with § 33(1)(c) of the Public Procurement Act, is to assess the financial health of the candidates interested in the contract. In pursuit of this purpose, the Co. OLO, a.s. has chosen to assess the Czech creditworthiness model INDEX N05, which, on the basis of a mathematical comparison of economic indicators determined by

the authors, indicates by one number the financial stability of the company or possible financial problems. It is a generally accepted financial model whose method of calculation of individual indicators is described and explained in the literature and publicly available sources. Co. OLO, a.s. will not interfere with the formula used to calculate the index, as it is a complex, internationally recognised and time-tested financial model, each indicator of which is assigned a certain weight of importance, for certain reasons assessed by the authors. Why the formula includes the economic indicators in question and what weight is given to them for what reason and what is being monitored by it, or for what reason an unbalanced asset/EBIT ratio is evaluated as a negative phenomenon, can be read in a number of publicly available professional articles (e.g. <https://www.finanalysis.cz/pouzite-bankrotni-modely.html>).

OLO, a.s. decided to verify the financial health of the bidder because the performance of the contract is expected to take place over the next 7 years, with a substantial part of the performance to be provided only in the second half of the contract term. At the same time, the involvement of subcontractors, who are dependent on the financial health of the general contractor, is foreseen to a relatively not insignificant extent. This financial model is an accepted credit-bankruptcy model that has been tested on data from thousands of firms and has demonstrated excellent predictive power for estimating firms' financial distress, even several years in advance.

With regard to the issue of calculating an index when a company is not taking out loans, the literature assessing this model admits some bias in the overall values. In such cases, therefore, the authors of the index recommend that the Y2 indicator be assumed to have a maximum value, which in this case is 9.

The Purchaser will therefore modify Annex 6 to the Tender Documents so that, if the company does not draw on loans, the Y2 indicator will be 9. Also, in order to avoid a misleading result, the maximum value of the Y2 indicator is 9. The revised Annex will be published in parallel with this Explanatory Memorandum.

Documents modified on the basis of this clarification:

- Annex 6 Tender documents – Conditions of participation

Yours sincerely

Mgr. Adam Kašák

Head of Procurement