Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics

Diploma Thesis

Economic analysis of DEKONTA a.s.

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Klára Trochová

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Thesis title

Economic analysis of DEKONTA a.s.

Objectives of thesis

The diploma thesis performs the economic analysis of selected Dekonta a.s company. The main objective is to analyse the complete economic situation, including the company's financial health, business performance, and external environment. Additionally, the thesis answers the research question, Is Dekonta a.s. well-performing company within the Czech market? The thesis uses financial and non- financial data for the analysis, primarily from 2014 to the present year.

Methodology

The diploma thesis uses methods of financial analysis as horizontal and vertical analysis of Balance sheet and Income statement, Analysis of financial ratios, Analysis of Net Working Capital, Bankruptcy model and Economic Value-Added method. Furthermore, the thesis uses the methods of assessment of wider surroundings of a company as SWOT analysis, Porter's five forces analysis, and PESTLE analysis. In the end,the practical part contains appropriate recommendations for the future.

The proposed extent of the thesis

60 – 80 pages

Keywords

Economic analysis, Financial analysis, Performance, SWOT analysis, PESTLE analysis

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Recommended information sources

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Declaration

I declare that I have worked on my diploma thesis titled "Economic analysis of DEKONTA a.s" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 31.3.2020 _____

Acknowledgement

I would like to thank Ing. Jiří Mach, Ph.D., for his advice and support during my work on this thesis. Additionally, I would like to thank DEKONTA a.s. for its helpfulness and consultations.

Economic analysis of DEKONTA a.s.

Abstract

The diploma thesis performs economic analysis of a selected company – DEKONTA a.s.. The objective is to analyse the complete economic situation of the company. To reach those objectives, the thesis uses methods of financial analysis but also analysis of micro- and macro environment. The thesis uses data primarily data from 2014 to the present year.

The results of economic analysis found that the company is financially healthy. Especially, the ratios of rentability and liquidity express the positive condition of the company. In 2018, ROE reached 26.98%, whereas the average value of the selected industry was 4.13%. Liquidity exceeds recommended values from the literature, when the company's average cash ratio of five years is 0.7. Economic Value-Added (EVA) displays that the company, except for 2016, is well-performing when comparing with the selected industry. Moreover, in 2018, EVA reached 445 thous. CZK. On the contrary, financial analysis discovered, that the company is very dependent on public procurements, and when big projects were phased out in 2016, DEKONTA did not achieve high profits and financial ratios of profitability and solvency significantly weakened. In addition to financial analysis, the thesis evaluated that DEKONTA a.s. is a successful international company that offers a broad portfolio of environmental services, owns highly qualified employees and has a successful partnership with many influential institutions and companies. It is very likely that environmental services will be more demanded in the future.

Keywords: Economic analysis, Financial analysis, Business performance, SWOT analysis, PESTLE analysis, Porter's five forces analysis

Ekonomická analýza DEKONTA a.s.

Abstrakt

Tato diplomová práce se zabývá ekonomickou analýzou vybraného podniku DEKONTA a.s. Cílem práce je zhodnotit celkovou ekonomickou situaci, v níž se podnik nachází. K dosažení práce jsou použity metody finanční analýzy, tak i analýzy mikro a makro okolí. Diplomová práce využívá data od roku 2014 po současnost.

Výsledky ekonomické analýzy zjistily, že podnik je finančně zdraví. Především ukazatele rentability a likvidity vyjadřují pozitivní stav podniku. V roce 2018, rentabilita vlastního kapitálu dosáhla 26,98 %, zatímco průměrná hodnota průmyslového odvětví se pohybovala v 4,13 %. Likvidita překonala doporučené hodnoty dle literatury, kdy průměrná okamžitá likvidita za pět let je 0,7. Ekonomická přidaná hodnota (EVA) ukázala, že podnik, kromě roku 2016, vykazuje vysokou výkonnost při porovnání s průměrnou hodnotou ve sledovaném průmyslovém odvětví. V roce 2018, EVA dosáhla dokonce 38 445 tis. CZK. Na druhou stranu, finanční analýza odhalila, že společnost je velmi závislá na veřejných zakázkách, a když v roce 2016 došlo k jejich útlumu, DEKONTA nedosáhla velkých zisků a finanční ukazatele rentability a zadluženosti tak výrazně oslabily. Kromě finanční analýzy diplomová práce zhodnotila, že DEKONTA a.s. je úspěšná mezinárodní společnost, která nabízí široké portfolio služeb, má velmi kvalifikované zaměstnance a úzce spolupracuje s mnoha vlivnými institucemi a firmami. Je velice pravděpodobné, že enviromentální služby, kterými se podnik zabývá, budou v budoucnosti více poptávané.

Klíčová slova: Ekonomická analýza, Finanční analýza, Výkonnost podniku, SWOT analýza, PESTLE analýza, Porterova analýza pěti sil

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List of abbreviations

CCC	Cash conversion cycle
EAT	Earnings after tax
EBT	Earnings before tax
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, depreciation and tax
EVA	Economic Value-added
ISO	International Organization for Standardization
NOPAT	Net Operating Profit after Tax
NWC	Net Working Capital
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
ROS	Return on Sales
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital

1 Introduction

The author chooses the topic "Economic analysis" due to her interest in Finance, Macroeconomics, and Strategic management. Why is Economic analysis important? Economic analysis helps to provide and develop information to run business by applying all activities which evaluate, plan, improve and control critical business activities and actions. Economic analysis may also prevent unfavorable events and trends, such as competitive threats, manufacturing problems, and product performance issues.

The selected company for Economic analysis is the Czech company DEKONTA a.s. DEKONTA a.s. is a supplier of all kinds of Environmental services. Although, environmental services do not belong to the most Value-Added industry in the Czech market. Due to the green revolution that occurs in the European Union, there is certainly a bright future for those services. The author chose DEKONTA by reason of the company's broad business activities that as well include projects in developing countries. The company is interesting and socially responsible.

The main objective is to evaluate the company's position within the market. The thesis analyzes the company's situation by using financial and non-financial data. The author selected suitable methods of financial analysis to evaluate the company's internal situation. Additionally, the author implies the external analysis of the Macro and Microenvironment.

The thesis is divided into three parts. Firstly, the theoretical part where the essentials of Economic analysis are detailly explained. The second part belongs to the Methodology, where all chosen methods for the evaluation are explained. At the end, the Practical part implies the analysis on DEKONTA a.s.

2 Objectives

The diploma thesis performs the economic analysis of selected DEKONTA a.s company. The main objective is to analyse the complete economic situation, including the company's financial health, business performance, and external environment. Additionally, the thesis answers the research question, Is DEKONTA a.s. well-performing company in the Czech market? The thesis uses financial and non- financial data for the analysis, primarily from 2014 to the present year.

3 Literature Review

Literature review of the diploma thesis covers a deep theoretical description of Economic analysis. The chapter divides Economic analysis into two parts, external and internal analysis.

3.1 Introduction of Economic Analysis

According to sources of literature, there is a certain confusion between the economic and financial analysis. So, what is the truth? Economic and financial analysis may have some similarities. Both of these analyses represent the evaluation of business performance, so what is the difference?

Economic analysis is according to Synek defined as an observation of the economic phenomenon or processes. The examined object of economic analysis is essentially a company; however, it is not necessary to analyse the company as a whole, the object of economic analysis could be also division or department of the company. As well the object could be the industry or even the market. (Synek 2003; Synek, Kopkáně, Kubálková, 2009)

Economic analysis does not analyse just financial ratios – the ratios could be also non-financial (qualitative). It is evident, that financial analysis is part of economic analysis. According to Campbell, economic analysis can be divided into external analysis and internal analysis. (Campbell, 2002)

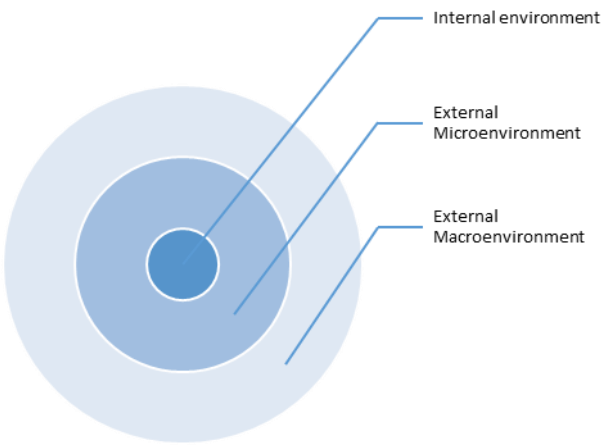
The essential part of the economic analysis is the purpose. The aim of the research must be apparent. According to Synek, the main sources of economic analysis are:

- Management of a company
- Shareholders
- Employees and Labor unions
- Financial institutions
- Investors
- Creditors (Synek, 2003)

3.2 External analysis

If a company wants to be successful and profitable, it is necessary to not just focus on financial data. The company should also consider implying the analysis of the external environment. Campbell mentions that the external environment is further divided into Macroenvironment and Microenvironment. Where macroenvironment implies to company's broad environment and microenvironment is a circle where the company interacts on a daily basis. (Campbell p.113, 2002)

Picture 1: Environment of company



(Own processing, Source: Campbell p.113, 2002)

3.2.1 Analysis of the External Macroenvironment

The macroenvironment refers to an environment that is outside of a company but still could have a significant or less significant impact on the company or the microenvironment, such as industry or market, in which the company operates. The macroenvironment influences the whole industry in which a company operates, arising from many different factors. (Campbell, p. 115-128, 2002)

3.2.1.1 PESTLE analysis

This thesis uses the method of PESTLE analysis. PESTLE analyses the external factors:

Political factors (P): include government interventions, political stability, changes in government constitutions, changes in government's policies and actions, decisions about monetary and fiscal policies, government support to the industry, foreign trade policy, international relations, leaving or joining international organizations and unions, political lobbying.

Economic factors (E): a very important category for the business. Economic factors imply mainly to macroeconomic factors such as income levels, unemployment, tax rates, inflation, exchange rates.

Socio-cultural factors (S): refer to social, cultural and geographic factors like people's values, attitudes, and beliefs. Additionally, traditions, norms, religion, ethical perceptions, language, education level, gender roles, population growth, age structure are also included. This factor is very important regarding customer's behaviour towards product or service. The geography factors can't be much influenced. The climate conditions, raw materials, weather and country's specialization.

Technological factors (T): during the last years, technology becomes very important for all businesses. Technology and innovations influence operations and business in many ways. These factors can be in the form of infrastructure, technical updates, the productivity of technology, software and hardware, internet and social media, SEO and GPS.

Legal factors (L): apply to different principles, laws, and regulations. The business will be influenced by national law policies or policies from international organizations such as the European Union. Nowadays the importance of corporate social responsibility grows. Therefore, ethical business should be the main focus of any business.

Ecological/Environmental factors (E): are the last factors of PESTLE analysis. During the last decade, there is an increasing interest in the natural environment. Most of the companies proceeded the digitalization and so, the offices became paperless. In case of industrial companies, there are issues such as the carbon footprint, pollution, emissions, clean energy. There is a higher pressure for companies being eco-friendlier, and so improve their production with ecological methods. (Perera, 2017), (KIM-KEUNG HO, 2014)

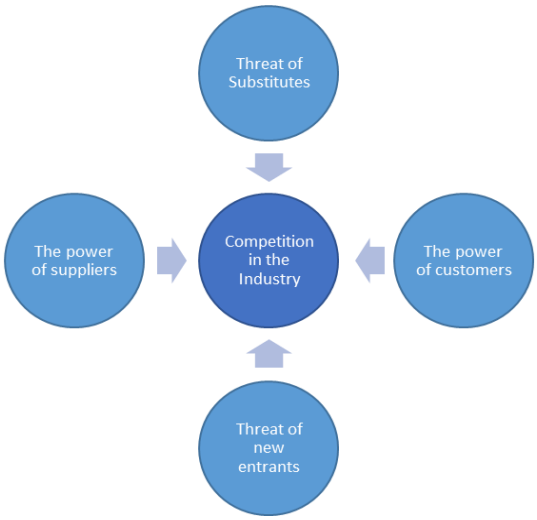
3.2.2 Analysis of External Microenvironment

The competitive environment is another name for the external microenvironment of a company. The microenvironment is very sensitive if it changes, it can affect a company very fast and moreover greatly. It includes components such as competitors, suppliers, and customers.

3.2.2.1 Porter's five forces model of industry analysis

Porter developed a structural analysis of the competition within an industry. Porter claims that there are five competitive forces that determine the influence of the nature of competition. This analysis helps to assist managers in developing the competitive strategy of their company. (Campbell, p. 129-133, 2002)

Picture 2: Porter's five forces



(Own Processing, Source: Campbell, 2002)

1. The threat of new entrants in the industry

This force describes the possibility of new competitors. The competitors are those companies, that offer the same or similar product or service.

According to Campbell: *The lower entry barriers are in the market, the more competitors will entry to the market*. The barriers can have multiple forms such as regulatory and legal constraints, the capital costs of entry, brand loyalty, access to input and distribution channels and the resistance offered by existing businesses. (Campbell, 2002)

2. The competition in the industry

This force implies an existing competition within an industry. The competition can be price or non-price related. In case of price competition, the companies undercut each other's prices. Non-price competition involves marketing tools like branding, advertising, customer service, and promotion. Furthermore, the maturity of the industry and the brand loyalty of customers highly matter. Additionally, the power of customers with the availability of substitutes also influences the market.

3. The threat of substitutes products

Substitute products include goods or services which can replace a company's product. If a company produces a unique product that has no close substitute, the company will have fewer threats and can easily increase prices. Another question is the customer's behaviour if they are willing to switch to the substitutes rather than buy the original products.

4. The power of customers

Generally speaking, the more power that customers increase, the lower will be the transaction price. This can be further influenced by the following factors. Firstly, the number of customers and the volume of their purchases. The fewer customers and the larger volume of their purchases, the bigger their bargaining power become. Secondly, switching costs and the availability of substitutes. This means that if the cost of switching between substitutes is low, then the customers will be more powerful.

5. The power of suppliers

Companies must receive the resources for their operational activities, which lead to income. These resources can be financial, physical, human or intellectual. The resource is received from resource markets where prices are determined by the interaction between suppliers and companies that requesting the specific resource. The price is influenced by the scarcity of the resource, cost of switching to another resource, the number and size of the resource suppliers and how many other companies request the resource. Overall, the suppliers in the industry will be more powerful when their resource is scare or when there are only few substitutes in the market, and they supply more industries. Additionally, the suppliers can benefit when switching costs of substitute are high. (Campbell, 2002)

3.3 Internal Analysis

In addition to external analysis, a company should also be concerned about the internal environment. Internal analysis includes information about the history of the company, the company's development, the company's financial and non-financial sources.

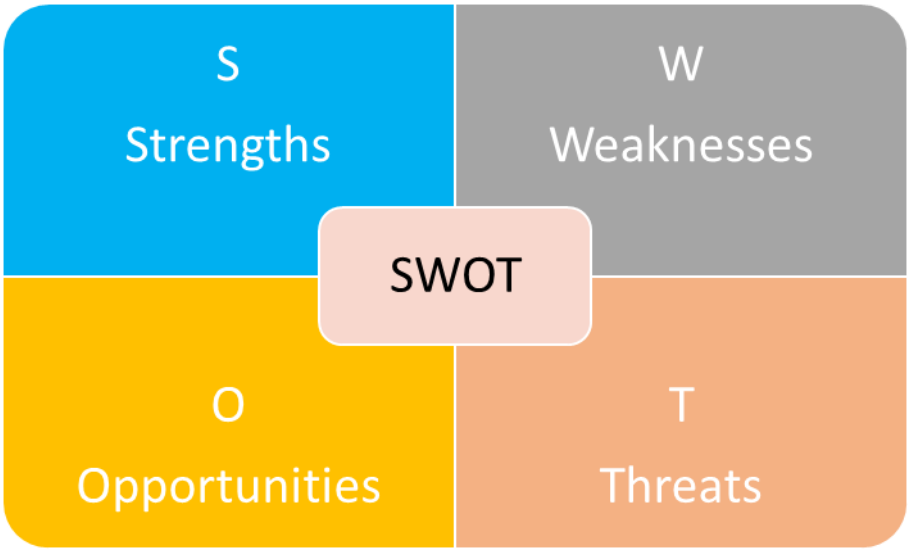
The aim of internal analysis is to recognize all key factors of the internal environment of the company – sources, abilities or know-how. Internal analysis is not only focused on production, but it also concerns activities of other departments such as marketing, human resources or finance. The result of internal analysis is an evaluation of the current condition of a company and mainly its predisposition for the future. (Sedláčková, 2006)

Broadly speaking, the company should proceed internal analysis for the identification of its resources and competences, for evaluating the performance of products or services and for evaluating financial performance and potential investments. (Campbell, 2002)

3.3.1 SWOT analysis

SWOT analysis is a perfect tool for evaluation of the company's strengths, weaknesses, opportunities, and threats. With SWOT analysis, the company can monitor the internal but also external environment. The strengths and weaknesses should be discovered in the previous analysis, such as for example, PESTLE analysis or financial analysis. After the identification of previous factors, the company is able to evaluate possible threats and opportunities. SWOT analysis is used in strategic management. The good business strategy should take into account the company's strengths and weaknesses and eliminate or minimalize possible threats. Lastly, a company should use in its strategy all possible opportunities for its business activities. (Kotler, 2012)

Picture 3: SWOT analysis



(Own processing, Source: Kotler 2012)

3.4 Financial Analysis

Nowadays, financial analysis is a very discussed topic. There are many of definitions, which deals with the problem. According to McGowan, financial analysis evaluates business performance and financial situation of a company. Financial analysis is also a key tool for strategic management of a company, in the event of realization new investments or another decision making. Furthermore, financial analysis is used likely by investor or creditor. Financial analysis does not provide only information about the current

financial situation, but it also helps to predict the developing trend analysis of an analysed company. (McGowan, 2015; Kislingerová, 2007).

Generally speaking, financial analysis is an important source of financial health of analysed company. On the other hand, the main purpose of financial analysis is not about the past or present, but it is essential in terms of predicting the future of a company. (Knápková, 2010).

The key sources for financial analysis are naturally:

- Balance sheet
- Profit and loss statement
- Cash flow Statement.

3.4.1 Objectives of financial Analysis

Why is financial analysis important? Financial analysis helps to provide and develop information to run business by applying all activities which evaluate, plan, improve and control critical business activities and actions. Financial analysis is a tool, which helps to achieve the company's objectives. Based on the results of financial analysis, the users can project and model a future financial performance. It's a beneficial tool for managers and employees, by cause of providing an effective framework to understand, how their activities relate to operating and financial performance. Financial analysis may also prevent unfavourable events and trends, such as competitive threats, manufacturing problems, and product performance issues. (Alexander, 2018)

3.4.2 Users of financial analysis

There are internal and external users of financial analysis. The internal users are managers and employees. Managers use financial analysis for achieving long-term and short-term objectives. Employees use financial analysis mainly for their curiosity and interests.

The other external category includes investors, creditors, suppliers, customers, and competitors. Investors require a knowledge whether they invest in a successful company. According to the company's financial health, they decide if a company is lucrative. The more stable company with good liquidity, the more chance that investors invest. Creditors are also important for the business. When the company applies for the new loan, leasing, mortgage, the creditors want to know if the company has a sufficient number of financial sources. If suppliers are interested in long-term cooperation, they will use financial analysis. The objective of the supplier is whether its customer is able to pay its obligations. Customers are very important to the company. As suppliers, the customers want to cooperate with a successful business, so they could buy products or services from trustworthy company. Lastly, the main goal for competitors is accessing financial information and compare with their results and probe their positions in the market. (Grünwald, 2006)

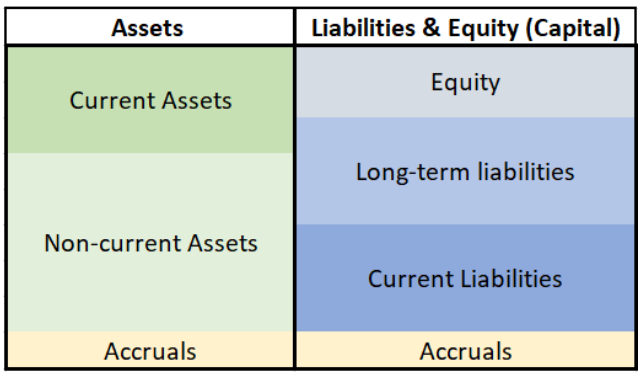
3.4.3 Financial Statements

3.4.3.1 Balance sheet

The perfect definition for the balance sheet would in accordance with Makoujy: *"The balance is showing what the company owns, what the company owes and what remains at a specific time period."* What company owns is represented by assets, what company owes is explained by liabilities and what remains is defined the equity. (Makoujy, 2010)

The structure of the balance sheet is given by accounting standards. In the Czech Republic, the local accounting system keeps using a double-entry bookkeeping system and uses local GAAP which is determined by the Ministry of Finance of the Czech Republic. The Czech accounting system does not very differ from the other European countries and maintains its accounting rules correspondingly with International accounting standards (IAS). Larger companies may also adopt International Financial Reporting Standards (IFRS). The companies which operate in the Czech Republic must submit annually Balance sheet and Income statement and statement letter from the auditor. (Zákon o účetnictví 563/1991, 1991)

Picture 4: Balance sheet



(Own processing, Source: Eisen, 2013)

1. Assets

As stated in the Corporate Financial Institute, there are three main characteristics of the asset:

- Ownership – representing ownership, that could be in the course of time turned into cash
- Economic Value – value, that could be sold or exchanged
- Resource – that could be beneficial in the future

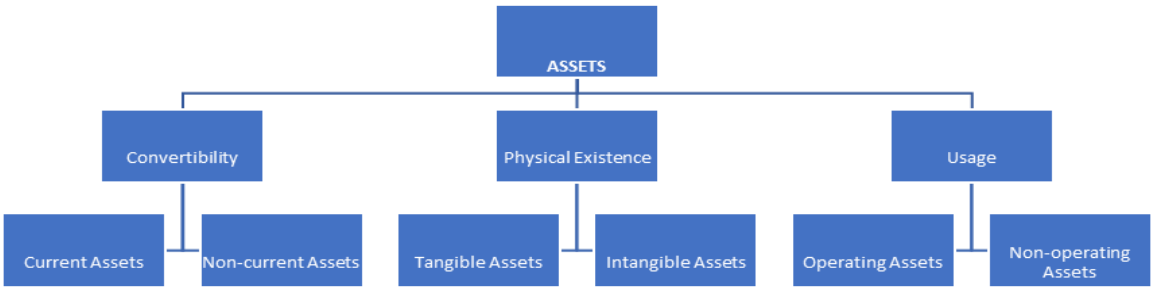
The general classification of assets is divided into three categories:

1. Convertibility
2. Physical Existence
3. Usage

(Corporate Financial Institute, 2018)

Convertibility analyses how long assets could be turned into cash. Based on physical existence, assets are divided into tangible or intangible Assets. And at last, Assets are divided by their function. (Corporate Financial Institute, 2018)

Picture 5: Classification of assets



(Own processing, Source: Corporate Finance Institute, 2018)

a) **Current assets**

Current assets are those assets, which are expected to turn into cash within one year from the day that had been listed in the balance sheet. The total sum of current assets demonstrates the working capital. The balances of current assets are constantly changing as a result of business operations. (Marriott & Edwards, & Mellett, 2002)

Examples of current assets:

- Cash
- Short-term investments
- Account receivable
- Prepaid expenses
- Inventory

b) Non-current assets

Non-current assets, also called "fixed assets" or "property, plant, and equipment", are further divided into two categories: tangible assets and intangible assets. Non-current assets are acquired through purchase for the company's usage and are not planned to resale. Non-current assets include buildings, machinery, equipment, tools or land. The usage of non-current assets should be at least one year. According to Eisen, "*The main purpose of non-current assets is to assist in the generation of revenue, which is the primary activity of most businesses."* In case of plant and equipment, there is an approximate useful

life, which can be determined. The useful life of plants and equipment represents the years of usage. In reality, the recognition of that usage is called depreciation. Eisen claims that *"Depreciation recognizes a loss in value of a plant asset due to the result of long and hard use over time."* (Eisen, 2013)

2. Liabilities

In contrast to assets, liabilities represent everything that the company owes. Liabilities represent the obligations to shareholders, employees, suppliers or financial institutions. Generally speaking, the consumption of assets is highly dependent on liabilities. Liabilities also tell, how much cash is necessary to have for paying obligations within one year (Current liabilities) and beyond (Non-current liabilities.) (Makoujy, 2010)

a) Current liabilities

Current liabilities are the obligation, which must be paid by the company within one year from the date of appearing in the balance sheet. Current liabilities, in terms of financial analysis, are the key component in liquidity measurement. (Marriott & Edwards, & Mellett, 2002)

Examples of Current liabilities:

- Accounts payable
- Interest payable
- Accrued payable
- Short-term loans

b) Non-current Liabilities

Non-current liabilities also called "long-term liabilities" represent all obligations that have due in over one year. With regard to long-term financing of assets, they are a very important source. If a company is not able to repay long-term liabilities, it will face a solvency crisis. (Makoujy, 2010)

Examples of long-term liabilities:

- Trade payables
- Loans and Mortgages
- Bank overdrafts
- Deferred tax liabilities

3. Equity

Chiefly, equity is the company's owner or shareholders claim on the assets that remain after the liabilities are paid.

Equity is usually divided into three categories:

- Capital stock
- Retained earnings
- Current period net income

The initial investment in the company by shareholders are represented by the capital stock. Current period net describes the profit or loss in the current accounting period (Peterson, 2005)

Lastly, retained earnings represent the sum of all net incomes, which the company kept from inception. If the company has losses over in income statement's time frame, the retained earnings will decrease. (Makoujy, 2010)

4. Accruals

Another expression of the word "accrue" is to accumulate. In accounting, it is important for a company to make a prediction that certain items can be accumulated but they may not have been recognized as yet. These forms of accumulation are known in accounting as accruals. There are two types of accruals, accrued expenses, and accrued revenues.

a) Accrued expenses are those expenses that have been incurred but they do not need to be necessarily recorded. The reason for that might be that the company is not obligated to pay the expense yet. When this occurs, the company must record an adjusting entry.

b) Accrued revenues figure the revenue that has been accumulating during the accounting period and will be received during the future accounting period. It can also be the result of a service that was provided but payment is not due yet. This transaction is recorded as a credit sale of services. (Eisen, 2013)

3.4.3.1.1 Balance sheet rules

Balance sheet rules can be defined as the recommendations for industrial companies and for their successful performance in the market. These rules are focused on the comparison between financial resources and assets. At first golden rule, this rule suggests that non-current assets should be financed by long-term liabilities. Likewise, current assets should be financed by short-term liabilities. Secondly, the rule of a balanced risk says that liabilities should not have a higher amount than equity. Thirdly, Pari rule, implies that equity should have a lower amount than non-current assets. Non-current assets should be also financed by long-term liabilities. The companies should focus on effective financing. The company may make an analysis of Balance sheet before performing other advanced methods. (Scholleová, 2012)

3.4.3.2 Income sheet

Income statement, which also has names such as Profit and Loss Statement or Statement of financial performance, shows a company's revenues, expenses and profit over a period of time. The profit or loss is determined by subtraction of all revenues from expenses, expenses could be operating or non-operating. (Peterson, 2005)

Income statement includes:

- Revenue
- Costs
- Gross profit
- Selling and administrative and other expenses
- Income
- Taxes paid

REVENUE – COSTS = PROFIT

3.4.3.3 Cash flow statement

Concerning financial health, cash flow statement is probably the most important of all before the mentioned statements. Cash flow statement gives us a summary, where a company got cash and where company money spends, i.e. the company can follow how well are its operations. The cash flow statement shows us three main categories: Operating activities, Financial Activities and Investing activities of a company. It exists two methods of cash flow calculations direct and indirect.

1. Direct method

The direct method is very popular and probably the most established method. On the other hand, this method is administratively very challenging. This method demands well preparation, detail orientation, and precaution, the cash flow must be in accuracy with the company's data.

2. Indirect method

The composition of cash flow comes from the gained data from the double-entry accounting of a company, then the data are transformed into cash flow. This cash flow compares the differences between revenue and expenses with cash inflows and cash outflows. (Mařík, 2018)

4 Methodology

4.1 Financial statement analysis

4.1.1 Horizontal analysis

Horizontal analysis, also known as trend analysis, asses a sequence of financial statement data over a period of time and can be applied for statements such as balance sheet, income statement, statement of cash flow and statement of retained earnings. According to the Financial Accounting Standards Board (FASB), the company should provide horizontal analysis of the balance sheet for any given fiscal year and compare it to the previous years. For any fiscal year income statement are the requirements extensive, the company should present the statements of the current two fiscal years and the two previous fiscal years. The statements of cash flow, for any fiscal year, the company should present a previous fiscal year. (Lessambo, 2018)

There are two options on how to interpret horizontal analysis: either with a difference comparison or with percentage comparison.

$$\text{Difference} = \text{Current Year Amount} - \text{Base Year Amount} \quad (1)$$

$$\text{Percentage comparasion} = \left(\frac{\text{Current Year Amount}}{\text{Base Year amount}} - 1\right) * 100 \quad (2)$$

4.1.2 Vertical analysis

Vertical analysis or common-size analysis displays each item of the reported financial statements as a percentage of a base amount (net income or total assets). This technique shows us a relative structure of assets, liabilities, equity and structure of individual items, which makes a profit. Unlike horizontal analysis, vertical analysis does not compare base and comparison year, this analysis only uses one statement for one fiscal year. Thus, if users of financial analysis want to increase the usefulness of vertical analysis, it is suggested to compare the results with previous years.

$$\text{Percentage of base} = \frac{\text{Amount of individual item of Financial Statement}}{\text{Amount of base}} * 100 \quad (3)$$

4.2 Ratio analysis

Ratio analysis is certainly a common and broad financial analysis tool, the ratios describe the financial health of a company. It helps to define a company's strengths and weaknesses with regards to such measures as liquidity, activity, profitability, and solvency. The results can be applied to an individual company or can be compared with other companies in its industry. (Peterson Drake, 2012)

4.2.1 Profitability ratios

The primary aim of any company is to make a profit. Profitability ratios measure the fact of whether a company is profitable or not. Profitability ratios include ROS ROE, ROA, and ROCE. There are no recommended values for profitability ratios, the only aim is maximization.

1. ROS or EBIT MARGIN – the return of sales – is very similar to EBITDA margin, instead of EBITDA, there is only EBIT i.e. earnings before interest and taxes. EBIT margin is also connected to operating activities. (Samonas, 2015)

$$\text{ROS} = \frac{\text{EBIT}}{\text{Total Sales}} \quad (4)$$

2. ROE – the return on equity identifies if a company is able to generate profits from its internal shareholder's investments. This indicator provides information on whether the management of the company is efficient in order to use equity financing to fund operations and grow the company.

$$\text{ROE} = \frac{\text{EAT}}{\text{Equity}} \quad (5)$$

3. ROA – the return on assets describes how successfully is the company in terms of managing its assets to produce profits during a period. In other words, how well the

management of the company can turn its investments in assets into profits. (Lessambo, 2018)

$$\text{ROA} = \frac{\text{EBIT}}{\text{Total Assets}} \quad (6)$$

4. ROCE – the return on capital employed, is a very important ratio, which evaluates how effectively a company invests its capital. The employed capital is calculated by adding non-current assets and Net Working Capital. ROCE is a long-term profitability ratio because it measures how well assets perform which is important if a company considerate long-term financing. (Lessambo, 2018)

$$\text{ROCE} = \frac{\text{EBIT}}{(\text{Total Assets} - \text{Current Liabilities})} \quad (7)$$

4.2.2 Liquidity ratios

If the user of financial analysis wants to identify whether a company is able to meet its obligations, the analyst would calculate liquidity ratios. Liquidity involves current assets that may be converted into cash in a short period. Current assets, also called working capital, are needed for the operating cycle of the company. The most important ratios are: Current ratio, Quick ratio, Cash ratio (Peterson Drake, 2012)

1. Current ratio: displays the ability of a company to satisfy its current liabilities with its current assets. It can be also called the working capital ratio. Generally, current liabilities are best paid with current assets. Current assets are quicker convertible to cash than fixed assets. Thus, the company that receives cash faster, can pay its debts faster. (Lessambo, 2018)

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad (8)$$

2. Quick ratio: is the ratio of quick assets. It expressly excludes inventory. The quick ratio shows that a company doesn't need to rely on the sale of the inventory to satisfy its obligations. (Peterson Drake, 2012)

$$\text{Quick Ratio} = \frac{\text{Short-term financial assets} + \text{Short-term Account Receivables}}{\text{Current Liabilities}} \quad (9)$$

3. Cash ratio: is a better indicator of the company's immediate ability to cover its current liabilities in an emergency, while it's comparing the most liquid assets to its current liabilities. (Palepu, 2013)

$$\text{Cash ratio} = \frac{\text{Short-term financial assets}}{\text{Current Liabilities}} \quad (10)$$

According to Scholleova, the recommended values for liquidity are: Current ratio > 1.2; Quick ratio > 1.0 and Cash ratio > 0.2. (Scholleova p.195, 2012)

4.2.3 Difference ratio

Net Working Capital

According to Ruckova, Net Working Capital (NWC) is defined as a difference between current assets and short-term liabilities. NWC has a great influence on the company's solvency. NWC ratio explains the amount of wherewithal left after short-term liabilities are paid. (Ruckova p.44, 2011)

$$\text{NWC} = \text{Inventory} + \text{Account receivables} + \text{Short-term financial assets} - \text{Short-term liabilities} \quad (11)$$

4.2.4 Activity ratios

Activity ratios, also called efficiency ratios, measures how efficiently companies make use of their assets to generate profit. Management of companies uses these ratios to improve the operations of profitability companies because the activity ratios are highly correlated with profitability ratios. Generally, these ratios measure the time in which companies collect cash from customers or the time that companies convert inventory into cash i.e. make sales. The most generally known ratios are: Account Receivable Turnover Ratio, Asset Turnover Ratio, and Inventory Turnover Ratio. (Lessambo, 2018)

1. Account Receivable Turnover Ratio: this ratio tells how many times per year can a company collect its account receivable and turn into cash during a time period. In other words, this ratio shows us if a company is successful in order to collect its credit sales from customers.

$$\text{Account Receivable Turnover Ratio} = \frac{\text{Sales}}{\text{Account Receivables}} \qquad (12)$$

2. Account Payable Turnover Ratio: this ratio describes, how successful is the company in order to pay its obligations to other stakeholders.

$$\text{Account Payable Turnover Ratio} = \frac{\text{Sales}}{\text{Account Payables}} \qquad (13)$$

3. Asset Turnover Ratio: shows us how efficiently is the company turning its assets to generate sales. In this ratio, there are net sales which are compared by average total assets.

$$\text{Asset Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}} \qquad (14)$$

4. Inventory Turnover Ratio: describes how efficiently a company manage its own inventory. The calculation shows us how many times a company can sell inventory during a defined time period. The inventory can be expensive for management. The successful company aims to minimize the costs and so forth the management predicts how much inventory should be purchased and how much inventory should be used. (Lessambo, 2018)

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}} \qquad (15)$$

In financial analysis, another form of activity ratio can be used. If a user wants to know how many days take to a company to pay its payables. Instead of previous formula, the user can use, the Average Creditors Payment Period. Similarly, this ratio can be applied for Inventory, where the user can be informed about how many days take for inventory being utilized or sold. This ratio is called Inventory Turnover. Lastly, the Average Collection Period explains how many days take for the company to collect its receivables from its customers. (Scholleova, 2012)

$$\text{Inventory Turnover} = \frac{\text{Inventory}}{\frac{\text{Sales}}{360}} \quad (16)$$

$$\text{Average Collection Period} = \frac{\text{Account Receivables}}{\frac{\text{Sales}}{360}} \quad (17)$$

$$\text{Average Creditors Payment Period} = \frac{\text{Account Payables}}{\frac{\text{Sales}}{360}} \quad (18)$$

5. Cash conversion cycle describes how many days to convert its input resources into liquid cash flow. The aim of the business is to minimize the cycle.

$$\text{CCC} = \text{Inventory Turnover} + \text{Average Collection Period} - \text{Average Creditors Payment} \quad (19)$$

4.2.5 Solvency ratios

Solvency ratios, also called debt ratios or financial leverage, measure long-term ability to pay the company's obligations such as bonds payable or bank loans. These ratios express whether the company has the right amount of debt. The company's solvency is a piece of key information for financial institutions, investors, owners, and employees because it shows the trustworthiness and possible risks that the company faces. According to the company's solvency, the financial institutions decide if the company will be able to repay loans. The most known solvency ratios are Financial leverage, Capitalization ratio, Interest coverage ratio. (Samonas, 2015)

Why should the company consider debt financing? There are many potential and benefits from debt financing. At first, debt is cheaper than equity for the reason that a company promises predefined payment terms to debt holders. Secondly, in most countries, there is a benefit that the interest on debt financing is tax-deductible whereas dividends to shareholders are not tax-deductible. Thirdly, the debt can represent a motivational tool for management to reduce wasteful expenditures. These are good reasons for the company to

consider debt financing. However, with too much reliance on debt financing, the company will face financial distress. (Palepu, 2013)

1. Financial Leverage: This ratio is also called *Total liabilities to equity ratio* and it measures what percentage of company's assets are financed by third parties including financial institutions, suppliers, employees, state or any other stakeholder. A ratio should be between 1:1 and 2:1, the results can differ because it depends on which industry the company functions. If the ratio is higher, the company deals with higher risk. Samonas pointed out that too much debt put a company at risk, but too little debt could mean that the owners or management are not realizing the potential of debt financing and so, the company will not likely grow, make higher profits or it will hurt the overall returns to shareholders. (Samonas, 2015)

$$\text{Financial leverage} = \frac{\text{Total liabilities}}{\text{Equity}} \qquad (20)$$

2. Capitalization ratio**:** According to some literature, this ratio is called Financial leverage. For instance, Lessambo says that this ratio tells investors about the amount to which the company is using its equity to support its growth and operations. This ratio can assume the risk. When a company has a higher ratio, it will be considered as a risky and so, the company will have a problem to find someone who would provide them with a new loan. On the contrary, Samonas describes that this ratio isn't called Financial leverage but only tells the debt structure of the company. According to Samonas, 40% to 60% of the company's total assets could be financed with debt. (Samonas, 2015), (Lessambo, 2018)

$$\text{Capitalization Ratio} = \frac{\text{Total liabilities}}{(\text{Total liabilities}+\text{Equity})} \qquad (21)$$

3. Interest Coverage ratio: The ICR shows how many times can cover a company its interest expense out of operating profits and displays whether servicing debt may be an issue. The ratio higher more than 7 means that a company is very successful in covering its

interest expense. The ratio more 3 is regarded as safe. Certainly, this ratio can differ. It depends on the industry in which the company operates. (Palepu, 2013)

$$\text{Interest Coverage ratio} = \frac{\text{EBIT}}{\text{Interest Expense}} \quad (22)$$

4.3 Bankruptcy models

Bankruptcy models are more complexed than ratio analysis. The purpose of these models is to inform all the users if a company is under the risk of bankruptcy. According to Ruckova, every company that is threatened by bankruptcy could show some certain symptoms beforehand. Typical symptoms are problems with current liquidity, Net Working Capital or return of equity. Bankruptcy models are lucrative either for the creditors who are interested in whether the company can repay its debt and either for the management of the company. (Ruckova, p.77, 2011)

4.3.1 Altman model

Altman analysis is an efficient analysis of the rating of the company's financial health. This indicator is composed of five different ratios. This model is multivariate and so it analyses the company's rentability, solvency, liquidity, activity, and structure of capital. There are to versions of models. The first version is designated for those companies which are publicly traded on the stock market and the second version is designated for those companies that aren't publicly traded on the stock market. This thesis uses the second version; thus, the chosen company isn't publicly traded on the stock market.

$$Z = 0.717 * X_1 + 0.847 * X_2 + 3.107 * X_3 + 0.42 * X_4 + 0.998 * X_5 \quad (23)$$

$$X_1 = \frac{\text{Net working capital}}{\text{Total Assets}}$$

$$X_2 = \frac{\text{Accumulated Retained Earnings from previous years}}{\text{Total Assets}}$$

$$X_3 = \frac{\text{EBIT}}{\text{Total Assets}}$$

$$X_4 = \frac{\text{Equity}}{\text{Total Liabilities}}$$

$$X_5 = \frac{\text{Sales}}{\text{Total Assets}}$$

Results of Z-score:

a) $Z > 2.99$: company is prosperous and is not threaten any soon by bankruptcy

b) $1.81 < Z < 2.99$: company is situated in the "grey zone". Company might be or might be not in the danger

c) $Z < 1.81$: company is not prosperous, and it is threatened by bankruptcy (Scholleova p.190, 2012)

4.4 Economic Value Added (EVA)

In the 1990s, Stern Stewart company introduced a new financial measurement EVA. The objective of this measure was to provide a complete measure of the company's performance that would focus the manager's awareness on the drivers that lead to the creation of shareholder wealth. According to Scholleova, the company that has every year a positive net income, does not necessarily mean that the company has also the positive economic profit. The economic profit is a profit after the deduction of all costs on debt and also equity (implicit costs). EVA ratio can measure all of these costs. This ratio should be proceeded and compared every fiscal year, with standards i.e. compared the results with recommended values. The positive values explain that the company creates economic value with its capital investments. EVA can be also negative, in this scenario the company's performance does not create value for shareholders and wrongly invest capital. (Scholleová, 2012)

$$EVA = NOPAT - (WACC * \text{capital invested}) \quad (24)$$

$$EVA = (ROE - re) * E \text{ (MPO, 2016)} \quad (25)$$

The calculation of EVA contains three main components.

1. NOPAT - Net Operating Profit After Tax
2. WACC - Weighted Average Cost of Capital
3. Capital Invested - Equity + Long-term debt

(Corporate Financial Institute, 2020)

1. NOPAT

Net Operating Profit After Tax explains if the company is performing well through its core operations, net of taxes. NOPAT is calculated as operating income multiplied by one, minus the tax rate. (Investopedia, 2019)

$$\text{NOPAT} = \text{Operating Income} \times (1 - \text{Tax Rate}) \tag{26}$$

2. WACC

Weighted Average Cost of Capital (WACC) represents the combined cost of capital across all the sources containing debt, common shares, and preferred shares. The cost of each type of capital is weighted according to their relative importance as sources of finance. According to Ross: *The WACC is the overall return that the company must earn on its existing assets to maintain the value of its stock.* (Ross, 2017)

$$\text{WACC} = r_e * \frac{E}{V} + r_d * (1 - t) * \frac{D}{V} \tag{27}$$

where,

r_e = Rate of Equity

r_d = Rate of Debt

E = Total equity

D = Total debt

V = total market value of the company's combined debt and equity or E + D

E/V = equity portion of total financing

D/V = debt portion of total financing

t = income tax rate

4.5 Spider analysis

Another tool of the company's evaluation is spider analysis. This analysis is a perfect tool for evaluation of the company's performance with well-arranged graphic visualization. The method is convenient due to the usage of different variables that can evaluate the company's overall situation. The analysis evaluates the company's rentability, solvency, activity, and the structure of the capital. Another convenience is that the graph can be used just for the evaluation of the company or the user of the financial analysis can compare the results with the average ratios in the industry. (Ruckova, p. 47, 2011)

5 Practical part

5.1 Introduction of the company

DEKONTA a.s.

DEKONTA company is a joint-stock company which was founded in 1992. At first, DEKONTA was founded under the name DEKONTA Kladno a.s. with the registration number (ICO) 61672980. Afterward based on the decision of the board of directors, the new company DEKONTA a.s. was founded in 8.7.1996 in the Prague Municipal Court under file number B 12280 with a new registration number 25006096. DEKONTA Kladno a.s. was dissolved without liquidation and its whole assets were transferred to DEKONTA a.s. (Justice, 2020)

DEKONTA's registered address is Dřetovice 109, 273 42 Stehelčeves in the Czech Republic. Currently, the company has 12 offices, 2 Research & Development Centres, 1 Chemical laboratory and 1 Microbiological laboratory. Headquarters are based in Prague. Besides Prague, DEKONTA has another 5 offices in the Czech Republic. Afterward, the other offices are based in Slovakia, Poland, Serbia, Romania, Bosnia and Herzegovina and Azerbaijan. Furthermore, DEKONTA is proud of having futher sales representatives in Albania, Belorussia, Bulgaria, China, Croatia, Georgia, Germany, Greece, Egypt, Italy, Israel, Jordan, Kazakhstan, Kuwait, Mongolia, the Netherlands, Nigeria, Russia, Saudi Arabia, Turkey, Ukraine, and the USA. This international background guarantees that in this company 23 languages are spoken. The company has around 200 employees in Europe, where 80% of all employees hold a university degree. Moreover, 10% hold a Ph.D. degree. With this high percentage of high-educated people, DEKONTA achieved 50 patents and obtains more than 240 projects in a year. (DEKONTA, 2020)

The company's business profile is very broad. DEKONTA is a supplier of many kinds of services, primarily in the environmental, chemical and building industry.

- Investigation & remediation of contaminated sites
- Environmental emergency services

- Environmental consulting
- Environmental monitoring & laboratory services
- Hazardous waste treatment
- Demolition, decommissioning & industrial cleaning
- Process water & wastewater treatment
- Environmental Research & Biotech R&D
- Air emission & odour treatment

With a mission that promised to provide custom build solutions for challenges or issues in environmental or different industrial sectors. Due to the broad variety of services, the company employs specialists from scientific sectors like Chemistry, Biology, Geology, Civil Engineering, Ecology, Environmental and Electrotechnical, Engineering, Agriculture. Additionally, in the top management of the company employs people with Business and Law education. (DEKONTA, 2018)

It is important to mention that a company has ownership certifications that guarantee the company's expertise and confirm that the company is trusted. At the moment, the company owns:

- ČSN EN ISO 9001:2016 / ISO 9001:2015 certification of the company's quality management in fields such as Environmental emergency and consulting; Waste management; Laboratory sampling and analysis; Construction and demolition; Design, execution, and evaluation of geological work
- ČSN EN ISO 14001:2016 / ISO 14001:2015 certification that the company is using an environmental management system in the above-mentioned areas.
- ČSN ISO 45001:2018 / ISO 45001:2018 certification of the company's implementation of health and safety management (DEKONTA, 2020)

5.2 External Analysis

5.2.1 Analysis of macroenvironment

The chosen analysis for evaluating DEKONTA's macroenvironment is PESTLE.

5.2.1.1 PESTLE

1. Political Factors

When it comes to the political situation in the Czech Republic, it is certainly approved that the situation is stable. After several protests against prime minister Andrej Babis, the situation settled. President Milos Zeman made a statement in his Christmas speech that the Andrej Babis was elected based on democratic elections. Unstable political environment can be very inconvenient for business due to uncertainty. (Kulidakis, 2019)

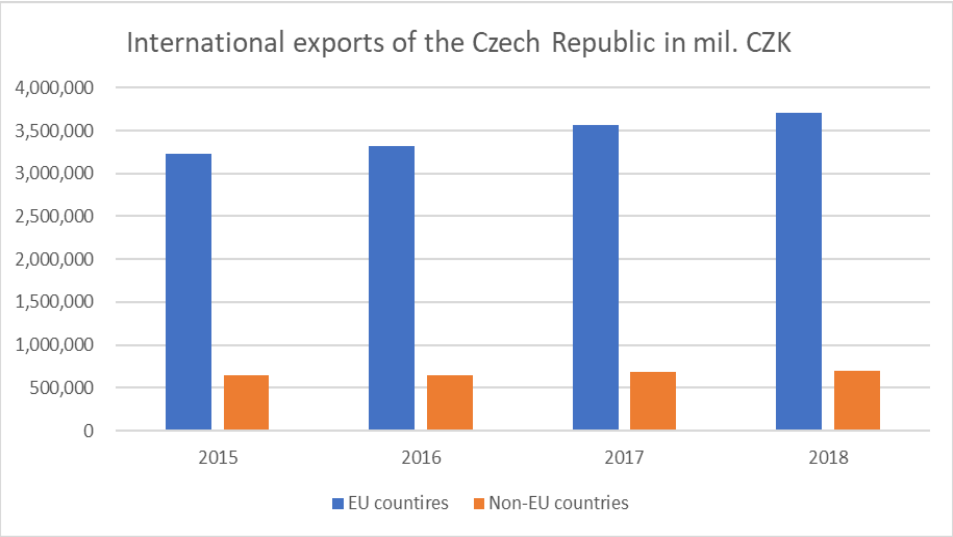
DEKONTA company is an international based company. With other office locations in Europe and Asia. It is likely that a company will be influenced by the tariffs. DEKONTA is also highly influenced by the European Union since DEKONTA receives public procurements from the government. If the government loses funds from the European Union, it will highly influence the company. (DEKONTA, 2020)

Regarding international relations, the Czech Republic is a very active member of the European Union and other international organizations. It is important to mention that the participation in the European parliament elections 2019 had 10 % increase than in 2014. Currently, 28.72% of the Czech population went to vote for their candidates. It is apparent than Euroscepticism is likely decreasing regardless of recent events, which is good news for the company. (European Parliament, 2019)

On 31st January 2020, the United Kingdom left the European Union and is currently in the transition period full of legislative procedures. There are some possible scenarios whether it will have a positive or a negative impact on the European Union. There is a possibility that the EU countries will become more coherent. Another scenario can be that more countries will be encouraged to leave the EU. (Zielonka, 2019)

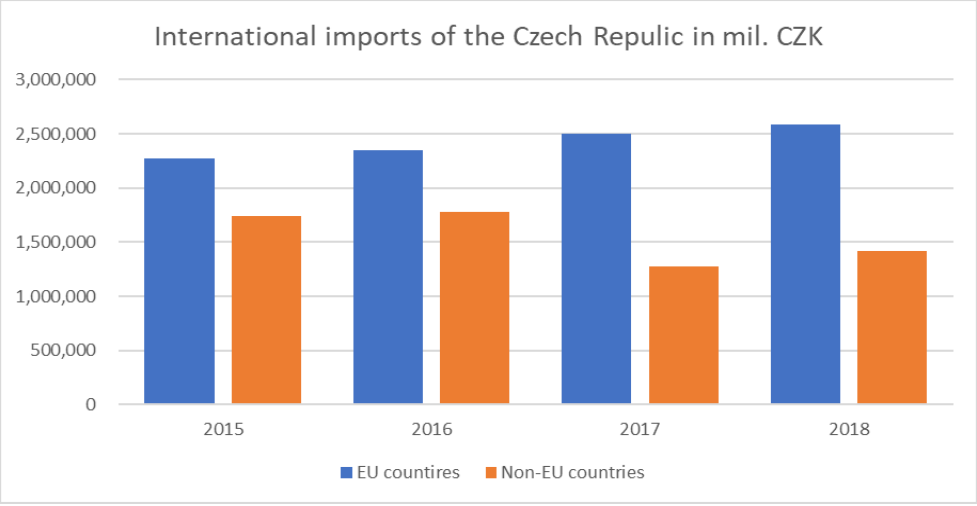
Regarding the foreign trade, the Czech Republic is a member of the World Trade Organization, The World Federation of Trade Unions and Organization for Economic Development. It is evident that the Czech Republic is mostly trading with other EU countries. The higher exports go to Germany, Slovakia, Poland, and France. On the contrary, the Czech Republic imports from Germany, China, Poland, and Slovakia. In both cases, exports and imports grow. (Ministerstvo zahraničních věcí, 2020), (Czech statistical office, 2020)

Graph 1: International exports of the Czech Republic



(Own processing, Source: Czech statistical office, 2020)

Graph 2: International imports of the Czech Republic



(Own processing, Source: Czech statistical office, 2020)

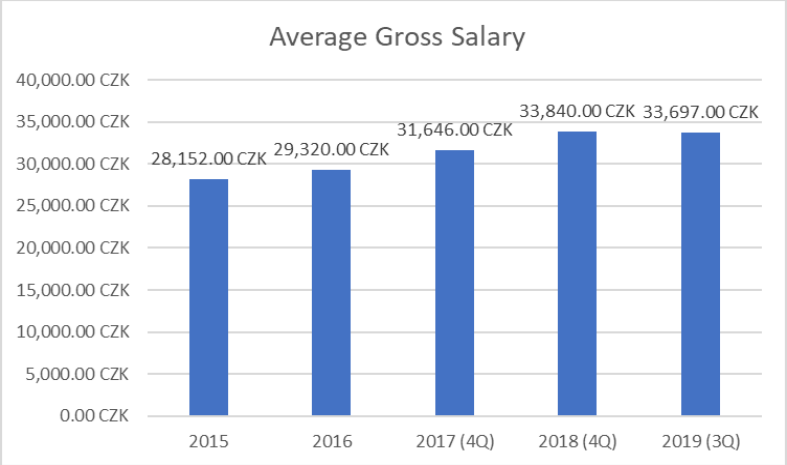
DEKONTA company is highly dependent on public procurements. If a government decides to decrease investments into projects, DEKONTA will probably have extensive losses. In the present period, the volume of the public procurement of the construction industry increases. On the other hand, the reason for such an increasement is transport infrastructure. The European Union has also a significant share in public procurement. Currently, 57.9% of projects are co-funded by the EU. According to the Czech statistical office, government procurement has a 42% share on total income of construction companies in the Czech Republic. (Investicni web, 2019)

2. Economic factors

The Czech Republic's economy is flourishing. Andrej Babis commented that the Czech economic growth grows two times faster than the average growth of other EU countries. Also, it is necessary to say that the Czech Republic has low government debt and the lowest unemployment rate in the European Union. Moreover, income distribution is very equal. Andrej Babis also commented that currently, the Czech Republic experiences the most successful times regarding the Economic situation. (Martinek, 2020)

The economic success can be projected in the Average Gross Salary. Graph 3 shows that in 4 years, the Average Gross Salary grows by approximately 16%. (Czech statistical office, 2020)

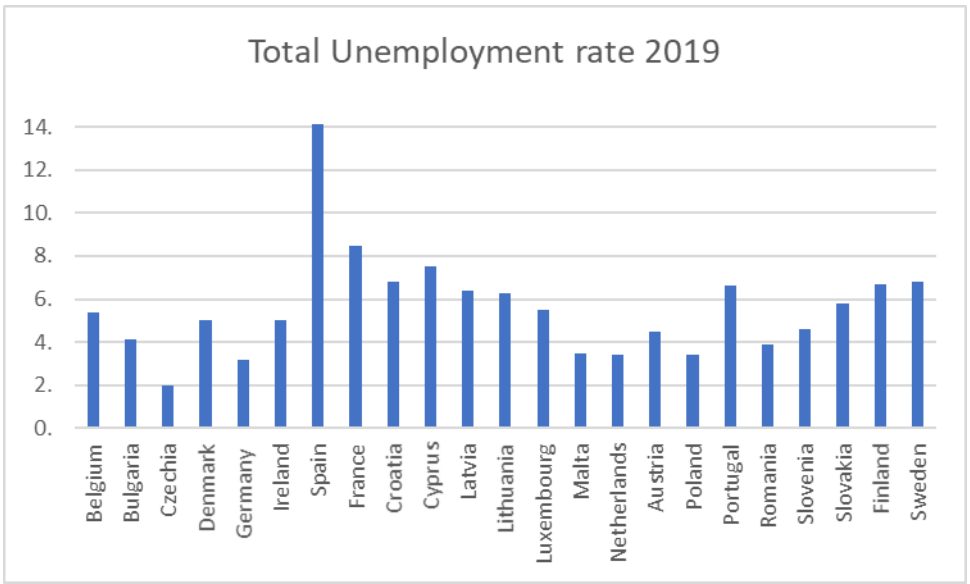
Graph 3: Average Gross Salary in the Czech Republic



(Own processing, Source: Czech Statistical office, 2020)

The current unemployment rate is 2.0. Babis commented on this situation positively. On the other hand, many economists could argue that this rate is likely negative. As a bottom line, the ideal rate of unemployment is 3.5% - 4.5%. If unemployment is low, problems in the labour market can occur. Firstly, there will be wage inflation due to an increase in demand for labour. Secondly, productivity can go lower because of labour skills. In the end, the companies have to pay higher wages to less-qualified workers. The situation can be problematic because the companies can later decide to leave the domestic market and build offices and factories in a different country. If this scenario happens, the Czech Republic is threatened by losing the great number of investors and so it can influence the country's GDP. Since DEKONTA represents itself as a highly innovative company with a higher percentage of educated people, this situation might harm this company dramatically if they have to make a higher expenditure on wages. The disadvantage for the company is that the employees not only get hired by the competitors but also, they can be employed by Governmental institutions or universities. (Western Governors University, 2020)

Graph 4: Total unemployment rate in the EU

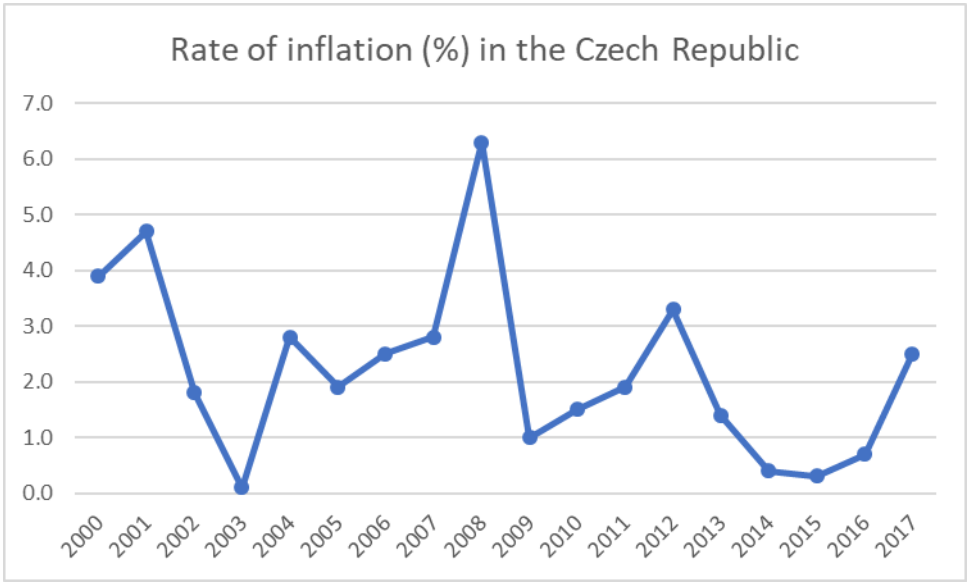


(Own processing, Source: Eurostat, 2020)

The present inflation growth per year of the Czech Republic is slightly above 2%. That is an absolute good accomplishment. Unlike the unemployment rate, this ratio finally

can confirm prime minister's statement that the economy is in good stage. Inflation can show financial stability, which is good for the country, households, companies and of course foreign investments. (Parkin, 2009)

Graph 5: Rate of inflation in the Czech Republic

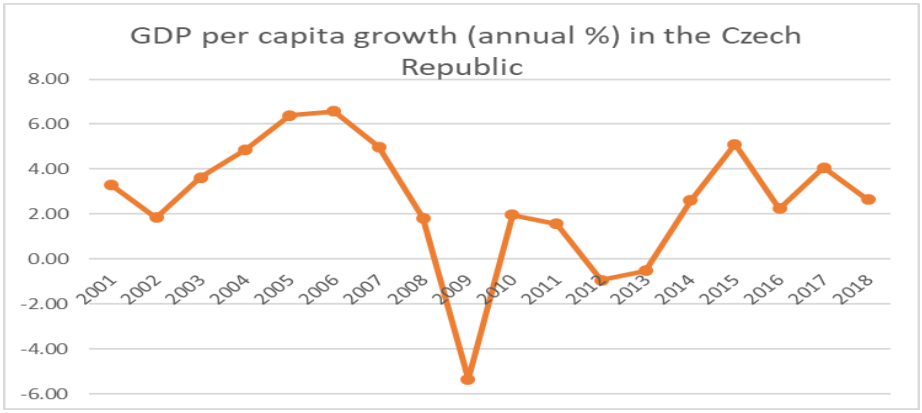


(Own processing, Source: Czech Statistical office, 2020)

The Czech Republic belongs to developed countries and many economists believe in the country's potential. GDP is perfect proof that the Czech Republic made great progress since the country's birth. With GDP 248,204,259.55 $ and GDP annual growth 2.65% it is necessary to say that the Czech Republic is in a safe position. On the contrary, it is expected that the GDP growth will decrease in the following years. (World Bank, 2020)

Comparing to the post-soviet countries, the Czech Republic can be pronounced as a very successful country. The country recovered from the last financial crisis very quickly. On the other hand, compared to countries from the Visegrad group, Deutsche Welle finds the economic situation of the Czech Republic as the most disappointing due to the lowest GDP growth and its high dependency on the car industry. Deutsche Welle argues that the country can be in danger of the possible US tariffs. (Harper, 2019)

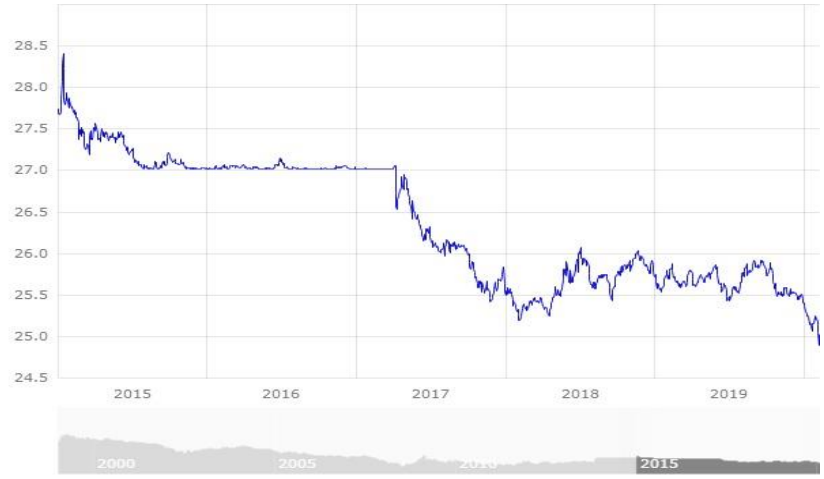
Graph 6: GDP per capita growth in the Czech Republic



(Own processing, Source: World Bank, 2020)

The Czech Republic's currency is the Czech Koruna. Due to its membership in the European Union, it is possible that the country will accept Euro in the future. Because of the higher volume of international trade within the EU countries, the Czech Republic is highly influenced by the exchange rate. Since DEKONTA operates in international markets. DEKONTA is very dependent on exchange rates. It is evident that the Czech Koruna appreciates towards Euro. Due to the currency appreciation, the Czech Republic receives the advantage regarding the imported goods or services. DEKONTA can benefit from cheaper goods and services imports from abroad. On the other hand, since DEKONTA is an international supplier of services, the exports will get more expensive. (MFČR, 2020)

Graph 7: ECB Euro reference exchange rate Czech Koruna (CZK)

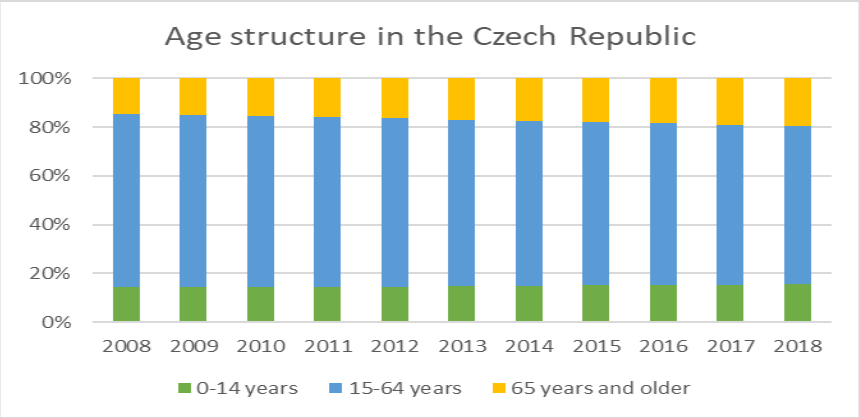


(Source: ECB, 9.2. 2020)

3. Social factors

Like many more countries, the Czech Republic is also threatened by the aging population. This can possibly influence the company's future. Even though this threat will be projected in the far future.

Graph 8: Age structure in the Czech Republic



(Own processing, Data from: Statista. 2020)

As it was mentioned, the company is proud of high-educated employees. Because of the efficient team, the company owns around 50 patents. Very positive information shares OECD, around 92% of adults in the age 25-64 receives upper secondary education. Compare to OECD 75% average, this result is very positive. Additionally, 66% of Czechs obtain the same educational level as their parents. On the other hand, just 21% will proceed with further education. Speaking of tertiary education, the Czech Republic is below the OECD average. The Czech Republic invests only 19% of public expenditure on education into tertiary education, compared to 21% EU21 average and 31% OECD average, there is a certain space for improvement. (OECD, 2015)

4. **Technological factors and Environmental factors**.

The DEKONTA's main sector is related to technology and environment. That is the reason that these two factors are very connected. The company yearly spends more than 25 mill. CZK on Research and Development of new environmental technologies. Moreover, the company even receives grants from the European Union, EUROSTARS programme

and NORWAY Grants. The other important partnership are universities, institutions and other international companies. (DEKONTA, 2018)

The current position is in DEKONTA's favour. The European Union puts the environment on high importance. The European Commission created the funding program for years 2014-2020 called LIFE, this program is designed for small to medium-sized companies. The LIFE program focuses on improving the quality of the environment, improving the development and implementation of EU environmental policies. (European Commission, 2020)

DEKONTA can be highly influenced by the EU environmental policies. The European Commission proposes a very ambitious plan that Europe will become the first world's climate-neutral continent by 2050. It is clear that the EU wants to become a leader of the Environmental revolution. This can bring many benefits to DEKONTA. The European Green Deal has policies in areas such as clean energy, sustainable industry, building and renovating, biodiversity and elimination pollution. Since DEKONTA has a portfolio of services like environmental consulting and emergency, waste management, air emission treatments, water treatment. It likely that DEKONTA will gain more customers in the future. DEKONTA confirms that the percentage of customers who use air emission treatment services yearly grows rapidly. (European Commission, 2020)

5. Legal factors

Legal factors can have great influence on business. Because DEKONTA operates in the Czech market, DEKONTA is obliged to abide by all laws. From 1.1.2020, the government of the Czech Republic made a decision about the minimum wage. The minimum wage increases to 14,600 CZK per month. The minimum wage influences the amount of the assessment base for the health insurance and social security. (Mesec.cz, 2020)

An important role for any business has taxes and tariffs. The highest revenue on government's budget from all taxes has VAT. The standard VAT rate is 21%, comparing to the European Union, the Czech Republic is below average which is 21.3 %. On the contrary, the Czech Republic has almost the highest reduced tax on the foodstuffs – 15%. There is a reduced tax for the foodstuffs, alcoholic beverage, water supplies, renovation of

public dwellings, medical care, treatment of waste and wastewater etc. The good news is that those rates did not change from 2015 and DEKONTA may predict VAT expenditures. In case of corporate tax, the rates are 19% for the legal persons and 15% for the natural persons. (Avalara, 2020)

On the other hand, from 2016, DEKONTA is obliged to fill the VAT Control Statement (Kontrolní hlášení). This statement is a report about all received and issued invoices. If the company does not hand in the VAT Control Statement in time, the Financial office can punish the company to pay fine. Furthermore, the Ministry of Finance of the Czech Republic publicized the register of untrustworthy holders of the VAT number. There are positive and negative sides of these procedures. Firstly, DEKONTA can monitor information about possible customers and suppliers whether are trustworthy. The negative side is that these procedures require lots of time and administration. (Financni sprava, 2020)

5.2.2 Analysis of microenvironment

5.2.2.1 Porter's five forces model

1. The threat of new entrants to the industry

DEKONTA operates in many sectors: hazardous waste management, construction activities, production and processing of fuels and lubricants, geological activities, production of hazardous chemicals. Due to broad that portfolio, it is unlikely that any new company will include the same services.

Regarding the barriers, in some industries, it is not easy to enter the market. For example Hazardous waste management. This industry has certain requirements that are prepared by The Trade Licensing Act – law n. 455/1991 Sb. The industry requires professional competences f.e.: university education with 1 year of practice in this field, the vocational-technical or life science education with 3 years of practice in the field, or certificate of retraining with 4 years of practice in the field. When it comes to the foundation of the company, there are many administrative procedures. The limited liability company requires additionally: sign memorandum, ensure residency of a company, make a

deposit of registered capital, make a registration in the Commercial register, the tax office, state social security body, etc. (Profispolecnosti.cz, 2020)

2. The competition in the industry

Currently, there is no existing competition within the Czech market with exact same portfolio. This is an advantage for a company, due to the broad portfolio, the company can gain more revenues. Also, if one service loses a lucrativity in one year, the company will not get into financial problem easily due to DEKONTA's other specializations. The company can put its focus on different fields. On the other hand, DEKONTA has more possible rivals in each sector. Because of DEKONTA's broad portfolio, DEKONTA is threatened by smaller companies that have only focus on one business activity. The customers may assume that other companies with only one focus are more specialized in that certain field.

3. The threat of substitutes products

DEKONTA is a supplier of all kinds of environmental services like: air emission monitoring; process water and wastewater treatments; demolition, decommissioning and industrial cleaning; environmental emergency and consulting. Those services are very specific and that's why is hard to tell if a company can have threat of substitute services. There are certainly possible threats of new technologies, that can competition develop sooner. In the present time, the company can benefit from non-existing substitutes.

4. The power of customers

DEKONTA owns a certain advantage when it comes to its portfolio of services. The company offers services that are certainly needed in any economic cycle like the environmental emergency response, wastewater treatment, and air emission treatment. The company is highly dependent on the public procurements. The European Union is now supporting the ideas for the green revolution. The company expects more projects in the future. DEKONTA is a supplier to many influential domestic or international companies and institutions like The European Bank for Reconstruction and Development, The World

Bank, the United Nations Development Programme. The company also focuses on development cooperation, during last years, DEKONTA provides its services in Moldova, Vietnam, Mongolia and Georgia. All the projects were in cooperation with the Czech Development Agency and EU. That only proves the company's social responsibility.

5. The power of suppliers

The power of suppliers can have a high influence on DEKONTA's operations. DEKONTA possesses the high-tech equipment for processes such as for instance: landfilling, crushing, screening of the soil. Or flocculation, gravity separation, coagulation of the groundwater. The number of companies that produce the mentioned equipment is quite low. Suppliers have the power to negotiate a higher price. DEKONTA owns also laboratories. Apart from the expensive equipment, the company needs suppliers for organic and inorganic substances. Additionally, the company will be also influenced by the prices of energy.

5.3 Financial Analysis

This part of the thesis analyses DEKONTA's financial health based on financial information from the company's financial statements and financial information from the Ministry of Industry and Trade. The analysis uses all methods from the methodology chapter. The financial analysis uses data from the selected period 2014-2018.

5.3.1 Financial statement analysis

This chapter covers Horizontal analysis and Vertical analysis of the balance sheet and the income statement. Afterward, the chapter analyses if DEKONTA follows the Balance sheet rules.

5.3.1.1 Horizontal analysis

For the practical part, the thesis uses both methods of Horizontal analysis: the difference comparison and the percentage comparison.

If we have a look at the asset structure, it is evident from tables 1 and 2, that DEKONTA company has quite a fluctuating structure. On the other hand, the average growth of total assets is 2%. The higher differences are mainly in current assets. It is necessary to mention that the company is a service-oriented business, thus they don't produce goods but supply services. The highest difference was in inventory between the years 2016-2015. Between the years 2016-2015, inventory increased by 822%. Inventory is a part of working capital. Inefficient management of working capital leads to dramatic losses. The percentage is high but for DEKONTA, inventory does not influence the company very much. Another item of working capital is account receivables. The company has more short-term receivables (time maturity max. 12 months) than long-term receivables (time maturity more than one year). In 2016, there was a reduction of long-term account receivables and short-financial assets. The important thing to mention is that DEKONTA's revenues are based on projects, many of these projects are long-term. The year 2016 was crucial for DEKONTA, the reason was the decline of the public procurements. The company had to concentrate mainly on smaller projects. Horizontal analysis confirms that there was a decrease in long-term account receivables by 63% in the 2016-2015 period. On the contrary, there was a 10% growth in short-term account receivables. In the end, DEKONTA still reached a positive income. In 2017, DEKONTA reached a stronger position. Non-current assets are considered as stable. Moreover, there was an increase from 69,933 thous. CZK in 2014 to 72,371 thous. CZK in 2018. The increase is due to investment in the new equipment. In 2017, DEKONTA invested in the new daughter company DEKONTA CBRN s.r.o. 150 thous. CZK. Lastly, accrued expenses represent the expenses for services and insurance. The accruals are not that important for the company. (DEKONTA, 2014-2018)

Table 1: Horizontal analysis of assets – the percentage comparison

	2015-2014	2016-2015	2017-2016	2018-2017
TOTAL ASSETS	**10%**	**-15%**	**33%**	**-20%**
Total Non-Current Assets	**-4%**	**2%**	**0%**	**6%**
Non-current Intangible Assets	-48%	89%	-9%	-48%
Non-current Tangible Assets	-4%	2%	-1%	6%
Long-term financial assets				0%
Current assets	**13%**	**-18%**	**44%**	**-26%**
Inventory	5%	822%	-22%	-63%
Long-term Account Receivables	79%	-63%	24%	-80%
Short-term Account Receivables	-8%	10%	23%	-23%
Short-term financial assets	23%	-43%	141%	-14%
Cash	60%	33%	-22%	-29%
Bank Accounts	23%	-44%	144%	-13%
Accruals	**118%**	**-40%**	**-43%**	**82%**

(Own processing, Source: DEKONTA, 2014-2018

Table 2: Horizontal analysis of assets – the difference comparison

(Thousands CZK)	2015-2014	2016-2015	2017-2016	2018-2017
TOTAL ASSETS	**30,990**	**-50,523**	**96,985**	**-78,389**
Total Non-Current Assets	**-2,364**	**1,344**	**-333**	**3,791**
Non-current Intangible Assets	96	85	-16	-80
Non-current Tangible Assets	-2,460	1,259	-467	3,871
Long-term financial assets	0	0	150	0
Current assets	**30,898**	**-50,049**	**98,491**	**-83,457**
Inventory	55	9,744	-2,401	-5,352
Long-term Account Receivables	28,005	-40,250	5,648	-22,971
Short-term Account Receivables	-11,590	13,154	33,845	-40,916
Short-term financial assets	14,428	-32,697	61,399	-14,218
Cash	227	200	-177	-179
Bank Accounts	14,201	-32,897	61,576	-14,039
Accruals	**2,456**	**-1,818**	**-1,173**	**1,277**

(Own processing, Source: DEKONTA, 2014-2018)

Horizontal analysis of equity is interesting. Like it was mention before, the company suffered from the poor year 2016. As it is evident from Tables 3 and 4, the item retained earnings of the current year has unstable amounts every year. The highest increase is in the period 2017-2016 where retained earnings of the current year grew by 431%. The reason was the expansion of the public procurements. In 2018, the positive growth of

retained earnings continues growing by another 350%. Even though retained earnings positively grow, the company experienced a continuous reduction in accumulated retained earnings from the previous years. The reason for the continuous decrease is paid dividends.

The category of balance sheet belongs to total liabilities. The company has dramatically more short-term payables than long-term debts. Short-term payables are subjects of business relationships with the company's suppliers. The company also trades with its sister and daughter companies in the Czech Republic and abroad. Although the company records losses in 2016, there was also a reduction of payables by 23%. The explanation is that due to fewer orders, the company purchased less from its suppliers. Additionally, DEKONTA didn't apply for new loans. (DEKONTA, 2014-2018)

Table 3: Horizontal analysis of total liabilities & equity – the percentage comparison

	2015-2014	2016-2015	2017-2016	2018-2017
TOTAL LIABILITIES & EQUITY	**9.80%**	**-14.55%**	**32.69%**	**-19.91%**
Equity	**23.81%**	**-7.56%**	**-8.57%**	**-0.27%**
Registered capital	11.11%	0.00%	1.64%	0.00%
Capital funds	0.00%	0.00%	0.00%	0.00%
Funds from earnings	-33.34%	0.00%	0.00%	0.00%
Accumulated retained earnings from previous yea	58.77%	2.81%	-17.48%	-31.01%
Retained earnings - current year (+ / -)	-36.48%	-90.87%	431.29%	349.79%
Total Liabilities	**-11.25%**	**-29.21%**	**145.65%**	**-39.92%**
Payables	-11.59%	-22.68%	143.76%	-45.58%
Long-term payables	-40.91%	-24.27%	15.39%	-44.45%
Short-term payables	-7.80%	-22.55%	154.15%	-45.62%
Accruals	**-8.05%**	**-87.28%**	**247.75%**	**174.17%**

(Own processing, Source: DEKONTA, 2014-2018)

Table 4: Horizontal analysis of total liabilities & equity – the difference comparison

(Thousands CZK)	2015-2014	2016-2015	2017-2016	2018-2017
TOTAL LIABILITIES & EQUITY	**30,990**	**-50,523**	**96,985**	**-78,389**
Equity	**45,199**	**-17,763**	**-18,631**	**-543**
Registered capital	2,952	0	484	0
Capital funds	0	0	0	0
Funds from earnings	-2,952	0	0	0
Accumulated retained earnings from previous years	59,262	4,492	-28,763	-42,115
Retained earnings - current year (+ / -)	-14,063	-22,255	9,648	41,572
Total Liabilities	**-14,209**	**-32,760**	**115,616**	**-77,846**
Payables	-13,216	-22,859	112,041	-86,586
Long-term payables	-5,336	-1,870	898	-2,993
Short-term payables	-7,880	-20,989	111,143	-83,593
Accruals	**-993**	**-9,901**	**3,575**	**8,740**

(Own processing, Source: DEKONTA, 2014-2018)

Horizontal analysis of Income statement only confirms how crucial was the year 2016. After a deep look in item revenues from the sale of own products and services decreases by 130,561 thous. CZK. Production consumption also radically decreased in 2016 and radically grew in 2017. Among other interesting items belong to other operating revenues and other operating expenses. Other operating revenues include received subsidies, revenues from written-off receivables and received insurance premiums. The highest share of the increase in 2017 is due to subsidies from new projects. The operating expenses cover expenses on insurance and expenses on written off receivables. There was also a radical increase in 2017 by 10,549 thous. CZK. It is logical that due to low Profit/Loss before tax in amount 2,749 thous. CZK in 2016. The company paid low-income tax 512 thous. CZK. In the percentage comparison, income tax grew by 1059% in 2017-2016. The income statement even records drastic average EAT growth, the average growth equals 160%, in consideration that there was no change of economic cycle, the outcome confirms that the company is dependent on larger projects.

Table 5: Horizontal analysis of Income Statement – the difference comparison

Thousands CZK	2015-2014	2016-2015	2017-2016	2018-2017
Revenues from the sale of own products and services	1,826.00	-130,561.00	200,802.00	94,999.00
Production consumption	14,377.00	- 92,818.00	158,385.00	42,460.00
Change in inventory of own products	- 730.00	- 6,374.00	8,720.00	2,951.00
Personal expenses	4,332.00	565.00	13,907.00	15,723.00
Value adjustments in the operational area	- 7,191.00	234.00	9,590.00	- 7,979.00
Other operating revenues	5,986.00	- 2,790.00	17,363.00	- 4,528.00
Other operating expenses	2,129.00	- 7,388.00	10,549.00	-10,256.00
Operating profit/loss	**- 6,565.00**	**- 27,680.00**	**17,014.00**	**47,572.00**
Revenues from long-term financial assets - shares	22,980.00	- 47,207.00	-	-
Costs spent for sold shares	31,604.00	- 47,207.00	-	-
Interest revenues	106.00	- 737.00	123.00	- 61.00
Interest expenses	19.00	- 19.00	- 132.00	- 32.00
Other financial reveneus	1,455.00	- 1,535.00	2,868.00	- 2,303.00
Other financial expenses	2,694.00	- 2,821.00	5,068.00	- 3,557.00
Profit/Loss from financial operations	**- 9,776.00**	**568.00**	**- 1,945.00**	**1,225.00**
Profit/Loss before tax	**- 16,341.00**	**- 27,112.00**	**15,069.00**	**48,797.00**
Income tax	- 2,278.00	- 4,857.00	5,421.00	7,225.00
Profit/Loss after tax	**- 14,063.00**	**- 22,255.00**	**9,648.00**	**41,572.00**
Net turnover for the accounting period	**32,353.00**	**- 182,830.00**	**221,156.00**	**88,107.00**

(Own processing, Source: DEKONTA, 2014-2018)

5.3.1.2 Vertical analysis

Vertical analysis calculates the structure of the company's assets and total liabilities with equity, the analysis assumes that both of these items equal to 100%. According to the table, in the monitored periods 2014-2018, current assets had a significantly higher share on total assets. The average share of current assets equals 78%. Because the company is not a manufacturer, inventory has a very low share. The highest share on current assets has short-term account receivables, the average share is about 45% and the share does not change during years that much. It is necessary to mention that the company has also receivables from daughter companies. On the contrary, there is a decrease in a share of long-term account receivables on current assets. In 2018, the share was only 1.87%. In the matter of short-term financial assets, there was only a decrease in 2016. The reason may cause lower revenues in that year.

Table 6: Vertical analysis of Balance sheet – assets

	2014	2015	2016	2017	2018
TOTAL ASSETS	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Non-Current Assets	**22.16%**	**19.46%**	**23.23%**	**17.42%**	**22.96%**
Non-current Intangible Assets	0.06%	0.03%	0.06%	0.04%	0.03%
Non-current Tangible Assets	22.10%	19.43%	23.17%	17.34%	22.88%
Long-term financial assets	0.00%	0.00%	0.00%	0.04%	0.05%
Current assets	**77.18%**	**79.23%**	**75.85%**	**82.18%**	**76.15%**
Inventory	0.36%	0.34%	3.68%	2.17%	1.01%
Long-term Account Receivables	11.20%	18.28%	7.82%	7.33%	1.87%
Short-term Account Receivables	46.11%	38.68%	49.71%	46.06%	44.53%
Short-term financial assets	19.50%	21.93%	14.64%	26.63%	28.74%
Cash	0.12%	0.17%	0.27%	0.16%	*0.14%*
Bank Accounts	19.38%	21.75%	14.37%	26.47%	*28.60%*
Accruals	**0.66%**	**1.31%**	**0.92%**	**0.39%**	**0.90%**

(Own processing, Source: DEKONTA, 2014-2018)

Equity has a higher share than total liabilities. Besides the year 2017, where the situation almost equal. The highest share in equity has logically accumulated retained earnings from previous years. On the other hand, the company should be aware, that the share is continuously declining from 2016. Also, retained earnings of the current year were very low in 2016. Even though the company had high revenues from the sale of own products and services in 2017 due to the new project, the share of retained earnings in 2017 was just 3%. On the other hand, in 2018 the share grew to 17%. The average share of total liabilities is 37%. DEKONTA has more short-term payables than long-term payables. Long-term payables are perpetually reducing the share; this can be positive but also negative for a company. The company might have good solvency but also there is a possibility of not using efficient financing.

Table 7: Vertical analysis of Balance sheet – total liabilities and equity

	2014	2015	2016	2017	2018
TOTAL LIABILITIES & EQUITY	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100%**
Equity	**60.04%**	**67.70%**	**73.24%**	**50.46%**	**63%**
Registered capital	8.40%	8.50%	9.95%	7.62%	10%
Capital funds	4.75%	4.33%	5.07%	3.82%	5%
Funds from earnings	2.80%	1.70%	1.99%	1.50%	2%
Accumulated retained earnings from previous years	31.89%	46.11%	55.48%	34.51%	30%
Retained earnings - current year (+ / -)	12.19%	7.05%	0.75%	3.02%	17%
Total Liabilities	**39.96%**	**32.30%**	**26.76%**	**49.54%**	**37%**
Payables	36.06%	29.03%	26.27%	48.26%	33%
Long-term payables	4.12%	2.22%	1.97%	1.71%	1%
Short-term payables	31.93%	26.81%	24.30%	46.55%	32%
Accruals	**3.90%**	**3.27%**	**0.49%**	**1.27%**	**4%**

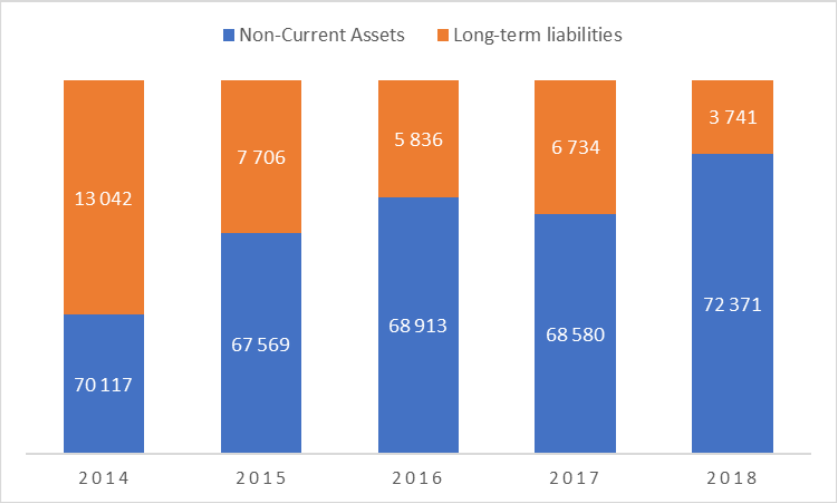
(Own processing, Source: DEKONTA, 2014-2018)

5.3.1.3 Balance sheet rules

5.3.1.3.1 Golden rule

Golden rule of balance sheet suggests that non-current assets should be financed by long-term liabilities and current assets by current liabilities. Apart from the year 2014, DEKONTA has more non-current assets than long-term liabilities. This means that long-term liabilities do not finance current assets. DEKONTA meets the requirements of Golden rule, which means that since 2015, the company uses effective financing.

Graph 9: Golden rule of Balance sheet (Thous. CZK)



(Own processing, Source: DEKONTA, 2014-2018)

5.3.1.3.2 Rule of balanced risk

Rule of balanced risk analyses the structure of the capital which the company uses. This rule mainly implies the risk that the company may have in the future if using more debt financing. The company meets this rule because DEKONTA's capital is dominated by Equity.

Table 8: Rule of Balanced risk

Thousands CZK	2014	2015	2016	2017	2018
Equity	189,845	235,044	217,281	198,650	198,107
Total liabilities	114,011	100,795	77,936	189,977	103,391

(Own processing, Source: DEKONTA, 2014-2018)

5.3.1.3.3 Pari rule

The last rule, Pari rule, describes the effectiveness of a company's financing. According to this test, DEKONTA does not have effective financing. Non-current assets are higher than equity. The company can invest more its capital and increase the amount of non-current assets. However, DEKONTA has uncertainty about future projects. The company cooperates with institutions such as, for example, the World Bank. The company should keep part of its equity as the reserve for retention payment purposes. During the received project, the company has to invest its own capital during the process. These retention payments are normal procedures in the construction industry. When the project is finished, the difficult administrative work is followed. In the end, the payment to the company can be proceeded within the period of even more than one year. If any issue occurs, there is a certain possibility that the retention payment does not need to be repaid in full amount.

Table 9: Pari rule

Thousands CZK	2014	2015	2016	2017	2018
Equity	189,845	235,044	217,281	198,650	198,107
Non-current Assets	70,117	67,569	68,913	68,580	72,371

(Own processing, Source: DEKONTA, 2014-2018)

5.3.2 Ratio analysis

Ratio analysis uses data of DEKONTA's balance sheet and income statement. In this chapter DEKONTA's profitability, liquidity, activity, Net Working Capital and solvency are measured.

5.3.2.1 Profitability ratios

Profitability ratios analysis compares the company's profitability ratios with selected water supply, waste management, and sanitation industry. In connection with profitability ratios, the value should be as high as possible. Firstly, the ROE ratio, the only ratio that calculates with Earning After Tax. This analysis perfectly displays the company's situation. As it was mentioned in Financial statement analysis, the company had some operational difficulties due to the deficiency of bigger projects in 2016 (1.03%). This was the only year when DEKONTA's ROE was below the industry's average (4.99%). The highest ROE had a company in 2018 (26.98%) where the company participates in a great number of public procurements. In 2018, DEKONTA experienced a greater result than Industry.

Similarly, like ROE, the company's ROA had a very disappointing result in 2016 (1.01%) and a great result in 2018 (21.15%). It is evident that the decreasing ratios were influenced by the company's own difficulties, the industry even grew between the years 2015 and 2016.

DEKONTA's weakest ratio is ROS. Although the ratio is positive, the company has a lower ratio than the industry from 2015 until 2018.

Lastly, ROCE evaluates how effectively a company invests its capital. According to this ratio, DEKONTA is very effective in investing its capital, mainly in the years 2014 and 2018. In 2018, the company reached 30%. On the other hand, the values of these ratios during years are very changeable.

Overall, the analysed ratios show that the company is profitable besides the year 2016. The important year for the company was the year 2018 when the company experienced extreme growth.

Table 10: Profitability ratios: DEKONTA

Profitability ratios: Dekonta	2014	2015	2016	2017	2018
ROE	20.31%	10.42%	1.03%	5.98%	26.98%
ROA	14.68%	8.67%	1.01%	4.55%	21.15%
ROS	10.59%	6.84%	0.96%	3.51%	11.01%
ROCE	21.56%	11.85%	1.33%	8.52%	30.93%

(Own processing, Source: DEKONTA, 2014-2018)

Table 11: Profitability ratios: Industry

Profitability ratios: Industry	2014	2015	2016	2017	2018
ROE	4.13%	3.97%	4.99%	4.77%	4.13%
ROA	3.82%	3.75%	4.59%	4.43%	3.82%
ROS	8.78%	8.94%	10.89%	9.85%	11.13%

(Own processing, Source: MPO, 2014-2018)

5.3.2.2 Liquidity ratios

Liquidity explains how many times current assets cover short-term financial liabilities. DEKONTA fulfils suggested values for liquidity. Moreover, the company's values are even higher. Thus, the company has enough assets to satisfy its obligations. If liquidity is high, the company is holding too much cash that can be utilized in other areas. Since the recommended value for cash ratio is 0.2 and DEKONTA's average value of selected periods is 0.7, there is a certain space to question the possible investment. On the contrary, DEKONTA operates in an industry where the company should keep reserves for retention payments. And since the company is an applicant of public procurements, where financial health is necessitated, it is a good representation that the company shows rather high liquidity.

Table 12: Liquidity ratios

Liquidity	2014	2015	2016	2017	2018
Current	2.42	2.95	3.12	1.77	2.41
Quick	2.06	2.26	2.65	1.56	2.32
Cash	0.61	0.82	0.60	0.57	0.91

(Own processing, Source: DEKONTA, 2014-2018)

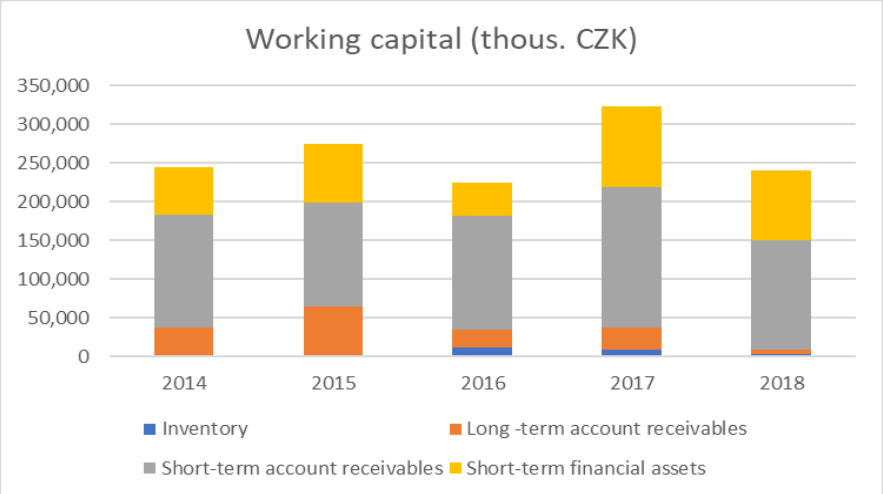
5.3.2.3 Difference ratio

Net Working Capital

Graph 10 displays the structure of current assets, also termed *working capital*. As it was mentioned in the chapter Financial statement analysis, DEKONTA is not a manufacturing company. Thus, inventory does not have high importance for the company. The more important items are account receivables and short-term financial assets. The amount of short-term account receivables does not change every year and the amount is stable. On the contrary, long-term receivables are considered as a volatile item. In 2016, there was a decrease in current assets and the biggest decline in short-term financial assets.

Net Working Capital subtracts short-term liabilities from current assets. The rest amount displays the remaining balance for further utilization. The company has positive NWC values in every examined period. The ratio shows that the company has a stable NWC ratio when the highest amount of 181,982.00 thous. happened in 2015. The average amount of selected period equals to 151,756.80 thous.

Graph 10: Working capital



(Own processing, Source: DEKONTA, 2014-2018)

Table 13: Net Working Capital

Thous. CZK	2014	2015	2016	2017	2018
NWC	143,204.00	181,982.00	152,922.00	140,270.00	140,406.00

(Own processing, Source: DEKONTA, 2014-2018)

5.3.2.4 Activity ratios

The first analysed ratio is the Asset turnover ratio. The minimal recommended value for the Asset Turnover Ratio is according to literature 1.0. DEKONTA requires the recommended values. Moreover, the company exceeds the recommended value in the years 2014, 2015, 2017 and 2018. In 2016 the ratio equalled 1.0. DEKONTA is eligible to turn its assets to generate sales in every analysed year. (Scholleova, 2012)

Because DEKONTA is a service-oriented company, the Inventory turnover does not have such as high importance as the manufacturing companies. It is predictable that the company has low Inventory turnover. The higher importance for business are Number of days of account receivables and payables ratios. On average, DEKONTA needs 149 days to turn the account receivables into cash. It is important to say that due to participating in public procurements, there is a higher requirement for the administrative procedures. These procedures can slow down the payment process and DEKONTA cannot influence the whole procedures.

In the matter of payables, DEKONTA needs on average 92 days to repay its debts. This number is not satisfying but payables include the trade with its sister's companies. Additionally, the company often waits for supporting documentation like invoices.

Lastly, cash conversion cycle is very changeable. The most sufficient year for the company was 2017, where DEKONTA put its inputs resources into cash flow in 20 days. On the other hand, the worst period for DEKONTA was 2016. Cash conversion cycle ration can again confirm that the company struggled that year.

Table 14: Activity ratios

Activity	2014	2015	2016	2017	2018
Asset Turnover ratio	1.4	1.3	1.0	1.3	1.9
Inventory turnover ratio	388.0	371.5	28.3	59.9	190.6
Account receivable turnover	2.4	2.2	1.8	2.4	4.1
Account payable turnover	3.8	4.4	4.0	2.7	5.9
Inventory turnover (days)	1	1	13	6	2
Number days of account receivables (days)	149	162	198	148	87
Number days of payables (days)	94	82	91	134	61
Cash conversion cycle (days)	56	80	121	20	27

(Own processing, Source: DEKONTA, 2014-2018)

5.3.2.5 Solvency ratios

Financial leverage is an important financial ratio. The recommended value differs from the literature and also from the industry. The recommended values from the literature should be maximally 60%. DEKONTA satisfies this requirement only in the years 2015, 2016 and 2018. The highest Financial leverage ratio was in 2017 where the ratio reached even 98%. This was certainly very dangerous to the company. On the other hand, Financial leverage ratio was high due to an increase in short-term payables that relate with new projects. The surprising phenomena occurred in the year 2016. As was mentioned, the company shows the lowest revenues and the alarming profitability but according to the company's financial leverage, the company shows the lowest indebtedness. Capitalization ratio showed more satisfying results than Financial leverage where the ratio was under 50% and meet the requirement that DEKONTA does not represent a potential risk for stakeholders. Overall, the company has a strong potential for future growth. The company should try to achieve better financial planning, with stable financial leverage, it is possible that the company may use more debt financing in the future or attract more customers and investors. Additionally, DEKONTA faces another obstacle and that is the requirement for public procurements which says that the company has to be financially healthy when applying for projects.

DEKONTA is successful in its Interest Coverage Earned ratio. A ratio higher more than 7 times, means that a company is very successful in covering its interest expense, DEKONTA fulfils this condition, especially in 2018.

Table 15: Solvency ratios

Solvecy	2014	2015	2016	2017	2018
Financial leverage	67%	48%	37%	98%	59%
Capitalization Ratio	40%	32%	27%	50%	37%
Interest Coverage Earned	198	119	13	176	953

(Own processing, Source: DEKONTA, 2014-2018)

5.3.3 Altman model

Even though DEKONTA is a joint-stock company, it is not publicly traded on the stock market. This is the reason that the thesis chooses a version of the model which is designated for not publicly traded companies. According to Altman's Z-score analysis, the

year 2018 was the only year that DEKONTA was considered as prosperous and was not threatened by bankruptcy. From 2014 until 2017, the company was situated in the grey zone. The grey zone implies to a situation in which the company might be or might be not threatened by possible bankruptcy. In this scenario, it is recommended to analyse the company with the other analysis or models of financial analysis.

Table 16: Altman model

	2014	2015	2016	2017	2018
X1	0.45	0.52	0.52	0.36	0.45
X2	0.32	0.46	0.55	0.35	0.30
X3	0.15	0.09	0.01	0.05	0.21
X4	0.60	0.68	0.73	0.50	0.63
X5	1.41	1.27	1.05	1.31	1.92
Z-score	**2.71**	**2.59**	**2.22**	**2.21**	**3.41**

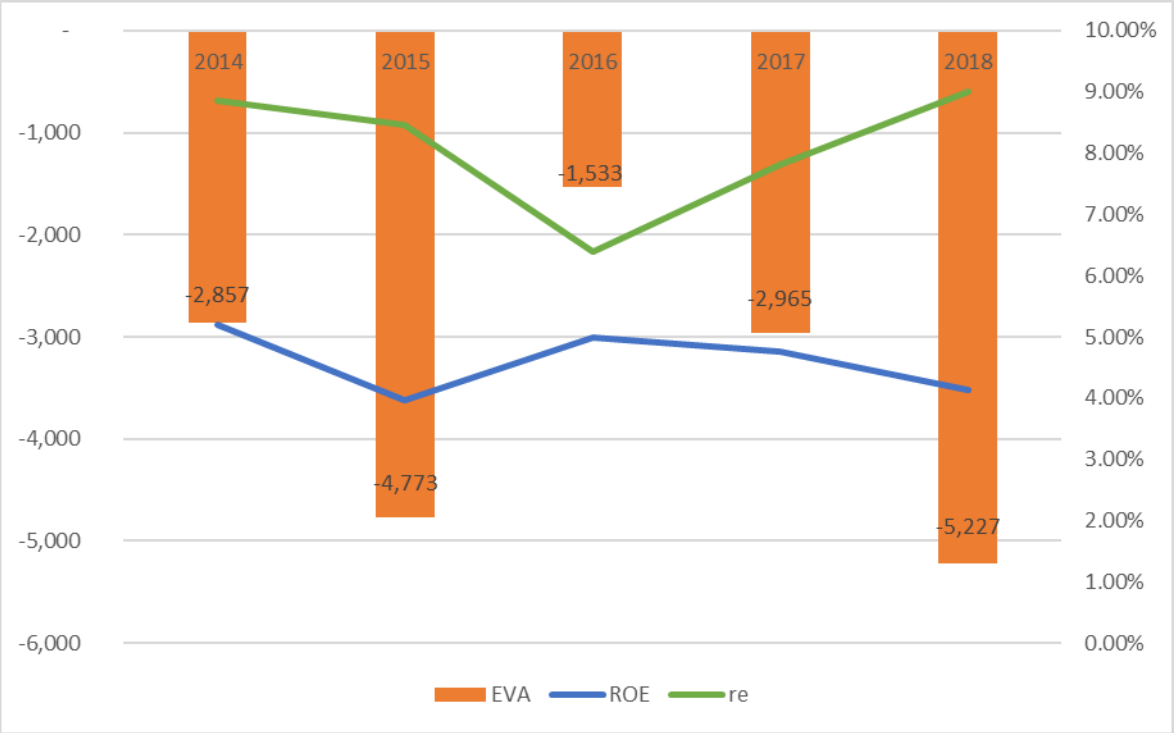
(Own processing, Source: DEKONTA, 2014-2018)

5.3.4 Economic Value Added (EVA)

The main objective for all entrepreneurs is to generate income. Economic Value Added (EVA) measures the difference between the Net Operating Profit After Tax and Weighted Average Cost of Capital. This is one of many versions of EVA which was developed by the authors Stern and Stewart.

For instance, the Ministry of Industry and Trade in the Czech Republic uses another version where EVA uses for its calculation ROE, WACC and the risk of equity. The graph 11 explains the Economic Value Added in water supply, waste management, and sanitation industry. The chosen industry is connected to the industry in which DEKONTA operates. From the graph 11 describes that the industry has a negative Economic Value-Added ratio. The interpretation for a negative value is that the chosen industry serves a negative benchmark of value creation for shareholders and thus, the industry is not attractive for the investments.

Graph 11: EVA – Industry (Thous. CZK)



(Own processing, Source: MPO 2014-2018)

Table 17 describes the situation in DEKONTA. The calculation of EVA combines the financial information from DEKONTA and the Ministry of Industry and Trade in the Czech Republic. DEKONTA positively surpasses the values of the industry. DEKONTA reaches positive results in 2014, 2015 and 2018 when the industry displayed negative values in all analysed years. The year 2016 reached a weaker result due to lower earnings, nevertheless, DEKONTA's performance has a positive outcome. On the contrary, the company reached the highest result in 2018, where the high earnings were gained. Furthermore, DEKONTA, apart from the years 2016 and 2017, reached greater results than the industry in Europe. EVA analysis expresses that the company is a profitable and well-performing company.

Table 17: EVA – DEKONTA a.s. (Thous. CZK)

	2014	2015	2016	2017	2018
NOPAT	38,750	24,700	2,427	11,953	53,513
C*WACC	14,620	16,986	11,154	12,779	15,068
EVA	**24,130**	**7,713**	**-8,726**	**-826**	**38,445**
C	202,887	242,750	223,117	205,384	201,848

(Own processing, Source: DEKONTA, 2014-2018, MPO 2014-2018)

Table 18: EVA – Environmental & Waste services industry in Europe

	2014	2015	2016	2017	2018
EVA Europe	442.09 USD	-720.97 USD	408.17 USD	500.26 USD	490.96 USD
EVA Europe	9,843.16 CZK	-16,052.29 CZK	9,087.83 CZK	11,138.34 CZK	10,931.22 CZK

(Own processing, Source: Damodaran, 2014-2018)

5.3.5 Spider Analysis

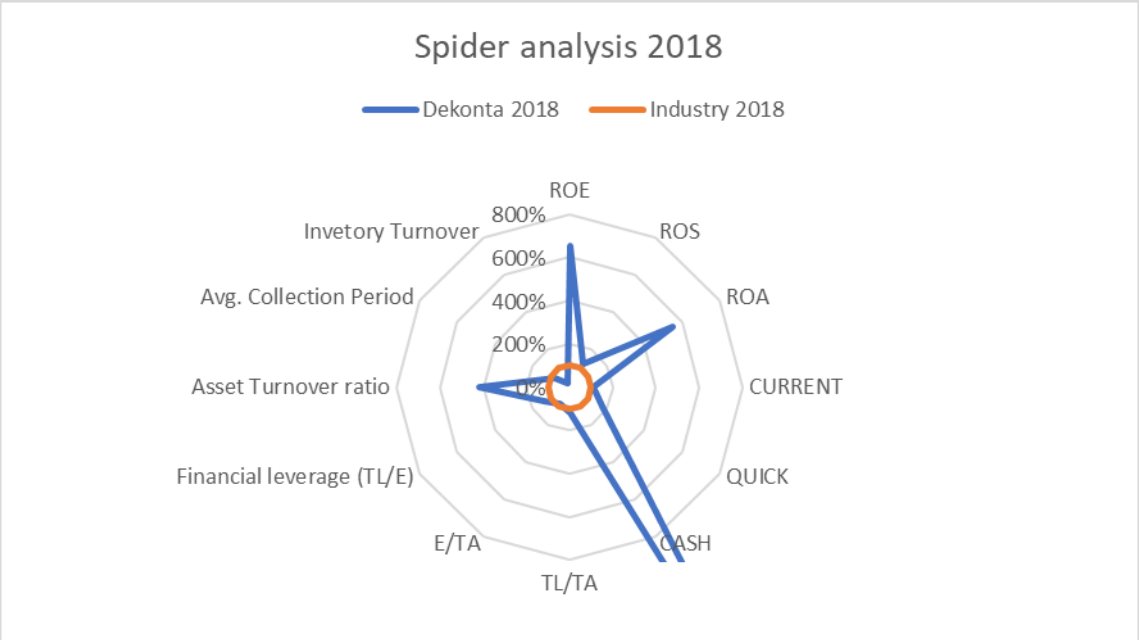
With the examination of the company's profitability, solvency, activity and the structure of the capital, Spider analysis is a comprehensive analysis of the company's financial situation.

The analysis compares DEKONTA's results with the selected water supply, waste management, and sanitation industry. The selected year for Spider analysis is 2018. When comparing Profitability ratios, DEKONTA has a surplus in ROE and ROA. However, DEKONTA's ROS ratio is below the average of the industry.

Within the scope of liquidity, DEKONTA has a stronger position than Industry. The most shocking ratio is Cash ratio, where DEKONTA exceeded the industry's average dramatically. This value is surprising, the average value of Cash liquidity in the industry is just 0.05%, which is under the recommended value. DEKONTA's Cash ratio was 0.91 in 2018.

The structure of the capital category is the least sufficient for DEKONTA. DEKONTA only outperforms the industry in *total liabilities / total assets* ratio by 20%. Regarding Financial leverage, the company has a higher ratio of 32% than the industry, that is a disappointing result.

Graph 12: Spider analysis



(Own processing, Source: SP Audit, 2014-2018, MPO 2014-2018)

5.4 SWOT analysis

Picture 6: SWOT

Strengths	• Profitability • Financial health - Solvency • Liquidity • Economic Value Added • Broad portfolio of services • Qualified employees • International company • Location of the company • Company with history
Weaknesses	• Return on Sales • Fluctuating revenues • Inefficient financing • Dependency on public procurements and large projects • Number days of account receivables • High costs on R&D, Trainings
Opportunities	• ISO certification • Supplier to influential companies and institutions • European green revolution • Attractive employer • Patents • New technology • New locations
Threats	• Unemployment rate • Decline in public procurement • Economic Recession • New entrants in industry • Higher costs on equipment

(Own processing, 2020)

5.4.1 Strengths

The results of the financial analysis confirm that DEKONTA is a well-performing company. DEKONTA showed well profitability, mainly the ratio Return on capital employed and Return on Equity was, besides 2016, very high and DEKONTA overtook the industry. Liquidity ratios fulfilled all the recommended values. Furthermore, DEKONTA highly surpasses the industry with cash ratio. Another positive finding brought solvency ratios. Although the company experienced the poor year 2016, Capitalization ratio and Interest coverage still displayed positive values. Finally, DEKONTA showed a

good EVA ratio. Ministry of Industry and Trade based on data presented that water supply, waste management, and sanitation industry are not valuable industry. Nevertheless, DEKONTA proves that the company creates economic value with its capital investments.

Apart from financial health, the company shows positive results in broad offers of services. This is beneficial for the company in terms of revenues. For instance, if the lack of demand for demolition service occurs in one year, the company will still have several other services that can be lucrative to the market. So, the company has various sources of revenue and is not dependent only on one business activity.

The company owns qualified employees where 80% of employees hold a university degree. In the industry, in which DEKONTA operates, the dependency on new technology and patents is highly desirable. Since DEKONTA cooperates with research institutions and universities, the company shows absolute strength regarding human resources.

The benefit of the international environment is influential, along with the potential for growth. Thanks to international activities, the company can also recruit even more qualified labour and establish a new collaboration with other companies and institutions. Due to the international background, the company participated in many engaging projects that also created value for society.

In relation to company history, DEKONTA was founded in 1992. It is proven that the company created during years many projects and build several partnerships. It can be appealing to new potential customers that DEKONTA operates successfully its business activities for 28 years. In the Czech Republic, the company has a favourable location. The main office operates in Prague where the company has access to the universities and governmental institutions. Additionally, the company possesses more offices in Bohemia (Slany, Dretovice, Usti nad Labem) and one in Moravia (Slatina). The locations are very strategic.

5.4.2 Weaknesses

Concerning financial analysis. DEKONTA showed a lower return on sales than the industry. Lower ROS ratio can identify rising financial troubles. DEKONTA's main issues are fluctuating revenues. Even though the economic cycle was pleasant during the analysed period 2014-2018, the company found itself in financial difficulties in 2016. Additionally, DEKONTA has even high differences in revenues each analysed year. The issue for a

company can be in terms of uncertainty regarding future incomes and that could be problematic mainly for planning and investing activities. The issue with fluctuating revenues is partly connected with public procurements. As it was discovered, the company was put into financial difficulties due to the scarcity of public procurements.

In the matter of account receivables, this item is the highest item of working capital. On average, the company needs 149 days to turn the account receivables into cash. The company should improve its cash collections.

The last problem that financial analysis recognizes is the effectiveness of capital financing, also involving Financial leverage that displayed very indecisive solvency. The company is able to utilize its capital for investments. However, the Altman model showed that the company situates in the grey zone, and there is a possibility of bankruptcy. The company should definitely observe more bankruptcy models.

Despite the fact that DEKONTA has qualified employees and owns more than 50 patents. The company must pay high costs for training and R&D activities. Some projects even take years to be finished. Since technology is the main driver of DEKONTA's business activities, the company must put a large percentage of the budget on R&D.

5.4.3 Opportunities

DEKONTA can pronounce itself as a trustworthy company due to ISO certification. Since the company has them in its possession, DEKONTA is approved to submit applications for public procurements or grants. For customers, ISO standards stand for a guarantee of quality. DEKONTA already possesses ISO 9001, 14001 and 45001. In the future, the company can consider applying for ISO 26000 which stands for social responsibility and 50001 energy management. These norms might improve the company's prestige and credibility. (ISO, 2020)

The company cooperates with many successful companies and institutions. With a good business network, the company has possible opportunities to collaborate in more projects and attract more important customers.

It is likely that since the European Commission's objective for 2050 is carbon neutrality. The environmental services for consultancy or air monitoring will be very supported and mainly needed.

The participation in new projects and high spending on R&D activities can attract new scientists and engineers. Not only miscellaneous work but as well other benefits can attract future talents. The employees are offered a work-life balance. After 3 years, the employees are entitled to 5 weeks of leave. DEKONTA offers salary benefits, a friendly environment, professional training, language courses and requalification, stability. In addition, DEKONTA gives a chance to Ph.D. students who can study and work simultaneously. With new technology, R&D activities and labour, the possibility of new patents is strong.

Lastly, DEKONTA can find another opportunity with expanding its activities into the new location. The company already has 12 offices in various countries, mainly in Central and Eastern Europe. The company should consider further expansion to new locations.

5.4.4 Threats

Like for every industry, DEKONTA can be threatened by the low unemployment rate in the Czech Republic. If this trend continues in the future, the company will have to contest in the recruitment of new employees. The deficiency of labour might cause the understaff, or the company would need to pay higher costs on less qualified labour. Another threat is the economic cycle. Many sources speculate that the recession will occur in the near future, which could influence the industry rapidly. Since the company is reliant on public procurement, the economic recession might cause a rapid attenuation of new projects.

The power of suppliers is also significant for the company, since DEKONTA needs specific equipment that requires high costs and not many suppliers manufacture these machines and lab equipment. The company is jeopardized by increasing costs.

Since Environment and Ecology is favourable by the European Union, the new entrants could appear in the market. Therefore, there is a possibility that the environmental industry will become more desirable in the future.

6 Discussion

Regarding financial health, the financial analysis observes financial data of years 2014-2018. According to the result of financial analysis, the thesis confirms that DEKONTA is a prosperous and stable company within the Czech market.

The ratio analysis examined DEKONTA's profitability, liquidity, activity, and solvency. The profitability ratios were positive, besides the year 2016, where DEKONTA barely reached a 1% ratio of profitability. That actuality only confirms the financial problems that the company faced. Although there are no recommended values for profitability, Scholleova mentioned that the company should pursue their maximization. When comparing with the industry, DEKONTA showed excellent results of ROE, ROCE and ROA ratios. (Scholleova, 2012)

Nevertheless, the company's ROS, also called EBIT margin, was below the average of the industry. The company might raise ROS ratio by making a better campaign for its clients and attract more customers. Even though DEKONTA has major revenues from public procurements, the company can make an advantage with trending services like environmental consulting and air monitoring. DEKONTA can improve marketing and customer relationship and additionally can raise prices on these services. The company's strategy is to highly invest in R&D, the management hopes for technology advantage in the future and therefore higher profits. (DEKONTA, 2018)

The solvency ratio analysis displayed that the company reached excellent results in Capitalization ratio and Interest coverage. With reference to Samonas, the company seems to have a bright future in terms of financial stability. On the other hand, Financial leverage showed the disappointing results, in 2017, DEKONTA reached even 98%. On the other hand, overall, financial leverage was stable in 2015, 2016 and 2018. Moreover, in 2016, the company even showed the least indebtedness from all analysed year. Further analysis showed that this was not a positive cause. The least indebtedness was caused by a decreased in short-term payables that were influenced by a decrease in projects. (Samonas, 2015)

In case of liquidity, all results were above the recommended values. The interesting occurrence happened in 2016 when current and quick liquidity ratios showed the highest results of all analysed periods. On the contrary, only the cash ratio confirmed the reality of a decrease in short-financial assets. The cash ratio is a more important ratio than current and quick for stakeholders. Especially for creditors who require if a company has adequate cash balance to finance their current debts. (Palepu, 2013)

Altman model examined DEKONTA's bankruptcy. The results show that the company was from 2014 until 2017 in the grey zone which could be potentially a signal of a possible bankruptcy in the future. In 2018, the Z-score finally crossed a number 2.99 which means that the company does not need to be concerned about future bankruptcy. Moreover, EVA analysis finds that the company is a profitable and well-performing company, despite the Ministry of Industry and Trade identified that the selected industry shows negative values, the European average shows positive values. In the end, compared to the Czech and European industry, DEKONTA approached excellent results. (Darmodaran, 2014-2018) (Ministry of Industry and Trade, 2014-2018)

7 Conclusion

The objective of the diploma thesis was to evaluate the complete economic situation of the selected company that includes DEKONTA's financial health, business performance, and external environment. Furthermore, the analysis answers the research question if DEKONTA is well-performing company within the Czech market.

The year 2016 wasn't very positive for the company. In the mentioned year, the amount of public procurement declined and DEKONTA put its focus on smaller projects. The poor year was confirmed by horizontal analysis, DEKONTA experienced a decline in accounts of Balance sheet and Income Statements. The highest decline had items such as retained earnings - current year, short-term financial assets and long-term account receivables. Nevertheless, payables also decreased. Even though DEKONTA experienced the poor year, the company prove its excellent position in 2018.

Porter's five forces model assessed that the selected company has a strong position in the Czech market. In the Czech Republic, there is no company that offers exact same services as DEKONTA. However, the company still faces competition from smaller companies that specialize in fewer services.

PESTLE analysis evaluated the external macroenvironment that is surrounding DEKONTA. The political factors identified that the political sphere is stable in the Czech Republic and the company will not have obstacles in the future regarding its business activities. The economic factors brought positive but also negative discoveries. There are some alerts in forms of low GDP growth and low unemployment rate. The low GDP growth signalizes a possible recession. The permanent low unemployment rate is problematic that the company would pay higher costs on wages for less qualified labour. Another scenario can be even worse, the company can have a dispute to hire enough labour for its business activities. The positive findings of economic factors were the stable inflation rate and Czech Koruna appreciation. Lastly, the environmental factors proved that the environmental sector may awake higher attention in the future. It is highly probable that the European Union and local government will invest more of their spending in the environmental sector. This can be very beneficial to DEKONTA; thus, the company can

expect more public procurement in the future. Furthermore, the company could expect high demand for environmental consulting services.

The author perceives the future of DEKONTA company positively. The company can profit from many strengths such as overall good financial health, a broad portfolio of services or a qualified team of employees. There are opportunities that concern cooperation with important clients, patents and new technology. Nevertheless, the company might encounter some barriers like economic recession, a decrease in public procurements.

Certainly, there is a space for improvement. The main issue for the company is fluctuating income, the solution would be to invest more time and skills in financial planning processes. Financial planning also concerns collection of account receivables, even though the company focuses on long-term projects that involve high administrative procedures, there is a certain space for improvement. Financial planning also concerns investments, the company highly invest in R&D activities that can potentially bring high revenues. DEKONTA should try to partly diversify investments and expand its financial or fixed assets. The company should also achieve the same level of Return on Sales as selected water supply, waste management, and sanitation industry. Return on Sales depends on EBIT, which can be influenced by financial planning, and sales which can be boost by better marketing strategy.

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9 Appendix

Appendix 1: Balance sheet Dekonta 2014-2018

(Thous. CZK)	2014	2015	2016	2017	2018
TOTAL ASSETS	**316,377**	**347,183**	**296,660**	**393,645**	**315,256**
Total Non-Current Assets	**70,117**	**67,569**	**68,913**	**68,580**	**72,371**
Non-current Intangible Assets	184	96	181	165	85
Non-current Tangible Assets	69,933	67,473	68,732	68,265	72,136
Long-term financial assets	0	0	0	150	150
Current assets	**244,173**	**275,071**	**225,022**	**323,513**	**240,056**
Inventory	1,130	1,185	10,929	8,528	3,176
Long-term Account Receivables	35,448	63,453	23,203	28,851	5,880
Short-term Account Receivables	145,895	134,305	147,459	181,304	140,388
Short-term financial assets	61,700	76,128	43,431	104,830	90,612
Cash	378	605	805	628	449
Bank Accounts	61,322	75,523	42,626	104,202	90,163
Accruals	**2,087**	**4,543**	**2,725**	**1,552**	**2,829**
TOTAL LIABILITIES & EQUITY	**316,193**	**347,183**	**296,660**	**393,645**	**315,256**
Equity	**189,845**	**235,044**	**217,281**	**198,650**	**198,107**
Registered capital	26,564	29,516	29,516	30,000	30,000
Capital funds	15,033	15,033	15,033	15,033	15,033
Funds from earnings	8,855	5,903	5,903	5,903	5,903
Accumulated retained earnings from previous years	100,838	160,100	164,592	135,829	93,714
Retained earnings - current year (+ / -)	38,555	24,492	2,237	11,885	53,457
Total Liabilities	**126,348**	**112,139**	**79,379**	**194,995**	**117,149**
Payables	114,011	100,795	77,936	189,977	103,391
Long-term payables	13,042	7,706	5,836	6,734	3,741
Short-term payables	100,969	93,089	72,100	183,243	99,650
Accruals	**12,337**	**11,344**	**1,443**	**5,018**	**13,758**

(Own processing, Source: DEKONTA, 2014-2018, available also on justice.cz)

Appendix 2: Income Statement 2014-2018

	(Thous. CZK)	2014	2015	2016	2017	2018
I.	Revenues from the sale of own products and services	438,401	440,227	309,666	510,468	605,467
A.	Production consumption	332,350	346,727	253,909	412,294	454,754
B.	Change in inventory of own products (+/-)	785	55	- 6,319	2,401	5,352
D.	Personal expenses	72,591	76,923	77,488	91,395	107,118
E.	Value adjustments in the operational area	18,506	11,315	11,549	21,139	13,160
III.	Other operating revenues	34,467	40,453	37,663	55,026	50,498
F.	Other operating expenses	13,373	15,502	8,114	18,663	8,407
*	**Operating profit/loss (+/-)**	**36,833**	**30,268**	**2,588**	**19,602**	**67,174**
IV.	Revenues from long-term financial assets - shares	24,227	47,207	-	-	-
G.	Costs spent for sold shares	15,603	47,207	-	-	-
VI.	Interest revenues	861	967	230	353	292
J.	Interest expenses	234	253	234	102	70
VII.	Other financial reveneus	449	1,904	369	3,237	934
K.	Other financial expenses	331	3,025	204	5,272	1,715
*	**Profit/Loss from financial operations (+/-)**	**9,369**	**- 407**	**161**	**- 1,784**	**- 559**
**	**Profit/Loss before tax (+/-)**	**46,202**	**29,861**	**2,749**	**17,818**	**66,615**
L.	**Income tax**	7,647	5,369	512	5,933	13,158
**	**Profit/Loss after tax (+/-)**	**38,555**	**24,492**	**2,237**	**11,885**	**53,457**
*	**Net turnover for the accounting period**	**498,405**	**530,758**	**347,928**	**569,084**	**657,191**

(Own processing, Source: DEKONTA, 2014-2018, available also on justice.cz)