

Cap 1 case: WDI

- Introduction
 - This case is about Waste Disposal Inc. (WDI), a Canadian privately held waste disposal company that provides collection, disposal, and recycling services. The company is owned 40% by Laura Simmons and 60% by Kingsley Investment Inc. (Kingsley), an investment management company that invests in a variety of private businesses (see Users).
 - WDI currently has (i) 4 **recycling** facilities, (ii) 3 **landfill** disposal sites, (iii) 3 **transfer** stations, and (iv) 5 **collection** centres, located in Nova Scotia and New Brunswick, with its head office in Halifax, NS.
 - WDI's recycling facilities can process (i) old corrugated cardboard (**OCC**), (ii) **mixed paper**, (iii) **glass**, but do not have the capabilities to recycle polyethylene terephthalate (**PET plastic**) beverage bottles and **jars** or **aluminum**. WDI does not offer **organic** or **hazardous waste** disposal services.
 - Due to declining profits and changes in the industry, the board decided it must complete an in-depth review of its current strategy and assess possible alternatives for the future. The directors have conflicting viewpoints as to how to achieve sustainable and increased profits. There are also many operational issues that they would like you to address.
- Role
 - You, CPA, have been working as a CPA with Stineman Consulting Group (SCG) for the past 11 months. You have been assigned to develop a report for the board of directors (the board) of WDI.
- Timeline:
 - 1986: Laura's father, Kevin Simmons, established WDI. Purchased 4 trucks and hired some drivers, providing subcontract work for larger collection operators.
 - 1990: Obtained its first corporate contract for waste collection
 - 1991: Leonard (Kevin's father) retired, selling his shares to Kevin, who became the sole shareholder
 - 1993: WDI had its collection trucks on the roads entire weeks, opening another collection centre
 - 1995: Received its first municipal contract for a small rural municipality
 - 2003: Kevin grew WDI and opened another collection centre and transfer station and built a new landfill site.
 - 2005: First recycling plant built, allowing the company to offer a full range of disposal services.
 - 2008: Second recycling plant opened.
 - 2011/2012: WDI opened a division in NB, which included 2 collection centres, 1 transfer station, 1 landfill site, and 2 recycling plants.
 - 2013: Laura joined WDI and started managing some of the NS operations (collection, transfer station, landfill site, recycling plant).
 - 2014: Kevin and Laura wrote the vision and mission
 - 2018: Kevin became ill and had to cut back on his working hours
 - 2018: Brian joined WDI as the CFO
 - Dec 2019: WDI added sustainability to its core values
 - 2019: Laura inherited 100% of the shares of WDI from Kevin (her father) on his death

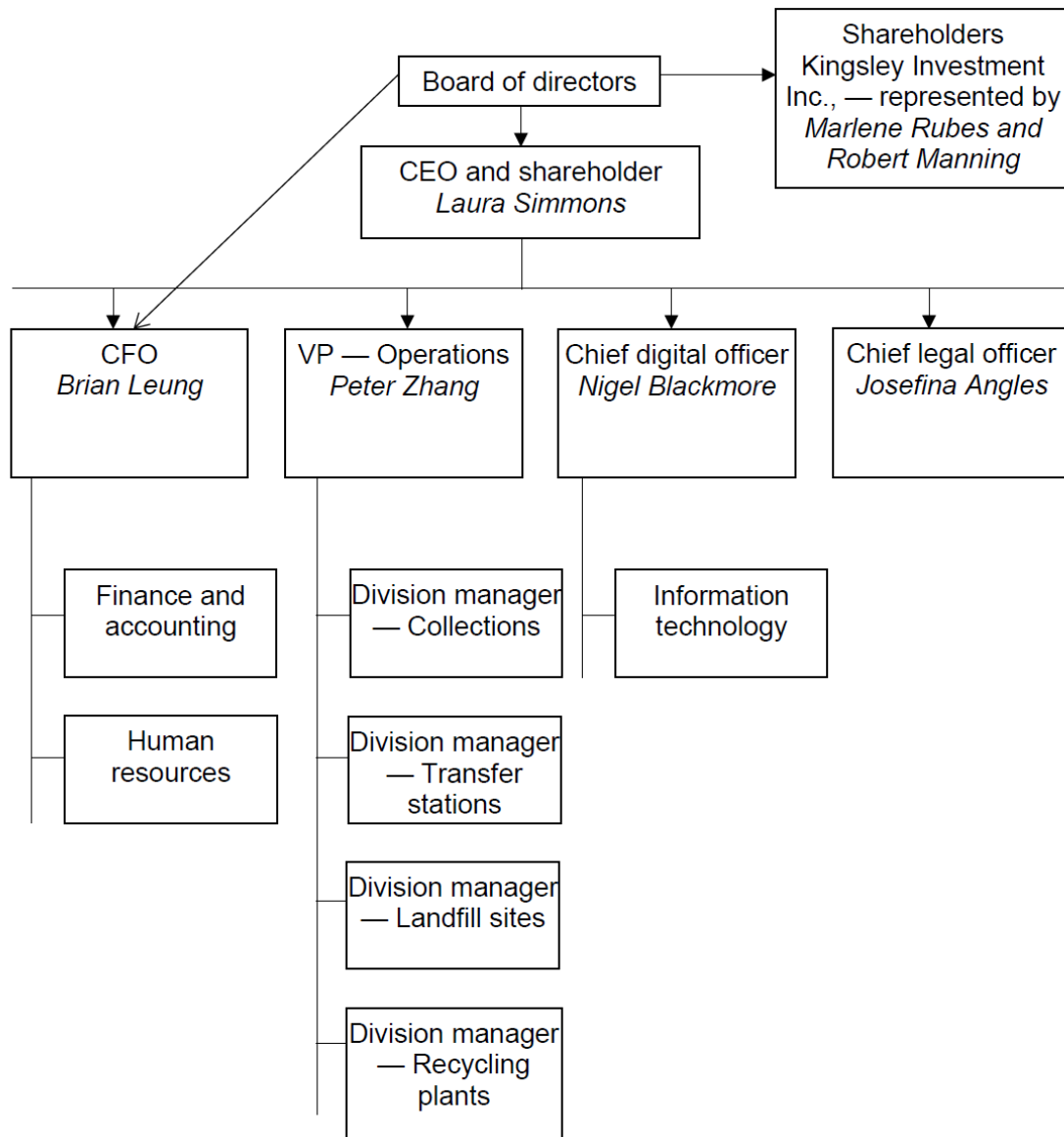
- 2020: Kingsley purchased 60% ownership interest of WDI for \$10M
- Feb 2020: Part of Kingsley's funds were used to repay \$8M debt
- June 2020: Josefina given the added responsibility of preparing the company's sustainable policies and overseeing their implementation and monitoring.
- 2020: WDI set up a sustainability committee, which currently includes Laura, Brian, Josefina, and employee representation from each division.
- 2020: WDI installed route optimization software to determine the most efficient routes to use for waste collection. This route optimization, along with starting to convert the trucks to natural gas, has resulted in reduced operating costs for the division.
- Feb 9, 2021: Now
- Situational analysis
 - Mission/vision statement
 - WDI's current vision statement is as follows:
 - To be a premier waste management company while meeting the needs of our customers, employees, local communities, and the environment.
 - WDI's current mission statement is as follows:
 - We are waste disposal experts providing collection, disposal, and recycling services to our customers, using environmentally responsible and sustainable methods and leading-edge technologies.
 - WDI also has the following core values and beliefs:
 - Operate safely and in compliance with all safety regulations.
 - Act with integrity and honesty in an ethical manner.
 - Treat employees with respect and ensure they are adequately trained and fairly compensated.
 - Provide customers with effective and efficient **customer service**.
 - Stay up to date with waste disposal **technologies** and educate customers on waste disposal alternatives.
 - Promote **sustainable practices** within the company.
 - Key stakeholder preferences (users):
 - Laura Simmons, owner and CEO:
 - disagree with Jack on the best way to achieve Board objectives
 - agrees with Jack that that WDI can't compete on price, but has a long-term focus (committed to seeing her father's vision fulfilled)
 - believes that WDI should instead enter new segments that require specialty skills, where higher margins can be achieved and competition is not based on price
 - not interested in selling her shares and would ideally like to buy Kingsley out in the future, if she can, by attracting another strategic investor whose objectives are more aligned with hers
 - would like to position the company to appeal to a private investor who is more interested in the emerging segments of the industry
 - wants WDI to have a reputation for being at the forefront of protecting the environment while helping customers manage their waste. To achieve this, WDI should invest in leading-edge technologies.

- been in industry for many years and can see trends emerging that she believes WDI should capitalize on. However, these new service areas require significant initial capital investments for which the company will have to find funding.
- specializes in environmental studies
- Jack Kingsley / Kingsley Investment Inc. (Kingsley):
 - Disagrees with Laura on the best way to achieve Board objectives
 - believes that WDI, due to its size, cannot match the prices that competitors are bidding on new contracts.
 - believes that WDI should reduce costs as much as possible to achieve improved margins.
 - wants WDI to remain in the traditional segments of the market (to appeal to a strategic buyer that would be interested in purchasing WDI for its long-term contracts in NS and NB locations).
 - wants to increase WDI's profits as quickly as possible and sell the company by 2025. Many of the companies that would be ideal candidates for a future acquisition of WDI value social responsibility, strong corporate governance, robust profits.
 - short focus on capital appreciation, investment objective is to hold an investment for 5-7 years and then sell
 - invests in family-owned businesses, where the original owner has recently passed away and the company is struggling financially/ operationally, and provides advice and resources to help it become profitable and successful.
 - investment strategy has been to sell off poor-performing divisions of the companies it has invested in and to cut personnel, in order to improve profits.
 - has investments in trucking and retail companies, and this is its first investment in waste disposal
 - believed that there were many areas that could be improved, within the traditional segments of waste management, which would quickly increase the profits and therefore market value of the company.
 - Initially offered \$10M for 75% of the company but Laura felt this was too high and she negotiated 600,000 shares representing 60% ownership for \$10M.
- Board
 - 4 directors (Laura, Brian, Marlene, Robert)
 - meet at least monthly and responsible for management and board decisions.
 - Marlene/Robert are Kingsley representatives and bring a meticulous approach by strictly analyzing weekly and monthly reports
 - Laura's role is to manage the day-to-day operations of the company in accordance with board decisions.

- Brian Leung, CFO:
 - supports Laura's viewpoints
 - shares Laura's goals and vision for the future of WDI but is in favour of cautious growth where investments are made when cash flows are available
 - thinks there is a lot of potential for the company to grow in some of the non-traditional segments
 - would be interested in investing in the company if, and when, Laura manages to buy out Kingsley.
 - suggested Kingsley Laura began looking at ways to refinance debt. Brian had a close friend who had worked with Jack Kingsley and had spoken very highly of him.
 - responsible for finance, accounting, and human resources
 - Laura hired Brian to help her manage the financial and accounting aspects of the company. Brian previously worked for a large global waste management company
- Marlene Rubes, chair of the board / representative for Kingsley:
 - looking for improvements that will immediately increase short-term profits
 - Goal is to increase the value of WDI in a short period of time and ready it to be sold to a strategic buyer
 - worked at Kingsley for 15 years and has a lot of experience improving the profits of companies to make them attractive for sale.
- Robert Manning, chair of the board / representative for Kingsley:
 - strong personal belief in practising sustainability and protecting the environment.
 - specifically requested to work as part of the team on WDI investment because he wanted to see how these particular values could exist in a corporation where profits are often a more important consideration
 - first time being a representative for the company on a board
 - worked in R&D in the plastics industry before joining Kingsley 3 years ago
- Kevin Simmons, founder:
 - believed in providing excellent customer service, with a focus on protecting the environment and staying at the forefront of relevant technology developments, and managed the company with these goals in mind
 - engineer, worked for a variety of companies that specialized in waste disposal before deciding to start his own waste management business, along with his father, Leonard Simmons



- Peter Zhang, VP operations:
 - responsible for overseeing all the collection, transfer, recycling, and landfill operations.
 - well respected by all levels of employees and constantly interacts with them.
 - hands-on manager who regularly visits and periodically works at different levels of the company to keep in touch with what is going on.
 - treats all employees with respect and as equals, and has an open-door policy where any employee can come in to discuss concerns.
 - Joined WDI in 2005. has 4 direct-report managers representing each division. Started as a truck driver and made his way up the ranks.
- Nigel Blackmore, chief digital officer:
 - responsible for all IT systems currently used and remaining at the forefront of technology
 - trying to convince the directors to gather more data to be used for analytical purposes
 - believes that there are many other areas where data analytics could be useful to the company, especially in analyzing and tracking where different types of waste come from, which will help to assess how best to dispose of it.
 - Laura and Brian have encouraged Nigel to bring any possible ideas forward for review and discussion.
- Josefina Angles, chief legal officer:
 - responsible for all contracts and for ensuring compliance with all levels of government regulations, including safety, environmental, and waste disposal.
 - very interested in sustainability and has been pushing the directors to be more proactive in adopting sustainable practices
 - with WDI for 10 years
- GBI Bank:
 - Line of credit and term loan that contain two covenants:
 - Line of credit covenant – maintain EBIT to interest ratio at or above 1.8
 - Term loan covenant – maintain a debt-to-equity ratio at or below 3.5
 - Line of credit is renewed every two years. The next renewal date is September 2022.
 - Line of credit is secured by A/R and cannot exceed 50% of the balance in A/R
- Starlight capital
 - Can lend up to \$10M of unsecured loan
 - No dividend payout permitted while the debt is outstanding
 - Any asset or share sale will need to be approved by Starlight



- KSF
 - strong customer relationships and long-term service contracts
 - providing new services that customers demand
 - improving efficiencies and reducing employee and labour costs
 - complying with various government regulations
 - optimizing collection routes to achieve efficiencies
 - effective cost management
 - Cutting-edge technologies, such as increasing the use of automation and using data analytics
 - reduction of GHG emissions
 - strong local and government support for waste management programs
 - specializing in one type of service or providing a variety of waste disposal services
 - vertically integrating to include collection, transfer, landfill and recycling

- Internal/external assessment (SWOT)
 - Strengths:
 - vertically integrated from collection, transfer, landfill sites and recycling/organic waste processing
 - strong emphasis on customer service which leads to customer retention and contract renewals
 - well established and well recognized in the Atlantic region
 - experienced management team given that Laura and Brian have both years of experience working in the waste management industry
 - Kingsley is experienced with turning poor performing companies around and improving profit margins
 - board is involved in strategic and financial decisions
 - low employee turnover rates
 - cross-trained workforce
 - strong core values and places importance on values being displayed at each location
 - Weaknesses:
 - limited geographic scope, given that it operates only in the Atlantic region
 - cannot provide PET plastics and aluminum recycling, nor disposal of organic waste
 - does not currently capture biogas at its landfill sites
 - Significant cash flow issues due to the repayment of term loan and declining margins
 - Opportunities:
 - Demand is growing for continued waste diversion
 - Consumers have more environmental awareness and are demanding increased recycling options
 - Threats:
 - current customers may soon start to want the recycling and disposal services that WDI does not offer
 - national waste collection companies are looking to expand into the Atlantic region



- F/S analysis
 - Goals for 2021 and 2022:
 - 1) Improve **total** operating profit margin to 9%
 - 2) Improve the **recycling** division's operating margin to at least 5%
 - 3) Increase annual free cash flows by at least \$1.7M, as compared to the free cash flows generated in 2020, to increase shareholder value; free cash flows are operating after-tax cash flows less annual sustaining capital investments; the annual sustaining capital investment is \$7M.
 - 4) Lower greenhouse gas (GHG) emissions by 10% or increase the avoidance of GHG emissions by 10% (WDI needs to reduce GHG emissions by at least 30% and increase recycling volumes by 40% to be in line with leading competitors in the industry).
 - Total operating margin of 8.0% in 2020
 - Operating margin declining from 2018 to 2020
 - Debt-to-equity of 2.81 in 2020, which is higher than the industry, which means WDI is more leveraged, therefore more risky
 - WDI has \$81 million in revenues and net earnings of \$2 million
 - Recycling margins are the lowest of all of WDI's operations
- Strategic issues
 - WDI is looking for analysis and recommendations on the following strategic opportunities:
 - 1. New organic waste treatment facility PPP agreement
 - 2. Start environmental consulting division
 - 3. Updating recycling division which currently process OCC/paper/glass (close, continue positive CMs and sell others, continue positive CMs and sell others and invest in aluminum or PET plastic)
 - 4. Invest in Pristine Research (hazardous waste cleanup/research company)
 - Other issues
 - Vision and Mission statements update
 - Board composition issue
 - Ethical concerns
 - Tax issue (drivers as employees)
 - PM issue (balanced scorecard needed to align management goals)
 - FR issue (update landfill sites obligations in the F/S)
 - AS issue (prepare a GHG emission statement)
- Other points
 - 3 key conditions related to the original shareholder agreement:
 - 1) Kingsley can purchase up to 600,000 non-voting preferred shares for \$15.00 per share. The preferred shares would have a cumulative dividend rate of 10% and be convertible on a one-for-one basis for common shares, at the option of Kingsley. Any dividends in arrears to be paid prior to conversion.
 - 2) Board would be made up of 4 directors, with Kingsley having two representatives. Laura and 1 other person of her choice the remaining.
 - 3) Kingsley would be a hands-on investor. There would be regular meetings and reviews, and total involvement in all management and board decisions related to strategy, operations, and finance.