Sustainable Innovation: Summary of Recommendations
Davis Women in Business

Introduction

Sustainable Innovation by PwC's team Davis Women in Business explores the path that Greenlight can take to reestablish consumer trust and support after having its tires found in the Louisiana marshland. The report explores solutions to two key questions:

1. How can Greenlight leverage sustainable technologies to poise itself as a leader in the constantly growing marketplace?
2. How will Greenlight create a financial win-win?

The answers to both these questions are rooted in frameworks of growth and short-term and long-term implications. We draw on insights obtained from PwC's *Breakthrough Innovation and Growth* survey, taken in 2013, to establish the importance of innovation in today's industry, resulting in our final recommendation:

Greenlight can make the switch to using soybean oil in its tire production, while simultaneously engaging in a leveraged buyout of RubberUp.

Factors to Consider

Greenlight has done a surface examination of two main options:

- Building an internal tire recycling facility
- Acquiring RubberUp, a well-established rubber recycling company that has been historically successful and supported by the community

These options must be evaluated in terms of short-term and long-term efficacy, and should directly remedy the damages caused by finding Greenlight-manufactured tires in Louisiana marshes. They must be examined comprehensively in terms of:

- Financial feasibility: Which option will be more profitable in the short-term and long-term? How will this affect R&D, PP&E, and administrative expenses?
- Brand perception: Which option will have a greater impact on Greenlight's brand? How can Greenlight re-establish itself as a business that values community support and sustainability?
- Alternatives: What else can Greenlight consider to remain competitive?

A preliminary scan of Greenlight's financials and projections indicates that R&D will increase by above 1.5 million USD should it choose to invest internally. Building a new plant will also have tangible environmental ramifications, eliminating it as an option.

In contrast, acquiring RubberUp will allow Greenlight to leverage the acquisition to demonstrate to the community that sustainability is still a priority at Greenlight. While this acquisition is under way, Greenlight should also **consider the switch to soybean oil** to poise itself as a market leader in the tire industry.

A Win-Win Solution: Soybean Oil and Small-Scale Leveraged Buyout

PART 1: SOYBEAN OIL

Soybean oil is cost-neutral, environmentally beneficial, and is already being integrated into supply chains of major tire manufacturers, such as Goodyear. Greenlight, especially considering recent events, cannot afford to be behind on this trend, especially due to its desired perception as a sustainable business.

We recommend Greenlight make this switch immediately. Although soybean oil costs more per unit, it saves time, money, and resources along the manufacturing process, making it a cost-neutral decision.

Soybean rubber compounds blend more easily with silica, so tire plants that use it operate more efficiently, using less power. Additionally, Greenlight can leverage the United Soybean Oil Board, an organization that funds businesses that test this technology by giving them a $500,000 grant. The United Soybean Oil Board has funded Goodyear's decision to use this compound, making it a viable option for Greenlight as well.

PART 2: SMALL-SCALE LEVERAGED BUYOUT (LBO)

During and after the switch to soybean oil, Greenlight should still focus on expanding its business and acquiring RubberUp. However, despite the many potential penalties that may soon be imposed on Greenlight for environmental pollution, financial sustainability is imperative. This is where an LBO comes into play.

An LBO is an acquisition of another company (in this case, RubberUp), financed primarily by debt. Essentially, RubberUp will be immediately bought for a down payment of 30%, with the remaining 70% debt leveraged by Rubber Up's Free Cash Flow. RubberUp, because of its steady operating cash flows, strong management team, and low CapEx, is a strong acquisition candidate. The following table projects that an LBO will be profitable within the next 5 years, if we use 100% of RubberUp's Free Cash Flow to finance the remaining debt.

Cumulative Levered Free Cash Flow (FCF)						
	1	2	3	4	5	6
EBT (Tax-effected)	$692,589	$773,660	$867,697	$967,171	$1,091,258	$1,156,887
Plus: Interest expense (10%)	$211,190	$167,262	$121,457	$73,145	$0	$0
Plus: D&A (non-cash expense)	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000
Less: Change in working capital	$100,000.00	$100,000.00	$100,000.00	$100,000.00	$200,000.00	$200,000.00
Less: CapEx	$367,500	$385,875	$409,028	$433,569	$459,583	$487,158
Free cash flow (FCF)	**$439,278.50**	**$458,046.82**	**$483,126.57**	**$509,747.15**	**$434,674.95**	**$472,728.45**
Debt Remaining	$1,672,621.50	$1,214,574.68	$731,448.11	$221,700.96	-$212,973.99	-$685,702.44

PwC's Role

- A LBO of RubberUp will not offer a viable, long term benefit to Greenlight unless PwC plays a role in integration management – by injecting a high-value management team into RubberUp, PwC can maximize its growth potential and mitigate any potential problems that come out of this transition
- Changes in the business model will have tax implications that PwC can account for and leverage to maximize Greenlight's financial success.
- The switch to soybean oil, as well as the LBO, must be supplemented by a strong strategy, including marketing and sales, and account management. PwC has the capability to give Greenlight direction in these areas and examine key performance metrics to assure that Greenlight remains innovative in the market.

Conclusion

Greenlight can leverage PwC's resources to carry out a switch to soybean oil, while simultaneously acquiring RubberUp to expand its business model. Ultimately, this process will be implemented with client satisfaction and innovation being the top priorities, regaining consumer trust, creating financial stability, and poising Greenlight as an earth-conscious industry leader.