

(RECYCLING magazine) Q&A interview with CEO Henry Qin, Chiho-Tiande Group

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Operative in good shape

At beginning of the year Chiho-Tiande Group took over Scholz Recycling Group. RECYCLING magazine talked to CTG-CEO Henry Qin about current situation of the company and the planned future developments.

1. You have bought Scholz Recycling at the beginning of the year. What is your first conclusion after a few months?

HQ: The industry has been in a decline for many years, margins are compressed and many industry peers are struggling. This market decline has created an opportunity for consolidation. When we acquired Scholz Recycling, we made a deep analysis. Admittedly, the company was affected by the poor markets in the past years; but we think most of the poor performance can be attributed to the poor business strategy during the good years, aggressive expansion through over leveraging and poor top management. There are good operational managers who

have been holding the operations together. We realize the most valuable assets are the employees, with accumulated know-how and rich experiences in the sector and most importantly – credibility. Most of the yards are operated in a professional way. We have a well mix of assets across Europe, especially in the industrial countries of Germany, Austria, Czech Republic and Denmark. On the back of these, together with a market rebound end of last year, we had a recovery in our financial results in Q1 2017.

2. What are your next plans with Scholz Recycling?

HQ: We will have some further restructuring measures to strengthen management and organization efficiency. Our aim is to be a world leader in the recycling business.

Despite the exciting first quarter results, the management are cautiously optimistic about the future, as there are still many uncertainties in the global market. For the sake of the thousands of employees and their families, and our shareholders, we have to make it a success. We have got strong support from shareholder, allowing us to restructure our financials and deleverage, putting us back on the growth track. We will stabilize our business, pick-up and regain lost volume and customers, and rebuild ourselves.

We attach much importance to the fusion of culture between CTG and Scholz. Shareholder's philosophy is very clear and consistent; we aim to be a multinational, multicultural company, on the other hand we very much empower local wisdom, we

call it glocally. Since the acquisition, CTG has sent only very few people into Scholz, less than 5 people in this more than 5000 FTE organization, we have established a new corporate governance policy that has since then been enforced, and delegate and empower the local managers to manage the business based on this policy; on top of that we have also established commonly agreed performance targets to motivate employees. We have also emphasized a lot on internal communication between management and employees, investing in establishing internal communication and feedback channels.

Last but not least, we see a lot of opportunities of synergy among our networks in Greater China, EU and North America; we see this as not just a simple 1 plus 1 equals to 2, but larger than 2. In fact, we are already seeing some of these synergies taking effect through trading and the people of the three-continent sharing knowledge and market intelligence.

3. You have brought Scholz back on track very quickly – what is the secret of this success?

HQ: Firstly the market helps us a lot, but an Old Chinese saying, the harder you devoted, the more luckiness it will be with you. Last year while we are in the midst of the acquisition, we are expecting a bottoming out market, but the rebound is indeed sooner than we expected.

Secondly as aforementioned; Scholz Group on the operational wise, the employees, yards are in good shape. The weak balance sheet in the past reduced

the amount of business that can be done, but since CTG took over, we have injected liquidity back into Scholz, and this has help it regain business; the media has been focusing on the negative side of the past, but seems to overlook the hardworking employees that are trying hard to revive the company, not only to make a livelihood, but to accomplish something. One of the key reasons behind the quick turnaround is the employees. For the last few years while the company is not doing well, we lost some employees or have to let go some employees. Many of those who stayed has been with the company for many years and have an attachment to the company. Been suppressed by the conditions of the past few years, these men and women now want to get back into the market and fight back. They have the commitment, the will and the capabilities, we just gave them the ammunitions.

Thirdly, upon the completion of the acquisition, our first priority is to restore the motivation of our employees. Back then, many people were concerned if they will have a job and a paycheck, will they be acquired by the US privately equity fund which usually means cost cutting and layoffs, or will the company go bust and everyone will have to try and look for a job. CTG spent a lot of time and efforts to communicate the new strategy, motivating the people to bring their attentions and devotion back to their work on hands. We organized several town hall meetings in Essingen and in Leipzig, and also some other smaller sessions. I think employees' mindset change contribute a large part to our achieved results in Q1.

4. What is your evaluation of the current metal recycling market in general?

HQ: The demand of steel and non-ferrous are still relatively weak. Although we see a substantial rebound since end of last year, will this market rebound sustain? The German scrap market in particular is faced with intense competition. We should not let our guards down.

5. How do you explain a high interest of Chinese investors in German companies?

HQ: first of all, I think Chinese investors' interest is not only in Germany, but across other parts of the globe as well. It's not difficult to understand why. For many years faced with double digits growth rate back home, Chinese businesses are focus on making money domestically. As the government restructure the economy, cool down the hot economy for a more sustainable growth structure, taking out over capacity and steer towards a service and consumption led growth, many Chinese businesses need to adapt to this new growth model. Some need to gain knowhow, brand names, management expertise, products for them to serve the changing Chinese markets, while others probably wanted to bring their products to the rest of the world, and others maybe to better deploy capital to areas earning a higher yield.

Secondly, Germany and UK are the leading economies in Europe. With UK currently under BREXIT and much politically and economic uncertainty, stable regime like Germany will be the preferred choice of investment.

China has gone through more than 30 years of market reforms since the early 1980s; and economically, politically and socially China has been more integrated into the global system. Many of the FORTUNE 500 companies more had a large part of their revenue from their Chinese units, and there are also more and more Chinese companies joining the ranks of these giants. The Chinese companies' globalization efforts have shifted from mainly trading previously to technology and investment returns driven, driving Chinese companies to go global in search for talents.

EU is a long-time trading partner of China, and Germany been the largest trading partner in EU with China. Germany is also the 2nd largest economy trading with China in terms of trading volume, after Japan. German brands are popular and well recognized in China. The Chinese are hard-working people, like the Germans. Chinese also respect the Germans' commitment to quality and precisions.

Chinese manufacturing has been undergoing some reforms and upgrading in recent years. With an aging population, China is losing its cost advantage in labor intensive sectors. However, with the last few decades of high growth, Chinese manufacturing has accumulated know-how and capital to grow. More companies realize the importance of R&D and are increasing spending to improve products and upgrading towards high-end precision engineering. The Chinese companies can learn how to manage the quality control technical know-how and management skills, not only from the Germans, but also the Japanese, French, Americans etc..

Chinese investments bring to Germany also many benefits. Some of these

German companies are financially unhealthy or near insolvency, maybe due to mismanagement or market conditions, and thousands of jobs may be lost, such as in the case of Scholz. The investment in Scholz by CTG not only brings in capital, but also a huge market in the East. In addition, there are many common traits between Germany people and Chinese people which make the success easier, such as large amount of well-educated and experienced employees and engineers; working hard; resilience and easy going.

6. What are the differences between the German and the Chinese market from your point of view?

HQ: The German market are more structured due to decades of regulations. Domestic growth is limited. The Chinese market, while slowing, still offer much room for growth. This is due to the fact that only half of the country' s population lived in the cities. The rural population is still well over 600 million, and this gradual urbanization and the common goal of humanity for better living standards will continue to drive growth.

7. Are you planning more acquisitions of German waste management or recycling companies?)

HQ: Scholz is a big player in Germany and the European recycling market. While we strengthen our cores, we will continue to look out for growth opportunities. However, we will be selective and rational about acquisitions. Any

add on acquisitions should be accretive to our current business.

8. You are working for a global company. Does recycling need more international cooperation, especially on a government level?

HQ: Recycling is not just a business, it serves the common good of all mankind and our future generations. As the global population expands, there is increasing pressure on the environment. Recycling more will help to lessen our environmental footprint, reducing our reliance on the mining of natural resources and fossil fuels and non-renewable resources. This cannot be achieved by one country. The cooperation of various governments will enhance our efforts to save our planet. We are happy to see that global warming and carbon emission reduction have gained much more attention globally, almost all big powers are in (except US which has recently opt out), and achieved many common agreements and have taken concrete measures.

9. Where do you see Scholz Recycling in one year from now?

HQ: We are on the right track to recover, and to further grow. Many say in this sector we all entirely relying on the market. I do not think so. We need to establish a business model that is sustainable, whether the market goes up or down. We have vision set forward: to be one of the leading company in the world recycling business. We have the right platform and the people to achieve the goal. I said Scholz' s difficulties in the past years are brought by the flawed business strategy.

What we need to do and has been doing is to restore the confidence of our customers and suppliers, motivate our employees, make the right management decisions; provide funding and resources needed for traders to do the trading, empower local team to do their best. Therefore to answer the question, I believe we are rebuilding a Scholz with stronger inner capability, as the preferred business partners of our customers and suppliers, preferred employer and family of our employees, and an active and responsible corporate citizen to the community.

“We want to be a world leader in the recycling business”

“Our employees want to get back into the market and fight back”

“There are many common traits between Germany and Chinese people”