

CLSA likes the fit of Marubeni subsidiary

Marubeni Mates, which was set up by Japanese trading conglomerate Marubeni Corporation in 1999, is one of the few players which provide comprehensive services related to uniform business. The company not only produces and either sells or rents out clothing for use by everyone from wait staff to bus drivers, but it also handles delivery and storage and takes care of cleaning and repairs.

However, Marubeni Mates represents a tiny fraction of its parent's business. The food and consumer products group of which it is part accounted for JPY1.88 trillion (\$16.4 billion) in assets as of March 2017 and generated JPY61.3 billion in net profit, 27% and 39%, respectively, of the overall total for Marubeni Corporation.

Marubeni Mates generated about JPY10 billion in revenue for the same financial year.

With the parent keen to further its interests in areas such as food supply in emerging markets and artificial intelligence, Marubeni Mates was designated a non-core asset and prepped for divestment. CLSA Capital Partners (CLSA CP) was one of a handful of potential buyers approached and it duly reached an agreement to acquire the asset.

The key selling points were Marubeni Mates' stable profitability and the opportunity to grow market share. Japan's JPY500 billion uniform industry is delineated into several segments, such as materials procurement, manufacturing, rental and cleaning services. Numerous small players concentrate on one of two of these segments.

Rentals contribute JPY100 billion of the industry's annual revenue and this share is growing 2.4% year-on-year. Marubeni Mates derives half of its revenue from this area and is a dominant segment player, working with around 700 corporate customers. But its market share is only 6% – further evidence of the level of fragmentation and consolidation opportunity.

"The uniform industry as a whole is moving towards rentals – which requires a lot of domain expertise such as advanced IT management systems – rather than new purchases by corporate clients," says Takayuki Ishihara, a director at CLSA CP.

This preference for rentals and outsourced uniform management is driven by a desire to lower costs and pursue operational efficiencies. For example, using a third-party service provider means companies no longer need to take inventory risk by purchasing new uniforms and storing them in warehouses. All they need do is place orders through Marubeni Mates' IT system and the uniforms are delivered directly, Ishihara says.

Moving forward, the company will concentrate on its strengths in rental and related value-added services, acquiring new customers through bolt-on acquisitions. "Due to the fragmented nature of the industry, the company has been focused on consolidating its leading position in rentals. The plan is to increase the proportion of overall revenue coming from rentals to around 60% in the next four to five years," he adds. ▀



Uniforms: The rental niche