

Daiohs eyes US coffee acquisition spree and new business opportunities in Japan – CEO

Proprietary Intelligence

- Seeking Southeast Asia JV partners to establish new revenue streams
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Daiohs, a listed Tokyo, Japan-based company specializing in various office services, is actively seeking acquisitions of office coffee service providers in the US as well as new business opportunities in Japan, president and CEO Shinichi Ohkubo said.

The company, which has a market capitalization of about JPY 12bn (USD 113m), is the third-largest office coffee service provider in the US and the largest in the West Coast, Chicago, and Detroit. Daiohs has built up its presence in the US through acquisitions and intends to continue its acquisition spree until it has bases in all major metropolitan areas, he continued.

Daiohs has 40 branches across 15 states and could consider buys in regions where it has a presence as part of a roll-up strategy, Ohkubo said. The US East Coast could be a priority area for acquisitions as the company only has one base in Washington DC, he added.

Potential targets typically have annual revenues of less than JPY 1bn, Ohkubo said.

Its general acquisition strategy is to target the first- or second-largest office coffee operator in the state before eyeing the next target, he said. Daiohs expects steady deal flow in this segment as the increasing price of coffee beans will likely weigh on many operators, he noted, adding that as a result some may decide to put themselves up for sale.

Daiohs' strategy post-acquisition is to carefully observe how the targets operate in their markets and formulate a customized strategy for eventual integration into Daioh's operating model, he explained. There are no Japanese employees among the 600 full-time employees in the US, he noted.

The company did not retain buyside financial advisors for its previous US deals, Ohkubo said.

Meanwhile, the company has been approached by several top-tier US office coffee service operators keen to acquire Daiohs' US operations (run by **Daiohs U.S.A.**), Ohkubo noted, but added the company has no plan to sell it.

Daiohs' US business generated record-high sales of USD 104m for the year ended March 2014, up from USD 91.7m a year earlier, according to its website.

Seeking new business opportunities in Japan

In Japan, Daiohs is looking to establish new businesses, possibly through acquisitions, to expand its offerings.

The company is only interested in the B-to-B segment and should involve a device or service that could be utilized in the office, he continued. It focuses on rentals and services exclusively for offices.

Daiohs always offers office visits as part of its service and follows up with the customer regularly. In addition to customer satisfaction, it enables the company to potentially identify further business opportunities as Daiohs is in constant touch, he explained.

Potential targets should agree to these criteria and offer a product or service that Daiohs does not yet have, he noted.

Daiohs is currently in advanced talks to acquire a new business, but he declined to elaborate.

The company offers (1) office beverage services including office coffee refreshment (coffee makers), water supply apparatuses (bottled water and high-end water purification services) and tea dispensers; and (2) clean-care services: dust control, office cleaning, air purification, pest control, sanitation, foliage plant and recycling of toner cartridges.

Hunting for JV partners in Southeast Asia

Daiohs, meanwhile, is also looking for a joint venture partner in Southeast Asia to build new revenue streams, Ohkubo noted. It is currently in talks with several potential partners.

The company's overall revenues are primarily from operations in the US and Japan, but he expects about one-third of revenues to come from other Asia operations in the long term.

Ideal partners may be based in one of the ASEAN countries and have an extensive customer network in the region, which can offer Daioh's office-use rental products and services, he continued.

It could consider a minority or majority stake in the ventures, he said.

The company is receptive to suggestions from advisors with knowledge of potential partners, he noted.

Daiohs has a joint venture partnership in Taiwan. It also has wholly-owned subsidiaries in Seoul, Hong Kong, Beijing, and Shanghai, Ohkubo said.

The company increased its overall revenues to JPY 19.2bn for the year ended March 2014 from JPY 15.9bn a year earlier, according to its financial statement. Likewise, its net profit picked up to JPY 887m from JPY 860m over the same period. The company had cash and cash equivalents of JPY 2.7bn as of the end of March 2014.

by Nozomi Toyama