



Public Competition Assessment

19 April 2016

Iron Mountain - proposed acquisition of Recall

The ACCC's decision

1. On 31 March 2016, the Australian Competition and Consumer Commission announced its decision not to oppose the proposed acquisition of Recall Holdings Limited (**Recall**) by Iron Mountain Incorporated (**Iron Mountain**) subject to an enforceable divestment undertaking. The undertaking requires Iron Mountain to divest almost its entire Australian operations.
2. The ACCC considered that the proposed acquisition, in conjunction with the undertaking, would be unlikely to contravene section 50 of the *Competition and Consumer Act 2010* (the **Act**).
3. Section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
4. The ACCC primarily considered the competitive effects of the proposed acquisition in markets for the supply of physical document management services (**PDMS**). Without a divestment undertaking, the ACCC considered that the proposed acquisition would eliminate competition between the two largest, and closest competing, suppliers of PDMS nationally. However, the ACCC considered that the divestment undertaking would address the competition concerns by maintaining an effective independent competitor to Iron Mountain and other PDMS suppliers.
5. As the proposed acquisition is subject to an enforceable undertaking, the ACCC is issuing this Public Competition Assessment to outline the reasons for its decision.
6. Please note that this and other public competition assessments are subject to the following qualifications:
 - the ACCC considers each transaction on a case-by-case basis and so the analysis and decision outlined in one assessment will not necessarily reflect the ACCC's view of another transaction, even where that other transaction may involve the same or a related market
 - as assessments are brief and also do not refer to confidential information provided by the parties or other market participants, assessments do not set out all of the issues and information considered by the ACCC, nor all of the analysis and reasons of the ACCC.

The parties and the transaction

The acquirer: Iron Mountain

7. Iron Mountain is a global supplier in the information management industry. Its headquarters are in the United States and it is listed on the New York Stock Exchange. In the 2015 calendar year, Iron Mountain had global revenues of US\$3.0 billion (approximately AUD\$3.95 billion). Approximately 3 per cent (approximately US\$90 million) of its 2015 revenues were generated in the Asia Pacific region.
8. In Australia, Iron Mountain carries on business through its subsidiary Iron Mountain Australia Pty Ltd. It has a presence in every state and mainland territory.

The target: Recall

9. Recall is an Australian listed public company that is a global supplier in the information management industry. In 2014/15, Recall had global revenues of US\$828 million (approximately AUD\$1.09 billion), including revenues in Australia of AUD\$191 million.
10. Recall operates in every Australian state and mainland territory, except the Northern Territory.

The transaction

11. Iron Mountain proposes to acquire Recall by a scheme of arrangement. Under the proposed transaction, Iron Mountain will acquire all of Recall's operations, including in Australia, North America, South America, Europe and the Asia-Pacific.
12. Iron Mountain's stated rationale for the transaction is to take advantage of identified synergies between the two businesses, and to broaden Iron Mountain's global footprint and increase its exposure to higher growth emerging markets.
13. The proposed acquisition is also being considered by competition authorities in the United States, United Kingdom and Canada.

Review timeline

14. The following table outlines the timeline of key events for the ACCC in this matter.

Date	Event
25 August 2015	ACCC commenced review under the Merger Process Guidelines.
15 September 2015	Closing date for submissions from interested parties.

5 November 2015	ACCC published a Statement of Issues outlining preliminary competition concerns.
19 November 2015	Closing date for submissions relating to Statement of Issues.
24 November 2015	Former proposed decision date of 15 December 2015 delayed at the request of the merger parties.
10 March 2016	ACCC commenced market consultation on draft proposed divestment undertaking. ACCC timeline recommenced.
21 March 2016	Closing date for submissions relating to the draft proposed divestment undertaking.
31 March 2016	ACCC announced it would not oppose the proposed acquisition.

15. The total elapsed time from start to finish was approximately seven months. However, the total period net of time taken by the parties to submit information or documents and delays requested by the parties was only 59 business days.

Market inquiries

16. The ACCC conducted market inquiries with a range of industry participants, including competitors of the parties, customers, suppliers of inputs, industry bodies, other regulatory agencies and other interested parties. Submissions were sought in relation to the substantive competition issues and the proposed undertaking.

Statement of Issues

17. On 5 November 2015, the ACCC published a Statement of Issues on the proposed acquisition identifying a number of competition issues.
18. In the Statement of Issues, the ACCC stated its preliminary view that the proposed acquisition would be likely to substantially lessen competition in a national market for the supply of PDMS.
19. The ACCC also stated a preliminary view that the proposed acquisition may lead to a substantial lessening of competition in regional markets, centred on each state and territory capital city (excluding the Northern Territory), for the supply of PDMS.

Industry background and areas of overlap

Overview of industry

20. The information management industry in Australia provides services relating to the storage, protection, retrieval and disposal of physical (paper) and digital

records. While some organisations undertake these activities themselves, others outsource to third party providers such as Iron Mountain and Recall.

21. Information management services include four lines of business:
 - a. PDMS – the storage and retrieval of physical documents for archiving or destruction.
 - b. Digital document management services – scanning and electronically storing large numbers of physical records for easier retrieval, archiving or as part of a business process such as a mail room.
 - c. Data protection services – the storage of backup or archival data on tapes, disks and/or cloud mediums.
 - d. Secure destruction services – collecting, shredding and disposing of hard copy documents securely.

Areas of overlap

22. The merger parties overlap in the supply of PDMS, digital document management services and data protection services. There is no overlap in the supply of secure destruction services as Iron Mountain sold its shredding business in 2014.
23. Feedback from market participants focused primarily on the potential for adverse competition effects in the market for the supply of PDMS.
24. In the Statement of Issues, the ACCC expressed the preliminary view that the proposed acquisition would be unlikely to raise concerns in markets relating to the supply of digital document management services and data protection services. The ACCC did not receive any significant concerns from the market about these services after the Statement of Issues was published.
25. Accordingly, this Public Competition Assessment focusses on the supply of PDMS.

Physical document management services

26. Broadly, the supply of PDMS encompasses the storage of boxes or files and the activities associated with the stored boxes or files. The main processes involved in PDMS are:
 - a. pick-up & transport - collecting a customer's records and transporting them to a storage facility
 - b. cataloguing - cataloguing records into a document management system
 - c. storage - securely storing records in storage facility
 - d. retrieval - retrieving records and delivering to the customer on request (and returning to storage as required)
 - e. destruction - securely destroying records when they are no longer needed.

27. The main types of PDMS customers are firms and agencies in the following industry sectors:
 - a. financial services
 - b. government
 - c. health services
 - d. professional services.
28. The customer base includes a large number of small to medium enterprises and non-profit organisations, and ranges up to include some of Australia's largest businesses and government departments. Some of these customers have a national or semi-national presence, with PDMS requirements in more than one region. Some customers have PDMS requirements that mean they value dealing with a single PDMS supplier.
29. PDMS suppliers tend to be located in capital cities where the concentration of business activity lies. Storage facilities are usually situated relatively close to where customers are in major city or regional centres to limit transport costs and provide timely services (such as document retrieval).
30. Based on data obtained from a number of sources, it was estimated that together Recall and Iron Mountain provide between 59 and 71 per cent of all PDMS in Australia.
31. Other significant players in PDMS include Grace and to some extent TIMG, both of which have a presence in most of the large cities. No other provider has a footprint that includes the three largest regional markets of Melbourne, Sydney and Brisbane.

Market definition

32. The relevant markets were considered to be:
 - a national market for the supply of PDMS
 - regional markets, centred on each state and territory capital city, for the supply of PDMS.

Product dimension

33. The ACCC considered whether digital document storage is a close substitute for physical document storage.
34. For documents that have already been created, the ACCC's market inquiries suggested that it is generally much less expensive to retain holdings in hard copy until destruction than convert them to digital format.
35. The ACCC recognises that there is a trend towards the digitisation of documents, with organisations redesigning established business practices to create only digital documents. However:

- a. there is ongoing demand for document storage by organisations that are still creating physical documents
 - b. market participants told the ACCC that it can be costly, or create significant business disruption, to redesign established business practices to create digital instead of physical documents
 - c. the ACCC's market inquiries indicated that a 5-10 per cent increase in the price of PDMS would not be likely to materially affect the rate at which customers are switching from creating paper to digital records.
36. For these reasons, the ACCC considered that digital document storage services are a relatively weak substitute for PDMS for many customers.

Geographic dimension

37. The ACCC considered that competition may occur at more than one geographic level. In this matter, the ACCC concluded that competition for the supply of PDMS occurs on two geographic levels: regional and national (or multi-regional).

Regional markets

38. PDMS customers typically require their documents to be stored in a location that is close by (for example, in the same city). Storing documents close by minimises:
- a. the time required to retrieve a document from storage (many customers value access to their documents at short notice)
 - b. the transport costs associated with storing a document initially, and retrieving a document from storage.
39. Accordingly, customers do not consider suppliers of PDMS that only have facilities in more distant locations (for example, in a different state) to be close substitutes for suppliers based in the same region as the customer.
40. For this reason, the ACCC considered that regional markets are likely to exist for PDMS, centred on state or territory capital cities where there is a large customer base. However, the ACCC did not reach a concluded view on the precise geographic dimension of each regional market as the competition issues were not materially affected by the precise geographic boundary of the markets.

National market

41. The ACCC spoke with a number of large customers with a national or multi-regional presence, such as large corporate and government customers. They told the ACCC that they tender for and prefer to contract with a single provider who can meet their PDMS needs in all their locations, rather than having separate agreements with different suppliers in each regional market. Dealing with only one supplier may allow the customer to receive more significant volume-based discounts, simplifies and reduces the costs of procurement and contract management, and allows a central approach to document management and retrieval, even where documents are held in multiple locations.

42. As noted above, Iron Mountain, Recall, Grace and to some extent TIMG have a national presence with multiple warehouses in different locations. These are the only four suppliers with the footprint and systems to service the needs of customers requiring a national or multi-regional service provider. The ACCC's market inquiries suggested that smaller providers that do not have a national presence cannot readily expand their footprint without significant new investment. Inquiries suggest that it is difficult and rare for smaller providers to secure sufficient new business to underwrite investment in warehouse capacity in new locations.
43. For these reasons, the ACCC considered that a national market is also likely to exist for PDMS, in addition to regional markets.

Competition analysis

44. The ACCC formed the view that the proposed acquisition would be likely to lead to a substantial lessening of competition in the national PDMS market.
45. The ACCC concluded that there are a limited number of suppliers that compete for PDMS customers with national or multi-regional needs – Iron Mountain, Recall, Grace and to some extent TIMG. The ACCC further concluded that of these four suppliers, Recall and Iron Mountain are the two largest suppliers (and each other's closest competitor) for the supply of PDMS nationally.
46. Many large customers with national or multi-regional needs said they use the competition between Iron Mountain and Recall to negotiate better deals, including through tender processes and benchmarking. The proposed acquisition would remove the strong competitive constraint that Iron Mountain and Recall currently impose on each other.
47. The ACCC's market inquiries suggested large customers with national or multi-regional needs considered Grace and TIMG to be less competitive. This was at least in part attributed to Grace and TIMG not having the same scale and established reputation as Iron Mountain and Recall.

Barriers to entry / expansion

48. The ACCC considers that there are high barriers to entry and expansion in the national PDMS market, particularly given the high cost faced by many customers when switching to new or expanding suppliers.
49. The storage of physical documents is a mature industry. As mentioned above at paragraph 27, the main types of PDMS customers are firms and agencies in the financial services, government, health services and professional services industries. These are stable industries in which the main firms are unlikely to change in the near term. There is also a trend towards creation and storage of new documents in digital form (discussed at paragraph 35). Accordingly, a small PDMS supplier or new entrant cannot expand rapidly merely by attracting new customers to the industry. Expansion typically requires winning existing customers from their existing PDMS supplier.
50. However, the PDMS market is characterised by a high level of customer stickiness. Customers do not switch suppliers often. The ACCC understands that

a key reason for customer stickiness is the widespread inclusion of permanent retrieval fees in contracts. Permanent retrieval fees are a charge (per box or file) to permanently remove records from a warehouse. These fees can be significant relative to the potential savings offered by a new supplier on ongoing storage costs. They have the effect of limiting the extent of customer switching and therefore reduce the potential for new entry and expansion by incumbents.

51. While competitors may offer to pay a customer's permanent retrieval fee, this is likely to be very costly for a smaller supplier (especially when competing for large national customers). It may make cost management and competitive pricing even more difficult for new entrants relative to the incumbency advantage of existing providers, who receive permanent retrieval fees when they lose a customer to a rival.
52. Consistent with this assessment, there has been minimal large-scale new entry or expansion in recent years except via acquisition. While Compu-stor (originally based in Perth) has expanded its operations to Victoria and NSW, it remains a small provider in these two regions, and the expansion has taken many years. Recent history provides no examples of regional providers expanding to be able to meet the requirements of large customers with a national or multi-regional presence.
53. The ACCC considered that these barriers to entry and expansion would prevent the competition lost as a result of the proposed acquisition from being replaced by the entry of new firms, or expansion of existing smaller firms, within the foreseeable future.

Competition issues in regional markets

54. The ACCC considered that many of the factors identified in the competition analysis of the national PDMS market also apply to the various regional markets. However, the ACCC did not have to reach a concluded position on whether the proposed acquisition would be likely to substantially lessen competition in one or more regional markets, as it considered that the enforceable undertaking also addressed its competition concerns in these markets.

Undertaking

55. In order to address the ACCC's competition concerns, Iron Mountain provided a court enforceable undertaking pursuant to section 87B of the Act to divest almost all of its Australian business, by means of a sale of its subsidiary Iron Mountain Australia Pty Ltd, to a purchaser approved by the ACCC.
56. The divestiture business includes:
 - a. all Iron Mountain customer contracts for the supply of PDMS, excluding those customers whose holdings are only located in the Northern Territory
 - b. all customer contracts for the supply of digital document management services, excluding those customers whose holdings are only located in the Northern Territory
 - c. ownership or leases of 17 storage facilities across all states and territories, excluding the Northern Territory

- d. employees and contractors who are wholly or primarily engaged in, or necessary for, the operation of the divestiture business
- e. ownership or licences of IT systems used in Iron Mountain's PDMS and digital document management services operations.

57. Iron Mountain will retain:

- a. the Iron Mountain brand
- b. PDMS and digital document management service customers located only in the Northern Territory
- c. its data protection services business
- d. its storage facilities across all states and territory used solely for data protection services, and the facilities used for PDMS and digital document management services in the Northern Territory.

58. The ACCC considers that the divestiture will largely maintain the pre-merger competitive balance in the national market for the supply of PDMS. While the proposed acquisition would eliminate the competition between Iron Mountain and Recall, the divested business should be an effective independent competitor to Iron Mountain and other PDMS suppliers. In effect, the divestiture would unwind the proposed acquisition in the markets of concern in Australia. On this basis, the ACCC considers that the undertaking addresses the ACCC's competition concerns with the proposed acquisition.

59. The ACCC considers that the proposed acquisition does not raise competition concerns in respect of the business areas being retained by Iron Mountain (namely, its local PDMS and digital document management customers in the Northern Territory and its data protection services business).

Conclusion

60. Based on the above analysis, the ACCC concluded that the proposed acquisition of Recall by Iron Mountain, in conjunction with the undertaking, would not be likely to have the effect of substantially lessening competition in any market.