

## **ANTICIPATED ACQUISITION BY IRON MOUNTAIN INCORPORATED OF RECALL HOLDINGS LIMITED**

### **Summary of hearing with Crown Records Management on 26 February 2016**

1. Crown Records Management (Crown) told us that it provided physical records and management services. It stored, managed, delivered, retrieved and destroyed physical hard-copy documentation. It had two document-scanning bureaux and it provided some supplementary services such as 'computer media management services' or 'disaster recovery'. It had a small consulting arm to advise customers on information management. Crown's core markets were government, health sector, finance and professional services.
2. Crown was an Asian-based company with headquarters in Hong Kong with 168 record centres across 38 countries. It had 18 facilities in the UK and Ireland.
3. Crown told us that 95% of its business was still in physical records management. Physical services for delivery and collection of hard copy was reducing in the UK but it was fairly stable in the rest of the world, and there were a few countries where it was actually increasing. A lot of organisations were starting to address legacy storage and destroying old records. More documentation scanning was taking place as companies digitised records. Crown saw opportunities in other markets in different parts of the industry, for example with the explosion of social media and other information there was scope on helping organisations cope with this.
4. Crown said that its competitors provided very similar services, Crown's differentiation was largely in the added services it offered. Crown said that the competition for records storage was mainly on price. In the last 20 years the rates for storage had reduced from £5 a year to £2/£2.50 a year, around 50%.
5. Crown said that a difference between records management and OSDP was generally that OSDP was the remit of the IT department. If an organisation had a major issue they had a very short time window in which to get all their back-up tapes to the disaster recovery site. This could be more geographically challenging as, while the OSDP provider might not need to be close to the customer, it might need to be close to the customer's disaster recovery site.

6. Crown said that originally, records management was procured locally. This still happened in many circumstances. As major organisations had grown they would review whether they wanted to source locally or whether they wanted a supplier with a national remit, to drive economies of scale. Some companies were willing to put large volumes of documentation into cheaper remote storage facilities but could still benefit from reasonably quick access to documents, particularly through scanning and soft-copy delivery, and largely overnight delivery of physical documentation. However, Crown said that this model was still a minority and sporadic. There was still some protective feeling over documentation and not wanting it to be kept more remotely, certainly in the UK market. Banks tended to be the sector most open to the centralisation option – they had the greatest volumes of documentation because of compliancy, but generally had less demand on retrievals. They needed documents normally for audit or regularity requirements which were next day or overnight, so were happy with slower retrievals.
7. The UK was not vast, so if a supplier had a site within 2 to 3 hours of the customer, that was usually fine. This meant that most of England could be covered from a base in the Midlands.
8. While consolidating Crown's operations into a smaller number of larger, cost-efficient sites was a possibility, at the moment Crown was much more likely to retain its regional facilities approach. An additional factor was that Crown was a privately owned company and one of its strategies was around property ownership as an investment.
9. Crown said it had no specific plans to expand in England at the moment. However, if the opportunity was right, Crown would consider purchasing a new building on the back of a customer contract to serve its needs.
10. Crown said it was now almost impossible, particularly in the UK, for a start-up to enter the industry due to the high cost (warehouse, racking, security, fire precautions etc) and the need for critical mass at the start. There were increasingly fewer competitors in the market and no new companies coming into the business.
11. For suppliers looking to operate in a new local area, establishing if their existing competitors were a records management company or a document storage company was key. A document storage company simply stored the hard-copy information; a records management company had full barcode track and trace, full audits, management reporting etc and could give that customer a level of service that was over and above just putting a box in a dark hole.

12. It was hard to segment customers into the two groups, ones who simply needed storage and the ones with more complex needs. Whether customers had a high demand for document storage and the type of storage required varied significantly from company to company, even in the same sector. This would depend on the client's property portfolio (and so availability and cost of on-site storage) and the need to have access to documents.
13. Crown said that geographically dispersed companies rarely multi-sourced from different suppliers, and the threat of this was not generally used by companies as a negotiating tactic. Some large corporations might multi-source if their different departments outsourced with different companies. This was not a strategy, simply a way of working that had evolved over time. Crown had some business this way from most of its competitors' customers.
14. Crown said that a local customer could choose from any of the storage providers in the local area, which numbered many more than the providers that offered national coverage. The major national competitors in the UK market were Recall, Iron Mountain, Restore/Wincanton and Crown. It was hard for larger customers to sell the potential risk of a smaller operator to their board; it would be easier to go with one of these larger companies.
15. When competing for international contracts, Crown's only competitors were Iron Mountain and Recall. If Crown did not have sites in all the areas a customer needed, it would use its nearest facility or encourage the client to put documentation into a deep store and have a different deliver mechanism such as soft copy or 24/48-hour delivery.
16. Where an international company's head office was already dealing with suppliers, such as Iron Mountain and Recall in the USA, this might decide who was appointed as a supplier elsewhere regardless of differences in quality at local level. Crown felt this already happened to an extent, but the potential for that to happen would double post-merger.
17. Crown used to have a facility in Montrose, Scotland (30 miles from Aberdeen) but it was not cost-effective. The market in Scotland was quite small and Iron Mountain had a good facility in Dyce that serviced the oil and gas industry. Crown told us it was hard to get into that limited market as it involved investing in a new building and hoping to fill it. There was also the cost of acquiring a customer, for example paying the perm-out fees. Crown was not currently targeting this market.
18. [✂]
19. Crown believed the merger would have a harmful effect on customers via perm-out fees. For example, if a customer had moved to Recall because they

were unhappy with Iron Mountain, they would find themselves part of Iron Mountain again with the cost of moving perhaps worth two years' storage.

20. [✂]
21. Perm-out fees and other switching costs were lower for OSDP than RMS as handling charges on tapes were much lower.
22. Crown told us that it was not concerned about how to compete against the merged company in the market, but was worried about a customer of the merged company who wanted to move but could not afford to do so. In the past Iron Mountain – and Recall to an extent – had competed to stop a customer moving by lowering prices but raising the perm-out fee. Crown felt that this was uncompetitive.