

Memorandum



Subject	Access-Arkive Merger: Concurrence in Recommendation to Close.	Date	May 3, 2018 File #: 60-493190-0003
To	Norm Familant, Chief Economic Litigation Section	From	Robert Arons Economic Regulatory Section

Introduction

This memo details the economic analysis of the proposed merger between Arkive and Access. This memo deals only with a narrow set of economic issues that I have identified as pertinent to the merger. Staff is creating a broader memo to circulate soon. The issues this memo deals with are the economic history of Arkive and reasons for the merger and the relative competitive significance of each company in the overlap markets of hard record storage in Seattle and Atlanta. My conclusion is that the merger will not harm competition and further investigation will not reveal additional relevant findings. I concur with the staff recommendation to close.

Background and Analysis

Arkive was created in 2016 by private equity firm Summit Park from assets divested by Iron Mountain and Recall during their merger. The DOJ had entered into a consent decree to divest these assets to third parties. These assets consist of a few warehouses in Seattle and Atlanta, the customer contracts for local customers, and a non-compete agreement affecting Iron Mountain that expires towards the end of 2018. Arkive provides hard records storage, digital records storage, and shredding services in Atlanta, Seattle, and across southern Canada. The history of Arkive is germane to this merger, because most assets spun off by the Iron Mountain and Recall merger went to Access. But, staff were concerned that Access was already too large in Seattle and Atlanta, and guided Iron Mountain to divest these assets to another buyer creating Arkive.

Access plans to retain the warehouse capacity in Atlanta. It will reduce the warehouse capacity in Seattle by completely removing Arkive's capacity and moving the customers' boxes to another existing Access warehouse.

Staff believe that it cannot reasonably be doubted that the Atlanta market has seen enough new entrants and expansions, and that the size of Arkive in Atlanta is so small, that the proposed merger will obviously not harm consumers in Atlanta. These findings and their basis will be circulated in the larger staff memo.

The number of competitors in Seattle is smaller than in Atlanta, so staff spent more time investigating that market. Arkive is a small player in the Seattle market and new entrants have been able to match its scale within a short time. In Seattle, Arkive has capacity for 400,000 box equivalents. The market capacity in Seattle in 2016 was 10 million boxes. Assuming no change in capacity, this transaction represents about 4% of the Seattle market. By comparison, Iron Mountain with about 6 million box equivalents of warehouse space has 60% of the total existing capacity in Seattle.

In addition, a new competitor, Coastal Business Services, that started operations in Seattle two years ago has recently expanded its capacity and revenue in Seattle to about the size of Arkive. In 2016 we did not interview them because it was too small. Now, it has two million dollars in revenue per year. Coastal Business Services has grown about 20% since last year. It has told us that it is considering expanding operations and the costs of doing so is nominal.

Arkive is a weaker competitor than Access. Staff have heard from customer contacts that in at least one case an Arkive salesperson was not paid her commission. It may also be worrisome to Arkive will lose their non-compete with Iron Mountain ends in 2018. Access counsel represents the reason for the merger is to gain a foothold in Canada with Arkive's assets so it can better serve multi-national corporations. I do not believe counsel has raised a failing firm defense. I give this information to add economic background to the merger.

The parties have represented they rarely compete over the same business. I analyzed their data and agree with their assertion. Of the 94 win/loss opportunities in the Arkive data and 62 opportunities in the Access data, there were 4 overlap observations, 3 of which were worth less than \$10,000 per year. Arkive has stated it goes after local accounts, in part, because of their limited geographic footprint. Access has stated it goes after multi-city accounts. Multi-city accounts tend to comprise larger individual local accounts. Therefore, average local revenues are higher with such accounts. Staff interviews with customers have confirmed that these companies target different customers.

The size of Arkive in the Seattle market is small— I estimate under 5%. Access is comparatively bigger at 20% based on 2016 numbers. The combined firm will have less than 25% of the market.

Conclusion

It is my conclusion that the merger will not result in a significant loss of competition because the firms compete for different customers, the combined size of the firm will not be greatly different from the pre-merger standing, and entry would be likely in the event of an exercise of market power.