FINANCIAL REVIEW

HD	**Recall puts all cards on the table**
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Recall, the document management business spun off from Brambles a year ago, has taken a novel approach in its efforts to squeeze out a higher offer from US suitor Iron Mountain.

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Iron Mountain, which is not a mining company as its name suggests but the world's biggest player in the information management game, put the offer to Recall late last week. The target's board, which met in Atlanta at the end of the week, decided to not only reject the $7-a-share offer but took the unusual step of putting out a 13-page presentation for investors explaining why.

Iron Mountain's interest leaked to the market months ago so Recall has had plenty of time to prepare its defence. The level of detail, which calculates the estimated synergies to Iron Mountain from a deal and whether Recall shareholders are receiving a fair percentage of that, is something normally reserved until companies complete due diligence and agree on an offer.

Recall has gone a step further in the usual disclosure process because it says it has a strong case for its rejection of the $2.2 billion, $7-a-share bid from Iron Mountain. It estimates the merger would generate $US250 million ($303 million) a year in synergies and that the offer only delivers its shareholders less than 5 per cent in the potential $US3.9 billion additional value that will be created by combining the two companies. It is safe to assume Iron Mountain's assessment of the synergies are materially lower. There would also be costs involved to achieve those savings which also need to be factored in.

Iron Mountain is understood to be bemused by the forecasts and level of financial detail in the response. Recall does not want to close the door on future negotiations to extract a higher offer, but Iron Mountain is not viewing the response as an invitation for further talks.

Despite being unable find a buyer for the right price when Brambles tried to sell the business last year, global consolidation in the records management and storage game means Recall is an attractive target and can afford to try and extract a higher offer than the one on the table.The time is right

Iron Mountain, with a market value of about $US6 billion, did not look at the business when Brambles was shopping it around in 2013. The timing then was not right because it had its hands full with the sale of digital assets and investor activists keen for it to get its house in order before making big acquisitions. There is a strong business case for combining the two companies. Bridging the gap on price is the challenge. A successful deal would provide further evidence that stand-alone demergers create strong shareholder value. Throw in the premium from a control transaction and Recall shareholders could be sitting on a tidy profit.

Recall listed in December last year at $4.15 a share and closed at $4.50 on its first day. The stock closed on Monday up 16 per cent at $7.44 in anticipation of a higher bid.

Recall is the latest in a string of pre-Christmas multibillion-dollar negotiations. Leighton Holdings sold its John Holland unit to **China** Communications Construction **Company** for $853 **million** last week. APA Group last week acquired a $6 **billion** gas pipeline from UK gas major BG Group.

Recall held talks with major shareholders on Monday. They include US value fund Deccan Value Investors with a 13 per cent **stake**, US hedge fund Owl Creek with 7 per cent, and Schroder Investment Management.

Recall management also does not like the make-up off the offer, which is 82 per cent scrip. It will argue that a proposal to list those shares on the ASX means they would lack liquidity and fail to attract shareholders. But **Iron** Mountain can argue this means Recall shareholders can share in any upside from the expected synergies.

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