Iron Mountain (IRM)

Updated May 28th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$33	**5 Year CAGR Estimate:**	11.6%	**Quality Percentile:**	N/A
Fair Value Price:	$35	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	N/A
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.0%	**Total Return Percentile:**	N/A
Dividend Yield:	7.1%	**5 Year Price Target**	$41	**Valuation Percentile:**	

Overview & Current Events

Iron Mountain is a storage and information management REIT. Its services include record management, destruction, fulfillment services, data protection and recovery, server and computer backup services, safeguarding of electronic and physical media. Iron Mountain operates in North and Latin America, Europe and the Asia Pacific region. The company was founded in 1951, is headquartered in Boston, MA, and is currently valued at $9.4 billion.

Iron Mountain's most recent quarterly results were announced on April 26, the company reported earnings per share of $0.24, unchanged over the last year. Revenues totaled $1.04 billion, an increase of 11% year-over-year. Iron Mountain guides for revenue growth of 7% to 9% during the current year.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
CFPS[1]	$2.01	$2.34	$2.72	$3.03	$2.76	$2.70	$2.95	$2.84	$2.72	$2.92	***$3.30***	***$3.90***
DPS	-	-	$0.34	$0.86	$1.00	$1.08	$1.49	$1.91	$2.04	$2.24	***$2.40***	***$2.90***

Iron Mountain is not a high growth company, but it still managed to increase its cash flows per share by 4% annually since 2008. Growth has been driven by several contributing factors. The first one is organic revenue growth, primarily through pricing increases. Iron Mountain was, for example, able to grow its internal revenues by 2.8% during the last quarter. Iron Mountain has also grown inorganically. The company repeatedly made takeovers and asset purchase over the last couple of years. These acquisitions were partially funded via debt (which is why the company is relatively highly leveraged), partially funded via equity (which is why Iron Mountain's share count has been rising steadily), and some of the acquisitions were financed via internally generated cash flows. As long as Iron Mountain's takeovers provide higher returns than its cost of capital, those acquisitions are accretive.

Iron Mountain's business model (real estate heavy, focus on cash flows, inorganic growth via the issuance of debt and equity, high dividend payout) is typical for REITs (Iron Mountain has become a REIT in 2014, it previously wasn't).

Iron Mountain has guided for 4% annual dividend increases through 2020, which is lower than its historic dividend growth rate (18% annually over the last five years), but more in line with its historic cash flow growth rate.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
P/CF	12.4	10.0	8.0	9.3	10.7	11.5	10.9	11.7	12.6	12.5	***10.0***	***10.5***
Avg. Yld.	-	-	1.6%	3.1%	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	***7.1%***	***6.8%***

In the above table we see that Iron Mountain's price to cash flow ratio, which seems like the best metric to value a cash-flow heavy income investment, has been moving in a relatively narrow range. After the share price decline that started in late 2017 (in line with a broad sell-off in many income stocks, as bond yields were rising and income investors shifted some of their funds) shares are now trading slightly below the average valuation, after shares were valued at the top end of the range during 2016 and most of 2017.

[1] Cash flow per share

Due to a strong dividend growth rate over the last couple of years Iron Mountain currently offers a pretty high dividend yield of 7.1%, well above the historic norm. Dividend growth will be a lot slower (~4% a year) going forward, though.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	26.3%	25.4%	26.6%	29.3%	27.2%	26.2%	27.1%	27.1%	20.4%	19.7%	***20.0%***	***21.0%***
Debt/A	71.5%	68.5%	69.2%	79.3%	81.8%	84.2%	86.7%	91.6%	79.7%	79.0%	***78.0%***	***75.0%***
Int. Cov.	2.0	2.5	2.6	2.7	2.2	1.6	1.9	1.6	1.5	1.6	***1.7***	***1.8***
Payout	-	-	12.5%	28.4%	36.2%	39.7%	50.5%	67.3%	75.0%	76.7%	***72.7%***	***74.3%***
Std. Dev.	39.0%	40.8%	28.3%	30.1%	28.4%	32.8%	24.3%	21.5%	27.9%	17.6%	***20.0%***	***22.0%***

Iron Mountain's gross profits to assets ratio is solid, but has taken a sizeable hit in 2016. During the same year Iron Mountain's debt to assets ratio sank substantially, both of these movements can be explained by a sizeable increase in Iron Mountain's asset base, attributable to the $2.6 billion acquisition of Recall that closed in 2016 (which did not produce as much gross profit as Iron Mountain's other operations). The company holds a vast amount of debt on its balance sheet, but with a net debt to EBITDA multiple of 5.6 Iron Mountain is slightly less leveraged than the average US REIT – compared to its peers Iron Mountain is thus not overly indebted at all.

Iron Mountain's payout ratio (relative to its cash flows) has risen a lot over the last couple of years, with guidance seeing 4% annual dividend increases in the coming years the payout ratio will likely not move much going forward.

There are several companies that are bigger than Iron Mountain that operate in the data processing industry, but with its focus on (secure) data storage Iron Mountain has set itself aside from competitors by providing a unique focus. The company is active in several geographic markets, coupled with the fact that demand for its services is not very cyclical this means that Iron Mountain is relatively resilient versus recessions. Cash flows continued to grow during the last financial crisis.

Final Thoughts & Recommendation

At first glance Iron Mountain looks very expensive due to a high P/E ratio, but its earnings are heavily impacted by non-cash items such as depreciation expenses. Its cash flows are most important for its future dividend security, and on that side shares are not looking expensive. Primarily due to its high dividend yield Iron Mountain has a good chance to deliver strong total returns even though it is growing at a relatively slow pace. The company is a potential buy for income oriented investors looking for diversification.

Total Return Breakdown by Year