Iron Mountain (IRM)

Updated July 30th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$35	**5 Year CAGR Estimate:**	10.1%	**Volatility Percentile:**	64.0%
Fair Value Price:	$35	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	41.0%
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Valuation Percentile:**	62.6%
Dividend Yield:	6.8%	**5 Year Price Target**	$41	**Total Return Percentile:**	70.8%

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, and 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 $10.1 billion.

Iron Mountain reported its Q2 results on July 27. The company produced funds from operations of $0.80 per share, slightly less than during the previous year's second quarter. Funds from operations were up by 6%, but Iron Mountain's share count rose by 8% over the same time frame. The company managed to grow its revenues by 12% during Q2.

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 46% during the second quarter of 2018.

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 has guided for 4% annual dividend increases through 2020, which is lower than its historic dividend growth rate of 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	***10.6***	***10.5***
Avg. Yld.	-	-	1.6%	3.1%	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	***7.1%***	***6.8%***

Iron Mountain's price to cash flow multiple, based on our estimate for cash generation in 2018, is almost exactly in line with the historic average. We therefore do not see material multiple expansion or depression over the coming five years.

Iron Mountain's dividend yield of 6.8% is at the high end of the historic range, and quite high in absolute terms. Since dividend payments are easily covered by the company's cash flows the dividend looks safe right now.

[1] Cash flow per share

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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 since 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. 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.

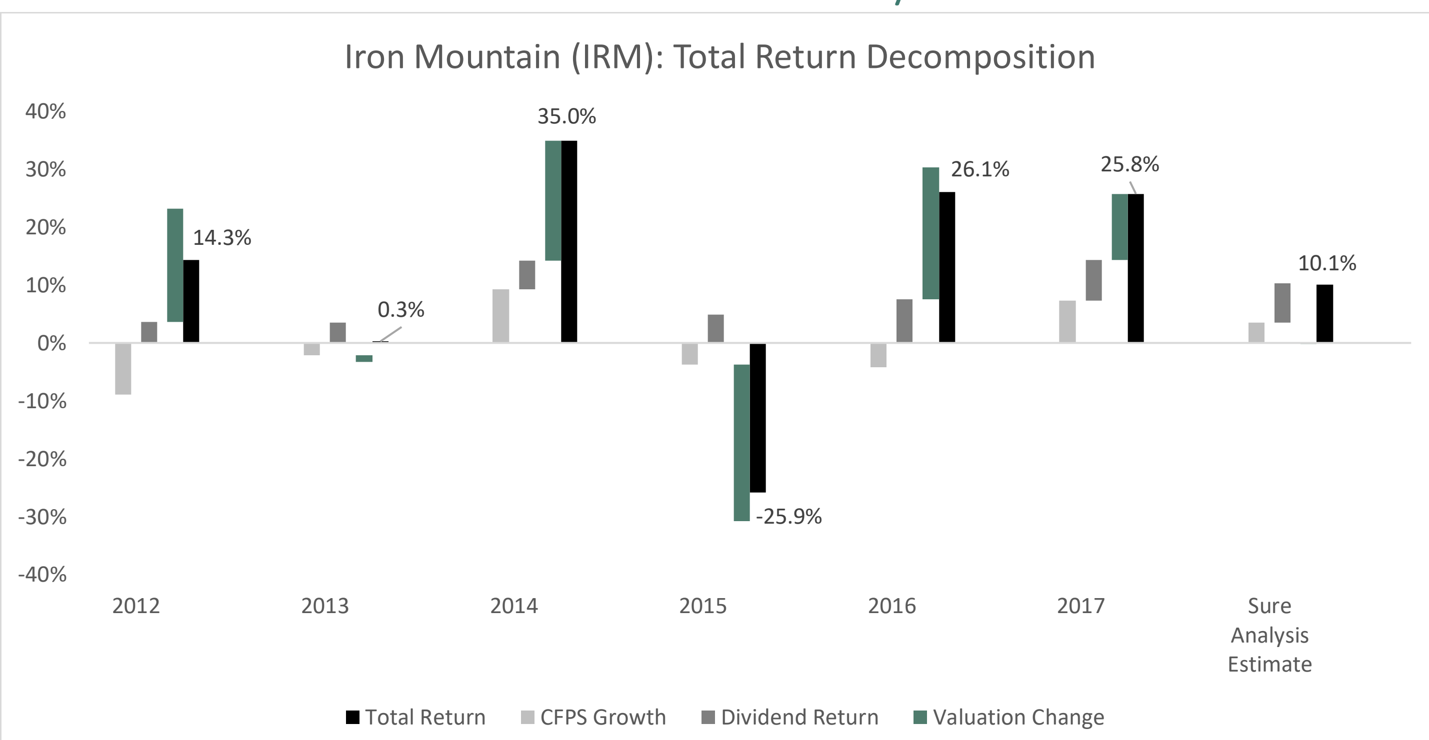
Iron Mountain's payout ratio (relative to its cash flows) has risen a lot over the last couple of years, with guidance seeing 4% annual dividend increases in the coming years the payout ratio will likely not move much going forward.

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

When we value Iron Mountain based on the cash flows the company generates shares do not look overly expensive right now. The REIT is valued in line with the historic valuation, which seems fair. Iron Mountain is not growing at a strong pace on a per-share-basis, but due to a high dividend yield the total return outlook is still not bad at all. Shares look like a potential buy for income oriented investors looking for a high and relatively safe payout.

Total Return Breakdown by Year



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