Iron Mountain (IRM)

Updated October 28th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$30	**5 Year CAGR Estimate:**	13.7%	**Volatility Percentile:**	60.0%
Fair Value Price:	$34	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	16.1%
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.7%	**Growth Percentile:**	17.5%
Dividend Yield:	7.5%	**5 Year Price Target**	$41	**Valuation Percentile:**	64.7%
Dividend Risk Score:	F	**Retirement Suitability Score:**	B	**Total Return Percentile:**	76.0%

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 $9.4 billion.

Iron Mountain reported its third quarter earnings results on October 25. The company reported revenues of $1.06 billion, an increase of 9.7% year over year. The REIT was able to grow its EBITDA by 15%. Further down the income statement, adjusted funds from operations rose by 9% compared to the prior year's quarter. Iron Mountain guides for revenue growth of 9%-11% for fiscal 2018, which implies annual revenues of $4.23 billion at the midpoint of guidance. Iron Mountain's adjusted funds from operations rose by 1% during Q3, to $0.80 per share.

Iron Mountain raised its dividend by 4% in October. The new quarterly payout is $0.611 per share.

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	***$2.35***	***$2.90***
Shares	220	222	218	187	190	192	210	211	264	283	***287***	***298***

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. Internal revenue growth was 4.1% during the third quarter of 2018, which shows that Iron Mountain is able to generate a solid mid-single-digits growth rate even without making any takeovers.

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. With that said, acquisitions were also partly funded via equity, which is why Iron Mountain's share count has been rising steadily. As long as Iron Mountain's takeovers provide higher returns than its cost of capital, those acquisitions are accretive and beneficial for Iron Mountain's current shareholders.

Iron Mountain has guided for 4% annual dividend increases through 2020. This guidance 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. Iron Mountain thus sees a dividend per share of $2.54 during fiscal 2020.

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	***9.2***	***10.5***
Avg. Yld.	-	-	1.6%	3.1%	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	***7.5%***	***6.8%***

[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.

Iron Mountain trades at a little bit above nine times this year's expected cash flows, which represents a small discount relative to how Iron Mountain's shares were valued in the past. This discount provides some multiple expansion potential, which will positively impact Iron Mountain's total returns over the coming years. Shareholders get a high dividend yield of 7.5% from Iron Mountain, paired with (forecasted) dividend increases through 2020.

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%	***71.2%***	***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%***

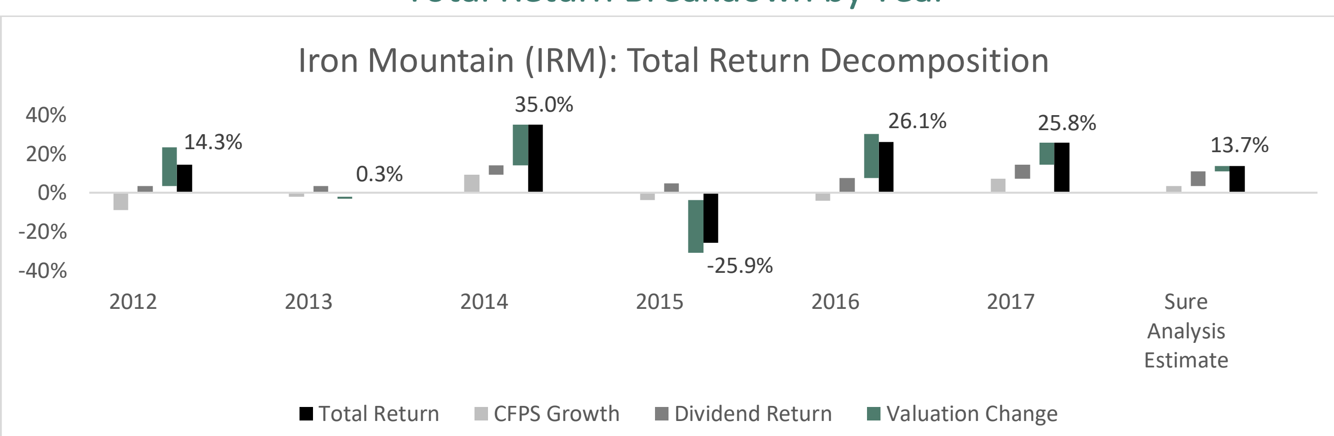
Iron Mountain's gross profits to assets ratio is solid, but has taken a sizeable hit since 2016. During the same year Iron Mountain's debt to assets ratio sank substantially. Both of these movements can be explained by a sizeable increase in Iron Mountain's asset base, attributable to the $2.6 billion 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.

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 across the US and internationally. This geographic diversification coupled with the fact that demand for its services is not very cyclical, this means that Iron Mountain is relatively resilient to recessions. Cash flows continued to grow during the last financial crisis, so Iron Mountain's past recession performance is compelling.

Final Thoughts & Recommendation

Iron Mountain is a storage REIT with a focus on secure data storage. In this niche Iron Mountain holds a strong position. The company will likely continue to grow through internal growth and acquisitions. Cash flow per share growth is not overly strong, though, partially due to a rising share count. We believe that the majority of total returns will come from Iron Mountain's hefty dividend yield. For those seeking exposure to this segment Iron Mountain earns a buy recommendation at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3055	3014	2892	3015	3004	3025	3118	3008	3511	3846
Gross Profit	1673	1742	1699	1770	1727	1736	1773	1718	1944	2160
Gross Margin	54.8%	57.8%	58.8%	58.7%	57.5%	57.4%	56.9%	57.1%	55.4%	56.2%
SG&A Exp.	882	874	661	715	744	815	752	683	743	774
D&A Exp.	255	284	304	319	316	322	353	345	452	522
Operating Profit	500	549	634	625	568	501	565	590	632	732
Operating Margin	16.4%	18.2%	21.9%	20.7%	18.9%	16.6%	18.1%	19.6%	18.0%	19.0%
Net Profit	82	221	-58	396	171	96	326	123	105	184
Net Margin	2.7%	7.3%	-2.0%	13.1%	5.7%	3.2%	10.5%	4.1%	3.0%	4.8%
Free Cash Flow	136	293	353	385	163	190	77	196	165	303
Income Tax	143	111	167	106	114	62	-97	38	45	26

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	6357	6847	6396	6041	6358	6653	6523	6351	9487	10972
Cash & Equivalents	278	447	259	180	243	121	126	128	236	926
Accounts Receivable	553	585	576	543	572	617	604	564	691	836
Goodwill & Int. Ass.	2896	2974	2743	2666	2795	3071	3034	2967	5174	5481
Total Liabilities	4551	4689	4433	4787	5196	5601	5653	5822	7550	8674
Accounts Payable	155	175	161	156	168	216	203	220	222	289
Long-Term Debt	3243	3252	3009	3354	3825	4172	4616	4846	6251	7043
Shareholder's Equity	1803	2153	1956	1246	1150	1041	856	509	1937	2297
D/E Ratio	2	2	2	3	3	4	5	10	3	3

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	1.3%	3.3%	-0.9%	6.4%	2.8%	1.5%	5.0%	1.9%	1.3%	1.8%
Return on Equity	4.6%	11.2%	-2.8%	24.7%	14.3%	8.8%	34.4%	18.1%	8.6%	8.7%
ROIC	1.6%	4.2%	-1.1%	8.3%	3.6%	1.9%	6.1%	2.3%	1.5%	2.1%
Shares Out.	220	222	218	187	190	192	210	211	264	283
Revenue/Share	15.03	14.75	14.32	15.39	17.18	15.72	15.85	14.18	14.20	14.41
FCF/Share	0.67	1.44	1.75	1.96	0.93	0.99	0.39	0.93	0.67	1.13

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.