



Iron Mountain (IRM)

Updated February 16th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	9.8%	Volatility Percentile:	46.7%
Fair Value Price:	\$34	5 Year Growth Estimate:	3.5%	Momentum Percentile:	71.6%
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Growth Percentile:	18.5%
Dividend Yield:	7.0%	5 Year Price Target	\$40	Valuation Percentile:	45.0%
Dividend Risk Score:	D	Retirement Suitability Score:	B	Total Return Percentile:	55.7%

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 fourth quarter and full year earnings results on February 13. The company reported that it generated revenues of \$1.06 billion, which was 7% more than the revenues that Iron Mountain generated during the previous year's quarter. This was in line with what the analyst community had forecasted. Revenue growth was driven by an increase in organic revenues, which were up 3.5% in the fourth quarter, and by the acquisition of new assets, which drove revenue growth further. Revenue growth was weighted towards service revenue growth, which rose 6.1% organically, whereas storage revenues rose by just 1.9% organically.

Iron Mountain's funds from operations, which excludes the impact of non-cash depreciation charges, rose 26% compared to the previous year's quarter, to \$194 million. During the last year Iron Mountain's share count rose by 6%, which means that funds from operations rose by a still quite strong 19% on a per-share basis, to \$0.68.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFOPS¹	\$2.34	\$2.72	\$3.03	\$2.76	\$2.70	\$2.95	\$2.84	\$2.72	\$2.92	\$3.05	\$3.20	\$3.80
DPS	-	\$0.34	\$0.86	\$1.00	\$1.08	\$1.49	\$1.91	\$2.04	\$2.24	\$2.37	\$2.46	\$2.90
Shares	222	218	187	190	192	210	211	264	283	283	287	298

Iron Mountain is not a high growth company, but it still managed to increase its cash flows per share by 3% annually since 2009. Growth has been driven by several contributing factors. The first one is organic revenue growth, primarily through pricing increases. Internal revenue growth was 3.5% during the fourth 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. Acquisitions were also partly funded via equity, though, 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's management forecasts that its revenues could rise by 5% a year on an organic basis going forward, and that EBITDA could rise by 5%+. Due to the less stellar growth rate in the past our growth estimate is a bit lower.

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.

¹ Funds from operations 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.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	10.0	8.0	9.3	10.7	11.5	10.9	11.7	12.6	12.5	10.5	10.9	10.5
Avg. Yld.	-	1.6%	3.1%	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	7.6%	7.0%	7.3%

Iron Mountain has not traded at a high valuation throughout the last decade, which is not surprising: Due to the low growth rate that Iron Mountain has achieved throughout that time frame, shares were primarily valued based on the income yield that Iron Mountain provides to its owners. Shares trade slightly above fair value right here.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	12.5%	28.4%	36.2%	39.7%	50.5%	67.3%	75.0%	76.7%	77.7%	76.9%	76.3%

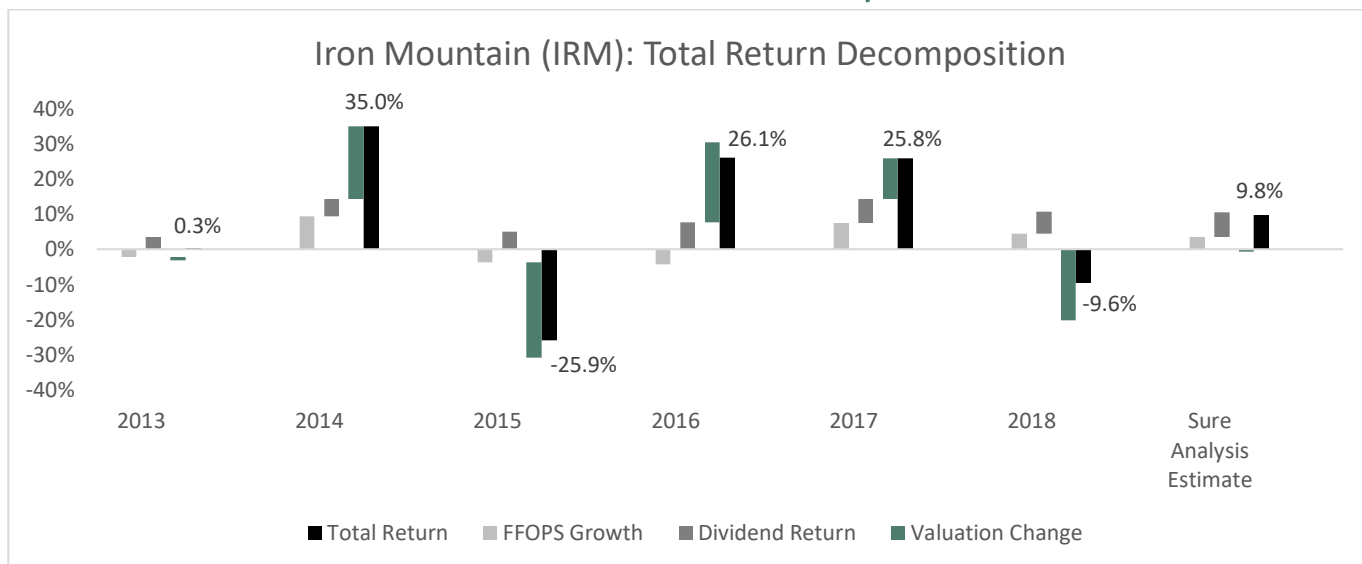
Iron Mountain pays out a quite large portion of its cash flows to its owners in the form of dividends. Iron Mountain has guided for dividend growth of 4% during the next couple of years, which is well below the dividend growth rate that Iron Mountain has offered in the past. This should keep the dividend payout ratio relatively stable, although the payout ratio remains quite high. Iron Mountain's dividend would be vulnerable if higher interest rates became a problem.

Iron Mountain's focus on secure data storage sets the company aside from competitors in the storage industry by providing a unique focus. The company is active in several geographic markets across the US and internationally, and plans to expand its international operations further. This geographic diversification, coupled with the fact that demand for its services is not very cyclical, 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 active in a low-growth, recession-resilient industry. Its unique focus on secure data storage, and its customer base that includes most large US corporations, provide for a relatively safe business model. Growth will most likely not be strong going forward, though, and leverage is high. Total returns will stem from Iron Mountain's high dividend yield primarily. We rate shares a hold at current prices, as they trade above our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3014	2892	3015	3004	3025	3118	3008	3511	3846	4226
Gross Profit	1742	1699	1770	1727	1736	1773	1718	1944	2160	2424
Gross Margin	57.8%	58.8%	58.7%	57.5%	57.4%	56.9%	57.1%	55.4%	56.2%	57.4%
SG&A Exp.	874	661	715	744	815	752	683	743	774	824
D&A Exp.	284	304	319	316	322	353	345	452	522	640
Operating Profit	549	634	625	568	501	565	590	632	732	807
Operating Margin	18.2%	21.9%	20.7%	18.9%	16.6%	18.1%	19.6%	18.0%	19.0%	19.1%
Net Profit	221	-58	396	171	96	326	123	105	184	363
Net Margin	7.3%	-2.0%	13.1%	5.7%	3.2%	10.5%	4.1%	3.0%	4.8%	8.6%
Free Cash Flow	293	353	385	163	190	77	196	165	303	403
Income Tax	111	167	106	114	62	-97	38	45	26	36

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	6847	6396	6041	6358	6653	6523	6351	9487	10972	11852
Cash & Equivalents	447	259	180	243	121	126	128	236	926	165
Accounts Receivable	585	576	543	572	617	604	564	691	836	847
Goodwill & Int. Ass.	2974	2743	2666	2795	3071	3034	2967	5174	5471	5948
Total Liabilities	4689	4433	4787	5196	5601	5653	5822	7550	8674	9967
Accounts Payable	175	161	156	168	216	203	220	222	289	319
Long-Term Debt	3252	3009	3354	3825	4172	4616	4846	6251	7043	8143
Shareholder's Equity	2153	1956	1246	1150	1041	856	509	1937	2297	1884
D/E Ratio	1.51	1.54	2.69	3.33	4.01	5.39	9.52	3.23	3.07	4.32

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.3%	-0.9%	6.4%	2.8%	1.5%	5.0%	1.9%	1.3%	1.8%	3.2%
Return on Equity	11.2%	-2.8%	24.7%	14.3%	8.8%	34.4%	18.1%	8.6%	8.7%	17.4%
ROIC	4.2%	-1.1%	8.3%	3.6%	1.9%	6.1%	2.3%	1.5%	2.1%	3.8%
Shares Out.	222	218	187	190	192	210	211	264	283	283
Revenue/Share	14.75	14.32	15.39	17.18	15.72	15.85	14.18	14.20	14.41	14.74
FCF/Share	1.44	1.75	1.96	0.93	0.99	0.39	0.93	0.67	1.13	1.41

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

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