Iron Mountain (IRM)

Updated August 25th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$31	**5 Year CAGR Estimate:**	9.3%	**Volatility Percentile:**	40.3%
Fair Value Price:	$28	**5 Year Growth Estimate:**	3.5%	**Momentum Percentile:**	42.3%
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Growth Percentile:**	23.7%
Dividend Yield:	7.9%	**5 Year Price Target**	$34	**Valuation Percentile:**	35.0%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	48.0%

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 trust was founded in 1951, is headquartered in Boston, MA, and is currently valued at $8.9 billion.

Iron Mountain reported its second quarter earnings results on August 1. The trust reported that it generated revenues of $1.07 billion during the second quarter, which was 0.9% more than the revenues that Iron Mountain generated during the previous year's quarter. This was in line with what the analyst community had forecast. Revenues would have been higher at constant forex rates, which had a 2.4% negative impact on Iron Mountain's reported revenue growth rate. Storage revenues grew faster than service revenues during the quarter, which can be explained by headwinds from low paper prices for the scrapping part of Iron Mountain's service business.

Iron Mountain's funds from operations came in at $0.54 per share during the second quarter, which was slightly ahead of the analyst consensus. Iron Mountain guides for revenues of $4.29 billion during 2019, which represents a very small reduction versus the previous guidance midpoint of $4.3 billion.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFOPS[1]	$2.34	$2.72	$3.03	$2.76	$2.70	$2.95	$2.84	$2.72	$2.92	$3.05	***$2.70***	***$3.21***
DPS	---	$0.34	$0.86	$1.00	$1.08	$1.49	$1.91	$2.04	$2.24	$2.37	***$2.44***	***$2.90***
Shares[2]	222	218	187	190	192	210	211	264	283	283	***287***	***298***

Iron Mountain is not a high growth trust, 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. Iron Mountain has achieved organic revenue growth rates of ~3% in the past, and guides for organic revenue growth of 3% to 5% annually through 2020.

Iron Mountain repeatedly made takeovers and asset purchases over the last couple of years, which drove revenue growth further. These acquisitions were partially funded via debt, which is why the trust 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 up to 5% a year on an organic basis in the long run, and that EBITDA could rise by 5%+. Due to the weaker growth rate during the last decade, as well as during recent quarters, we have a somewhat weaker growth estimate for Iron Mountain. 2019 has not been a strong year so far, which is why we believe that this year's funds from operations will come in at a lower level compared to 2018. Once currency headwinds wane, the trust should get back to positive growth rates.

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[1] Funds from operations per share

[2] In Millions

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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	***11.5***	***10.5***
Avg. Yld.	---	1.6%	3.1%	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	7.6%	***7.9%***	***8.6%***

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 during that time frame, shares were primarily valued based on the income yield that Iron Mountain provides to its owners. Shares trade slightly above our fair value estimate today.

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%	***90.4%***	***90.3%***

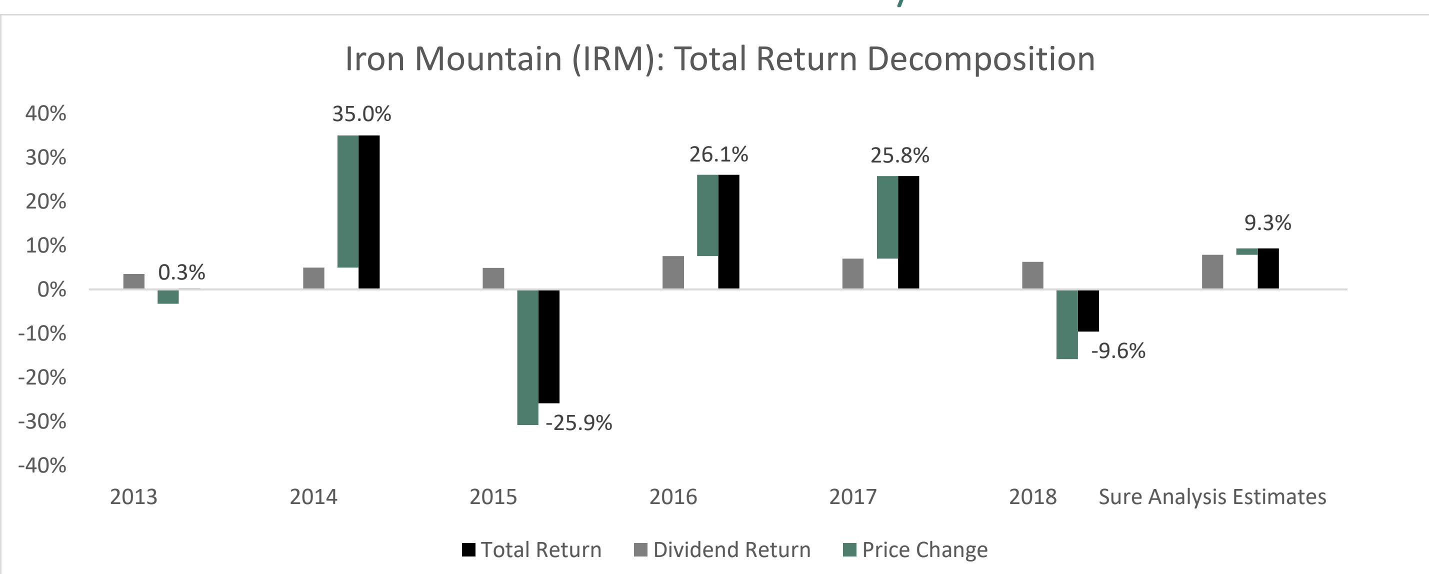
Iron Mountain pays out a quite large portion of its cash flows to its owners in the form of dividends. Iron Mountain has guided for dividend growth of 4% during 2019 and 2020, which is well below the dividend growth rate that Iron Mountain has offered in the past. This seems reasonable, as cash flows will likely not grow faster than that. The payout ratio is quite high. Iron Mountain's dividend would be vulnerable if the trust's profitability were under pressure.

Iron Mountain's focus on secure data storage sets the trust aside from competitors in the storage industry by providing a unique focus. The trust 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 has been comparatively strong.

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. Iron Mountain does not operate a high-growth business, though, and is heavily indebted. However, the very high dividend yield provides a solid total return backdrop. At current prices we rate Iron Mountain a hold.

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.