Iron Mountain (IRM)

Updated November 17th, 2020 by Jonathan Weber

Key Metrics

Current Price:	$26	**5 Year CAGR Estimate:**	13.6%	**Market Cap:**	$7.3B
Fair Value Price:	$33	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	12/14/20
% Fair Value:	79%	**5 Year Valuation Multiple Estimate:**	4.9%	**Dividend Payment Date:**	01/06/21
Dividend Yield:	9.5%	**5 Year Price Target**	$37	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	1.2%

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 America, Latin America, Europe, and the Asia Pacific region. The trust was founded in 1951, is headquartered in Boston, MA.

Iron Mountain reported its third quarter earnings results on November 6. The trust announced that it generated revenues of $1.04 billion during the quarter, which was down 2% from the revenues that Iron Mountain generated during the previous year's quarter. This was above what the analyst community had forecast. Revenues would have been down by 2.1% year-over-year at constant forex rates, but a weaker dollar impacted the number negatively.

Iron Mountain's funds-from-operations came in at $0.61 per share during the third quarter, which was down 1% compared to the previous year's quarter. Adjusted funds from operation came in at $692 million so far this year, which equates to $2.41 on a per-share basis, up ~10% versus 2019. So far, the virus crisis did not have a large impact on Iron Mountain's funds from operations, although revenues declined during the second and third quarter. Management thinks it is possible that the impact will be bigger during H2, although a deterioration is not at all guaranteed.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
AFFOPS[1]	$2.72	$3.03	$2.76	$2.70	$2.95	$2.84	$2.72	$2.92	$3.05	$2.98	***$3.15***	***$3.48***
DPS	$0.34	$0.86	$1.00	$1.08	$1.49	$1.91	$2.04	$2.24	$2.37	$2.44	***$2.47***	***$2.60***
Shares[2]	218	187	190	192	210	211	264	283	283	287	***289***	***298***

Iron Mountain is not a high-growth investment 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 in the future.

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 has considerable debt. 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 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%+ annually. Due to the weaker growth rate during the last decade and during recent quarters, we use a somewhat lower estimate for Iron Mountain's long term cash flow growth. 2019 was not a strong year for Iron Mountain, as funds from operations declined slightly versus 2018. So far, 2020 has been a solid year for Iron Mountain. Revenues declined during Q2 and Q3, but adjusted FFO is up versus 2019, which is why we believe that AFFO-per-share will rise during the current year.

[1] Adjusted funds from operations per share

[2] In Millions

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
P/FFO	8.0	9.3	10.7	11.5	10.9	11.7	12.6	12.5	10.5	10.7	***8.3***	***10.5***
Avg. Yld.	1.6%	3.1%	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	7.6%	7.6%	***9.5%***	***7.1%***

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 still trade below our fair value estimate today, however.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	12.5%	28.4%	36.2%	39.7%	50.5%	67.3%	75.0%	76.7%	77.7%	81.9%	***78.4%***	***74.6%***

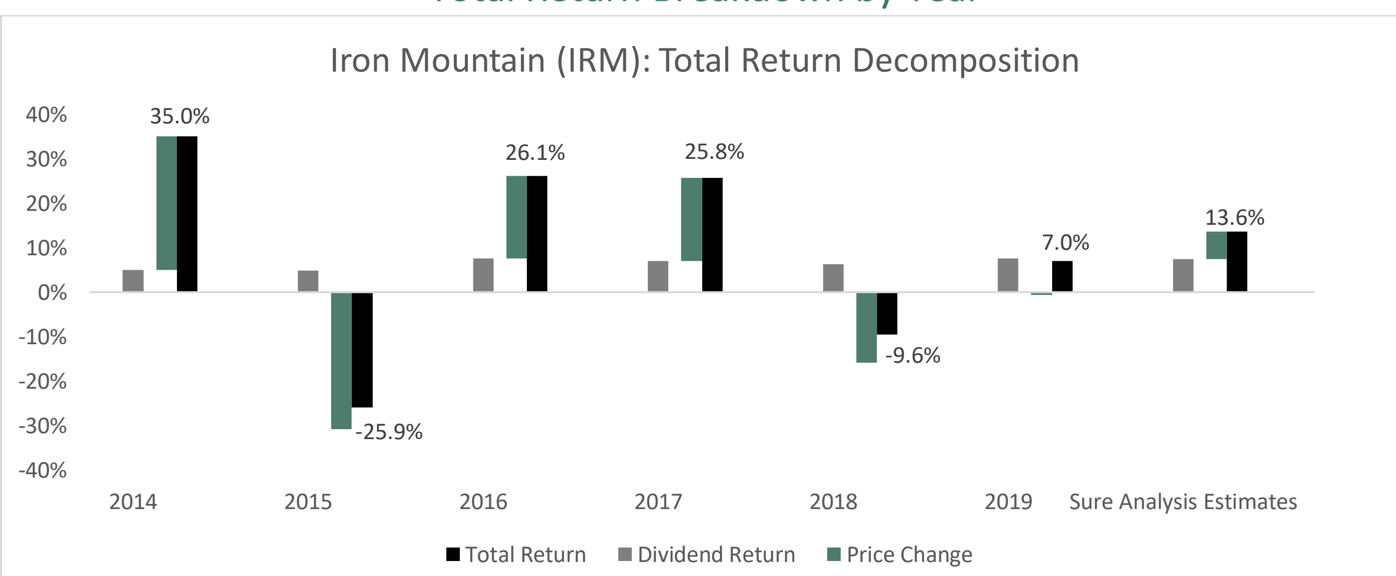
Iron Mountain pays out a quite large portion of its cash flows to its owners in the form of dividends. Iron Mountain has increased its dividend regularly, although the dividend growth rate has slowed down in recent years. This seems reasonable, as cash flows have not grown very much either. The payout ratio is rather high, but not necessarily unsustainable. Iron Mountain's dividend would be vulnerable if the trust's cash flows came under significant 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 a range of 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 overly cyclical, means that Iron Mountain is relatively resilient to recessions, which should help during the current crisis. Cash flows continued to grow during the last financial crisis, resulting in a strong recession performance.

Final Thoughts & Recommendation

Iron Mountain is active in a low-growth, recession-resistant industry. Its unique focus on secure data storage, and its customer base that includes many of the largest US corporations, provide for a relatively resilient business model. Due to not operating a high-growth business, Iron Mountain's total returns will mostly come from its dividend payments going forward. The total return outlook is attractive, which is why we rate Iron Mountain a buy at current prices.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	2,892	3,015	3,004	3,025	3,118	3,008	3,511	3,846	4,226	4,263
Gross Profit	1,699	1,770	1,727	1,736	1,773	1,718	1,944	2,181	2,432	2,429
Gross Margin	58.8%	58.7%	57.5%	57.4%	56.9%	57.1%	55.4%	56.7%	57.5%	57.0%
SG&A Exp.	661	715	744	815	752	683	743	790	835	810
D&A Exp.	304	319	316	322	353	345	452	522	640	658
Operating Profit	634	625	568	501	565	590	632	736	804	799
Operating Margin	21.9%	20.7%	18.9%	16.6%	18.1%	19.6%	18.0%	19.1%	19.0%	18.7%
Net Profit	(58)	396	171	96	326	123	105	170	354	267
Net Margin	-2.0%	13.1%	5.7%	3.2%	10.5%	4.1%	3.0%	4.4%	8.4%	6.3%
Free Cash Flow	353	385	163	190	77	196	165	303	403	218
Income Tax	167	106	114	62	(97)	38	45	23	43	60

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	6,396	6,041	6,358	6,653	6,523	6,351	9,487	10,972	11,857	13,817
Cash & Equivalents	259	180	243	121	126	128	236	926	165	194
Accounts Receivable	576	543	572	617	604	564	691	836	847	851
Goodwill & Int. Ass.	2,743	2,666	2,795	3,071	3,034	2,967	5,174	5,471	5,953	5,880
Total Liabilities	4,433	4,787	5,196	5,601	5,653	5,822	7,550	8,674	9,995	12,353
Accounts Payable	161	156	168	216	203	220	222	289	319	325
Long-Term Debt	3,009	3,354	3,825	4,172	4,616	4,846	6,251	7,043	8,143	8,665
Shareholder's Equity	1,956	1,246	1,150	1,041	856	509	1,937	2,297	1,861	1,464
D/E Ratio	1.54	2.69	3.33	4.01	5.39	9.52	3.23	3.07	4.38	5.92

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	-0.9%	6.4%	2.8%	1.5%	5.0%	1.9%	1.3%	1.7%	3.1%	2.1%
Return on Equity	-2.8%	24.7%	14.3%	8.8%	34.4%	18.1%	8.6%	8.0%	17.0%	16.1%
ROIC	-1.1%	8.3%	3.6%	1.9%	6.1%	2.3%	1.5%	1.9%	3.7%	2.7%
Shares Out.	218	187	190	192	210	211	264	283	283	287
Revenue/Share	14.32	15.39	17.18	15.72	15.85	14.18	14.20	14.41	14.74	14.82
FCF/Share	1.75	1.96	0.93	0.99	0.39	0.93	0.67	1.13	1.41	0.76

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