Iron Mountain (IRM)

Updated November 11th, 2021 by Jonathan Weber

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	2.3%	**Market Cap:**	$14B
Fair Value Price:	$37	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	12/14/21
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-4.9%	**Dividend Payment Date:**	01/06/22
Dividend Yield:	5.1%	**5 Year Price Target**	$41	**Years Of Dividend Growth:**	10
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**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 4. The trust announced that it generated revenues of $1.13 billion during the quarter, which was up 9% from the revenues that Iron Mountain generated during the previous year's quarter. This was in line with what the analyst community had forecast. The comparison to the previous year's quarter was made relatively easy due to a not-very-strong third quarter in 2020.

Iron Mountain's adjusted funds-from-operations came in at $0.90 per share during the third quarter, which was up 21% compared to the previous year's quarter. So far, the virus crisis did not have a large impact on Iron Mountain's funds from operations, which showcases the resilience of Iron Mountain's business model. Management reiterated its guidance for this year's adjusted FFO-per-share with a range of $3.33 to $3.45, which would mean a meaningful improvement versus the AFFO-per-share that the company generated in 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFOPS[1]	$3.03	$2.76	$2.70	$2.95	$2.84	$2.72	$2.92	$3.05	$3.01	$3.07	***$3.39***	***$3.74***
DPS	$0.86	$1.00	$1.08	$1.49	$1.91	$2.04	$2.24	$2.37	$2.44	$2.47	***$2.47***	***$2.60***
Shares[2]	187	190	192	210	211	264	283	283	287	289	***290***	***300***

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. 2020 was a solid year for Iron Mountain. Revenues declined during the summer quarters of 2020, but adjusted FFO was still up versus 2019 during fiscal 2020, which shows the company's resilience versus recessions.

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[1] Adjusted funds from operations per share

[2] In Millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/FFO	9.3	10.7	11.5	10.9	11.7	12.6	12.5	10.5	10.7	9.4	***14.2***	***11.0***
Avg. Yld.	3.1%	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	7.6%	7.6%	8.5%	***5.1%***	***6.3%***

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 during that time frame, shares were primarily valued based on the income yield that Iron Mountain provides to its owners. At more than 14 times FFO, shares look overvalued today, we believe.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	28.4%	36.2%	39.7%	50.5%	67.3%	75.0%	76.7%	77.7%	81.9%	80.5%	***72.9%***	***69.4%***

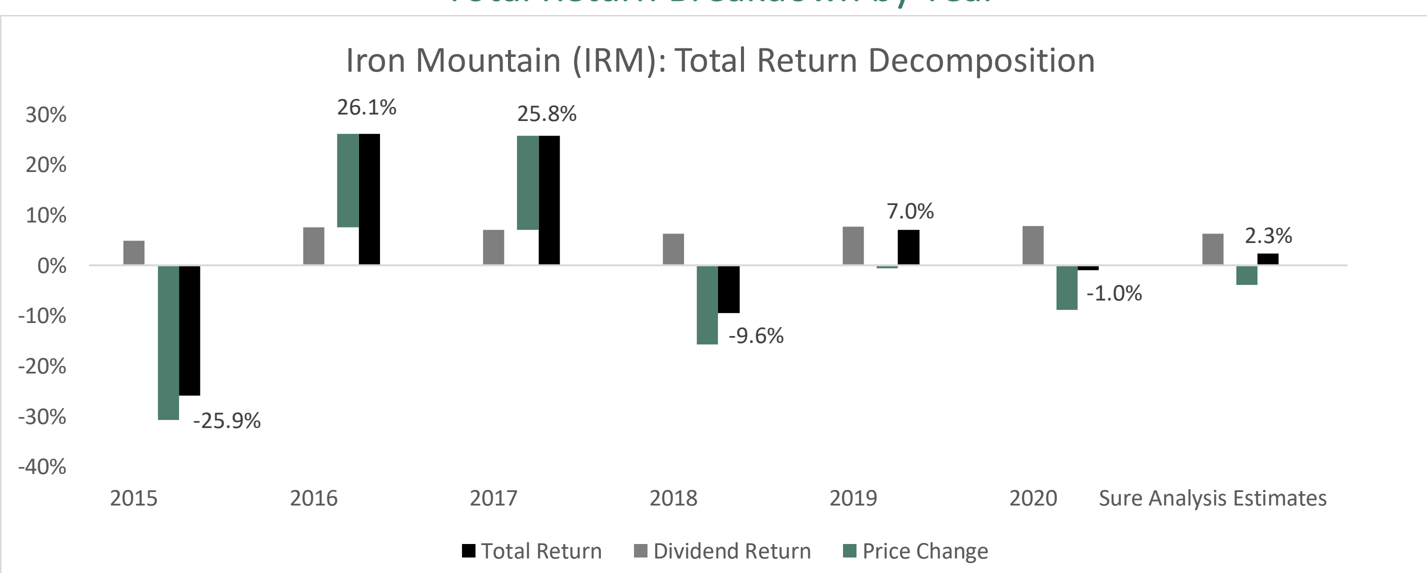
Iron Mountain pays out a quite large portion of its cash flows to its owners in the form of dividends. Iron Mountain has increased its dividend regularly, although the dividend growth rate has slowed down in recent years. This seems reasonable, as cash flows have not grown very much either. The payout 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 also helps 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. Due to a too-high valuation, the total return outlook is not attractive, which is why we rate the stock a sell right here.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,015	3,004	3,025	3,118	3,008	3,511	3,846	4,226	4,263	4,147
Gross Profit	1,770	1,727	1,736	1,773	1,718	1,944	2,181	2,432	2,429	2,390
Gross Margin	58.7%	57.5%	57.4%	56.9%	57.1%	55.4%	56.7%	57.5%	57.0%	57.6%
SG&A Exp.	825	842	913	855	783	860	922	988	972	913
D&A Exp.	319	316	322	353	345	452	522	655	675	669
Operating Profit	625	568	501	565	590	632	736	804	799	825
Operating Margin	20.7%	18.9%	16.6%	18.1%	19.6%	18.0%	19.1%	19.0%	18.7%	19.9%
Net Profit	396	171	96	326	123	105	170	354	267	343
Net Margin	13.1%	5.7%	3.2%	10.5%	4.1%	3.0%	4.4%	8.4%	6.3%	8.3%
Free Cash Flow	385	163	190	77	196	165	303	403	218	534
Income Tax	106	114	62	(97)	38	45	23	43	60	30

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6,041	6,358	6,653	6,523	6,351	9,487	10972	11,857	13,817	14,149
Cash & Equivalents	180	243	121	126	128	236	926	165	194	205
Accounts Receivable	543	572	617	604	564	691	836	847	851	859
Goodwill & Int. Ass.	2,666	2,795	3,071	3,034	2,967	5,174	5,471	5,953	5,878	5,885
Total Liabilities	4,787	5,196	5,601	5,653	5,822	7,550	8,674	9,995	12,353	13,013
Accounts Payable	156	168	216	203	220	222	289	319	325	360
Long-Term Debt	3,354	3,825	4,172	4,616	4,846	6,251	7,043	8,143	8,665	8,703
Shareholder's Equity	1,246	1,150	1,041	856	509	1,937	2,297	1,861	1,464	1,137
D/E Ratio	2.69	3.33	4.01	5.39	9.52	3.23	3.07	4.38	5.92	7.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.4%	2.8%	1.5%	5.0%	1.9%	1.3%	1.7%	3.1%	2.1%	2.5%
Return on Equity	24.7%	14.3%	8.8%	34.4%	18.1%	8.6%	8.0%	17.0%	16.1%	26.4%
ROIC	8.3%	3.6%	1.9%	6.1%	2.3%	1.5%	1.9%	3.7%	2.7%	3.4%
Shares Out.	187	190	192	210	211	264	283	283	287	289
Revenue/Share	15.39	17.18	15.72	15.85	14.18	14.20	14.41	14.74	14.82	14.37
FCF/Share	1.96	0.93	0.99	0.39	0.93	0.67	1.13	1.41	0.76	1.85

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