



Iron Mountain (IRM)

Updated November 23rd, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	2.6%	Market Cap:	\$15B
Fair Value Price:	\$41	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	12/14/22
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	01/06/23
Dividend Yield:	4.7%	5 Year Price Target	\$48	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Sell

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 3. The trust announced that it generated revenues of \$1.29 billion during the quarter, which was up 14% from the revenues that Iron Mountain generated during the previous year's quarter. This was slightly below 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 2021.

Iron Mountain's normalized funds-from-operations came in at \$0.76 per share during the third quarter, which was up 6% compared to the previous year's quarter. The company did not manage to grow its margins during the period, compared to the previous year's quarter, as its expenses rose more than its revenues. Management reiterated its guidance for this year's adjusted FFO-per-share with a range of \$3.70 to \$3.82, which represents attractive growth of 6%-10% versus 2021, which had also been a record year for the company.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
AFFOPS¹	\$2.76	\$2.70	\$2.95	\$2.84	\$2.72	\$2.92	\$3.05	\$3.01	\$3.07	\$3.48	\$3.76	\$4.36
DPS	\$1.00	\$1.08	\$1.49	\$1.91	\$2.04	\$2.24	\$2.37	\$2.44	\$2.47	\$2.47	\$2.47	\$2.47
Shares²	190	192	210	211	264	283	283	287	289	290	292	300

Iron Mountain is not a high-growth investment trust, but it still managed to increase its cash flows per share by 4% annually since 2009. Growth has been driven by several factors, with organic revenue growth through pricing increases being the most important one. Iron Mountain guides for 3% to 5% annual organic revenue growth in the future, which would be somewhat higher compared to the organic revenue growth rate in the past.

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, we use a somewhat lower estimate for Iron Mountain's long term cash flow growth. Following a small profitability decline in 2019, Iron Mountain was able to grow its funds from operations to new record levels in both 2020 and 2021. It is expected that the company will be even more profitable this year, and that growth will continue at a meaningful pace beyond the current year.

¹ Adjusted funds from operations per share

² In Millions

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FFO	10.7	11.5	10.9	11.7	12.6	12.5	10.5	10.7	9.4	15.2	14.1	11.0
Avg. Yld.	3.4%	3.5%	4.6%	5.8%	6.0%	6.1%	7.6%	7.6%	8.5%	4.7%	4.7%	5.2%

Iron Mountain has not traded at a high valuation throughout the last decade, which is not surprising. Due to the rather low growth rate that Iron Mountain has achieved in the past, shares were primarily valued based on the income yield that Iron Mountain provides to its owners. At more than 14 times FFO, shares are overvalued today, we believe.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	36.2%	39.7%	50.5%	67.3%	75.0%	76.7%	77.7%	81.9%	80.5%	71.0%	65.7%	56.7%

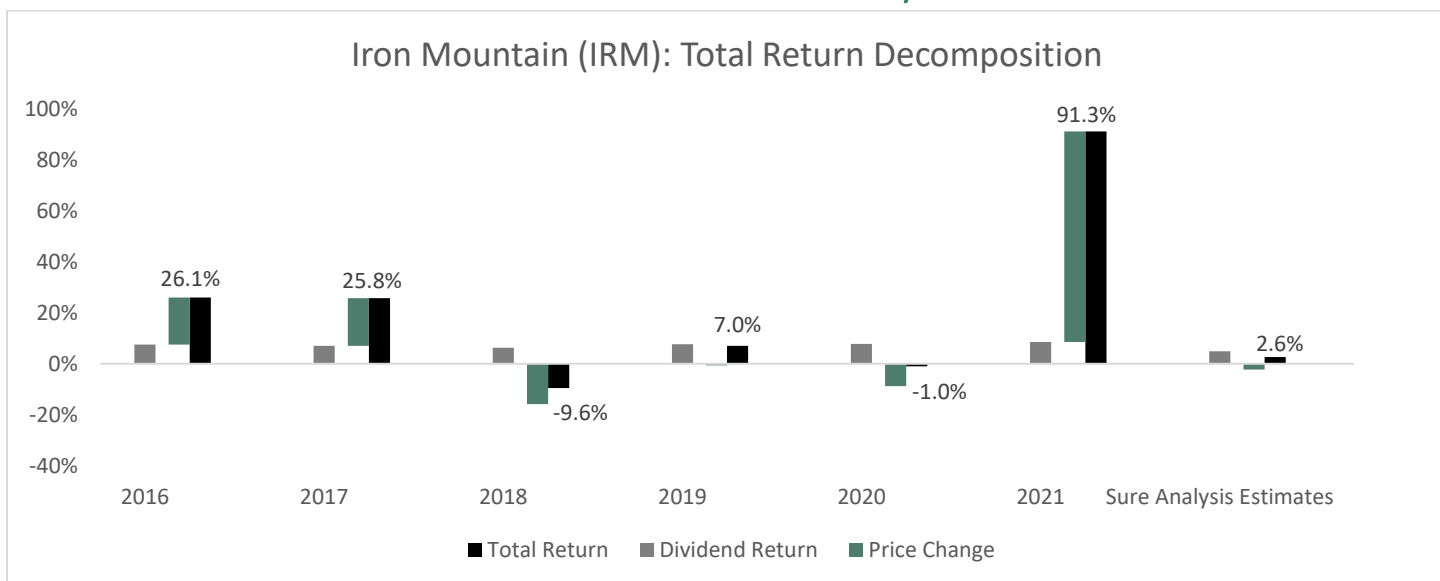
Iron Mountain pays out a quite large portion of its cash flows to its owners in the form of dividends. Iron Mountain has increased its dividend regularly, although the dividend growth rate has slowed down in recent years. This seems reasonable, as cash flows have not grown very much either. The payout 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. The high dividend yield plays a major role in the company's total return outlook. Due to a valuation that is too high, according to our models, 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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,004	3,025	3,118	3,008	3,511	3,846	4,226	4,263	4,147	4,492
Gross Profit	1,727	1,736	1,773	1,718	1,944	2,181	2,432	2,429	2,390	2,604
Gross Margin	57.5%	57.4%	56.9%	57.1%	55.4%	56.7%	57.5%	57.0%	57.6%	58.0%
SG&A Exp.	842	913	855	783	860	922	988	992	948	1,023
D&A Exp.	316	322	353	345	452	522	655	675	669	697
Operating Profit	568	501	565	590	632	736	804	779	790	901
Operating Margin	18.9%	16.6%	18.1%	19.6%	18.0%	19.1%	19.0%	18.3%	19.1%	20.1%
Net Profit	171	96	326	123	105	170	354	267	343	450
Net Margin	5.7%	3.2%	10.5%	4.1%	3.0%	4.4%	8.4%	6.3%	8.3%	10.0%
Free Cash Flow	163	190	77	196	165	303	403	218	534	135
Income Tax	114	62	(97)	38	45	23	43	60	30	176

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,358	6,653	6,523	6,351	9,487	10,972	11,857	13,817	14,149	14,450
Cash & Equivalents	243	121	126	128	236	926	165	194	205	256
Accounts Receivable	572	617	604	564	691	836	847	851	859	961
Goodwill & Int. Ass.	2,795	3,071	3,034	2,967	5,174	5,471	5,953	5,878	5,885	5,645
Total Liabilities	5,196	5,601	5,653	5,822	7,550	8,674	9,995	12,353	13,013	13,593
Accounts Payable	168	216	203	220	222	289	319	325	360	369
Long-Term Debt	3,825	4,172	4,616	4,846	6,251	7,043	8,143	8,665	8,703	9,272
Shareholder's Equity	1,150	1,041	856	509	1,937	2,297	1,861	1,464	1,137	856
LTD/E Ratio	3.33	4.01	5.39	9.52	3.23	3.07	4.38	5.92	7.66	10.83

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.8%	1.5%	5.0%	1.9%	1.3%	1.7%	3.1%	2.1%	2.5%	3.1%
Return on Equity	14.3%	8.8%	34.4%	18.1%	8.6%	8.0%	17.0%	16.1%	26.4%	45.2%
ROIC	3.6%	1.9%	6.1%	2.3%	1.5%	1.9%	3.7%	2.7%	3.4%	4.5%
Shares Out.	190	192	210	211	264	283	283	287	289	290
Revenue/Share	17.18	15.72	15.85	14.18	14.20	14.41	14.74	14.82	14.37	15.44
FCF/Share	0.93	0.99	0.39	0.93	0.67	1.13	1.41	0.76	1.85	0.46

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

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