



# Iron Mountain (IRM)

Updated August 8<sup>th</sup>, 2024 by Jonathan Weber

## Key Metrics

|                             |       |                                            |        |                                  |          |
|-----------------------------|-------|--------------------------------------------|--------|----------------------------------|----------|
| <b>Current Price:</b>       | \$106 | <b>5 Year CAGR Estimate:</b>               | -4.9%  | <b>Market Cap:</b>               | \$31B    |
| <b>Fair Value Price:</b>    | \$58  | <b>5 Year Growth Estimate:</b>             | 3.0%   | <b>Ex-Dividend Date:</b>         | 09/16/24 |
| <b>% Fair Value:</b>        | 183%  | <b>5 Year Valuation Multiple Estimate:</b> | -11.4% | <b>Dividend Payment Date:</b>    | 10/03/24 |
| <b>Dividend Yield:</b>      | 2.7%  | <b>5 Year Price Target</b>                 | \$67   | <b>Years Of Dividend Growth:</b> | 2        |
| <b>Dividend Risk Score:</b> | F     | <b>Retirement Suitability Score:</b>       | F      | <b>Rating:</b>                   | 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 second quarter earnings results on August 1. The trust announced that it generated revenues of \$1.53 billion during the quarter, which was up 13% from the revenues that Iron Mountain generated during the previous year's quarter. Iron Mountain generated better revenue growth compared to the recent past, when revenues mostly rose at a single-digit pace.

Iron Mountain's normalized funds-from-operations came in at \$0.78 per share during the second quarter, which was up 10% compared to the previous year's quarter. The company saw its FFO margin weaken slightly, compared to the previous year's quarter, as its FFO was up less compared to its revenues. Management reiterated its guidance for this year's adjusted FFO-per-share, expecting a range of \$4.39 to \$4.51, which represents solid growth of around 4% at the midpoint of the guidance range. Iron Mountain guides for revenues of \$6.1 billion for the current fiscal year.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024          | 2029          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>AFFOPS<sup>1</sup></b> | \$2.95 | \$2.84 | \$2.72 | \$2.92 | \$3.05 | \$3.01 | \$3.07 | \$3.48 | \$3.80 | \$4.12 | <b>\$4.45</b> | <b>\$5.16</b> |
| <b>DPS</b>                | \$1.49 | \$1.91 | \$2.04 | \$2.24 | \$2.37 | \$2.44 | \$2.47 | \$2.47 | \$2.47 | \$2.54 | <b>\$2.86</b> | <b>\$3.16</b> |
| <b>Shares<sup>2</sup></b> | 210    | 211    | 264    | 283    | 283    | 287    | 289    | 290    | 293    | 295    | <b>295</b>    | <b>310</b>    |

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, 2021, 2022, and 2023. 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.

<sup>1</sup> Adjusted funds from operations per share

<sup>2</sup> In Millions

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## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now         | 2029        |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| P/FFO     | 10.9 | 11.7 | 12.6 | 12.5 | 10.5 | 10.7 | 9.4  | 15.2 | 13.2 | 16.7 | <b>23.8</b> | <b>13.0</b> |
| Avg. Yld. | 4.6% | 5.8% | 6.0% | 6.1% | 7.6% | 7.6% | 8.5% | 4.7% | 4.9% | 3.7% | <b>2.7%</b> | <b>4.7%</b> |

Iron Mountain has not traded at a very high valuation throughout much of the last decade, which is not surprising. Due to the rather low growth rate that Iron Mountain has achieved in the past, a high valuation wasn't justified. Today, following multiple expansion in the last couple of years, Iron Mountain trades way ahead of fair value, we believe.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024         | 2029         |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 50.5% | 67.3% | 75.0% | 76.7% | 77.7% | 81.9% | 80.5% | 71.0% | 65.0% | 61.7% | <b>64.3%</b> | <b>61.2%</b> |

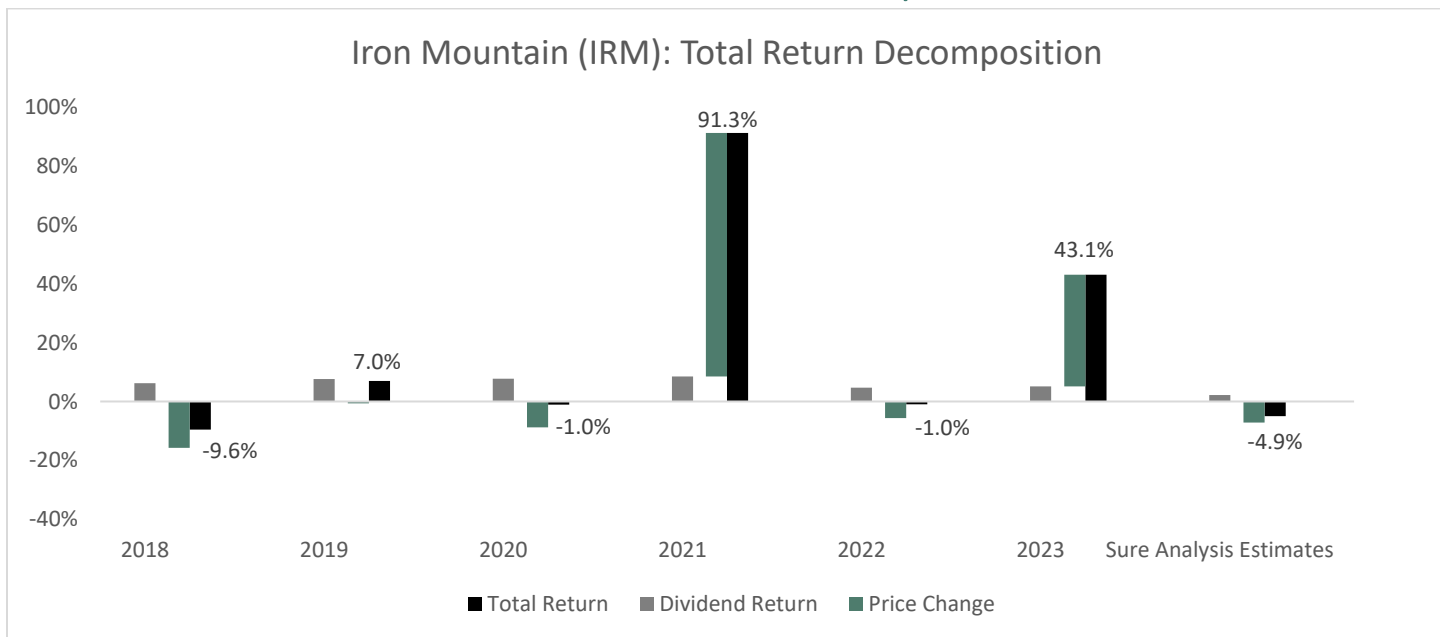
Iron Mountain pays out a quite large portion of its cash flows to its owners in the form of dividends. Iron Mountain has not been raising its dividend very regularly in the last couple of years. The company did, however, offer the first dividend increase in a while in 2023. The payout ratio has come down in recent years. Iron Mountain's dividend looks reasonably safe at current levels, considering the usual payout ratios for REITs.

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 a valuation that is very high, the total return outlook at current prices is not attractive according to our models, which is why we rate the stock a sell right here.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 3,118 | 3,008 | 3,511 | 3,846 | 4,226 | 4,263 | 4,147 | 4,492 | 5,104 | 5,480 |
| Gross Profit     | 1,773 | 1,718 | 1,944 | 2,181 | 2,432 | 2,429 | 2,390 | 2,604 | 2,914 | 3,122 |
| Gross Margin     | 56.9% | 57.1% | 55.4% | 56.7% | 57.5% | 57.0% | 57.6% | 58.0% | 57.1% | 57.0% |
| SG&A Exp.        | 855   | 783   | 860   | 922   | 988   | 992   | 949   | 1,023 | 1,141 | 1,236 |
| D&A Exp.         | 353   | 345   | 452   | 522   | 655   | 675   | 669   | 697   | 746   | 793   |
| Operating Profit | 565   | 590   | 632   | 736   | 804   | 779   | 789   | 901   | 1,046 | 1,110 |
| Operating Margin | 18.1% | 19.6% | 18.0% | 19.1% | 19.0% | 18.3% | 19.0% | 20.1% | 20.5% | 20.3% |
| Net Profit       | 326   | 123   | 105   | 170   | 354   | 267   | 343   | 450   | 557   | 184   |
| Net Margin       | 10.5% | 4.1%  | 3.0%  | 4.4%  | 8.4%  | 6.3%  | 8.3%  | 10.0% | 10.9% | 3.4%  |
| Free Cash Flow   | 77    | 196   | 165   | 303   | 403   | 218   | 534   | 135   | 44    | (232) |
| Income Tax       | (97)  | 38    | 45    | 23    | 43    | 60    | 30    | 176   | 69    | 40    |

## Balance Sheet Metrics

| Year                 | 2014  | 2015  | 2016  | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|----------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Total Assets         | 6,523 | 6,351 | 9,487 | 10,972 | 11,857 | 13,817 | 14,149 | 14,450 | 16,141 | 17,474 |
| Cash & Equivalents   | 126   | 128   | 236   | 926    | 165    | 194    | 205    | 256    | 142    | 223    |
| Accounts Receivable  | 604   | 564   | 691   | 836    | 847    | 851    | 859    | 961    | 1,175  | 1,260  |
| Goodwill & Int. Ass. | 3,034 | 2,967 | 5,174 | 5,471  | 5,953  | 5,878  | 5,885  | 5,645  | 6,306  | 6,298  |
| Total Liabilities    | 5,653 | 5,822 | 7,550 | 8,674  | 9,995  | 12,353 | 13,013 | 13,593 | 15,409 | 17,084 |
| Accounts Payable     | 203   | 220   | 222   | 289    | 319    | 325    | 360    | 369    | 469    | 540    |
| Long-Term Debt       | 4,616 | 4,846 | 6,251 | 7,043  | 8,143  | 8,665  | 8,703  | 9,272  | 10,569 | 11,933 |
| Shareholder's Equity | 856   | 509   | 1,937 | 2,297  | 1,861  | 1,464  | 1,137  | 856    | 637    | 212    |
| LTD/E Ratio          | 5.39  | 9.52  | 3.23  | 3.07   | 4.38   | 5.92   | 7.66   | 10.83  | 16.60  | 56.38  |

## Profitability & Per Share Metrics

| Year             | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023   |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Return on Assets | 5.0%  | 1.9%  | 1.3%  | 1.7%  | 3.1%  | 2.1%  | 2.5%  | 3.1%  | 3.6%  | 1.1%   |
| Return on Equity | 33.9% | 17.6% | 8.5%  | 8.0%  | 17.0% | 16.1% | 26.4% | 45.2% | 70.1% | 32.8%  |
| ROIC             | 6.1%  | 2.3%  | 1.5%  | 1.9%  | 3.7%  | 2.7%  | 3.4%  | 4.5%  | 5.2%  | 1.6%   |
| Shares Out.      | 210   | 211   | 264   | 283   | 283   | 287   | 289   | 290   | 293   | 295    |
| Revenue/Share    | 15.85 | 14.18 | 14.20 | 14.41 | 14.74 | 14.82 | 14.37 | 15.44 | 17.45 | 18.64  |
| FCF/Share        | 0.39  | 0.93  | 0.67  | 1.13  | 1.41  | 0.76  | 1.85  | 0.46  | 0.15  | (0.79) |

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

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