Iron Mountain (IRM)

Updated November 18th, 2024 by Jonathan Weber

Key Metrics

Current Price:	$113	**5 Year CAGR Estimate:**	-5.0%	**Market Cap:**	$33B
Fair Value Price:	$62	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	12/16/24
% Fair Value:	181%	**5 Year Valuation Multiple Estimate:**	-11.2%	**Dividend Payment Date:**	01/07/25
Dividend Yield:	2.5%	**5 Year Price Target**	$72	**Years Of Dividend Growth:**	2
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**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 and is headquartered in Boston, MA.

Iron Mountain reported its third quarter earnings results on November 6. The trust announced that it generated revenues of $1.56 billion during the quarter, which was up 12% 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 adjusted funds-from-operations came in at $1.13 per share during the third quarter, which was up 11% 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
AFFOPS[1]	$2.95	$2.84	$2.72	$2.92	$3.05	$3.01	$3.07	$3.48	$3.80	$4.12	***$4.45***	***$5.16***
DPS	$1.49	$1.91	$2.04	$2.24	$2.37	$2.44	$2.47	$2.47	$2.47	$2.54	***$2.86***	***$3.16***
Shares[2]	210	211	264	283	283	287	289	290	293	295	***295***	***310***

Iron Mountain is not a high-growth investment trust, but it still managed to increase its adjusted funds from operations-per-share by 4% annually since 2014. Growth has been driven by several factors, with organic revenue growth through pricing increases being an important one.

Iron Mountain guides for substantial organic revenue growth through price increases in the future, too, thus investors can expect that this will remain an important source for growing cash flows in the future, too. Iron Mountain repeatedly made takeovers and asset purchases in the past, which drove revenue growth further. These acquisitions were partially funded via debt, which is why the trust employs considerable leverage. 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. Still, the rising share count will prevent Iron Mountain from delivering a per-share growth rate that is on par with its company-wide growth rate. Going forward, based on management's comments and the REIT's historic growth performance, we believe that adjusted funds from operations could climb by around 3% per year, which would not be a bad result for a REIT. While dividend growth has been somewhat uneven in the past, we believe that the payout will rise over time.

[1] Adjusted funds from operations per share

[2] 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	***25.4***	***14.0***
Avg. Yld.	4.6%	5.8%	6.0%	6.1%	7.6%	7.6%	8.5%	4.7%	4.9%	3.7%	***2.5%***	***4.4%***

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 significant multiple expansion, 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%	***64.3%***	***61.2%***

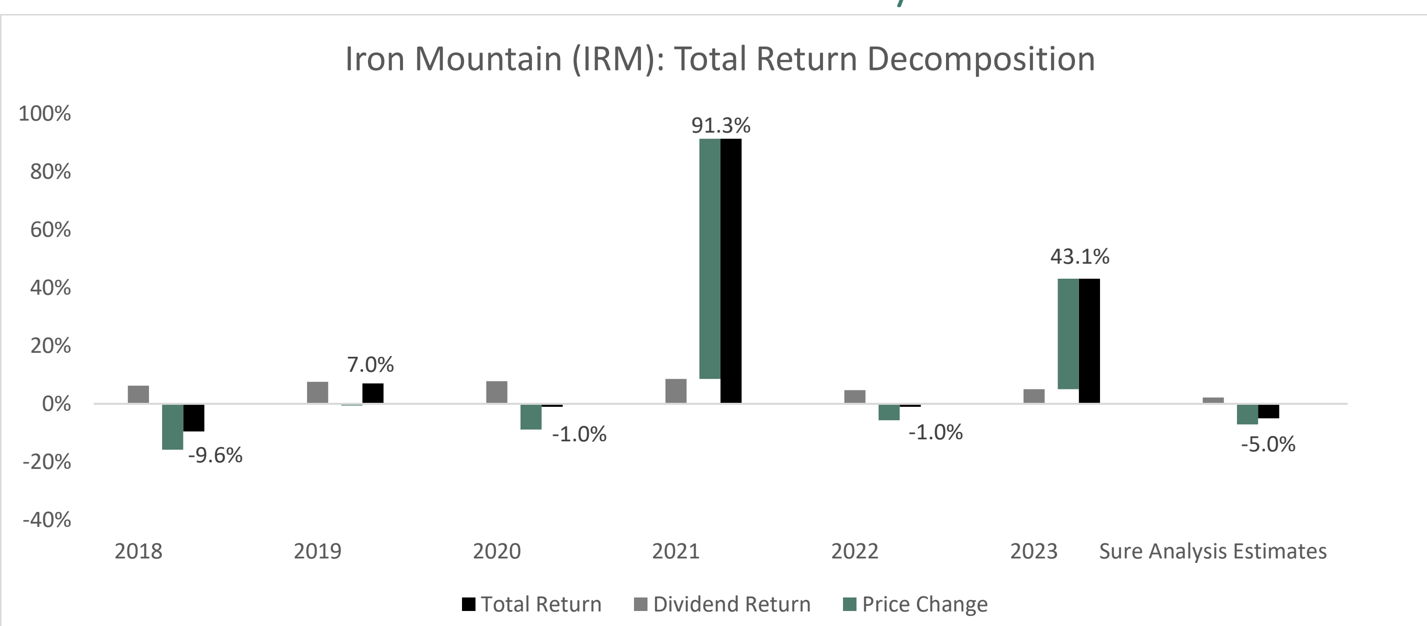
Iron Mountain pays out a significant portion of its cash flows to its owners in the form of dividends. Iron Mountain has not been raising its dividend very regularly in the past, instead opting to keep the dividend at an unchanged level for some time repeatedly. In the future, dividend growth could be a bit uneven as well. 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 very cyclical, means that Iron Mountain is relatively resilient to recessions. Cash flows continued to grow during the Great Recession, 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 at all attractive according to our models, which is why we rate the stock a sell right here.

Total Return Breakdown by Year



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	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.