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May 04, 2020

Iron Mountain Inc. (IRM)

$23.60 (As of 05/01/20)

Price Target (6-12 Months): **$25.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 02/21/19)
Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM:A
Value: B | Growth: A | Momentum: A

Summary

Iron Mountain's performance in recent quarters mirrored decent organic volume trends and positive contribution from revenue management across all geographies. However, service revenues were affected by paper prices. Storage business will likely witness continued volume growth backed by focus to incubate business in new storage areas. The transformation program, Project Summit, aimed at enhancing its ability to fund future growth opportunities, also augurs well. The company is on track in shifting its mix to faster-growing businesses, which increased to 24% of the company' sales, up from the 9% witnessed six years ago. However, near-term rise in costs from such moves might dampen its financials, especially given it's highly-leveraged balance sheet. Shares have also underperformed its industry over the past year.

Price, Consensus & Surprise

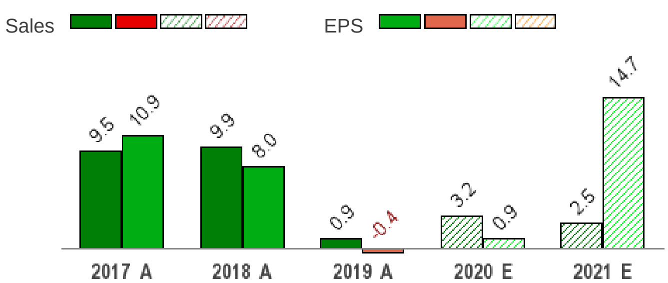
Data Overview

52 Week High-Low	**$34.49 - $21.00**
20 Day Average Volume (sh)	**3,037,043**
Market Cap	**$6.8 B**
YTD Price Change	**-26.0%**
Beta	**0.69**
Dividend / Div Yld	**$2.47 / 10.2%**
Industry	**REIT and Equity Trust - Other**
Zacks Industry Rank	**Top 47% (118 out of 253)**

Last EPS Surprise	**3.2%**
Last Sales Surprise	**0.7%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**05/07/2020**
Earnings ESP	**0.0%**

P/E TTM	**10.3**
P/E F1	**10.2**
PEG F1	**2.2**
P/S TTM	**1.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,114 E	1,122 E	1,126 E	1,134 E	4,509 E
2020	1,087 E	1,088 E	1,097 E	1,106 E	4,401 E
2019	1,054 A	1,067 A	1,062 A	1,080 A	4,263 A

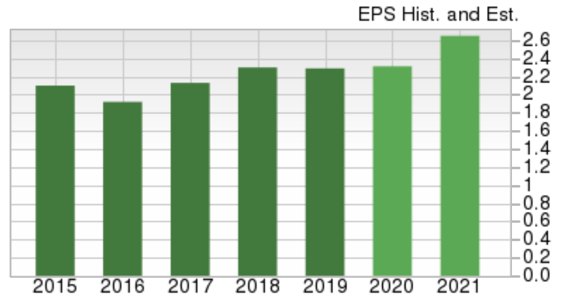
EPS Estimates

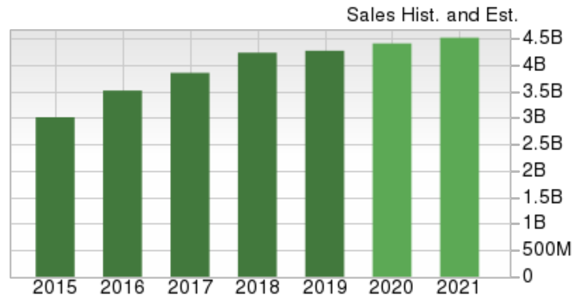
	Q1	Q2	Q3	Q4	Annual*
2021	$0.64 E	$0.64 E	$0.67 E	$0.68 E	$2.65 E
2020	$0.45 E	$0.58 E	$0.62 E	$0.64 E	$2.31 E
2019	$0.48 A	$0.54 A	$0.62 A	$0.65 A	$2.29 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview





Boston, MA-based Iron Mountain Inc. provides records & information management services and data center space & solutions in more than 50 countries. The company started operating as a real estate investment trust (REIT) from the taxable year that commenced on Jan 1, 2014. The company serves more than 225,000 customers from various industries, through its 1,450 facilities spanning more than 90 million square feet.

The company primarily generates revenues from storage rental and services. Storage rental revenues are generated through periodic rental charges for data storage. Service revenues comprise charges for related core service activities and a wide array of complementary products and services.

In October 2019, Iron Mountain announced a transformation program — Project Summit — to focus on simplifying its global structure, deleveraging, streamlining managerial structure for the future and enhancing customer experience.

Moreover, as a result of the managerial structure changes associated with Project Summit, the company has updated its reportable operating segments, which now comprise (i) Global RIM Business (consists of the former North American Records and Information Management Business (excluding the company's technology escrow services business), North American Data Management Business, Western European Business and Other International Business); (ii) Global Data Center Business; and (iii) Corporate and Other Business (includes Adjacent Businesses and technology escrow services business).

In 2017, the company launched Iron Mountain Iron Cloud, its enterprise-class cloud storage platform and services that offers data protection, preservation, restoration and recovery services.

Note: *All EPS numbers presented in this report represent funds from operations (FFO) per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation, and amortization and other non-cash expenses to net income.*

Reasons To Buy:

We remain positive on Iron Mountain primarily due to strong cash flows in its storage and records management business. Also, an aggressive acquisition strategy supplements organic growth.

- Iron Mountain enjoys a steady stream of recurring revenues from its core storage and record management businesses. Specifically, the company derives the majority of its revenues from fixed periodic (usually earned on a monthly basis) storage rental fees charged to customers based on the volume of their records stored. In fact, Iron Mountain has enjoyed a consistent box retention rate of 98%, with more than 50% of its boxes staying in the facilities for 15 years on average. This durable business also drives significant cross-selling synergies across different segments and delivers robust cash-flow growth. We believe strong organic growth and the company's initiatives to expand its core storage business will lead to sustained top-line growth over the long term.

- Iron Mountain is supplementing its storage segment's performance with expansion in its faster-growing businesses, most notably being the data center segment. Particularly, the company expanded its global data center portfolio via Fortrust, I/O, Credit Suisse and EvoSwitch acquisitions. In fact, data-center wins and a robust leasing pipeline indicate Iron Mountain's solid data-center platform which offers a long growth runway. Further, during 2019, the company executed 17 megawatts of new and expansion leases, and aims for data center business to account for 10% of total adjusted EBITDA by the end of 2020. The efforts will diversify the company's revenue mix and improve adjusted EBITDA margins.

- Iron Mountain's diversified revenue base is positive. The company serves more than 225,000 clients across different industries and geographical locations. Most importantly, no single customer accounts for more than 1% of its revenues, which reflects a well-diversified revenue generation base. Further, the company is on track in shifting its mix to faster-growing businesses, which increased to 24% of the company' sales, up from the 9% witnessed six years ago. Moreover, in October 2019, Iron Mountain announced a transformation program — Project Summit — to focus on simplifying its global structure, deleveraging, streamlining managerial structure for the future and enhancing customer experience. Such efforts are likely to help the company's profitability over the long term.

- Iron Mountain has an aggressive acquisition strategy to supplement organic growth in storage revenues. The company has not only gained new customers from these acquisitions but has also been able to expand operations in international markets, specifically, emerging markets. Notably, by scaling up its emerging market platform, the company can accelerate the EBITDA growth rate. During 2019, it completed the buyout of 10 storage and records management companies and an art storage company, thereby enhancing its operations in the United States, Colombia, Germany, Hong Kong, Latvia, Slovakia, Switzerland, Thailand and the United Kingdom and expanding operations in Bulgaria. Moreover, the company expect to generate capital recycling proceeds of approximately $100 million in 2020.

- Also, solid dividend payouts are arguably the biggest enticement for REIT shareholders, and Iron Mountain remains committed to that. In fact, concurrent with its third-quarter 2019 earnings, the company announced a 1.2% sequential hike in quarterly cash dividend to 61.85 cents and expects to continue growing dividends at a modest pace going forward. Such shareholder friendly moves boost investor's confidence in the stock.

Reasons To Sell:

The storage and information management services industry remains a highly-fragmented industry with numerous competitors. A highly-leveraged balance sheet and unfavorable paper prices are concerns.

- As archiving of original hard-copy documents losses its relevance, paper needs are shrinking at the enterprise level. This is resulting in declining physical storage volume and activity rates. Also, recycled paper prices are expected to be low in the near term. In addition to headwinds from paper prices, project Summit one-time costs and current foreign exchange rates remain challenging for the company's profitability.

- The company has a highly-leveraged balance sheet. High debt may limit the company's future expansion and worsen its risk profile. Although interest-rate levels are low, presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money-market accounts.

- The records and information management services industry is highly fragmented with numerous competitors in North America and around the world. Although Iron Mountain offers compelling products and has a strong market position, the company faces significant competition. This along with declining volume in its more mature markets is likely to result in aggressive pricing in and will keep margins under pressure, going forward.

- In addition, given Iron Mountain's international footprint, the company often faces unfavorable foreign-currency movements, which affects top-line growth. In fact, expansion of the company's international businesses has adversely impacted cost of sales components, and selling, general and administrative expenses. This is because its international operations are more labor intensive relative to revenues as compared with the company's North America operations. This results in labor costs to be a higher percentage of revenues from international operations.

- Shares of Iron Mountain have declined 24.1% over the past year compared with the industry's decline of 11.3%. Furthermore, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company as it has remained unchanged over the past month. Therefore, given the above-mentioned concerns and the lack of positive estimate revisions, the stock has limited upside potential in the near term.

Last Earnings Report

Iron Mountain's Q4 FFO and Revenues Beat Estimates

Quarter Ending	12/2019
Report Date	Feb 13, 2020
Sales Surprise	0.67%
EPS Surprise	3.17%
Quarterly EPS	0.65
Annual EPS (TTM)	2.29

Iron Mountain reported fourth-quarter 2019 normalized FFO per share of 65 cents, beating the Zacks Consensus Estimate of 63 cents. The reported figure also compared favorably with the year-ago quarter's 56 cents.

Revenues of $1.08 billion inched up 1.7% year over year, surpassing the Zacks Consensus Estimate of $1.07 billion. However, excluding the impact of foreign exchange, total revenues are up 2.7% year over year.

Results reflect decent organic volume trends and positive contribution from revenue management across all geographies. However, Service revenues were negatively impacted by paper prices. The company is also on track in shifting its mix to faster-growing businesses, which increased to 24% of the company' sales, up from the 9% witnessed six years ago.

Adjusted FFO (AFFO) increased 17.7% year over year to $228 million.

For full-year 2019, Iron Mountain reported normalized FFO per share of $2.29, up from the prior year's $2.26. This was backed by a 0.9% year-on-year increase in revenues to $4.26 billion. The tally, however, increased 3% excluding the impact of foreign exchange.

Quarter Details

Storage revenues came in at $676 million in the December-end quarter, highlighting a 3.5% year-on-year increase on a constant currency basis. The company recorded 2.5% organic growth, year on year.

Service revenues amounted to $404 million in the reported quarter, indicating a year-over-year increase of 1.5% on a constant currency basis. However, organic Service revenues edged down 0.7%, marred by paper prices.

Adjusted EBITDA margin expanded 190 basis points (bps) to 35.8%.

Guidance

Iron Mountain has issued its guidance for 2020. The company projects revenues at $4,375-$4,475 million, denoting a 3-5% change, year on year, and adjusted EBITDA of $1,520-$1,570, suggesting a 6-9% increase from the prior-year level. Further, AFFO is estimated in the range of $930-$960 million, indicating 9-12% year-on-year growth.

Project Summit Update

Iron Mountain's transformation program — Project Summit — focuses on simplifying its global structure, streamlining managerial structure for the future and enhancing customer experience.

Project Summit is anticipated to deliver annual adjusted EBITDA benefits of $200 million. Considerably, all of the benefits will be realized by 2022, with $80 million of benefits projected to be delivered in 2020. The total cost to implement the program is estimated to be approximately $240 million over the next two years, inclusive of roughly $50 million charge incurred in fourth-quarter 2019. Moreover, the company estimates that the 2020 restructuring charge would be around $130 million, with associated benefit commencing in the second half of this year.

Recent News

Iron Mountain to Construct Second Data Center in Manassas – Jan 3, 2020

Iron Mountain is constructing its second data center in Manassas with an aim to strengthen its campus in Prince William County, VA, per an article by Washington Business Journal. The announced project, slated to be completed in the first quarter of 2020, will require funding of $225 million.

The project would provide jobs to 50 employees. Prior to this, in 2017, the company had completed the construction of its first phase of campus worth $100 million, located at 11680 Hayden Road. According to management, with this addition, Iron Mountain will provide purpose-built, enterprise-class data center capacity to address clients' growing IT architecture challenges.

Dividend Update

On Feb 12, Iron Mountain announced first-quarter common stock cash dividend of 61.85 cents per share. The dividend was paid on Apr 6, to shareholders of record at the close of business on Mar 16, 2020.

Valuation

Iron Mountain's shares have been down 24.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Finance sector have declined 11.3% and 22.1% in the past year, respectively.

The S&P 500 index is down 3.7% in the past year.

The stock is currently trading at 9.72x forward 12-month FFO, which compares to 16.49x for the Zacks sub-industry, 14.84x for the Zacks sector and 20.18x for the S&P 500 Index.

Over the past five years, the stock has traded as high as 29.96x and as low as 8.83x, with a 5-year median of 15.28x. Our neutral recommendation indicates that the stock will perform in line with the market. Our $25 price target reflects 10.30x FFO.

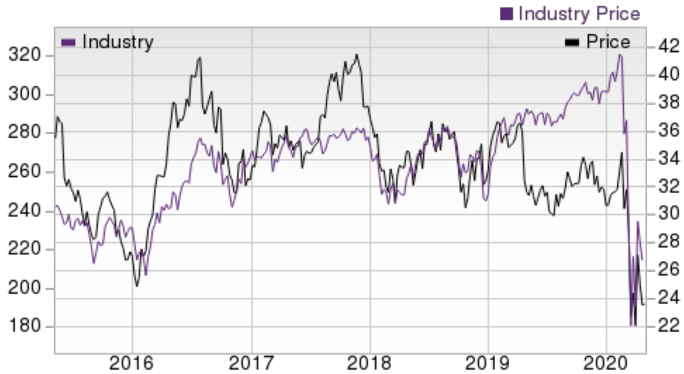
The table below shows summary valuation data for IRM.

Valuation Multiples - IRM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.72	16.49	14.84	20.18
	5-Year High	29.96	18.1	16.17	20.18
	5-Year Low	8.83	14.32	11.19	15.19
	5-Year Median	15.28	16.04	13.93	17.44
P/S F12M	Current	1.53	7.26	4.96	3.19
	5-Year High	2.93	8.14	6.69	3.44
	5-Year Low	1.41	5.91	4.96	2.54
	5-Year Median	2.28	6.87	6.05	3.01
P/B TTM	Current	4.63	2.41	2.07	3.75
	5-Year High	16.09	3.01	2.9	4.55
	5-Year Low	3.81	1.8	1.71	2.84
	5-Year Median	5.29	2.51	2.52	3.64

As of 05/01/2020

Industry Analysis **Zacks Industry Rank:** Top 47% (118 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Innovative Industrial Properties, Inc. **(IIPR)**	Outperform	1
Gaming and Leisure Properties, Inc. **(GLPI)**	Neutral	3
Gladstone Commercial Corporation **(GOOD)**	Neutral	3
Lamar Advertising Company **(LAMR)**	Neutral	3
Gladstone Land Corporation **(LAND)**	Neutral	2
OUTFRONT Media Inc. **(OUT)**	Neutral	3
Safehold Inc. **(SAFE)**	Neutral	3
VICI Properties Inc. **(VICI)**	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other

Industry Peers

	IRM	X Industry	S&P 500	GLPI	LAMR	VICI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	D	C	C
Market Cap	6.79 B	1.98 B	20.61 B	5.69 B	5.40 B	7.76 B
# of Analysts	3	4	14	2	1	8
Dividend Yield	10.48%	5.00%	2.11%	10.60%	7.45%	7.19%
Value Score	B	-	-	D	D	C
Cash/Price	0.03	0.03	0.06	0.00	0.01	0.32
EV/EBITDA	11.79	13.22	11.87	12.38	12.39	12.62
PEG Ratio	2.15	3.60	2.47	3.85	NA	1.03
Price/Book (P/B)	4.63	1.22	2.67	2.73	4.57	0.95
Price/Cash Flow (P/CF)	7.37	9.98	10.66	9.17	9.23	13.78
P/E (F1)	9.98	13.66	19.01	7.93	10.31	10.30
Price/Sales (P/S)	1.59	4.60	2.10	4.95	3.08	8.29
Earnings Yield	9.79%	7.34%	5.05%	12.61%	9.70%	9.72%
Debt/Equity	6.83	0.84	0.72	2.85	3.24	0.60
Cash Flow ($/share)	3.28	2.03	7.01	3.08	6.24	1.26
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	2.19%	2.75%	10.88%	5.63%	5.22%	NA
Proj. EPS Growth (F1/F0)	1.02%	-1.23%	-7.32%	-3.20%	-10.17%	8.61%
Curr. Cash Flow Growth	-8.61%	3.36%	5.92%	18.20%	17.20%	9.29%
Hist. Cash Flow Growth (3-5 yrs)	8.50%	12.74%	8.55%	17.10%	8.39%	NA
Current Ratio	0.63	1.26	1.23	4.04	0.46	116.25
Debt/Capital	87.31%	45.73%	43.84%	74.06%	76.40%	37.32%
Net Margin	6.27%	15.18%	11.08%	34.35%	21.21%	39.66%
Return on Equity	15.46%	4.54%	16.44%	18.68%	32.37%	4.60%
Sales/Assets	0.31	0.13	0.54	0.14	0.30	0.07
Proj. Sales Growth (F1/F0)	3.24%	0.85%	-1.42%	1.41%	-15.30%	31.44%
Momentum Score	A	-	-	D	C	F
Daily Price Chg	-3.09%	-2.08%	-2.39%	-2.05%	-1.28%	-2.68%
1 Week Price Chg	-5.84%	-4.18%	-1.74%	-5.34%	-5.78%	-3.17%
4 Week Price Chg	12.36%	17.11%	17.07%	15.12%	45.32%	17.47%
12 Week Price Chg	-24.27%	-26.93%	-18.53%	-41.09%	-39.00%	-35.84%
52 Week Price Chg	-23.34%	-21.93%	-9.82%	-29.70%	-28.31%	-23.70%
20 Day Average Volume	3,037,043	879,966	2,641,413	2,174,318	1,158,645	5,289,715
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.39%
(F1) EPS Est 4 week change	0.00%	-2.13%	-6.62%	-5.39%	-17.54%	-3.33%
(F1) EPS Est 12 week change	-6.28%	-4.31%	-13.28%	-5.25%	-18.23%	-4.23%
(Q1) EPS Est Mthly Chg	0.00%	-2.39%	-11.97%	-6.90%	-39.02%	-7.27%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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