

## Iron Mountain Inc. (IRM)

**\$30.56** (As of 06/08/20)

Price Target (6-12 Months): **\$32.00**

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:B

Value: C

Growth: B

Momentum: B

### Summary

Iron Mountain has fully pre-leased its new Frankfurt data center, with the recent 27-megawatt lease. Notably, amid strong demand for interconnection and colocation space, the company is focusing on its data center segment. Also, decent organic volume trends and recurring revenues from its core storage business are driving its performance. In fact, its first-quarter AFFO reached a new all-time high of \$231.2 million. The company expanded its transformation program, Project Summit, and expects higher adjusted EBITDA benefit. Yet, continued weakness in recycled paper prices and a slowdown in its service business will likely impact second-quarter service activity. Given its international footprint, currency exchange rate headwind will likely impact revenue growth. The company's shares have also underperformed the industry over the past year.

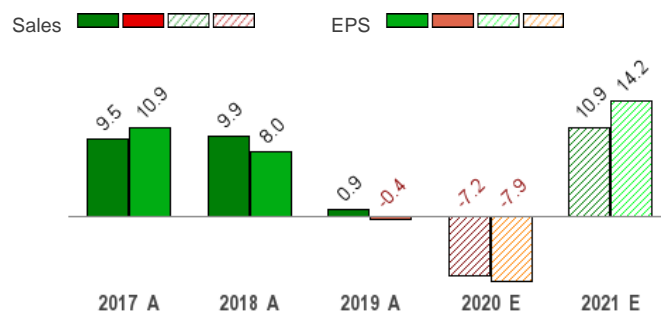
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$34.49 - \$21.00
20 Day Average Volume (sh)	2,971,125
Market Cap	\$8.8 B
YTD Price Change	-4.1%
Beta	0.69
Dividend / Div Yld	\$2.47 / 8.1%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Bottom 44% (140 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	31.1%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	12.7
P/E F1	14.5
PEG F1	3.1
P/S TTM	2.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,088 E	1,091 E	1,103 E	1,103 E	4,384 E
2020	1,069 A	998 E	1,031 E	1,052 E	3,954 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	\$0.53 E	\$0.55 E	\$0.60 E	\$0.61 E	\$2.41 E
2020	\$0.59 A	\$0.42 E	\$0.45 E	\$0.49 E	\$2.11 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 06/08/2020. The reports text is as of 06/09/2020.

## 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. This S&P 500 member serves more than 225,000 customers from various industries, through its 1,480 facilities spanning more than 90 million square feet.

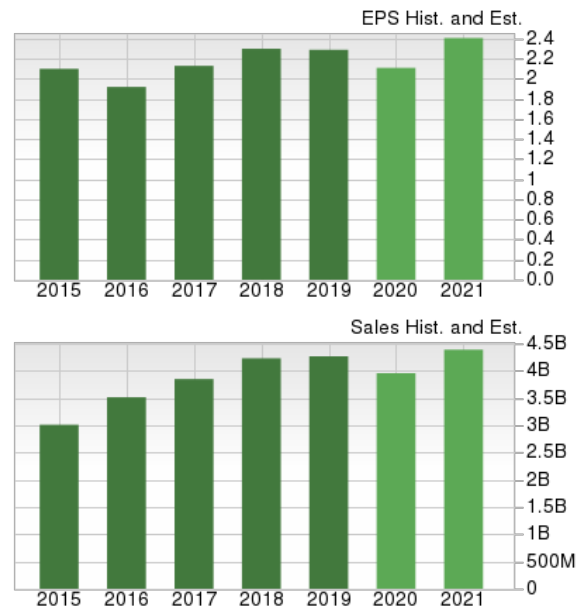
The company primarily generates revenues from storage rental and services. Storage rental revenues are generated through periodic rental charges for data storage. Service revenues comprise charges for related core service activities and a wide array of complementary products and services.

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 Records and Information Management (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.*



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## Reasons To Buy:

- ▲ 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. Moreover, Iron Mountain's resilient storage business is largely insulated from the impacts of the coronavirus pandemic since revenues from the segment are generated from boxes that are already in storage.
- ▲ 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, strong demand for connectivity, interconnection and colocation space is driving leasing. In fact, in first-quarter 2020, the company signed 6.4 megawatts of new and expansion leases along with the recent 27-megawatt lease for its Frankfurt data center. With this, the company expects to exceed its full-year leasing plan of 15-20 megawatts. Additionally, it aims for the data center business to account for more than 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's 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. In first-quarter 2020, the company acquired a storage and records management company in the UAE for around \$29,100. 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 expects 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. The company has a record of nine years of consecutive dividend increase. 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. Such shareholder friendly moves boost investor's confidence in the stock.
- ▲ Iron Mountain reduced capital investments both for capital expenditures as well as merger and acquisition by a net total of \$110 million to enhance liquidity amid the potential disruption related to the COVID-19 pandemic. Moreover, as of the first-quarter end, the company had more than \$1.2 billion in liquidity consisting of cash on hand of \$153 million and \$1.1 billion available under its revolving credit facility. Moreover, with no significant maturities in 2020, it has ample financial flexibility for near-term operations. Also, it has an investment-grade balance sheet, with corporate credit rating of BB- and Ba3 from S&P and Moody's, respectively.

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.

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## Reasons To Sell:

- ▼ As archiving of original hard-copy documents loses its relevance, paper needs are shrinking at the enterprise level. This is resulting in declining physical storage volume and activity rates. Also, continued weakness in recycled paper prices is impacting organic service revenue growth. In addition to headwinds from paper prices, project Summit one-time costs remain challenging for the company's profitability.
- ▼ Amid the coronavirus-led uncertain operating environment, Iron Mountain has withdrawn its previously provided guidance for 2020. In fact, the pandemic has led to numerous shutdowns and an increase in remote-working policies across companies, resulting in a slowdown in Iron Mountain's service business. This was primarily due to a year-over-year decline of 45-50% in April retrieval and refile activity. Further, in its secure destruction segment, shred pickup activity in April witnessed a 25-30% year-over-year decline due to limited pickups. Accordingly, the company expects around 40% year-over-year decline in second-quarter service activity.
- ▼ 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 RIM volumes 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, foreign currency exchange rate headwinds are expected to impact revenues by \$100 million in 2020. 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 2.8% over the past year as against the industry's gain of 0.7%. 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.

The storage and information management services industry remains a highly-fragmented industry with numerous competitors. Slowdown in service business and unfavorable paper prices are concerns.

## Last Earnings Report

### Iron Mountain Q1 FFO Beats Estimates, Revenues Miss

Iron Mountain reported first-quarter 2020 normalized FFO<sup>1</sup> per share of 59 cents, beating the Zacks Consensus Estimate of 45 cents. The reported figure also compared favorably with the year-ago quarter's 48 cents.

Revenues of \$1.07 billion improved 1.4% year over year. However, the top line missed the Zacks Consensus Estimate of \$1.09 billion.

Results reflect strength in the company's core storage business. However, amid the coronavirus-uncertain operating environment, it has withdrawn its previously provided guidance for 2020.

Adjusted FFO (AFFO) increased 19.6% year over year to \$231.2 million.

#### Quarter Details

Storage revenues were \$684 million in the March-end quarter, highlighting a 4.9% year-over-year increase on a constant currency basis. The company recorded 3% organic growth year over year.

Service revenues amounted to \$385 million in the reported quarter, indicating a year-over-year increase of 0.3% on a constant currency basis. However, organic Service revenues declined 2.3% year over year.

Adjusted EBITDA margin expanded 320 basis points (bps) to 34%.

#### Liquidity

As of the first quarter end, the company had total liquidity of more than \$1.2 billion, including cash on hand of \$153 million and \$1.1 billion available under its revolving credit facility.

#### 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 now anticipated to deliver annual adjusted EBITDA benefits of \$375 million (compared with \$200 million mentioned earlier), exiting 2021. The total cost to implement the program is estimated to be approximately \$450 million as compared to the prior expectation of \$240 million.

Quarter Ending **03/2020**

Report Date	<b>May 07, 2020</b>
Sales Surprise	<b>-1.70%</b>
EPS Surprise	<b>31.11%</b>
Quarterly EPS	<b>0.59</b>
Annual EPS (TTM)	<b>2.40</b>

## Recent News

### Iron Mountain Preleases 27 Megawatt Data Center in Frankfurt – Jun 8, 2020

Iron Mountain has signed a 27-megawatt data-center lease deal for its new FRA-1 data center in Frankfurt, Germany, which is currently under construction. This preleasing with a U.S.-based Fortune 100 customer reflects the decent demand for the company's data-center space.

FRA-1 is being developed in three phases, each phase offering 9 megawatts of power capacity. The first phase will likely be completed in the second quarter of 2021 and the full build-out is expected in the June-end period of 2022.

The lease is, therefore, expected to start in the second quarter of 2021, and run for 10 years initially, with renewal options to extend the term. While the customer will lease the entire 27 megawatt turn-key data center, upon lease commencement, the customer will take the initial 9 megawatts. Within five years, the customer is committed to scaling to the full capacity of 27 megawatts.

Backed by the strength in first-quarter leasing activity and execution of the hyperscale lease in Frankfurt, Iron Mountain now anticipates to substantially surpass its prior leasing target for new and expansion signings of 15-20 megawatts for the current year. The company plans to update on this front during its second-quarter earnings conference call.

Frankfurt is a top global data-center market and has emerged as the second largest in the European FLAP region. Also, one of the world's largest internet exchanges, DE-CIX, is present in this market. This peering exchange has hundreds of large networks available for customers.

Amid this, Iron Mountain's focus on ground-up developments in Frankfurt seems a strategic fit. It is also targeting for such developments in Northern Virginia as well as expansion at the existing data centers in Amsterdam, London, New Jersey, Northern Virginia, and Singapore, as part of its efforts to bank on hyperscale opportunities.

### Dividend Update

On May 5, Iron Mountain announced a second-quarter common stock cash dividend of 61.85 cents per share. The dividend will be paid out on Jul 2 to shareholders of record at the close of business on Jun 15, 2020.

## Valuation

Iron Mountain's shares have been down 2.8% in the trailing 12-month period. Stocks in the Zacks sub-industry have gained 0.7% against the Zacks Finance sector's decline of 5.4% in the past year.

The S&P 500 Index has moved up 11.8% over the past year.

The stock is currently trading at 13.64X forward 12-month FFO, which compares to 20.01X for the Zacks sub-industry, 18.09X for the Zacks sector and 23.35X for the S&P 500 Index.

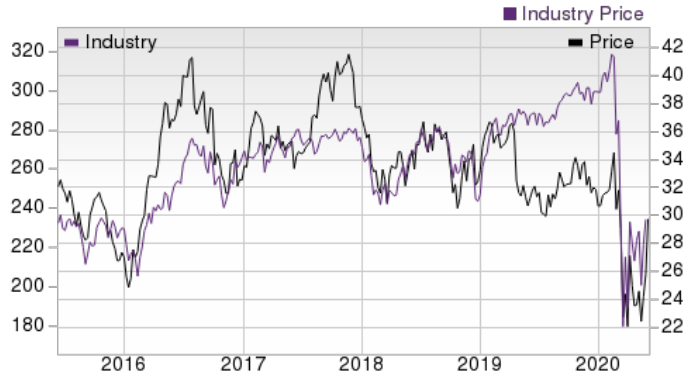
Over the past five years, the stock has traded as high as 29.02X and as low as 8.83X, with a 5-year median of 15.22X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$32 price target reflects 14.28X FFO.

The table below shows summary valuation data for IRM.

Valuation Multiples - IRM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.64	20.01	18.09	23.35
	5-Year High	26.02	20.01	18.09	23.35
	5-Year Low	8.83	14.32	11.58	15.23
	5-Year Median	15.22	16.08	13.98	17.49
P/S F12M	Current	2.12	8.62	6.00	3.63
	5-Year High	2.93	8.62	6.65	3.63
	5-Year Low	1.41	5.91	4.95	2.53
	5-Year Median	2.27	6.89	6.06	3.02
P/B TTM	Current	7.83	2.51	2.54	4.41
	5-Year High	16.09	3.01	2.91	4.56
	5-Year Low	3.81	1.80	1.71	2.83
	5-Year Median	5.35	2.50	2.53	3.65

As of 06/08/2020

## Industry Analysis Zacks Industry Rank: Bottom 44% (140 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Gaming and Leisure Properties, Inc. (GLPI)	Neutral	4
Gladstone Commercial Corporation (GOOD)	Neutral	3
Innovative Industrial Properties, Inc. (IIPR)	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	-	-	4	3	3
VGM Score	B	-	-	B	D	C
Market Cap	8.80 B	2.33 B	23.56 B	8.69 B	7.72 B	10.70 B
# of Analysts	3	4	14	3	1	5
Dividend Yield	8.10%	4.03%	1.8%	1.19%	5.22%	5.21%
Value Score	C	-	-	C	D	D
Cash/Price	0.02	0.06	0.06	0.07	0.07	0.33
EV/EBITDA	13.44	15.26	13.19	15.06	15.08	16.52
PEG Ratio	3.06	3.78	3.18	2.03	NA	NA
Price/Book (P/B)	7.83	1.41	3.19	4.33	6.78	1.39
Price/Cash Flow (P/CF)	9.31	12.22	12.52	13.12	12.27	18.06
P/E (F1)	14.21	17.00	23.31	12.35	15.89	14.43
Price/Sales (P/S)	2.06	5.49	2.51	7.57	4.35	11.43
Earnings Yield	6.90%	5.60%	4.15%	8.09%	6.29%	6.92%
Debt/Equity	9.31	0.92	0.76	3.20	3.91	0.87
Cash Flow (\$/share)	3.28	2.03	7.01	3.08	6.24	1.26
Growth Score	B	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	2.76%	2.02%	10.87%	5.68%	5.40%	NA
Proj. EPS Growth (F1/F0)	-7.86%	-2.81%	-10.76%	-4.85%	-16.90%	6.89%
Curr. Cash Flow Growth	-8.61%	3.36%	5.48%	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	0.76	1.83	1.29	9.92	1.46	69.43
Debt/Capital	90.36%	48.50%	44.75%	76.19%	79.65%	46.65%
Net Margin	7.06%	12.85%	10.59%	34.35%	20.35%	39.66%
Return on Equity	19.16%	3.98%	16.26%	18.91%	31.25%	4.65%
Sales/Assets	0.31	0.13	0.55	0.13	0.30	0.07
Proj. Sales Growth (F1/F0)	-7.25%	0.00%	-2.62%	-5.18%	-11.45%	26.64%
Momentum Score	B	-	-	A	B	C
Daily Price Chg	2.86%	2.78%	1.55%	1.33%	1.24%	-0.70%
1 Week Price Chg	15.33%	13.45%	7.51%	15.46%	14.09%	17.18%
4 Week Price Chg	27.12%	21.50%	15.61%	41.19%	15.24%	36.71%
12 Week Price Chg	24.08%	37.22%	38.10%	106.70%	55.43%	81.77%
52 Week Price Chg	-2.83%	-9.61%	3.66%	1.38%	-3.53%	2.42%
20 Day Average Volume	2,971,125	943,096	2,648,536	2,788,513	985,346	5,133,788
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.75%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.74%	-4.07%	-0.25%
(F1) EPS Est 12 week change	-10.59%	-5.29%	-15.97%	-6.99%	-20.57%	-5.75%
(Q1) EPS Est Mthly Chg	-17.82%	-0.18%	0.00%	1.70%	-8.33%	-1.77%



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## 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.

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### 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	C
Growth Score	B
Momentum Score	B
VGM Score	B

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.

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### Disclosures

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