

Iron Mountain Inc. (IRM)

\$33.36 (As of 02/13/20)

Price Target (6-12 Months): **\$35.00**

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

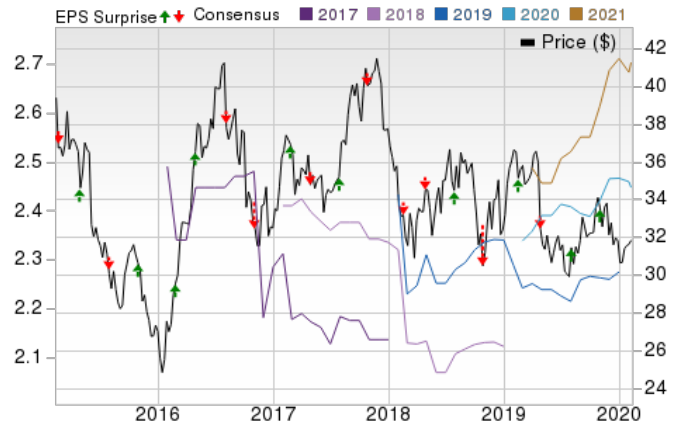
Growth: B

Momentum: B

Summary

Iron Mountain's better-than-expected fourth-quarter 2019 normalized funds from operations (FFO) per share reflected decent organic volume trends and positive contribution from revenue management across all geographies. However, Service revenues were negatively impacted 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. Efforts to shift revenue mix to faster-growing businesses and markets will support top-line growth. However, near-term rise in costs from such moves will likely dampen its financials, especially given the company's highly-leveraged balance sheet. Shares have underperformed its industry in the past year.

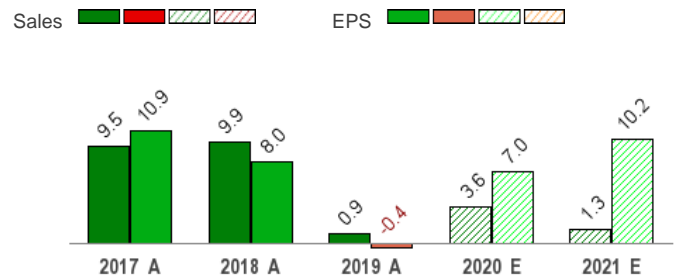
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$36.65 - \$29.28
20 Day Average Volume (sh)	2,379,055
Market Cap	\$9.6 B
YTD Price Change	4.7%
Beta	0.53
Dividend / Div Yld	\$2.47 / 7.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 40% (154 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.2%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-0.8%
Expected Report Date	04/23/2020
Earnings ESP	7.6%
P/E TTM	14.6
P/E F1	13.6
PEG F1	2.9
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,109 E	1,118 E	1,120 E	1,128 E	4,475 E
2020	1,078 E	1,086 E	1,091 E	1,101 E	4,416 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	\$0.66 E	\$0.69 E	\$0.70 E	\$2.70 E
2020	\$0.58 E	\$0.60 E	\$0.64 E	\$0.65 E	\$2.45 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 02/13/2020. The reports text is as of 02/14/2020.

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.

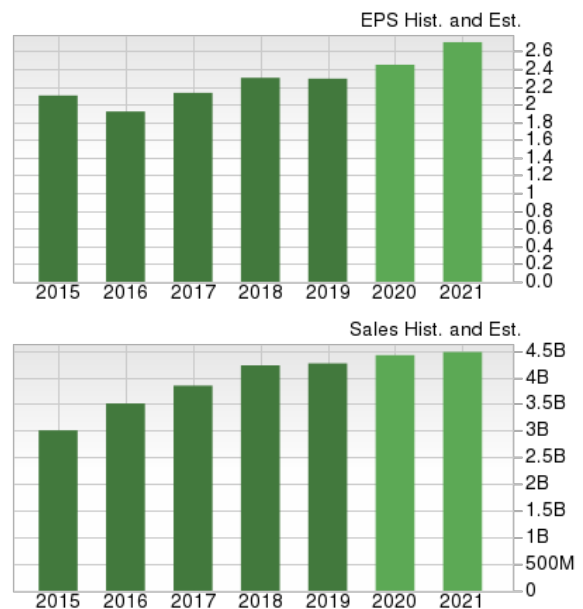
The company primarily generates revenues from storage rental and services. Storage rental revenues are generated through periodic rental charges for data storage. Service revenues comprise charges for related core service activities and a wide array of complementary products and services.

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:

- ▲ 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 faster-growing Adjacent Businesses segment, most notably being data centers. In fact, data-center wins and a robust leasing pipeline indicate Iron Mountain's solid data-center platform which offers a long growth runway. In fact, during 2019, the company executed 17 megawatts of new and expansion leases.
- ▲ 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. 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. 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.

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.

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, 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 storage 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 lower volume growth, 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 5.4%, over the past year, as against the industry's rally of 17.2%. Furthermore, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company as it witnessed marginal downward estimate revision over the past month. Therefore, given the above-mentioned concerns and negative 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. A highly-leveraged balance sheet and unfavorable paper prices are concerns.

Last Earnings Report

Iron Mountain's Q4 FFO and Revenues Beat Estimates

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's 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.

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

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 will be paid on Apr 6, to shareholders of record at the close of business on Mar 16, 2020.

Valuation

Iron Mountain's shares have depreciated 5.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 17.2% and 9.4%, over the past year.

The S&P 500 Index has been up 21% over the trailing 12-month period.

The stock is currently trading at 13.47X forward 12-month FFO, which compares to 19.10X for the Zacks sub-industry, 15.04X for the Zacks sector and 19.41X for the S&P 500 Index.

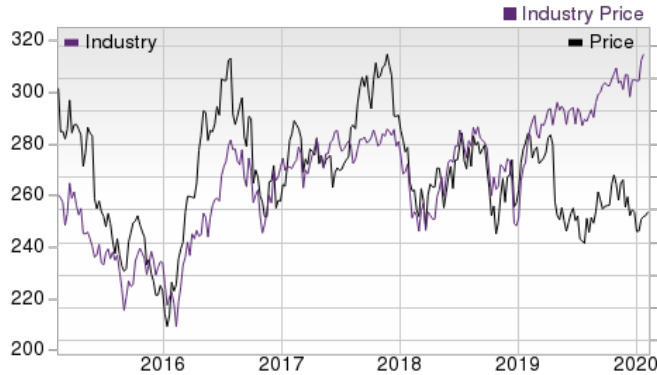
Over the past five years, the stock has traded as high as 31.13X and as low as 11.04X, with a 5-year median of 15.41X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 14.13X FFO.

The table below shows summary valuation data for IRM.

Valuation Multiples - IRM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.47	19.1	15.04	19.41
	5-Year High	31.13	19.1	16.21	19.41
	5-Year Low	11.04	14.32	12.01	15.18
	5-Year Median	15.41	16.11	14.15	17.47
P/S F12M	Current	2.19	8.75	6.55	3.58
	5-Year High	2.93	8.75	6.65	3.58
	5-Year Low	1.69	5.91	5.39	2.54
	5-Year Median	2.3	6.88	6.04	3
P/B TTM	Current	6.34	2.99	2.86	4.36
	5-Year High	16.09	2.99	2.89	4.42
	5-Year Low	3.81	2.07	1.83	2.85
	5-Year Median	5.34	2.52	2.51	3.62

As of 02/13/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (154 out of 255)



Top Peers

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	IRM Neutral	X Industry	S&P 500	GLPI Neutral	LAMR Neutral	VICI Neutral
VGM Score	B	-	-	D	D	F
Market Cap	9.58 B	3.02 B	24.56 B	10.51 B	9.60 B	12.86 B
# of Analysts	6	4	13	3	1	6
Dividend Yield	7.42%	3.96%	1.78%	5.72%	4.02%	4.27%
Value Score	C	-	-	C	D	D
Cash/Price	0.02	0.02	0.04	0.00	0.00	0.16
EV/EBITDA	13.53	18.41	14.00	20.24	19.91	19.84
PEG Ratio	2.91	3.58	2.10	1.49	NA	1.71
Price/Book (P/B)	6.34	1.78	3.31	4.99	8.22	1.59
Price/Cash Flow (P/CF)	9.26	14.86	13.68	18.73	17.78	19.36
P/E (F1)	13.48	15.60	19.23	13.96	15.47	16.47
Price/Sales (P/S)	2.25	7.13	2.69	9.00	5.58	14.56
Earnings Yield	7.34%	6.41%	5.20%	7.17%	6.47%	6.06%
Debt/Equity	6.51	0.89	0.71	2.82	3.32	0.51
Cash Flow (\$/share)	3.60	2.26	6.92	2.61	5.38	1.44
Growth Score	B	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	1.78%	2.91%	10.85%	5.57%	5.07%	NA
Proj. EPS Growth (F1/F0)	6.84%	3.77%	7.17%	1.94%	6.37%	20.13%
Curr. Cash Flow Growth	21.21%	12.17%	8.56%	8.12%	0.28%	1,073.85%
Hist. Cash Flow Growth (3-5 yrs)	14.50%	16.89%	8.36%	56.92%	7.98%	NA
Current Ratio	0.66	1.26	1.23	3.24	0.51	83.01
Debt/Capital	86.77%	46.90%	42.91%	73.85%	76.86%	33.82%
Net Margin	6.27%	13.74%	11.81%	27.62%	21.23%	66.78%
Return on Equity	15.03%	4.52%	16.86%	14.76%	32.10%	7.84%
Sales/Assets	0.31	0.13	0.54	0.14	0.31	0.07
Proj. Sales Growth (F1/F0)	2.20%	4.76%	3.85%	0.99%	4.09%	30.21%
Momentum Score	B	-	-	D	B	D
Daily Price Chg	4.94%	0.40%	0.00%	-0.02%	0.59%	0.61%
1 Week Price Chg	0.70%	1.85%	2.47%	0.75%	1.17%	1.19%
4 Week Price Chg	7.20%	2.32%	0.56%	8.25%	3.42%	6.49%
12 Week Price Chg	-0.57%	6.19%	6.96%	15.94%	15.59%	14.54%
52 Week Price Chg	-5.42%	10.98%	16.68%	30.50%	24.92%	28.76%
20 Day Average Volume	2,379,055	466,077	2,020,569	815,886	300,355	3,036,371
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.50%	-0.37%
(F1) EPS Est 4 week change	-0.78%	0.00%	-0.05%	0.00%	0.50%	0.14%
(F1) EPS Est 12 week change	-0.31%	-0.09%	-0.17%	0.00%	1.01%	3.99%
(Q1) EPS Est Mthly Chg	2.40%	0.00%	-0.24%	0.00%	3.67%	-5.49%

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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