

IRON MOUNTAIN INC (IRM)



\$35.58 - BUY

Valuation Methodology

Method #1	\$35.58
Method #2	\$37.72
Method #3	\$42.24
Method #4	\$75.68
Method #5	\$58.11
Method #6	\$63.99
Average of other methods	\$50.47



Market Data

Market CAP (intraday)	10.18B
Enterprise Value (August 2, 2018)	18.08B
Enterprise Value/EBITDA	13.37x

Financial Summary (12/31/2017)

Revenues	\$3.85B
EBITDA	\$1.26B
Net Income	\$302mm

Financial Analysis

Solvency ratios

LTD/Total Capitalization	66%
EBITDA/ Interest (Interest Coverage)	3.28x
LTD/EBITDA	5.94x

Profitability Ratios

Gross Margin	65.7%
EBITDA Margin	29.3%
EBIT Margin	19.2%
Return on Assets (ROA)	1.8%
Return on Equity (ROE)	8.7%

Profile

Iron Mountain stores physical records and data backup media, provides colocation and wholesale data center space, and provides information management and data center solutions that help organizations around the world protect their information, lower storage rental costs, comply with regulations, facilitate corporate disaster recovery, and better use their information and information technology ("IT") infrastructure for business advantages, regardless of its format, location or life cycle stage. IRM offers comprehensive records and information management services and data management services, along with the expertise and experience to address complex storage and information management challenges such as rising storage rental costs, and increased litigation, regulatory compliance and disaster recovery requirements. IRM provides data center facilities to protect digital information and ensure the continued operation of customers' IT infrastructures, with secure and reliable colocation and wholesale options. Founded in an underground facility near Hudson, New York in 1951, Iron Mountain Incorporated, a Delaware corporation, has more than 225,000 customers in a variety of industries in 53 countries around the world as of December 31, 2017. IRM currently serves customers across an array of market verticals - commercial, legal, financial, healthcare, insurance, life sciences, energy, business services, entertainment and government organizations, including approximately 95% of the Fortune 1000. As of December 31, 2017, IRM employed more than 24,000 people.

Financial Analysis

FY17 vs. FY16

Operations:

- Net sales for FY17 were \$3,845,578, an increase of \$334,125 or 9.5% compared to \$3,511,453 for FY 16. The increase was due to acquisitions. Acquisitions increased storage rental revenue by 6.5%. The net impact of acquisitions/divestitures contributed 6.6% to the reported consolidated revenue growth rate for the year ended December 31, 2017 compared to the prior year period, primarily driven by the acquisition of Recall. Excluding the acquisition, consolidated internal revenue growth was 2.3% in the year ended December 31, 2017 compared to the prior year period.
- COGS increased by 7.5% to \$1,685,318 in FY17 vs \$1,567,777 in FY16. Facilities expenses increased to 15.1% of consolidated revenues in the year ended December 31, 2017 compared to 14.9% in the year ended December 31, 2016. The 20 basis points increase in facilities expenses as a percentage of consolidated revenues was primarily driven by an increase in rent expense as a result of the acquisition of Recall, as Recall's real estate portfolio contains a more significant proportion of leased facilities than our real estate portfolio as it existed prior to the closing of the Recall Transaction. Transportation expenses decreased to 3.7% of consolidated revenues for the year ended December 31, 2017 compared to 3.8% for the year ended December 31, 2016. The decrease in transportation expenses as a percentage of consolidated revenues was driven by a decrease in vehicle lease expense, primarily associated with our North American Records and Information Management Business segment, partially offset by an increase in third party carrier costs as a percentage of consolidated revenue, primarily associated with our Other International Business segment. Recall Costs included in cost of sales were \$20.5 million for the year ended December 31, 2017, and primarily consisted of employee severance costs and facility integration costs including labor, maintenance, transportation and other costs related to building moves and consolidation. Recall Costs included in cost of sales were \$12.0 million for the year ended December 31, 2016, and primarily consisted of employee severance costs.
- Operating Expenses decreased 0.3% to \$984,965 in FY17 vs \$988,332 in FY16. The decrease in general and administrative expenses as a percentage of consolidated revenues was driven mainly by a decrease in compensation expense, partially attributable to the Transformation Initiative and synergies associated with our acquisition of Recall, partially offset by an increase in professional fees associated with innovation initiatives. On a constant dollar basis, general and administrative expenses for the year ended December 31, 2017 increased by \$14.4 million, or 2.8%, compared to the prior year period, primarily driven by our acquisition of Recall.
- As a result of the above, operating income for FY17 was \$191.723, an increase of \$87,843, or 84.6% compared to \$103,880 in FY16
- EBITDA/ EBITDA margin increased to \$1,260,196 / 32.8% in FY17 vs \$1,087,288 / 31.0% in FY16 due to the above issues

Cash Flow:

- OFC increased to \$720,968 in FY17 from \$543,895 in FY16 due to higher income as described above
- Capex totaled \$343,131M in FY17 vs \$328,603 in FY16; the capex has gradually increased to reflect investments made to grow the business
- Financing activities generated \$540,425 of cash in FY17 vs a generated cash of \$125,373 in FY16 primarily due to net proceeds from sale of senior notes and net proceeds associated with equity offering for the acquisition of Recall business.
- As a result of the above, change in cash for FY17 was +\$689,215 vs \$108,103 in FY16 and total cash on hand was \$925,699 at FYE2017.

Leverage:

- Total debt increased by \$792,090 to \$7,043,271 in FY17 vs \$6,251,181 at the end of FY16. Total leverage decreased to 5.59x at the end of 2017 vs. 5.75x at the end of 2016 due to increased debt and higher EBITDA.
- Interest coverage ratio slightly increased to 3.56x at the end of 2017 vs 3.50x at the end of FY16 primarily due to higher EBITDA
- Total Debt / Capitalization decreased to 65.9% at the end of FY17 from 73.0% at the end of FY16

Operating Info:

	Year Ended December 31,				
	2013	2014	2015	2016(1)	2017
	(In thousands)				
Consolidated Statements of Operations Data:					
Revenues:					
Storage rental	\$1,784,721	\$1,860,243	\$1,837,897	\$2,142,905	\$2,377,557
Service	1,239,902	1,257,450	1,170,079	1,368,548	1,468,021
Total Revenues	3,024,623	3,117,693	3,007,976	3,511,453	3,845,578
Operating Expenses:					
Cost of sales (excluding depreciation and amortization)	1,288,878	1,344,636	1,290,025	1,567,777	1,685,318
Selling, general and administrative	924,031	869,572	844,960	988,332	984,965
Depreciation and amortization	322,037	353,143	345,464	452,326	522,376
Intangible impairments	—	—	—	—	3,011
Loss on disposal/write-down of property, plant and equipment (excluding real estate), net	430	1,065	3,000	1,412	799
Total Operating Expenses	2,535,376	2,568,416	2,483,449	3,009,847	3,196,469
Operating Income	489,247	549,277	524,527	501,606	649,109
Interest Expense, Net	254,174	260,717	263,871	310,662	353,575
Other Expense, Net	75,202	65,187	98,590	44,300	79,429
Income from Continuing Operations Before Provision (Benefit) for Income Taxes and Gain on Sale of Real Estate	159,871	223,373	162,066	146,644	216,105
Provision (Benefit) for Income Taxes	62,127	(97,275)	37,713	44,944	25,947
Gain on Sale of Real Estate, Net of Tax	(1,417)	(8,307)	(850)	(2,180)	(1,565)
Income from Continuing Operations	99,161	328,955	125,203	103,880	191,723
Income (Loss) from Discontinued Operations, Net of Tax	831	(209)	—	3,353	(6,291)
Net Income	99,992	328,746	125,203	107,233	185,432
Less: Net Income Attributable to Noncontrolling Interests	3,530	2,627	1,962	2,409	1,611
Net Income Attributable to Iron Mountain Incorporated	\$ 96,462	\$ 326,119	\$ 123,241	\$ 104,824	\$ 183,821

(footnotes follow)

	Q2 2017	Q2 2018	% Change	YTD 2017	YTD 2018	% Change
Storage Rental	\$590,239	\$655,439	11.0%	\$1,162,518	\$1,306,588	12.4%
Service	359,567	405,384	12.7%	726,164	796,693	9.7%
Total Revenues	\$949,806	\$1,060,823	11.7%	\$1,888,682	\$2,103,281	11.4%
Gross Profit	\$535,522	\$609,359	13.8%	\$1,047,691	\$1,203,096	14.8%
Gross Margin	56.4%	57.4%	100 bps	55.5%	57.2%	170 bps
Gross Profit	\$535,522	\$609,359	13.8%	\$1,047,691	\$1,203,096	14.8%
Less: Significant Acquisition Costs included in Cost of Sales	5,073	1,827	(64.0%)	12,960	2,123	(83.6%)
Adjusted Gross Profit	\$540,595	\$611,186	13.1%	\$1,060,651	\$1,205,219	13.6%
Adjusted Gross Profit Margin	56.9%	57.6%	70 bps	56.2%	57.3%	110 bps
Adjusted Storage and Service Profit and Margin						
Adjusted Storage Gross Profit	\$447,313	\$488,834	9.3%	\$871,719	\$971,886	11.5%
Adjusted Storage Gross Margin	75.8%	74.6%	-120 bps	75.0%	74.4%	-60 bps
Adjusted Service Gross Profit	\$93,282	\$122,352	31.2%	\$188,932	\$233,333	23.5%
Adjusted Service Gross Margin	25.9%	30.2%	430 bps	26.0%	29.3%	330 bps
Storage Net Operating Income (NOI) ⁽¹⁾	\$492,121	\$533,884	8.5%	\$961,268	\$1,059,645	10.2%
SG&A Costs	\$237,445	\$250,326	5.4%	\$477,611	\$520,056	8.9%
Less: Significant Acquisition Costs Included in SG&A	\$14,904	\$8,594	(42.3%)	\$27,588	\$27,306	(1.0%)
Adjusted SG&A Costs	\$222,541	\$241,732	8.6%	\$450,023	\$492,750	9.5%
Adjusted SG&A as a % of Revenue	23.4%	22.8%	-60 bps	23.8%	23.4%	-40 bps
Income (Loss) from Continuing Operations	\$83,148	\$93,903	12.9%	\$141,992	\$139,517	(1.7%)
Adjusted EBITDA	\$318,054	\$369,454	16.2%	\$610,628	\$712,469	16.7%
Adjusted EBITDA Margin	33.5%	34.8%	130 bps	32.3%	33.9%	160 bps
Reported EPS - Fully Diluted from Continuing Operations	\$0.30	\$0.33	8.4%	\$0.53	\$0.49	(7.5%)
Adjusted EPS	\$0.30	\$0.30	0.0%	\$0.54	\$0.54	0.0%
Net Income (Loss)	\$81,122	\$93,543	15.3%	\$139,629	\$138,695	(0.7%)
AFFO	\$217,082	\$229,772	5.8%	\$388,019	\$451,274	16.3%
Ordinary Dividends per Share	\$0.5500	\$0.5875	6.8%	\$1.1000	\$1.1750	6.8%
Weighted Average Fully-diluted Shares Outstanding	264,930	286,569	8.2%	264,870	286,282	8.1%

Ratio Analysis

Ratio Analysis

Period Ending	12/31/17	12/31/16	12/31/15	12/31/14
Solvency Ratios				
LTD /Total Capitalization	65.9%	73.0%	84.9%	56.9%
EBITDA / Interest (Interest Coverage)	3.28x	3.04x	3.28x	3.46x
LTD / EBITDA	5.94x	6.46x	5.51x	5.07x
Profitability Ratios				
Gross Margin	65.7%	55.7%	57.1%	56.9%
EBITDA Margin	29.3%	30.6%	31.0%	32.8%
EBIT Margin	19.2%	18.1%	19.1%	18.4%
Return on Assets (ROA)	1.8%	1.3%	1.9%	5.0%
Gross Return on Assets				
Return on Equity (ROE)	8.7%	8.6%	18.1%	34.4%
Trend Analysis Ratios				
Revenue Growth	9.5%	16.7%	-3.5%	3.1%

Peer Analysis

Peer Analysis

(in millions)

Direct Competitor Comparison

	IRM	PSA	EXR	CUBE	LSI	DLR	EQIX	COR	CONE
Market Cap:	\$10,179	\$36,625	\$11,470	\$5,565	\$4,510	\$24,941	\$35,588	\$3,893	\$6,278
Employees:	24,000	5,600	3,380	2,508	1,792	1,436	7,273	465	416
Revenue (ttm):	\$4,060	\$2,714	\$1,148	\$578	\$540	\$2,841	\$4,830	\$515	\$749
EBITDA (ttm):	\$1,352	\$1,882	\$760	\$356	\$309	\$1,181	\$2,071	\$271	\$334
Operating Margin (ttm):	18.9%	52.0%	48.7%	36.9%	38.6%	16.6%	18.6%	26.6%	5.6%
Net Income (ttm):	\$185	\$1,250	\$493	\$150	\$130	\$201	\$276	\$70	\$97

Company	Symbol
Public Storage	PSA
Extra Space Storage Inc	EXR
CubeSmart	CUBE
Life Storage Inc	LSI
Digital Realty Trust Inc	DLR
Equinix Inc	EQIX
CoreSite Realty Corp	COR
CyrusOne Inc	CONE
Iron Mountain Inc	IRM

Projection Analysis

Period Ending	10 Yr Average	Operating Assumpt Input	Historical		Projections						
			12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23
Total Revenue			\$3,007,976	\$3,511,453	\$3,845,578	\$4,222,584	\$4,349,262	\$4,457,993	\$4,547,153	\$4,638,096	\$4,730,858
Cost of Revenue			1,290,026	1,555,817	1,664,825	1,773,485	1,826,690	1,872,357	1,909,804	1,948,000	1,986,960
Gross Profit			1,717,950	1,955,636	2,180,753	2,449,099	2,522,572	2,585,636	2,637,349	2,690,096	2,743,898
Total Operating Expenses			1,143,408	1,320,674	1,442,932	1,562,356	1,609,227	1,649,457	1,682,447	1,716,096	1,750,417
EBIT			574,542	634,962	737,821	886,743	913,345	936,179	954,902	974,000	993,480
Interest Expenses			263,871	310,662	353,575	358,435	339,570	320,705	301,840	282,975	264,110
EBT			310,671	324,300	384,246	528,308	573,775	615,474	653,062	691,025	729,370
Income Tax Expense			49,373	53,564	81,860	93,108	95,901	98,299	100,265	102,270	104,315
Net Income			261,298	270,736	302,386	435,200	477,874	517,175	552,797	588,755	625,055
Income Statement Assumptions											
Revenue Growth	3.5%		-3.5%	16.7%	9.5%	9.8%	3.0%	2.5%	2.0%	2.0%	2.0%
Gross Margin	56.8%	58.0%	57.1%	55.7%	56.7%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%
Operating Exp as % of Revenue	38.0%	37.0%	38.0%	37.6%	37.5%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%
Tax as % of EBT	30.9%		15.9%	16.5%	21.3%	17.6%	16.7%	16.0%	15.4%	14.8%	14.3%
Other Assumpdons % of Revenue											
Depreciation			345,464	452,326	522,376	591,162	608,897	624,119	636,601	649,333	662,320
Capex			290,249	328,603	343,131	422,258	434,926	445,799	454,715	463,810	473,086
Depreciation	11.0%	14.0%	11.5%	12.9%	13.6%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Capex	10.0%	10.0%	9.6%	9.4%	8.9%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Debt Schedule											
Short Term Debt											
Long Term Debt											
Total Debt Outstanding						7,681,300	7,277,021	6,872,742	6,468,463	6,064,184	5,659,905
Increase/Decrease		5.0%					-404,279	-404,279	-404,279	-404,279	-404,279
Interest Payment		4.7%				358,435	339,570	320,705	301,840	282,975	264,110
Ratio Analysis - Assumptions											
EBITDA			920,006	1,087,288	1,260,197	1,477,904	1,522,242	1,560,298	1,591,504	1,623,334	1,655,908
Trend Analysis											
Revenue Growth			-3.5%	16.7%	9.5%	9.8%	3.0%	2.5%	2.0%	2.0%	2.0%
Solvency Ratios (Leverage)											
Total Debt / EBITDA (Intl. CPLTD)						5.20x	4.78x	4.40x	4.06x	3.74x	3.42x
EBITDA / Interest Coverage Ratio						4.12x	4.48x	4.87x	5.27x	5.74x	6.27x
EBIT/Interest Coverage Ratio						2.47x	2.69x	2.92x	3.16x	3.44x	3.76x
Profitability Ratios											
Gross Margin %			57.1%	55.7%	56.7%	58.0%	58.0%	58.0%	58.0%	58.0%	58.0%
EBITDA Margin %			30.6%	31.0%	32.8%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
EBIT Margin %			19.1%	18.1%	19.2%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%

Projection Analysis Assumptions

REVENUE:

- Total revenue growth ranges from 9.8% to 2.0% from FY18 to FY23 with average annual growth of Business of 3.5% from 2017-2023E. Total revenue growth will stay at 2% for our perpetuity growth assumption
 - Believe realized price increases through the next several years will more than offset the volume decline in business
 - Data Center business will continue to grow at double digit rate. IRM management plans to further grow in the data center business. Possible growth through further acquisitions

GROSS MARGIN:

- Gross margin will improve from 56.7% 2017 to 58.0% as a result of margin improvement from efficiencies

OPERATING EXPENSES

- Operating expenses as % of Revenue will improve from 37.5% 2017 to 37.0% as a result of further benefits from management cost initiatives and ongoing efficiencies from the Recall transaction

EBITDA:

- EBITDA margin will improve from 32.8% 2017 to 35.0% over the next several years as a result of EBITDA margin improvement from growth in Data Center business and operating leverage
 - Operating expenses to remain flat at 37% of revenue for ongoing years

OTHER ASSUMPTIONS:

- Depreciation as % of revenue increases to 14.0% from 13.6% in 2017
- Capital expenditures consistent with historical levels at ~10% of sales with limited working capital requirements

RESULTS:

- The Company generates FCF from \$960mm to \$1bn over the next five years. The cash flows are very healthy to support ongoing deleveraging and for re-investment into the business.
- FCF (OCF — Capex) to pay principal ranges from \$900-1,100MM annually over the next five years
 - Total Debt / EBITDA (Intl. CPLTD) decreases from 5.2x in 2018 to 3.42x in 2023

Valuation Analysis

METHOD #1 - Market Value / Using the Stock Price							
Calculations		SP	SO	SP * SO = EQ	D	C	EQ + D - C = EV
Company	Symbol	Stock Price (as of 08/02/2018)	Stocks Outstanding (\$000)	Equity Value (\$000)	Debt (ST<) 6/30/2018 (\$000)	Cash 6/30/2018 (\$000)	Enterprise Value (\$000)
Iron Mountain Inc	IRM	\$ 35.58	286,099	10,179,402	8,085,579	188,192	18,076,789
Iron Mountain Inc's Enterprise Value		18,076,789					

METHOD #2- Intrinsic Value			
<u>Using CAPM = k = Rf + (Beta * Premium)</u>		<u>Intrinsic Value = V0 = [E(D1) + E (P1)] / (1+k)</u>	
Risk Free =	3.00%	D1=	\$2.35
Beta =	0.85x	Analyst Est.	\$1.18 (Average Earnings per share)
Premium=	5.50%	PE Multiple	32.24x
Market Return (Rf + Premium)=	8.50%	Exp (P1)=	\$37.83 (Avg Target by Analysts for 12/18)
		k=	7.7%
RoR =	7.7%	V0=	\$ 37.32
Iron Mountain Inc's Enterprise Value		18,573,456	

METHOD #3- Dividend Discount Model (DDM)			
<u>Constant-Growth DDM (Gordon Model) V0 = D1 / (k-g)</u>		<u>Expected HPR = E 9r) = IE (d1) + (E(p1) - P0) / P0</u>	
D1 =	\$2.35	Dividend (d1)	\$2.35 (No growth)
Expected Equity Return (k)=	7.7%	P1 = P0+D	\$37.93
Expected Growth (g) =	2.0%	P0	\$ 35.58
V0=	\$ 42.24	Exp. HPR=	13.21%
Iron Mountain Inc's Enterprise Value		19,981,604	

REIT peers. Self-storage peers include Public Storage, Extra Space, CubeSmart and LifeStorage. Data center peers include Digital Realty, Equinix, CoreSite, and CyrusOne.

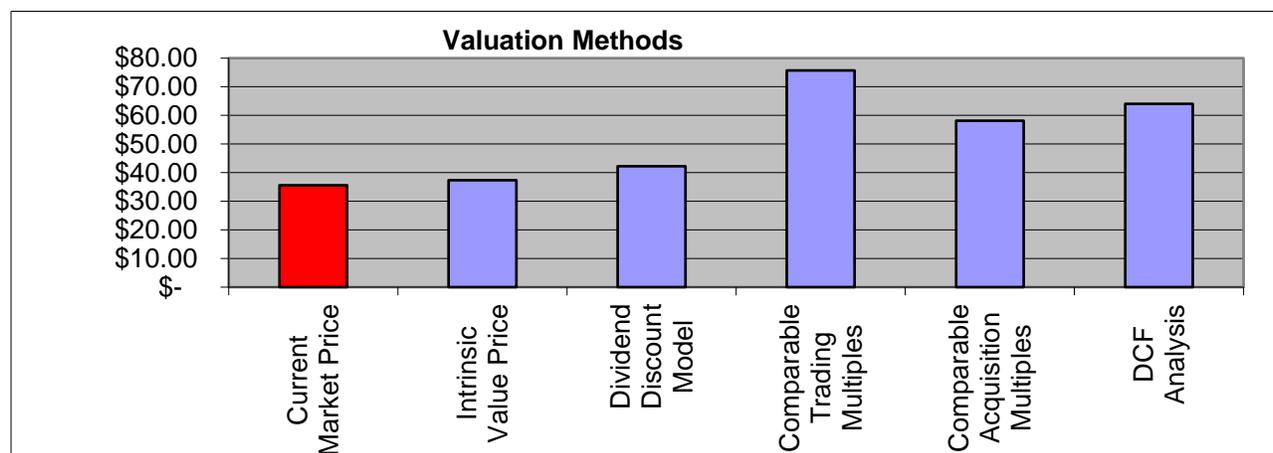
It is important to note that Iron Mountain has historically traded at a discount to these select public storage and data center peers as there is a perceived perceptual headwind with IRM's core business as slowing structurally. Although the core legacy storage business has been improving organic growth recently, secular challenges could further impact this business in the future. This analysis suggests that Iron Mountain stock is undervalued relative to self-storage REIT peers and data center REIT peers. The average peer EBITDA multiple of 22.04x would imply a stock price of \$75.60 for Iron Mountain.

Method # 6, the DCF analysis also demonstrates that Iron Mountain is undervalued. Based on the projections discussed in the Projection Analysis and Projection Analysis Assumptions, the DCF implies an equity value of \$63.99, significantly higher than the current Iron Mountain price of \$35.58.

Valuation Results

Based on all three methods #4 and #6, EBITDA Industry Trading Multiples and Discount Cash Flow Valuation analysis, the conclusion is that Iron Mountain's current trading level is undervalued. Assuming the thesis that Iron Mountain's core legacy business is durable and continues low single digit organic growth, and that the growth of the data center business continues to perform well, then the company should create attractive cash flows that support our valuation ranges. We believe that the perceived downside risk of the legacy storage business declining is overstated. Even though enterprises and large corporations are shifting their focus on digital documentation and storage, physical storage still has an important role for many companies. In fact, Iron Mountain has been able to grow organic growth in this business by ~3.0% on average from 2010 to 2017. While over time the physical storage business may start to decline, Iron Mountain will be able to generate healthy cashflows that it can use to reinvest in the data center business growth.

ENTERPRISE VALUATION ANALYSIS						
	EV	Debt	Cash	Eq Value	Shares Outs	Stock Price
Book Value Equity	9,954,864	8,085,579	188,192	2,057,477	286,099	\$ 7.19
METHOD #1 - Market Value / Using the Stock Price	18,076,789	8,085,579	188,192	10,179,402	286,099	\$ 35.58
METHOD #2- Intrinsic Value	18,573,456	8,085,579	188,192	10,676,069	286,099	\$ 37.32
METHOD #3- Dividend Discount Model (DDM)	19,981,604	8,085,579	188,192	12,084,217	286,099	\$ 42.24
METHOD #4 -Average EBITDA Industry Trading Multiples	29,548,196	8,085,579	188,192	21,650,809	286,099	\$ 75.68
METHOD #5 - Using Average EBITDA Transaction Multiples	24,522,191	8,085,579	188,192	16,624,804	286,099	\$ 58.11
METHOD #6 - Discount Cash Flow Valuation Analysis	26,204,163	8,085,579	188,192	18,306,776	286,099	\$ 63.99
Average of methods 1, 4, and 6	24,609,716	8,085,579	188,192	16,712,329		\$ 58.41
Average of other methods	23,765,922	8,085,579	188,192	15,868,535		\$ 45.73



Appendix

	Year Ended December 31,				
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	(In thousands)				
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Operating Income	489,247	549,277	524,527	501,606	649,109
Interest Expense, Net	254,174	260,717	263,871	310,662	353,575
Other Expense, Net	75,202	65,187	98,590	44,300	79,429
Income from Continuing Operations Before Provision (Benefit) for Income Taxes and Gain on Sale of Real Estate	159,871	223,373	162,066	146,644	216,105
Provision (Benefit) for Income Taxes	62,127	(97,275)	37,713	44,944	25,947
Gain on Sale of Real Estate, Net of Tax	(1,417)	(8,307)	(850)	(2,180)	(1,565)
Income from Continuing Operations	99,161	328,955	125,203	103,880	191,723
Income (Loss) from Discontinued Operations, Net of Tax	831	(209)	—	3,353	(6,291)
Net Income	99,992	328,746	125,203	107,233	185,432
Less: Net Income Attributable to Noncontrolling Interests	3,530	2,627	1,962	2,409	1,611
Net Income Attributable to Iron Mountain Incorporated	\$ 96,462	\$ 326,119	\$ 123,241	\$ 104,824	\$ 183,821

(footnotes follow)

	Year Ended December 31,				
	2013	2014	2015	2016(1)	2017
	(In thousands)				
Other Data:					
Adjusted EBITDA(2)	\$ 894,581	\$ 925,797	\$ 920,005	\$ 1,087,288	\$ 1,260,196
Adjusted EBITDA Margin(2)	29.6%	29.7%	30.6%	31.0%	32.8%
Ratio of Earnings to Fixed Charges	1.5x	1.7x	1.5x	1.4x	1.5x
<i>(footnotes follow)</i>					

	As of December 31,				
	2013	2014	2015	2016(1)	2017
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and Cash Equivalents(3)	\$ 154,386	\$ 159,793	\$ 128,381	\$ 236,484	\$ 925,699
Total Assets	6,607,398	6,523,265	6,350,587	9,486,800	10,972,402
Total Long-Term Debt (including Current Portion of Long-Term Debt)	4,126,115	4,616,454	4,845,678	6,251,181	7,043,271
Redeemable Noncontrolling Interests	—	—	—	54,697	91,418
Total Equity	1,051,734	869,955	528,607	1,936,671	2,298,842
<i>(footnotes follow)</i>					

REVENUES

	Year Ended December 31,			Percentage Change		
	2016	2017	Dollar Change	Actual	Constant Currency(1)	Internal Growth(2)
	Storage Rental	\$ 2,142,905	\$ 2,377,557	\$ 234,652	11.0%	10.4%
Service	1,368,548	1,468,021	99,473	7.3%	6.6%	(0.3)%
Total Revenues	\$ 3,511,453	\$ 3,845,578	\$ 334,125	9.5%	8.9%	2.3 %

	Year Ended December 31,			Percentage Change		
	2015	2016	Dollar Change	Actual	Constant Currency(1)	Internal Growth(2)
	Storage Rental	\$ 1,837,897	\$ 2,142,905	\$ 305,008	16.6%	19.1%
Service	1,170,079	1,368,548	198,469	17.0%	19.9%	(0.6)%
Total Revenues	\$ 3,007,976	\$ 3,511,453	\$ 503,477	16.7%	19.4%	1.2 %

	December 31,	
	2016	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 236,484	\$ 925,699
Accounts receivable (less allowances of \$44,290 and \$46,648 as of December 31, 2016 and 2017, respectively)	691,249	835,742
Prepaid expenses and other	184,374	188,874
Total Current Assets	1,112,107	1,950,315
Property, Plant and Equipment:		
Property, plant and equipment	5,535,783	6,251,100
Less—Accumulated depreciation	(2,452,457)	(2,833,421)
Property, Plant and Equipment, net	3,083,326	3,417,679
Other Assets, net:		
Goodwill	3,905,021	4,070,267
Customer relationships and customer inducements	1,252,523	1,400,547
Other	133,823	133,594
Total Other Assets, net	5,291,367	5,604,408
Total Assets	<u>\$ 9,486,800</u>	<u>\$ 10,972,402</u>
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 172,975	\$ 146,300
Accounts payable	222,197	289,137
Accrued expenses	450,257	653,146
Deferred revenue	201,128	241,590
Total Current Liabilities	1,046,557	1,330,173
Long-term Debt, net of current portion	6,078,206	6,896,971
Other Long-term Liabilities	99,540	73,039
Deferred Rent	119,834	126,231
Deferred Income Taxes	151,295	155,728
Commitments and Contingencies (see Note 10)		
Redeemable Noncontrolling Interests (see Note 2.x.)	54,697	91,418
Equity:		
Iron Mountain Incorporated Stockholders' Equity:		
Preferred stock (par value \$0.01; authorized 10,000,000 shares; none issued and outstanding)	—	—
Common stock (par value \$0.01; authorized 400,000,000 shares; issued and outstanding 263,682,670 shares and 283,110,183 shares as of December 31, 2016 and 2017, respectively)	2,636	2,831
Additional paid-in capital	3,489,795	4,164,562
(Distributions in excess of earnings) Earnings in excess of distributions	(1,343,311)	(1,765,966)
Accumulated other comprehensive items, net	(212,573)	(103,989)
Total Iron Mountain Incorporated Stockholders' Equity	1,936,547	2,297,438
Noncontrolling Interests	124	1,404
Total Equity	1,936,671	2,298,842
Total Liabilities and Equity	<u>\$ 9,486,800</u>	<u>\$ 10,972,402</u>

The accompanying notes are an integral part of these consolidated financial statements.

IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2015	2016	2017
Revenues:			
Storage rental	\$ 1,837,897	\$ 2,142,905	\$ 2,377,557
Service	1,170,079	1,368,548	1,468,021
Total Revenues	3,007,976	3,511,453	3,845,578
Operating Expenses:			
Cost of sales (excluding depreciation and amortization)	1,290,025	1,567,777	1,685,318
Selling, general and administrative	844,960	988,332	984,965
Depreciation and amortization	345,464	452,326	522,376
Intangible impairments	—	—	3,011
Loss (Gain) on disposal/write-down of property, plant and equipment (excluding real estate), net	3,000	1,412	799
Total Operating Expenses	2,483,449	3,009,847	3,196,469
Operating Income (Loss)	524,527	501,606	649,109
Interest Expense, Net (includes Interest Income of \$3,984, \$7,558 and \$7,659 in 2015, 2016 and 2017, respectively)	263,871	310,662	353,575
Other Expense (Income), Net	98,590	44,300	79,429
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes and Gain on Sale of Real Estate	162,066	146,644	216,105
Provision (Benefit) for Income Taxes	37,713	44,944	25,947
Gain on Sale of Real Estate, Net of Tax	(850)	(2,180)	(1,565)
Income (Loss) from Continuing Operations	125,203	103,880	191,723
Income (Loss) from Discontinued Operations, Net of Tax	—	3,353	(6,291)
Net Income (Loss)	125,203	107,233	185,432
Less: Net Income (Loss) Attributable to Noncontrolling Interests	1,962	2,409	1,611
Net Income (Loss) Attributable to Iron Mountain Incorporated	<u>\$ 123,241</u>	<u>\$ 104,824</u>	<u>\$ 183,821</u>
Earnings (Losses) per Share—Basic:			
Income (Loss) from Continuing Operations	\$ 0.59	\$ 0.41	\$ 0.71
Total Income (Loss) from Discontinued Operations, Net of Tax	<u>\$ —</u>	<u>\$ 0.01</u>	<u>\$ (0.02)</u>
Net Income (Loss) Attributable to Iron Mountain Incorporated	<u>\$ 0.58</u>	<u>\$ 0.43</u>	<u>\$ 0.69</u>
Earnings (Losses) per Share—Diluted:			
Income (Loss) from Continuing Operations	\$ 0.59	\$ 0.41	\$ 0.71
Total Income (Loss) from Discontinued Operations, Net of Tax	<u>\$ —</u>	<u>\$ 0.01</u>	<u>\$ (0.02)</u>
Net Income (Loss) Attributable to Iron Mountain Incorporated	<u>\$ 0.58</u>	<u>\$ 0.42</u>	<u>\$ 0.69</u>
Weighted Average Common Shares Outstanding—Basic	210,764	246,178	265,898
Weighted Average Common Shares Outstanding—Diluted	212,118	247,267	266,845
Dividends Declared per Common Share	<u>\$ 1.9100</u>	<u>\$ 2.0427</u>	<u>\$ 2.2706</u>

The accompanying notes are an integral part of these consolidated financial statements.

IRON MOUNTAIN INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2015	2016	2017
Cash Flows from Operating Activities:			
Net income (loss)	\$ 125,203	\$ 107,233	\$ 185,432
(Income) loss from discontinued operations	—	(3,353)	6,291
Adjustments to reconcile net income (loss) to cash flows from operating activities:			
Depreciation	301,219	365,526	406,283
Amortization (includes amortization of deferred financing costs and discount of \$9,249, \$13,151 and \$14,962 in 2015, 2016 and 2017, respectively)	53,494	96,951	131,055
Intangible impairments	—	—	3,011
Revenue reduction associated with amortization of permanent withdrawal fees (see Note 2.1)	11,670	12,217	11,253
Stock-based compensation expense	27,585	28,976	30,019
(Benefit) provision for deferred income taxes	(7,473)	(50,368)	(56,378)
Loss on early extinguishment of debt	27,365	9,283	78,368
Loss (gain) on disposal/write-down of property, plant and equipment, net (including real estate)	1,941	(890)	(799)
Loss on disposal of Iron Mountain Divestments (see Note 14)	—	16,838	—
Gain on Russia and Ukraine Divestment (see Note 14)	—	—	(8,869)
Foreign currency transactions and other, net	46,221	16,624	50,563
Changes in Assets and Liabilities (exclusive of acquisitions):			
Accounts receivable	17,984	(23,206)	(89,653)
Prepaid expenses and other	5,171	(34,274)	(25,281)
Accounts payable	18,017	(50,712)	34,898
Accrued expenses and deferred revenue	(77,469)	51,617	(35,078)
Other assets and long-term liabilities	(7,108)	(4,238)	13,166
Cash Flows from Operating Activities—Continuing Operations	541,760	541,236	724,259
Cash Flows from Operating Activities—Discontinued Operations	—	2,679	(3,281)
Cash Flows from Operating Activities	541,760	543,915	720,978
Cash Flows from Investing Activities:			
Capital expenditures	(290,249)	(328,603)	(343,131)
Cash paid for acquisitions, net of cash acquired (see Note 6)	(113,556)	(291,965)	(219,765)
Acquisition of customer relationships	(32,611)	(31,961)	(35,126)
Customer inducements	(22,500)	(19,205)	(20,059)
Net proceeds from Iron Mountain Divestments (see Note 6)	—	30,634	29,236
Proceeds from sales of property and equipment and other, net (including real estate)	2,272	7,977	9,337
Cash Flows from Investing Activities—Continuing Operations	(436,644)	(632,707)	(599,448)
Cash Flows from Investing Activities—Discontinued Operations	—	96,712	—
Cash Flows from Investing Activities	(436,644)	(535,995)	(599,448)
Cash Flows from Financing Activities:			
Repayment of revolving credit, term loan facilities, bridge facilities and other debt	(10,796,873)	(14,851,440)	(14,429,695)
Proceeds from revolving credit, term loan facilities, bridge facilities and other debt	10,925,709	14,544,388	13,917,055
Early retirement of senior subordinated and senior notes	(814,726)	—	(1,746,856)
Net proceeds from sales of senior notes	985,000	921,443	2,856,948
Debt financing and equity contribution from noncontrolling interests	7,549	1,299	13,233
Debt repayment and equity distribution to noncontrolling interests	(2,016)	(1,768)	(4,151)
Parent cash dividends	(406,508)	(503,871)	(439,969)
Net proceeds associated with the Equity Offering	—	—	516,462
Net proceeds associated with the At The Market (ATM) Program	—	—	59,129
Net proceeds (payments) associated with employee stock-based awards	7,149	31,822	33,085
Excise tax (deficiency) benefits from employee stock-based awards	327	—	—
Payment of debt financing and stock issuance costs	(34,181)	(18,603)	(14,793)
Cash Flows from Financing Activities—Continuing Operations	(108,511)	(221,373)	543,425
Cash Flows from Financing Activities—Discontinued Operations	—	—	—
Cash Flows from Financing Activities	(108,511)	(221,373)	543,425
Effect of Exchange Rates on Cash and Cash Equivalents	(6,035)	(28,174)	27,270
(Decrease) Increase in Cash and Cash Equivalents	(31,412)	108,103	689,215
Cash and Cash Equivalents, including Restricted Cash, Beginning of Year	159,785	128,381	226,484
Cash and Cash Equivalents, including Restricted Cash, End of Year	\$ 128,373	\$ 236,484	\$ 915,699
Supplemental Information:			
Cash Paid for Interest	\$ 259,815	\$ 297,122	\$ 368,468
Cash Paid for Income Taxes, Net	\$ 47,440	\$ 69,866	\$ 114,458
Non-Cash Investing and Financing Activities:			
Capital Leases	\$ 83,081	\$ 74,881	\$ 169,841
Accrued Capital Expenditures	\$ 31,846	\$ 62,491	\$ 71,069
Accrued Purchase Price and Other Holdbacks (see Note 6)	\$ —	\$ —	\$ 20,081
Dividends Payable	\$ 5,950	\$ 5,623	\$ 172,312
Fair Value of Stock Issued for Recall Transaction (see Note 6)	\$ —	\$ 1,815,025	\$ —
Fair Value of Initial ESG Investment (see Note 14)	\$ —	\$ —	\$ 18,000
Fair Value of Stock Issued for Parent Transaction (see Note 6)	\$ —	\$ —	\$ 81,014

The accompanying notes are an integral part of these consolidated financial statements.