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Iron Mountain Reports Third-Quarter 2019 Results

Announces Transformation Program to Accelerate Execution of Strategy and Continue Growth

BOSTON – October 31, 2019 – Iron Mountain Incorporated (NYSE: IRM), the storage and information management services company, announces financial and operating results for the third quarter of 2019. The conference call / webcast details, earnings call presentation and supplemental financial information, which includes definitions of certain capitalized terms used in this release, are available on Iron Mountain's Investor Relations website. Reconciliations of non-GAAP measures to the appropriate GAAP measures are included herein.

"Our third-quarter performance demonstrates the durability and stability of our core Records and Information Management business, with Adjusted EBITDA growth of 5% year over year on a constant-currency basis," said William L. Meaney, president and CEO of Iron Mountain. "Organic Storage rental revenue growth accelerated again in Q3, increasing 3% year over year, reflecting strong contribution from revenue management and positive global organic volume trends."

Financial Performance Highlights for the Third Quarter and Year-to-Date 2019

- Total reported Revenues for the third quarter were \$1.06 billion, flat compared with \$1.06 billion in the third quarter of 2018. Excluding the impact of foreign exchange (FX), total Revenues grew 1.7% compared to the prior year, primarily due to strong contribution from revenue management, as well as organic growth across most of Iron Mountain's segments and regions, including Adjacent Businesses, Global Data Center, and Other International. Year to date, total Revenues grew 3.1%, excluding the impact of FX.
- Income from Continuing Operations for the third quarter was \$108.3 million, compared with \$77.3 million in the third quarter of 2018, reflecting a decrease in Operating Expenses, gains related to foreign currency transactions, and gains from real estate capital recycling. Income from Continuing Operations included \$4.0 million of Significant Acquisition Costs in the third quarter of 2019, compared with \$9.3 million in the third quarter of 2018. Year to date, Income from Continuing Operations was \$231.1 million, compared with \$209.0 million in 2018, with Significant Acquisition Costs of \$8.6 million in 2019 and \$38.7 million in 2018.
- Adjusted EBITDA for the third quarter was \$375.7 million, compared with \$362.3 million in the third quarter of 2018. On a constant currency basis, Adjusted EBITDA increased by 5.0%, despite continued headwinds from lower recycled paper prices. Year to date, Adjusted EBITDA was \$1.1 billion, compared with \$1.1 billion in 2018, and increased 0.7%, excluding the impact of FX.
- Reported EPS - Fully Diluted from Continuing Operations for the third quarter was \$0.37, compared to \$0.27 in the third quarter of 2018. Year to date, Reported EPS - Fully Diluted from Continuing Operations was \$0.80, compared with \$0.73 in 2018.
- Adjusted EPS for the third quarter was \$0.32, compared with \$0.28 in the third quarter of 2018. Year to date, Adjusted EPS was \$0.71, compared with \$0.80 in 2018. The structural tax rate was 18.6% in the third quarter of 2019, compared with 20.3% in the third quarter of 2018.

- Net Income for the third quarter was \$108.3 million compared with \$65.7 million in the third quarter of 2018. Year to date, Net Income was \$231.2 million compared with \$196.6 million in 2018.
- FFO (Normalized) per share was \$0.62 for the third quarter, compared with \$0.58 in the third quarter of 2018. Year to date, FFO (Normalized) per share was \$1.64, compared with \$1.68 in 2018.
- AFFO was \$225.3 million for the third quarter compared with \$227.1 million in the third quarter of 2018, a decrease of 0.8%. Year to date, AFFO was \$628.3 million, compared with \$668.9 million in 2018.

Project Summit

Iron Mountain also announced today a transformation program – Project Summit – designed to accelerate execution of Iron Mountain's stated strategy.

Project Summit will focus on three key areas:

- **Simplifying Global Structure:** Iron Mountain is combining its Records and Information (RIM) operations under one global leader, whilst also eliminating unnecessary work and rebalancing resources to sharpen its focus on higher growth areas. These actions are expected to result in a simplified organizational structure, allowing Iron Mountain to improve efficiency and accelerate decision making across the organization.
- **Streamlining Managerial Structure for the Future:** By simplifying its global structure, Iron Mountain will condense the number of layers and reporting levels, which is expected to reduce the number of VP level and above positions by approximately 45%. The total program is expected to reduce Iron Mountain's total managerial and administrative workforce by 700 positions over the next two years. This will help to create a more dynamic, agile organization that will be better positioned to make faster decisions and execute its strategy in key growth areas, such as the continued expansion of its data center footprint.
- **Enhancing Customer Experience:** Iron Mountain will leverage its global and regional customer-facing resources across RIM product lines to provide customers with a more integrated experience and leverage technology to modernize processes for better alignment between new digital solutions and Iron Mountain's core business.

“Project Summit is expected to better position us to execute on our strategy by evolving how we work as an organization, increasing our pace and efficiency, and bringing us closer to our customers,” continued Mr. Meaney. “By simplifying our managerial structure, we will be able to focus on our highest potential opportunities and optimize resources, whilst creating a more nimble organization that can embrace and execute change faster. We also expect to achieve significant Adjusted EBITDA benefits, which will allow us to fund more of our growth investments from internally generated cash flows whilst enabling us to reduce leverage over time. In addition, by aligning our investments to the highest potential opportunities and creating solutions that enhance the customer experience, we believe we can capture the significant market opportunity that we had previously identified in an interconnected world with overflowing data and information management needs.”

Mr. Meaney concluded, “We have a talented and dedicated workforce at Iron Mountain, and decisions that affect people are never easy. However, we are taking the necessary steps to better position our business for the future.”

In connection with the changes to the RIM organization, Patrick Keddy will be retiring as EVP and General Manager of North America and Western Europe and Ernie Cloutier, International EVP and General Manager, will lead global RIM operations within the new structure beginning November 1, 2019. Until his retirement, Mr. Keddy will serve Iron Mountain in a transitional role, among other responsibilities, assisting Mr. Cloutier in his new role.

Financial Impact

Project Summit is expected to deliver annual run-rate Adjusted EBITDA benefits of \$200 million, with substantially all of the benefits realized by the end of 2022, with \$80 million of benefits expected to be delivered in 2020.

The activities associated with Project Summit will begin in the fourth quarter of 2019 and are expected to be substantially complete by the end of 2021. The total cost to implement the program is estimated to be approximately \$240 million. During the fourth quarter of 2019, Iron Mountain expects to record pre-tax restructuring charges of approximately \$60 million associated with the program, substantially all of which will consist of employee severance costs and professional fees.

Dividend

The Board of Directors of Iron Mountain declared a fourth-quarter cash dividend of USD \$0.6185 per share on the common stock of the company, representing an increase of 1.2%. The cash dividend is payable on January 2, 2020 to shareholders of record as of the close of business on December 16, 2019. Iron Mountain expects to continue growing its dividend, although at a more modest pace going forward.

Guidance

Iron Mountain updated its 2019 full-year guidance ranges as follows. Additional guidance details and assumptions are available on Page 6 of the Q3 2019 supplemental financial information.

2019 Guidance		
<i>(Dollars in millions, except per share)</i>		
	New	Previous
Revenue	\$4,250 - \$4,280	\$4,250 - \$4,325
Adjusted EBITDA	\$1,430 - \$1,450	\$1,440 - \$1,480
Adjusted EPS	\$1.00 - \$1.05	\$1.00 - \$1.10
AFFO	\$850 - \$870	\$870 - \$900

About Iron Mountain

Iron Mountain Incorporated (NYSE: IRM), founded in 1951, is the global leader for storage and information management services. Trusted by more than 225,000 organizations around the world, and with a real estate network of more than 90 million square feet across more than 1,450 facilities in approximately 50 countries, Iron Mountain stores and protects billions of valued assets, including critical business information, highly sensitive data, and cultural and historical artifacts. Providing solutions that include [secure records storage](#), [information management](#), [digital transformation](#), [secure destruction](#), as well as [data centers](#), [cloud services](#) and [art storage and logistics](#), Iron Mountain helps customers lower cost and risk, comply with regulations, recover from disaster, and enable a more digital way of working. Visit www.ironmountain.com for more information.

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Forward Looking Statements

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: This release contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other securities laws and is subject to the safe-harbor created by such Act. Forward-looking statements include, but are not, limited to, our financial performance outlook and statements concerning our operations, economic performance, financial condition, goals, beliefs, future growth strategies, investment objectives, plans and current expectations, such as expected benefits, costs and actions related to Project Summit, 2019 and 2020 guidance, and statements about our investments, dividend policy (including expected increases in dividends), cost savings initiatives, the value added from recent data center deals, and other goals. These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors. When we use words such as "believes," "expects," "anticipates," "estimates" or similar expressions, we are making forward-looking statements. Although we believe that our forward-looking statements are based on reasonable assumptions, our expected results may not be achieved, and actual results may differ materially from our expectations. In addition, important factors that could cause actual results to differ from expectations include, among others: (i) our ability to remain qualified for taxation as a real estate investment trust for U.S. federal income tax purposes; (ii) the adoption of alternative technologies and shifts by our customers to storage of data through non-paper based technologies; (iii) changes in customer preferences and demand for our storage and information management services; (iv) the cost to comply with current and future laws, regulations and customer demands relating to data security and privacy issues, as well as fire and safety standards; (v) the impact of litigation or disputes that may arise in connection with incidents in which we fail to protect our customers' information or our internal records or IT systems and the impact of such incidents on our reputation and ability to compete; (vi) changes in the price for our storage and information management services relative to the cost of providing such storage and information management services; (vii) changes in the political and economic environments in the countries in which our international subsidiaries operate and changes in the global political climate; (viii) our ability or inability to manage growth, expand internationally, complete acquisitions on satisfactory terms, to close pending acquisitions and to integrate acquired companies efficiently; (ix) changes in the amount of our growth and recurring capital expenditures and our ability to invest according to plan; (x) our ability to comply with our existing debt obligations and restrictions in our debt instruments or to obtain additional financing to meet our working capital needs; (xi) the impact of service interruptions or equipment damage and the cost of power on our data center operations; (xii) changes in the cost of our debt; (xiii) the impact of alternative, more attractive investments on dividends; (xiv) the cost or potential liabilities associated with real estate necessary for our business; (xv) the performance of business partners upon whom we depend for technical assistance or management expertise; (xvi) other trends in competitive or economic conditions affecting our financial condition or results of operations not presently contemplated; (xvii) our ability to execute on Project Summit and potential impacts of Project Summit on our ability to retain and recruit employees and execute on our strategy; and (xviii) other risks described more fully in our filings with the Securities and Exchange Commission, including under the caption "Risk Factors" in our periodic reports or incorporated therein. You should not rely upon forward-looking statements except as statements of our present intentions and of our present expectations, which may or may not occur. Except as required by law, we undertake no obligation to release publicly the result of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Consolidated Balance Sheets

(Unaudited; dollars in thousands)

	9/30/2019	12/31/2018
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$186,778	\$165,485
Accounts Receivable, Net	821,926	846,889
Other Current Assets	195,189	195,740
Total Current Assets	\$1,203,893	\$1,208,114
Property, Plant and Equipment:		
Property, Plant and Equipment	\$7,868,457	\$7,600,949
Less: Accumulated Depreciation	(3,311,738)	(3,111,392)
Property, Plant and Equipment, Net	\$4,556,719	\$4,489,557
Other Assets, Net:		
Goodwill	\$4,421,995	\$4,441,030
Customer Relationships, Customer Inducements and Data Center Lease-Based Intangibles	1,415,287	1,506,522
Operating Lease Right-of-use Assets	1,765,496	—
Other	213,777	211,995
Total Other Assets, Net	\$7,816,555	\$6,159,547
Total Assets	\$13,577,167	\$11,857,218
LIABILITIES AND EQUITY		
Current Liabilities:		
Current Portion of Long-term Debt	\$394,822	\$126,406
Accounts Payable	289,940	318,765
Accrued Expenses and Other Current Liabilities	888,021	780,781
Deferred Revenue	257,328	264,823
Total Current Liabilities	\$1,830,111	\$1,490,775
Long-term Debt, Net of Current Portion	8,220,347	8,016,417
Long-term Operating Lease Liabilities	1,626,907	—
Other Long-term Liabilities (1)	387,953	487,563
Total Long-term Liabilities	\$10,235,207	\$8,503,980
Total Liabilities	\$12,065,318	\$9,994,755
Equity		
Total Stockholders' Equity	\$1,510,830	\$1,861,054
Noncontrolling Interests	1,019	1,409
Total Equity	\$1,511,849	\$1,862,463
Total Liabilities and Equity	\$13,577,167	\$11,857,218

(1) Includes redeemable noncontrolling interests of \$68.1mm and \$70.5mm as of September 30, 2019 and December 31, 2018, respectively.

Note: Prior periods reflect an immaterial restatement; for further details refer to Iron Mountain's Form 10-Q for the quarter ended September 30, 2019.

Consolidated Statements of Operations

(Unaudited; dollars in thousands, except per-share data)

	Q3 2019	Q3 2018	% Change	YTD 2019	YTD 2018	% Change
Revenues:						
Storage Rental	\$673,318	\$656,973	2.5 %	\$2,005,580	\$1,963,561	2.1 %
Service	388,906	404,018	(3.7)%	1,177,414	1,200,711	(1.9)%
Total Revenues	\$1,062,224	\$1,060,991	0.1 %	\$3,182,994	\$3,164,272	0.6 %
Operating Expenses:						
Cost of Sales (excluding Depreciation and Amortization) (1)	\$451,317	\$448,018	0.7 %	\$1,377,963	\$1,348,203	2.2 %
Selling, General and Administrative (2)	239,156	259,929	(8.0)%	762,479	789,324	(3.4)%
Depreciation and Amortization	157,561	157,797	(0.1)%	484,375	474,595	2.1 %
(Gain) Loss on Disposal/Write-Down of PP&E, Net	(9,284)	(388)	n/a	(17,087)	(2,064)	n/a
Total Operating Expenses	\$838,750	\$865,356	(3.1)%	\$2,607,730	\$2,610,058	(0.1)%
Operating Income (Loss)	\$223,474	\$195,635	14.2 %	\$575,264	\$554,214	3.8 %
Interest Expense, Net	106,677	103,938	2.6 %	314,427	303,836	3.5 %
Foreign Currency Transaction (Gain) / Loss	(18,251)	664	n/a	(19,885)	3,825	n/a
Other Expense (Income), Net	4,836	(339)	n/a	6,488	(2,405)	n/a
Income (Loss) before Provision (Benefit) for Income Taxes	\$130,212	\$91,372	42.5 %	\$274,234	\$248,958	10.2 %
Provision (Benefit) for Income Taxes	\$21,928	14,023	56.4 %	43,127	39,957	7.9 %
Income (Loss) from Continuing Operations	\$108,284	\$77,349	40.0 %	\$231,107	\$209,001	10.6 %
Income (Loss) from Discontinued Operations, Net of Tax	—	(11,605)	n/a	104	(12,427)	n/a
Net Income (Loss)	108,284	65,744	64.7 %	231,211	196,574	17.6 %
Less: Net Income (Loss) Attributable to Noncontrolling Interests	609	(125)	n/a	1,534	485	n/a
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$107,675	\$65,869	63.5 %	\$229,677	\$196,089	17.1 %
Earnings (Losses) per Share - Basic:						
Income (Loss) from Continuing Operations	\$0.37	\$0.27	37.8 %	\$0.80	\$0.73	9.9 %
Total Income (Loss) from Discontinued Operations	—	(0.04)	n/a	—	(0.04)	n/a
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$0.37	\$0.23	60.9 %	\$0.80	\$0.69	15.9 %
Earnings (Losses) per Share - Diluted:						
Income (Loss) from Continuing Operations	\$0.37	\$0.27	37.8 %	\$0.80	\$0.73	9.6 %
Total Income (Loss) from Discontinued Operations	—	(0.04)	n/a	—	(0.04)	n/a
Net Income (Loss) Attributable to Iron Mountain Incorporated	\$0.37	\$0.23	60.9 %	\$0.80	\$0.68	17.6 %
Weighted Average Common Shares Outstanding - Basic	287,152	286,159	0.3 %	286,869	285,801	0.4 %
Weighted Average Common Shares Outstanding - Diluted	287,691	286,982	0.2 %	287,555	286,515	0.4 %

(1) Includes Significant Acquisition Costs of \$1.9mm and \$2.9mm in Q3 2019 and Q3 2018, respectively, and \$4.1mm and \$5.0mm in YTD 2019 and YTD 2018, respectively.

(2) Includes Significant Acquisition Costs of \$2.0mm and \$6.4mm in Q3 2019 and Q3 2018, respectively, and \$4.5mm and \$33.7mm in YTD 2019 and YTD 2018, respectively.

Note: Prior periods reflect an immaterial restatement; for further details refer to Iron Mountain's Form 10-Q for the quarter ended September 30, 2019.

Reconciliation of Income from Continuing Operations to Adjusted EBITDA

(Dollars in thousands)

	Q3 2019	Q3 2018	% Change	YTD 2019	YTD 2018	% Change
Income from Continuing Operations	\$108,284	\$77,349	40.0 %	\$231,107	\$209,001	10.6 %
Add / (Deduct):						
Provision (Benefit) for Income Taxes	21,928	14,023	56.4 %	43,127	39,957	7.9 %
Foreign Currency Transaction (Gain) / Loss	(18,251)	664	n/a	(19,885)	3,825	n/a
Other Expense (Income), Net (1)	4,836	(339)	n/a	6,488	(2,406)	n/a
Interest Expense, Net	106,677	103,938	2.6 %	314,427	303,835	3.5 %
(Gain) Loss on Disposal/Write-Down of PP&E, Net	(9,284)	(388)	n/a	(17,087)	(2,064)	n/a
Depreciation and Amortization	157,561	157,797	(0.1)%	484,375	474,595	2.1 %
Significant Acquisition Costs	3,950	9,286	(57.5)%	8,597	38,715	(77.8)%
Adjusted EBITDA	\$375,701	\$362,330	3.7 %	\$1,051,149	\$1,065,460	(1.3)%

(1) Excludes realized and unrealized foreign currency transaction (gains) losses.

Adjusted EBITDA

Adjusted EBITDA is defined as income (loss) from continuing operations before interest expense, net, provision (benefit) for income taxes, depreciation and amortization, and also excludes certain items that we believe are not indicative of our core operating results, specifically: (i) (gain) loss on disposal/write-down of property, plant and equipment (including real estate), net; (ii) intangible impairments; (iii) other (income) expense, net (which includes foreign currency transaction (gains) losses, net); and (iv) Significant Acquisition Costs. Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by total revenues. We use multiples of current or projected Adjusted EBITDA in conjunction with our discounted cash flow models to determine our estimated overall enterprise valuation and to evaluate acquisition targets. We believe Adjusted EBITDA and Adjusted EBITDA Margin provide our current and potential investors with relevant and useful information regarding our ability to generate cash flow to support business investment. These measures are an integral part of the internal reporting system we use to assess and evaluate the operating performance of our business.

Adjusted EBITDA excludes both interest expense, net and the provision (benefit) for income taxes. These expenses are associated with our capitalization and tax structures, which we do not consider when evaluating the operating profitability of our core operations. Finally, Adjusted EBITDA does not include depreciation and amortization expenses, in order to eliminate the impact of capital investments, which we evaluate by comparing capital expenditures to incremental revenue generated and as a percentage of total revenues. Adjusted EBITDA and Adjusted EBITDA Margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with GAAP, such as operating income, income (loss) from continuing operations, net income (loss) or cash flows from operating activities from continuing operations (as determined in accordance with GAAP).

Note: Prior periods reflect an immaterial restatement; for further details refer to Iron Mountain's Form 10-Q for the quarter ended September 30, 2019.

Reconciliation of Reported Earnings per Share to Adjusted Earnings per Share

	Q3 2019	Q3 2018	% Change	YTD 2019	YTD 2018	% Change
Reported EPS - Fully Diluted from Continuing Operations	\$0.37	\$0.27	37.0%	\$0.80	\$0.73	9.6 %
Add / (Deduct):						
Income (Loss) Attributable to Noncontrolling Interests	—	—		0.01	—	
Other (Income) Expense, Net	(0.05)	—		(0.05)	—	
(Gain) Loss on Disposal/Write-Down of PP&E, Net	(0.03)	—		(0.06)	—	
Significant Acquisition Costs	0.01	0.03		0.03	0.14	
Tax Impact of Reconciling Items and Discrete Tax Items (1)	—	(0.02)		(0.01)	(0.06)	
Adjusted EPS - Fully Diluted from Continuing Operations	\$0.32	\$0.28	14.3%	\$0.71	\$0.80	(11.3)%

(1) The difference between our effective tax rates and our structural tax rate (or adjusted effective tax rates) for the nine months ended September 30, 2019 and 2018, respectively, is primarily due to (i) the reconciling items above, which impact our reported income (loss) from continuing operations before provision (benefit) for income taxes but have an insignificant impact on our reported provision (benefit) for income taxes and (ii) other discrete tax items. Our structural tax rate for purposes of the calculation of Adjusted EPS was 18.6% for the nine months ended September 30, 2019 and 20.3% for the nine months ended September 30, 2018. The Tax Impact of Reconciling Items and Discrete Tax Items is calculated using the current quarter's estimate of the annual structural tax rate for both the three month and YTD periods. This may result in the current period adjustment plus prior reported quarterly adjustments to not sum to the full year adjustment.

Adjusted Earnings Per Share, or Adjusted EPS

Adjusted EPS is defined as reported earnings per share fully diluted from continuing operations excluding: (i) (gain) loss on disposal/write-down of property, plant and equipment (including real estate), net; (ii) intangible impairments; (iii) other (income) expense, net (which includes foreign currency transaction (gains) losses, net); (iv) Significant Acquisition Costs; and (v) the tax impact of reconciling items and discrete tax items. Adjusted EPS includes income (loss) attributable to noncontrolling interests. We do not believe these excluded items to be indicative of our ongoing operating results, and they are not considered when we are forecasting our future results. We believe Adjusted EPS is of value to our current and potential investors when comparing our results from past, present and future periods.

Note: Prior periods reflect an immaterial restatement; for further details refer to Iron Mountain's Form 10-Q for the quarter ended September 30, 2019.

Reconciliation of Net Income Attributable to IRM to FFO and AFFO

(Dollars in thousands, except per-share data)

	Q3 2019	Q3 2018	% Change	YTD 2019	YTD 2018	% Change
Net Income	\$108,284	\$65,744	64.7%	\$231,211	\$196,574	17.6 %
Add / (Deduct):						
Real Estate Depreciation (1)	72,939	72,058		220,179	211,499	
Loss (Gain) on Sale of Real Estate, Net of Tax	(9,740)	(1,348)		(40,252)	(1,348)	
Data Center Lease-Based Intangible Asset Amortization (2)	11,356	12,036		35,337	30,437	
FFO (Nareit)	\$182,839	\$148,490	23.1%	\$446,475	\$437,162	2.1 %
Add / (Deduct):						
(Gain) Loss on Disposal/Write-Down of PP&E, Net	369	960		28,558	(716)	
Foreign Currency Transaction (Gain) / Loss	(18,251)	665		(19,885)	3,826	
Other (Income) Expense, Net	4,836	(340)		6,488	(2,406)	
Tax Impact of Reconciling Items and Discrete Tax Items (3)	1,283	(6,347)		(9,202)	(18,165)	
Loss (Income) from Discontinued Operations, Net of Tax	—	11,605		(104)	12,427	
Real Estate Financing Lease Depreciation	3,115	3,374		9,732	10,323	
Significant Acquisition Costs	3,950	9,286		8,597	38,715	
FFO (Normalized)	\$178,141	\$167,693	6.2%	\$470,659	\$481,166	(2.2)%
Per Share Amounts (Fully Diluted Shares)						
FFO (Nareit)	\$0.64	\$0.52	23.1%	\$1.55	\$1.53	1.3 %
FFO (Normalized)	\$0.62	\$0.58	6.9%	\$1.64	\$1.68	(2.4)%
Weighted Average Common Shares Outstanding - Basic	287,152	286,159	0.3%	286,869	285,801	0.4 %
Weighted Average Common Shares Outstanding - Diluted	287,691	286,982	0.2%	287,555	286,515	0.4 %

(1) Includes depreciation expense related to owned real estate assets (land improvements, buildings, building improvements, leasehold improvements and racking), excluding depreciation related to financing leases.

(2) Includes amortization expense for Data Center In-Place Lease Intangible Assets and Data Center Tenant Relationship Intangible Assets.

(3) Represents the tax impact of (i) the reconciling items above, which impact our reported income (loss) from continuing operations before provision (benefit) for income taxes but have an insignificant impact on our reported provision (benefit) from income taxes and (ii) other discrete tax items.

Funds From Operations, or FFO (Nareit), and FFO (Normalized)

Funds from operations ("FFO") is defined by the National Association of Real Estate Investment Trusts ("Nareit") and us as net income (loss) excluding depreciation on real estate assets, gains on sale of real estate, net of tax and amortization of data center leased-based intangibles ("FFO (Nareit)"). FFO (Nareit) does not give effect to real estate depreciation because these amounts are computed, under GAAP, to allocate the cost of a property over its useful life. Because values for well-maintained real estate assets have historically increased or decreased based upon prevailing market conditions, we believe that FFO (Nareit) provides investors with a clearer view of our operating performance. Our most directly comparable GAAP measure to FFO (Nareit) is net income (loss). Although Nareit has published a definition of FFO, modifications to FFO (Nareit) are common among REITs as companies seek to provide financial measures that most meaningfully reflect their particular business. Our definition of FFO (Normalized) excludes certain items included in FFO (Nareit) that we believe are not indicative of our core operating results, specifically: (i) (gain) loss on disposal/write-down of property, plant and equipment (excluding real estate), net; (ii) intangible impairments; (iii) other expense (income), net (which includes foreign currency transaction (gains) losses, net); (iv) real estate financing lease depreciation; (v) Significant Acquisition Costs; (vi) the tax impact of reconciling items and discrete tax items; (vii) loss (income) from discontinued operations, net of tax; and (viii) loss (gain) on sale of discontinued operations, net of tax.

FFO (Normalized) per share

FFO (Normalized) divided by weighted average fully-diluted shares outstanding.

Note: Prior periods reflect an immaterial restatement; for further details refer to Iron Mountain's Form 10-Q for the quarter ended September 30, 2019.

Reconciliation of Net Income Attributable to IRM to FFO and AFFO (continued)

(Dollars in thousands)

	Q3 2019	Q3 2018	% Change	YTD 2019	YTD 2018	% Change
FFO (Normalized)	\$178,141	\$167,693	6.2 %	\$470,659	\$481,166	(2.2)%
Add / (Deduct):						
Non-Real Estate Depreciation	32,099	37,558		106,574	116,101	
Amortization Expense (1)	33,830	29,719		98,450	95,802	
Amortization of Deferred Financing Costs	4,078	3,957		12,286	11,537	
Revenue Reduction Associated with Amortization of Permanent Withdrawal Fees and Above - and Below-Market Leases	3,237	4,505		10,417	12,430	
Non-Cash Rent Expense (Income)	1,379	(2,458)		3,394	(2,538)	
Stock-based Compensation Expense	7,120	7,279		28,140	23,352	
Reconciliation to Normalized Cash Taxes	4,641	9,279		(5,882)	21,530	
Less:						
Non-Real Estate Growth Investment (2)	15,822	9,709		28,915	30,198	
Real Estate, Data Center and Non-Real Estate Recurring CapEx (3)	23,433	20,725		66,830	60,312	
AFFO	\$225,270	\$227,099	(0.8)%	\$628,293	\$668,870	(6.1)%

(1) Includes Customer Relationship Value, intake costs, acquisition of customer relationships, and other intangibles. Excludes amortization of capitalized commissions of \$4.2mm and \$3.1mm in Q3 2019 and Q3 2018, respectively, and \$14.1mm and \$10.4mm in YTD 2019 and YTD 2018, respectively.

(2) Non-Real Estate Growth Investment (i) excludes integration CapEx included in Significant Acquisition Costs of \$4.2mm in Q3 2018, and \$9.9mm in YTD 2018, and (ii) includes Non-Real Estate Growth Investment associated with the Global Data Center Business segment of \$2.9mm and \$5.3mm in Q3 2019 and Q3 2018, respectively, and \$3.3mm and \$5.7mm in YTD 2019 and YTD 2018, respectively.

(3) Recurring CapEx excludes integration recurring expense included in Significant Acquisition Costs of \$0.2mm in Q3 2018, and \$0.4mm in YTD 2018.

Adjusted Funds From Operations, or AFFO

AFFO is defined as FFO (Normalized) excluding non-cash rent expense or income plus depreciation on non-real estate assets, amortization expense associated with customer relationship value (CRV), intake costs, acquisitions of customer relationships and other intangibles, and excluding amortization expense associated with capitalized internal commissions, amortization of deferred financing costs, revenue reduction associated with amortization of permanent withdrawal fees and above-and below-market data center leases, stock-based compensation expense and the impact of reconciling to normalized cash taxes, less recurring capital expenditures and non-real estate growth investments (on a cash basis), excluding Significant Acquisition Capital Expenditures. We believe AFFO is a useful measure in determining our ability to generate excess cash that may be used for reinvestment in the business, discretionary deployment in investments such as real estate or acquisition opportunities, returning capital to our stockholders and voluntary prepayments of indebtedness. Additionally AFFO is reconciled to cash flow from operations to adjust for real estate and REIT tax adjustments, Significant Acquisition Costs and other non-cash expenses. AFFO does not include adjustments for customer inducements, acquisition of customer relationships and investment in innovation as we consider these expenditures to be growth related.

Note: Prior periods reflect an immaterial restatement; for further details refer to Iron Mountain's Form 10-Q for the quarter ended September 30, 2019.