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Iron Mountain Incorporated (IRM) CEO William Meaney on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.32 beats by $0.02 | Revenue of $1.06B (0.12% Y/Y) misses by $-9.28M

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Iron Mountain Incorporated (NYSE:IRM) Q3 2019 Earnings Conference Call October 31, 2019 8:30 AM ET

Company Participants

Greer Aviv - Senior Vice President of Investor Relations

William Meaney - President and Chief Executive Officer

Stuart Brown - Chief Financial Officer

Conference Call Participants

Nate Crossett - Berenberg Capital Markets, LLC

Sheila McGrath - Evercore ISI

Eric Luebchow - Wells Fargo Securities, LLC

Andrew Wittmann - Robert W. Baird & Co.

George Tong - Goldman Sachs

Adam Parrington - Stifel Nicolaus

Michael Cho - J.P. Morgan Securities LLC

Marlane Pereiro - Bank of America Merrill Lynch

Kevin McVeigh - Credit Suisse

Operator

Good day and welcome to the Iron Mountain Q3 2019 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to Greer Aviv. Please go ahead.

Greer Aviv

Thank you, Chuck. Good morning and welcome to our third quarter 2019 earnings conference call. The user controlled slides that will be referred today, in today's prepared remarks, are available on our Investor Relations website along with a link to today's webcast, the earnings press release, and the full supplemental financial information.

On today's call, we'll hear from Bill Meaney, Iron Mountain's President and CEO, who will discuss third quarter performance and Project Summit, the transformation program announced this morning. Stuart Brown, our CFO, will then cover additional financial results and our outlook for the remainder of the year.

After our prepared remarks, we'll open up the lines for Q&A. Referring now to Slide 2 of the presentation, today's earnings call, slide presentation and supplemental financial information will contain forward-looking statements, most notably, our outlook for 2019 financial and operating performance and expectations from Project Summit.

All forward-looking statements are subject to risks and uncertainties. Please refer to today's press release, earnings call presentation, supplemental financial report, the Safe Harbor language on this slide and our Annual Report on Form 10-K for a discussion of the major risk factors that could cause our actual results to differ from those in our forward-looking statements.

In addition, we use several non-GAAP measures when presenting our financial results and the reconciliations to these measures as required by Reg G are included in the supplemental financial information.

With that, Bill, would you please begin?

William Meaney

Thank you, Greer, and thank you all for taking time to join us. On today's call, I would like to cover two main topics. First, we delivered another solid quarter showing adjusted EBITDA growth of 5% year-over-year and 7% quarter-over-quarter on a constant currency basis, further demonstrating the strong and consistent organic growth we are building in the businesses as well as continued progression in the year.

Second, we announced Project Summit, which is a transformation program we are commencing in November that will leave us with a simpler and more dynamic management structure, better supporting our future.

Before we get into our discussion of the Q3 results, I will first address Project Summit. At a high level, this transformation program focuses on three key areas. First, we will simplify our global structure by combining our core Records and Information Management or RIM operations under one global leader, whilst also eliminating unnecessary work in rebalancing resources.

Second, by simplifying our global organization, we will streamline our support structure, whereby we will condense the number of layers and reporting levels from our current average of 6 levels, down to 4 levels. This will create a more dynamic agile organization.

And third, we will more efficiently leverage our global and regional customer-facing resources across RIM product lines, creating better alignment between new digital solutions in our core business, resulting in an enhanced customer experience.

All in all, Project Summit is expected to deliver $200 million in annual run rate adjusted EBITDA benefits with all actions expected to be complete by the end of 2021. We expect to incur total restructuring cost to achieve these benefits of $240 million. Of the total benefit, $50 million will be implemented during the course of November and December, with a restructuring cost of approximately $60 million being recognized in the fourth quarter.

Whilst there will be little to no benefit from this first phase of Summit in our 2019 results, benefits are expected to start flowing through in the first quarter of 2020 on top of our normal growth.

Before diving into more detail on Summit, let me provide some context. Over the course of Iron Mountain's nearly 7 decade history, we have developed unmatched trust and scale. We have built the global player in the Records and Information Management business today, storing nearly 700 million cubic feet of records with extremely deep customer relationships, including 95% of the Fortune 1000.

This global growth, which has in large part been executed through acquisitions, has resulted in certain complexities in areas such as business processes, IT systems, lines of accountability, decision making and other redundancies across our organization.

To be able to compete most effectively in any industry today, you must be flexible, have efficient lines of communication and be able to react quickly to evolving customer needs. We have heard from our customers that we need to be more integrated in our approach to solving their problems. This means, tearing down our internal silos, equipping our teams with the necessary tools to better meet customer needs across our business offering, and continue to standardize, streamline and simplify our systems and processes.

But in order to take fully – and to fully take advantage of this significant opportunity, we also need to better align our resources and capabilities, so we have a more simplified and efficient operating model.

Whilst the underlying health of the business is solid as demonstrated by the 3% organic storage revenue growth year-on-year, we believe Summit will allow us to continue that momentum, so we can capitalize on future opportunities faster and more efficiently.

We expect Summit to enable us to better execute on our strategy, so we can continue to grow both in revenue and profit, whilst also generating more free cash flow. This improvement in financial results will come from furthering our position as the global leader in the Records and Information Management industry, as well as continued investment to build further scale in data centers and create digital solutions for our customers whilst reducing leverage.

Moreover, through Summit, we are simplifying our global structure with a view to provide an environment where people can work in a dynamic workplace, all whilst identifying and vigorously pursuing the highest potential opportunities to serve our customers. In doing so, we will undertake steps to improve the efficiency of our operations and increase the pace at which we are able to affect change.

And our operations and cost structure will be better positioned allowing us to sharpen our focus on higher growth areas that can provide solid returns to our investors and enable us to enhance the strong customer relationships we already have across the enterprise.

As I mentioned earlier, key catalyst for this change, both from a customer service viewpoint as well as an operating efficiency standpoint is to place all of RIM under a single global leader. To this end, we are proud to announce that Ernie Cloutier, our International EVP and General Manager, will now lead global RIM operations in our new structure.

As we mentioned in this morning's announcement, Patrick Keddy will be retiring as EVP and General Manager of North America and Western Europe. Patrick is a seasoned executive who had led developed markets for several years and he will take on a consultative role, assisting Ernie, during the transition into his new role and provide support to Iron Mountain through the beginning of 2021.

We are extremely grateful to both Patrick and Ernie for their leadership and efforts to position the RIM business for sustained success under a united structure.

In addition to Ernie taking on this expanded role, he will be supported by Greg McIntosh, who is now charged with establishing and leading our commercial operations along with Strategic Accounts. Strategic Accounts is a relatively new area for Iron Mountain as we upgrade our ability to grow and service some of our highest potential customers.

In addition to Greg, Ernie will be supported by Deirdre Evens, who leads the North American RIM business. Additionally, Deirdre will report to me, leading the continued development of consumer storage, which includes our partnership with MakeSpace.

In terms of transforming the company to be more agile and dynamic to the benefit of our employees and customers, we 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%, including the impact of these reductions, approximately 75% of which will be actioned during the next two months.

The program is expected to reduce our total managerial and administrative workforce by 700 positions over the next two years. It should be noted that Summit is causing us to say goodbye to many friends and colleagues.

We are now in a situation that we need far fewer senior leaders if we are to serve our customers in a more responsive way. We are committed to providing the right support to these employees that it negatively impacted including appropriate severance and outplacement support.

Iron Mountain is a close-knit community. So it is never easy to part ways with team members, but the needs of our business continue to evolve and this realignment will prove to be value-enhancing for our organization, our team, our customers and shareholders over the long term.

Turning now to Q3 performance, we delivered constant currency revenue and adjusted EBITDA growth of 1.7% and 5% year-over-year respectively. This has resulted in a 120 basis points expansion of our adjusted EBITDA margin to 35.4%, reflecting the benefits of revenue management and lower overhead costs, as well as the positive impact from the efficiency initiatives we began work on earlier this year, offsetting lower recycled paper prices.

Turning to business performance, Global Records Management volume trends continue to be positive with net organic volume increasing by more than 3 million cubic feet or 40 basis points over the last 12 months. This was driven by modest improvement in new sales, whilst destructions were in line with Q2 levels.

In developed markets, volume declined organically by about 3.5 million cubic feet or 70 basis points. More specifically, declines in North America RIM volume are in line with prior quarter, down 1.2%, while Western Europe grew organic volume by 1.5%.

Other International net organic volume increased by 6.6 million cubic feet or 3.6%, a modest acceleration from previous quarters as new sales growth was strong and destructions moderated.

We remain encouraged by the resilience and durability of our core records management business, and believe unifying the RIM organization under 1 global structure will result in unlocking incremental opportunity in the core business and beyond. We will better align resources across the RIM organization to both to bolster our customer experience, globalized processes and extend our reach beyond our core records management offering.

For example, the North American RIM team has been successful and leveraging our assets to grow non-core storage opportunities in the area such as consumer, library services and other channel relationships contributing more than 3 million cubic feet year-to-date to our storage portfolio.

We continue to make good progress in penetrating some of the historically unvended segments of the North American markets including the federal government. Our federal team had its best quarter yet in Q3 with revenue growing double-digits year-over-year with solid wins across multiple product lines, including core storage, shred, IGDS or Information Governance and Digital Solutions and data center. This is a great example of the sell all culture we are driving toward.

Our IGDS business is showing strong year-over-year growth with a focus on increasing the contribution from recurring revenues, we have seen good success with our digital solutions increasingly enabling the pull-through of other revenue opportunities across multiple product lines allowing us to engage with customers on a different level, when addressing a more comprehensive solution that meets their evolving business needs.

Just 1 example of this was a recent $4 million win, including scanning some 250,000 cubic feet of documents, where we combined our insight platform with our digitization capabilities. It was this unique offering, which compelled this engineering customer to choose us.

Finally, we continue to be very optimistic about our growth trajectory across our Global Data Center platform. Q3 was a busy quarter with new turnkey data center capacity brought online in key markets around the world, including Phoenix, London, Amsterdam and Singapore. In addition to the hyperscale lease we signed in the critical Northern Virginia market in early Q3, we are encouraged by the retail-focused enterprise demand we see as evidenced by a growing pipeline.

Looking at data center leasing activity in Q3 more specifically, we signed 8 megawatts of new and expansion leases, primarily driven by the lease in Northern Virginia. Excluding that we signed 2 megawatts driven entirely by enterprise demand with nearly 75% of the kilowatts attributable to new logos to the Iron Mountain data center platform. Through the end of the third quarter, we have leased a total of 15.2 megawatts and continue to expect to achieve the high-end of our 2019 target of 15 to 20 megawatts.

As we have shared with you on previous quarters, a clear differentiator for Iron Mountain in the data center space is our strong brand recognition and the power of our ability to leverage customer relationships of our traditional sales force.

In summary, Q3 was a solid quarter, which highlights the continued durability and stability of the core Records and Information Management business whilst demonstrating the growth opportunities available to us in faster growing markets and businesses. Once implemented, Project Summit will simplify our day-to-day operations and enable us to move faster and ease our ability to capture growth opportunities and execute on our stated strategic priorities through building a stronger, more nimble organization that enhances our service to customers and generate solid returns for all stakeholders.

I should add also today, we announced a 1.2% increase in our dividend to $2.47 per share on an annual basis. We are continuing to grow our dividend albeit at a more modest space given the solid pipeline of data center investment opportunities we see ahead in 2020. Durable provide more financial details for Q3 as well as the impact of Project Summit, both near and longer term. Stuart?

Stuart Brown

Thank you, Bill. We have a lot to cover today, so let me jump in. Before reviewing business performance and outlook, I want to give you some perspective on Project Summit in the impact on our longer-term financial framework, a framework showing our plan to generate more cash flow to fund our growth investments and an increasing dividend over the long term. The benefits of the structural transformation we announced this morning are expected to expand over the next several years, helping to fund significant opportunities to create value by investing in both our physical storage and data center businesses.

Looking out, we expect our storage business to continue to exhibit as consistent and durable characteristics, and see strong demand for data center capacity resulting in low-single-digit annual organic storage rental revenue growth. Service revenue, while more lumpy in nature, should remain flattish as declining core services are offset by new customer solutions.

The revenue growth and ongoing continues improvement initiatives should grow adjusted EBITDA organically and consistently around 4% or approximately $60 million per year. Project Summit will continue to help drive higher AFFO, generating increasingly more cash flow. As Bill noted, with Project Summit we intend to invest in higher growth opportunities including data center development and continued scaling of our international operations, while simplifying how we operate.

Our strategic priorities and capital allocation plans remain unchanged, as we continue to leverage our global leadership and records management and information governance as well as our enterprise relationships. We will continue to be very disciplined in our capital allocation decisions, balancing investments that create value for shareholders, while providing more solutions for our 225,000 customers.

The framework demonstrates our commitment to fund the majority of our growth to robust free cash flow, and in turn, reduced leverage. As we grow AFFO, we plan to operate with lease adjusted leverage in the range of 4.5 to 5 times [EBITDAR] [ph], depending upon where we are in the cycle and with our dividend payout ratio more in line with data center and other faster growing REITs.

Now turning to quarterly results, we generated revenues of nearly $1.1 billion in Q3. Total reported revenue grew 10 basis points or 1.7% excluding the impact of the stronger dollar. As you can see on Slide 8, our total storage rental revenue increased 4% on a constant currency basis in Q3 driven by organic storage rental revenue growth of 3%, reflecting results from revenue management and global volume growth. More specifically, developed markets organic storage revenue was 2.3% for the quarter, reflecting continuing contributions from revenue management and volumes trends that were largely consistent with Q2.

In the Other International segment, we continue to achieve healthy organic storage revenue growth of 4.5%. In data center, organic storage revenue growth was 4.1% in Q3, a little lower than previous quarters with churn of 2.4% matching the expectations we had messaged last quarter. Our Adjacent Businesses were also performing well, growing organic storage revenue by 5.2% in the quarter.

Total service revenue declined 2.1% in constant currencies with organic service revenue down 3% in the quarter compared to growth of 7.1% a year ago. This change mainly reflects the swing in paper prices, which were at record highs in the back half of last year and are currently less than half of those levels. If we exclude the $13.8 million impact of lower year-over-year paper prices, organic service revenue would have increased 20 basis points in Q3, which is below recent trends due mainly to lower project revenue in our international markets.

We now expect annual organic service revenue to decline approximately 1.5%, while annual storage organic growth is expected to generate – to increase about 2.5% resulting in total organic revenue growth around 1%. Remember that generating gross margins of 74%, storage remains the key driver of our profitability.

As you can also see on Slide 8, third quarter SG&A declined about $16 million from a year ago, reflecting cost management actions as well as lower variable compensation compared to a year ago. Our adjusted EBITDA increased $13 million year-over-year or 3.7% to $376 million, despite the lower paper prices. Excluding the impact of currency changes, adjusted EBITDA increased $18 million or 5%.

AFFO in the third quarter was $225 million compared to $227 million a year ago. This decrease is primarily attributable to $9 million of higher maintenance in non-real estate growth investments, including the completion of the number of recent shredding plant upgrades to reduce transportation costs to improve capacity. Slide 10 details adjusted EBITDA margin performance by business segment. In total, adjusted EBITDA margins expanded 120 basis points year-over-year to 35.4%.

Turning to Slide 11, you can see that our lease adjusted leverage ratio of 5.8 times remains in line with other REITs and was flat to Q2. We expect leverage to remain flattish through the end of the year held back by lower paper prices and exchange rates as well as the cost of implementing Project Summit ahead of our benefits flowing next year.

Importantly, we opened the crossover debt market in early September, raising $1 billion of 10-year bonds at 4.875%, an offering that was 3 times oversubscribed. We use the proceeds to pay down borrowers under our credit facility, which in turn extend our average maturity to 6 years. Further, we have good line of sight to exceeding $100 million in net capital recycling proceeds from the sale of real estate this year after having closed on 2 purchase options in Northern California and selling a portfolio of Midwest properties in Q3.

Turning to 2019 guidance on Slide 12, while our core storage and records management business has been strong, this year has had some headwinds that we are not fully anticipated when we laid out the guidance. This includes, of course, paper prices which will impact adjusted EBITDA by almost $30 million for the full year. To a lesser degree, we experienced lower growth in project revenue – project service revenue than we'd expected. But we have successfully implemented a number of cost savings initiatives. They've only partially offset these challenges.

We expect Q4 EBITDA to be up slightly from our performance in Q3 with little to no benefit from Project Summit in the quarter. This is below previous growth expectations due partly to lower service results in developed markets. As a result, we now expect fully year adjusted EBITDA to be near the low-end of our previous guidance or a range between $1.43 billion to $1.45 billion, with this change flowing through to AFFO and adjusted EPS. This implies year-over-year adjusted EBITDA growth of constant currencies of 2% to 3%. While we will provide formal 2020 guidance in February with our Q4 earnings call, given the size and impact of Project Summit, we want to provide some important components to help in modeling.

At a high-level, we expect organic adjusted EBITDA growth to continue to be about 4% year-over-year or approximately $60 million. Incremental to our normal organic adjusted EBITDA growth, we should see $50 million of benefit from Project Summit actions taken in 2019 and $30 million of in-year benefit from Summit actions taken in 2020, which will be second half weighted.

In addition, current paper prices and exchange rates indicate $25 million to $30 million of headwinds, relative to results anticipated for full year 2019. Putting this altogether, we would expect to see a year-over-year increase in adjusted EBITDA of approximately $110 million.

Also, we plan to treat the cost to implement Project Summit as restructuring, which will be excluded from our adjusted EBITDA and AFFO. To conclude, the transformation program that we announced today is expected to yield significant benefits as we simplify how we do business, bringing value to shareholders and to our customers.

Implementing this program provides a clear path to delivery of our strategic priorities, including generating cash flow to fund our growth, while helping ensure that Iron Mountain's position as the trusted guardian of its customers' most precious assets is protected for years to come.

We look forward to sharing our progress with you on our fourth quarter earnings call early next year. With that, Chuck, I'll turn it back over to you to open up the line for Q&A.

We will now begin the question-and-answer session.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Nate Crossett of Berenberg. Please go ahead.

Nate Crossett

Hi, good morning. I'm curious to get your sense of how the $200 million in annual cost saves will be allocated, I guess, just in terms of how you're viewing growth projects like data centers versus, say, deleveraging, what's the kind of breakout of uses?

William Meaney

So first of all, the Project Summit is totally driven in terms of reorganizing the company, so that we're simpler to work with from the customer standpoint and it allows our mountaineers to work more efficiently and quicker with less obstacles internally. So it's really about reorganizing the way we do things rather than businesses that we're conducting. So they're quite separate in that sense.

So if you think about overall in terms of the project is as we said that $50 million will be actioned over the next 2 months. And that's – the big change in the feeling of the company will be in terms of the way when we change kind of the leadership hierarchy of the company. So that first $50 million, 40 – is about really getting us 75% of the way in terms of getting what I would call the top of the house structured in a way that's going to make us more efficient to both interact with our customers as well as to action things internally on their behalf, because that's really looking at 45% of the changes or 45% reduction in our VPs and above.

So that's really the first $50 million of change. And then what we talked about was the $30 million of in-year benefit on top of that $50 million for the 2020 guidance. That equates to about $70 million worth of action of the $200 million program. So by the end of 2020 will be up to around $120 million of cost improvement of a $200 million program.

So that's how the things sequence. But they're very separate from our investment data center. Data center, we continue to see strong growth as both Stuart and I highlighted. If you think about it this year is we're up about 10% since the beginning of the year in terms of leased capacity.

And if you normalize for the churn that we talked about on the last quarter call, which was known when we bought IO; then we're up about – we're up in mid-teens in terms of year-on-year growth in terms of leases that we've actioned and brought into online. And then if you look going forward in 2020 is we gave guidance that would be 15 to 20 megawatts that we would book this year. And at the end of the third quarter we're up a little over 15 megawatts.

So again, quite – yeah, consistent with our guidance that we continue to expect to be able to grow data center between 15% and 20% a year. So – but it's very separate from Project Summit. Project Summit is really about reorganizing it, so we can be more effective.

Nate Crossett

Okay, that's helpful. And then, just maybe on the DCs since you talked about it a lot. There is obviously been a lot of chatter in this space in terms of M&A. Just curious to get your thoughts on whether you guys continue to look at opportunities from time to time and what your appetite is to maybe accelerate that DC build-out as a percent of the overall EBITDA of the company, because it is a higher growth area.

William Meaney

I agree with you, Nate. But also a lot of these acquisitions are pretty pricy. And fundamentally, when we're looking at capital allocation, it can't be just about bulking up. It needs to be a good allocation of capital and it needs to be accretive on both earnings or an EPS as well as an AFFO per share basis.

So we're pretty disciplined on looking at that. We feel really good about the acquisitions we done today. Obviously, the IO being the larger of the ones, which was about – it's much about building a platform. But I think now we really have been able to build up the platform and attract the talent that we need to lead that.

So I don’t anticipate us doing any major acquisitions. I mean, there are what I would call smaller acquisitions like what we did with EvoSwitch in Amsterdam, which is close to – those types of acquisitions, when you pencil them out, are close to or near the same cost as it would be cost to build, right? So if there is an acquisition where we think the economics would give us similar cost as a cost of building it, allow us to action quicker into the market, we will do that. But I don’t see us doing any major acquisitions just to bulk up.

Nate Crossett

Okay. And then, maybe just one last quick one, organic storage growth 3%, looks like that’s the highest it’s been since 1Q 2018. Just wanted to get your sense of how sustainable that 3% market is going forward. How far along are you in that revenue management initiative you put in place and how much runway do you have on that piece of it going forward?

William Meaney

Yeah, we feel – it’s a great question. We feel really good about it. And exactly, really the two drivers, one is the revenue management now is rolled out globally. So we see that there is still more runway in terms of continuing to get more out of revenue management across all the business lines. And I would say it’s rolled out globally for RIM. But we’re also expanding it to some of our other business lines in terms of the non-RIM. But – and some of those are storage and some of those aren’t.

I think the other aspect in terms of volume, we’re continuing to encourage in terms of the growth that we see in the international markets, and even in North American market, where we see slightly negative headwinds in terms of volume what I would call in the traditional records management business. I think I highlighted in my remarks that year to date, Deirdre and her team have actually brought in about $3 million of non-traditional storage, which has similar returns as our box business.

So we see also some of the new areas of storage. So net-net, you put it altogether, is we feel really comfortable to be kind of maintaining in this kind of zip-code for our organic storage revenue growth.

Nate Crossett

Okay. Thanks, guys.

Operator

Our next question will come from Sheila McGrath of Evercore ISI. Please go ahead.

Sheila McGrath

Yes, good morning. Bill, I was wondering if you could give us a little bit more description on Project Summit. After the Recall acquisition, you did have significant cost savings initiative. How does this project compare to that? And did you engage outside consultants for the analysis?

William Meaney

Okay. It's a great question. So the – so let me kind of – let me back up in terms of – I think your question, the other question is the catalyst for this. Is that the – first of all, when we looked at – at some point, we knew that we wanted to bring our records management under a single business unit globally. And I think the timing first of all is right for that. So that was the primary catalyst.

And you say, well, why is the timing right to bring records management together into a single business unit now? For those of you who've been following this story for a while, six or seven years ago, when we started on this journey, is emerging markets were only 10% of our sales as a company and it's now approaching 20%.

We originally set our goal to get that to be 15%. Now, it's approaching 20%. And it was important to have a separate, a near separate leadership if we wanted to be able to make sure that we are allocating capital in a thoughtful way in getting the returns we needed as we built out that footprint. And both is through one-off acquisitions as well as the Recall acquisition. We feel really good. First of all, we doubled the size of our footprint effectively in those markets. So we feel really good in terms of what Marc Duale and now Ernie and his team has been able to do. That's point one.

So now we actually do have the scale internationally, so having the, what I would call, separate and siloed focus to execute that, is for sure what's necessary. On top of that is we talked about earlier this year and we talked again today, we have been hearing more and more from our customers, both internal and external.

We have – our employees are telling us how difficult it is to get things done internally sometimes on behalf of a customer. But also, customers are looking for us to show up with integrated solutions seamlessly across the geographies they operate in. And we started setting up a strategic accounts organization under Greg McIntosh earlier this year.

We put those two together. We knew that we had to simplify, first of all, the organization by bringing Ernie's organization together with Patrick's onto a single leadership. The timing being quite good, because Patrick's intention to retire in early 2021. We thought now was the time to bring those 2 organizations together. When we brought those 2 organizations together, there is a bunch of costs that just naturally flows out, because you don't have 2 support functions, supporting 2 different business units. You now have 1 support function serving a single business unit.

And we wanted to make sure we took that opportunity to look through the organization completely, especially service part of the organization on how we could actually operate the business differently. So starting in January, if we are taking out 45% of the vice presidents and above as a result of this amalgamation and change, which was the catalyst to relook at the organization. This gave us an opportunity and we think, in terms, of the people who can be around the executive leadership team now. It will be a bigger and more inclusive group, but it will be smaller than the numbers we have before.

So our ability to actually communicate strategic intent into action request on customers will be much faster, because we can get more – we can get the right people around a single table to execute. So that's really the thing that's behind it. And then, the good news from a shareholder standpoint, when you do that kind of organizational efficiency, there's a lot of benefits that flow through.

The last thing, I'll talk about Summit, and I'll come to your question about advisers is the backend of the project of Summit is – the front end is really actioning, so by the end of this year, 75% of that reduction of the management cadre will basically be in place. As we go through the program over the next 2 years, is that we will start building new systems capabilities that allow to support that organization, which a lot of it is IT-led.

Last thing to your question on advisers. Actually, this is something that we've been working on for a number of months, but when we got closer to the execution phase, we did bring advisers in the middle of August to make sure that we were actually executing in a way that was consistent and with speed. So we did bring in advisers and towards the tail end of the project.

Sheila McGrath

Okay. Great. A couple of quick follow-ups. You mentioned this was customer driven, do you have to make any meaningful changes to your sales approach? And maybe for Stuart, where will we see these cost savings? Is it more in corporate G&A? Or will it be in segment margins?

William Meaney

Okay. Sheila, I'll take the sales, and then, Stuart can follow on your follow-on question. On the sales, you're absolutely, right. I mean, one of the things that we hear from the customer. Our customers and this is probably consisting a lot of industry, our customers are asking much more for solution oriented approach to them rather than selling them a product and a product might be digitization, a product might be box storage. And I highlighted the case where we won a project with an engineering company in Europe, where they had 250,000 cubic feet. It started out that they just wanted us to remove the 250,000 cubic feet and may be digitize some of them. And it turned out to be a project, where we really understood what they wanted.

We realize the combination of the insight platform to create – to automate the creation of more metadata as we actually digitize their boxes. And then they said, well actually we want everything digitized and the boxes will be destroyed. So it's an unvended opportunity. These boxes were stored in their facility. But by actually having a different sales team that's actually engaging them with a broad set of solutions, we were able to actually do more for our customers. And as a result, win a bigger and better project from an Iron Mountain standpoint.

So you're absolutely right, is that this allows us to actually collapse a lot of sales enablement – well, sales operations, sales enablement, strategic accounts and marketing will all be under Greg McIntosh, who actually is in Ernie's organization, so that we're delivering that our RIM customers. So there is a big part about it, in terms, of changing the way we go to market.

Stuart Brown

And Sheila, in terms of how the benefits will flow through, the actions that we are taking here in the fourth quarter, we talked about mostly people action so that will flow mostly through the SG&A line is where you'll see that. And then the actions we've talked about that we're taking in 2020 are more around cost of sales are continued to be some SG&A improvement as well. And so you'll see that flow through more in the back half of 2020. And then when you think about sort of the flow through from there, right, in terms of the impact on our customers, as we rollout things like mobile customer tools, so we get fewer touch points between our customers ordering boxes or services or shredding or things like that, we're going to enable more mobile tools for our customers that have been asking for.

And actually simplify some of our billing as well that through the number of M&A acquisitions and things like that that we've done. We've got a number of manual processes around billings, which frustrates internally creates a lot of inefficiencies as well for our customers, it's not always easy for them. So those will flow through in various lines and that will continue to flow through within the later years.

Sheila McGrath

Okay. Thank you.

Operator

Our next question will come from Eric Luebchow of Wells Fargo. Please go ahead.

Eric Luebchow

Hey, thanks for taking the question. Curious, Stuart, you mentioned that your net lease adjusted leverage were kind of remain flat throughout the year, but ultimately you wanted to get down to 4.5, 5 times range. So maybe you could kind of help us give a bridge for how you will get there and kind of the mix of EBITDA growth and/or capital recycling and data center development CapEx? And how long you think it will kind of take to hit that target?

Stuart Brown

Yeah. Thanks, Eric. I think, if you look at what we talked about in our opening remarks, really, our aim is to grow our free cash flow to cover the majority investments, which were obviously, generating good returns on acquisitions and data center. And so our capital – deployment capital allocation strategy in terms of where we're putting capital to work and the amounts are not really changing, there's no change in strategy there.

From a leverage standpoint, our leverage is in line with other REITs today. And actually from a rating agency standpoint, the credit markets already treat as if we're rated higher than we are. You can see that in the results from the bond offering. And so to get to 4.5 to 5 times, is really about optimizing our flexibility over time. So if you look at sort of where the deleveraging should come from, right, with organic EBITDA growth of around 4% and the Project Summit benefits, it will grow to $200 million, those in of themselves will reduce our leverage, right, that will allow us to reduce our leverage.

We continue to see this strong demand in data center and other projects, and look at even what our pipeline is today, we've actually taken our data center capital for the fourth quarter up a little bit to get some projects started, particularly in Amsterdam and Virginia, where we see strong demand. And so we expect that our leverage will be flat to slightly down in 2020 as the benefits from Project Summit start to flow through from there. And so going back to sort of longer term financial framework at 4.5 to 5.5, obviously, optimizing between 4.5 and 5.

Eric Luebchow

Great. And then, just a follow-up on the data center, if you look at your pipeline, how should we think about the mix of kind of the more hyperscale business, which I know has slightly thinner returns and your kind of traditional retail enterprise business. And maybe – if you could maybe provide an update on the kind of Frankfurt JV process and how you're thinking about that?

William Meaney

Okay. It's a good question, Eric. I think that the – if you look at this quarter, for instance, where it's obviously biased towards the hyperscale win that we had in July. I think that kind of smooths out over time. I think that I would say that we anticipate, we look at size that lend themselves to hyperscale like Northern Virginia, I think, when it's fully built out, it would be around 50-50 or even 60-40 hyperscale just in terms of a large facility like that, which will still give us blended cash-on-cash returns of the 11% to 12%. So for us, it's all about speed of fill in terms of the mix between hyperscale and what we call, normal enterprise.

The one thing I would add though is the other aspect about hyperscale, which is not lost on us, is we do have some hyperscale customers that have similar returns as enterprise, when they actually deploy an edge-type deployment, so smaller deployment. So when you say hyperscale is a customer for us, but there's even segment within a hyperscale, they have some requirements that look more like enterprise, when they call edge, and then they have other ones, which are pure large deployment. So – but we still net-net we think about half of our business will be hyperscale, and we'll end up with the kind of 11%, 12% cash-on-cash returns.

In terms of Frankfurt is we continue to have positive discussions about putting that into a joint venture. It's not absolutely critical that we do that, but we would like to do that, because it just allows us to stretch our balance sheet or expand faster into other areas. And as you can with the pipeline of 15 megawatts already sold or booked year-to-date, we're doing – we're pretty pleased with that, and we don't want to slow that down.

Eric Luebchow

Okay. Great. Thank you.

Operator

And our next question will come from Andy Wittmann of Robert W. Baird & Co. Please go ahead.

Andrew Wittmann

Hi, great. Thanks for taking my questions. I guess, the dividend increase here wasn't the 4% you guys talked about kind of mentioned that you're going to use these proceeds that you'd otherwise putting the dividend towards deploying into the data centers. Is this the right way to think about the long-term growth rate of the dividend, considering that you're probably going to continue to have data center investments?

William Meaney

Yeah. It's a great question, Andy. I think that – and you're right to kind of cite, because if you think about what we've – it's about 3 or 4 megawatts that to be by growing the dividend at this rate, allows us – the exchange is about 3 or 4 megawatts. And given the pipeline we have right now is we think, it definitely gives our shareholders better return, if we're actually taking that cash and given the 11% to 12% cash-on-cash returns and buying 3 or 4 – building out 3 or 4 megawatts based on the demand pipeline you can see that we're – our occupancy is pretty tight on the data center side.

So then if you say on a go-forward basis, we'll continue to make those kind of trade-offs, it's probably not lost on anyone, as most of our data center peers are – have a payout ratio as a percentage of AFFO kind of in the mid-60s to low-70s. So my guess is that's probably where we're going to settle out just given the demand that we see on data center.

Andrew Wittmann

Got it. That's helpful. I also wanted to ask about the margins in your core North American RIM business. They were noted as down year-over-year, I think, the revenue management techniques were pretty clearly a benefit to the quarter. I was just wondering, how you can reconcile good revenue management likely in North America with the margin performance. What are the things happened there, Stuart, in the quarter that fed into that?

What are the things happened there, Stuart, in the quarter that led into that?

Stuart Brown

No. The main reason is obviously the paper price, right. So if you adjust for paper price margins are actually up year-over-year for the quarter. So that's really the main driver.

Andrew Wittmann

Okay. And then could you just – because there's always a lot of moving pieces in your numbers, Stuart, could you just help us understand the change in the midpoint of the guidance, what were the key factors there? I mean, you kind of listed some of them paper, obviously, was one of them as well, but if there's some other things. Just maybe here, can you just help bridge the new guide to the old guide?

Stuart Brown

Yeah. I mean, the old guide, the midpoint of [$1,460 million] [ph]. We now lowered that to the midpoint of [$1,440 million] [ph], which is actually the lower end of our previous range. The key drivers are, again, even just since the last earnings call, paper prices are down, so down about $15 per ton. So that in and of itself is about $4 million or $5 million of lower paper price, actually the stronger dollar has also impacted us, so that's right, given where the dollar is right now, again, that can vary a little bit. That's about $5 million.

The other piece of it is the North America records management. The core services are down, part of it is due to actually lower destructions, which is good for volume. But that's obviously a headwind or negative for the revenue that comes from the destructions. But we also have lower service gross profit in the UK and France, and a little bit of higher bad debt. Those things have been partly offset with the lower global SG&A due to the cost actions that we've taken and lower incentive comps, not where we wanted to be, but I think sort of clear path to where we are in this range.

Andrew Wittmann

Okay. So just on that the – Slide 13 kind of calls out paper separately. So your guidance is actually a little bit lower than the nominal number you just gave there. The biggest chunk that you just reconciled there was paper price for, I think, you said $15 million or so. So all those other factors, how does that go in?

those other factors, how does that go in?

Stuart Brown

Yeah. There are different periods is what you've got, right. So one of them is, I'm reconciling guidance in 2019 versus what's changed from 3 months ago. On Slide 13, if you look at where spot paper price is today compared to the average of 2019 is down about $35 per ton. And then we talked about on the last call that every $10 change in price per ton is about $6 million that get you into the low $20 million impact. Paper prices stayed where they are today compared to the average paper price that we've recognized in 2019.

Andrew Wittmann

Okay. Cool. Yeah, that period is the key thing on the year-over-year guide, that's the difference here. Okay. I will leave it there. Thank you.

Operator

And our next question will come from George Tong of Goldman Sachs. Please go ahead.

George Tong

Hi, thanks. Good morning. I'd like to dive a little bit deeper into the pricing and volume growth trends you're seeing in the storage business. Once you strip up the benefits of your very strong data center growth from storage performance. Can you discuss broadly any changes that you may be seeing with pricing and volume growth?

William Meaney

Yeah. Good morning, George. Thanks for the question. Actually, if you strip out data center, we said it was 3% growth total, including data centers, it's like 2.8%, 2.9%. So the data center is a bigger impact on EBITDA growth, and it does on the revenue growth. As we've said before, it's about 7% of our sales as a company, it does contribute about 1/3, close to – coming up to 30%, 35% of our consolidated EBITDA growth, but on the sales side it's actually fairly minimal.

George Tong

Got it. That's helpful. I'd like to go back to your strategy around managing a financial leverage, I know, Project Summit is definitely going to help with leverage. But then structurally longer term, what are your strategies around changing or improving the translation of growth CapEx into generating EBITDA, such that your EBITDA growth accelerates and can support increases in gross leverage over time.

Stuart Brown

Yeah. And then – I appreciate you asking that question, because you get sort of a little bit of multiplying effect, right. You'll get increasing EBITDA from the results of Project Summit on top of the normal organic EBITDA growth. And so if you look today from a capital allocation standpoint, we're generating plus or minus $100 million of cash flow after dividend to fund growth, well, that will grow over time, right. So free cash flow after Summit will end, we talked about $200 million or so of EBITDA take a little bit of tax of that. So our free cash flow available for growth investment themselves will allow us to borrow less. So you get higher EBITDA, you won't – we won't be borrowing as much to fund growth. And then you get the benefit of the growth itself.

So as we're putting capital to work, the EBITDA that comes off of the acquisitions as well as comes off the data center growth will then accelerate the deleveraging. So while, you won't see as much deleveraging in 2020, because of the cost of Summit, as the flywheel starts going, you'll continue to see leverage come down. And again, long term, our – we'll live within a range of 4.5% to 5.5% – 4.5 to 5 times [EBITDAR] [ph] depending upon where we are in the cycle. 4.5 to 5 times, it's really optimally where we want to be will provide the most flexibility over time.

George Tong

Got it. That's helpful. Thank you.

Operator

And our next question will come from Shlomo Rosenbaum of Stifel. Please go ahead.

Adam Parrington

Hi, this is Adam on for Shlomo. Could you talk more about the trends in record management volumes this quarter, particularly in the developed markets with volumes declining again sequentially?

William Meaney

Yeah. Actually – thanks for the question. I think, actually we were pretty pleased, actually moderated the decline in North America. And you have to remember, this is on a very large base. But if you see this quarter, it's actually an improvement over the most recent trend.

Partly it's driven by what Stuart said, on the other side it's a drag on service revenue, because we've seen less destructions. So we're not picking up the revenue there. And then – so it is slightly negative as you pointed out. And where we're picking up some volume is on the new storage areas which we picked up about 3 million cubic feet.

But overall, actually the trend is that, it's moderating. We don't see a major difference. The thing that's driving the trends in North America, you could look at North America which is slightly negative and you can look at – in Western Europe, actually which is slightly positive in terms of volume trends, very similar economic statuses, both very mature markets.

But I think it really comes down to the rate of change of incoming volume and whether or not boxes are aging out or the average age of our inventory is increasing. So we continue to see a fairly steady trend, but not much of an improvement, not much of a degradation and this quarter is actually a slight improvement.

Adam Parrington

Got it, okay. Thank you.

Operator

And the next question will come from Andrew Steinerman of J.P. Morgan. Please go ahead.

Michael Cho

Hi, good morning. This is Michael Cho for Andrew. Just a couple of quick ones on the data center segment, just given the healthy activity, really healthy leasing activity, maybe can you just remind us what the revenue growth goals of the data segment are? And the second part of that is, maybe you could provide some pricing commentary as well in terms of the environment you're seeing? Thanks.

William Meaney

Okay. Well, so first of all, we maintain consistency. If you look at it right now, as I said, going back to this year, we're up about 10% since the beginning of the year in terms of leased up activity. And if you correct for the churn, the customer churn that we called out at the last quarter, which we knew when we bought IO, we're actually up mid-teens year-to-date if you correct for that.

I think that if you look at our bookings this year of 15 out of 20 megawatts target, and so – I think we're on track to hit the upper-end of that original range. That again is going to put us in kind of the mid-teens to 20%, so like 15% to 20%, set us up for 15% to 20% growth next year. So we continue to see the growth of our data center business to be mid-teens.

In terms of pricing, I would say that the pricing is fairly consistent. In other words that if we're looking at enterprise, we're still getting the cash on cash returns anywhere from 12% to 15% depending on the size of the deployment for an enterprise customer.

And on the hyperscale deployments, we're continuing to get 8% to 9% cash-on-cash returns, blended 11% to 12% over an entire site or campus. So the pricing is staying pretty stable from what we see and we're very pleased with those kinds of returns.

Michael Cho

Thanks. And then if I can just squeeze one more on the dividend. I know you – Bill, you mentioned the dividend comment along with AFFO. So I just want to make sure I got it right. So are you saying that the dividend growth will moderate towards the range of AFFO that you mentioned and you can track AFFO from there?

William Meaney

Yeah, I think most likely. I think the thing that drives it obviously is capital allocation, right? So we do want to continue to grow our dividend at what we think is a reasonable rate to get back to our shareholders. But then, if you kind of look at – if you look at this year, as I say, the difference between what – we're growing the dividend this year versus last year, equates to being able to build out another 3 or 4 megawatts for our data center as an example.

So if you think – if you're trying to think of a proxy on that, if you look at data center peers, they are all kind of in the mid-60s to low 70s as a payout as a percentage of AFFO. And my guess is we're in kind of the high 70s right now. So my guess is we'll probably settle out somewhere in that range with our data center peers, given the pipeline of opportunities we see.

Michael Cho

Okay, great. Thank you.

Operator

Our next question will come from Marlane Pereiro of Bank of America Merrill Lynch. Please go ahead.

Marlane Pereiro

Hi. Thank you for taking my question. Just a quick one, can you discuss MakeSpace in terms of how much accounted for growth in consumer and other cubic feet in storage volumes this year?

William Meaney

Yeah, all right. Thanks. It's a couple of million. I called out we had about 3 million of what I would call other or of new kind of storage. And it's about 2.5 million. We expect the full year to be about 2.5 million to 3 million cubic feet coming from MakeSpace. So a small but growing and we're really pleased with the partnership we have with MakeSpace.

Marlane Pereiro

Great. Thank you.

Operator

And our next question will come Kevin McVeigh of Credit Suisse. Please go ahead.

Kevin McVeigh

Great, thanks. Hey, you folks are pretty clear. But I wonder – pretty sizeable restructuring, when did you kind of make the decision that it's kind of had to happen? And then, the design aspect of it, how long did it take to kind of, number one, determine you're going to do it and then put the structure in place to announce it?

William Meaney

Well, that making the decision to do it was literally this week to how should it be, because you don't do these things lightly. We want to make sure we had full discussions with our Board before we tackle them. But obviously, we've been looking at this for months. So, I mean, that you can imagine that we've been looking at this for pretty much the – since the winter time.

Kevin McVeigh

And then, I guess, from a cost perspective, is it primarily on the storage side, where it's going to sit or the service? And then, ultimately, is there any way to think about – the 2020 framework on the EBITDA was helpful – does it assume there is no revenue slippage or any thoughts on what the cash flow impact, like if you were to think about free cash flow in 2020, Stuart, is there a way to maybe just help us frame that?

I know it's not formal guidance, but it seems like the EBITDA is pretty – there is a range there. But just any thoughts on what that cash flow would like, and again, is there any kind of revenue impact from these actions or is it kind of revenue continues on trend?

William Meaney

Kevin, just to be clear on this is what we're doing – this is probably atypical that what you hear in a lot of restructure. This is not about the coalface or the people who are actually delivering and picking things up with our customers every day nor about the people at the frontline for the most part. This is really about changing the way we manage and lead the company from the top.

That's why if you – coming back to it is 45% of people from Vice President and above are impacted, which is difficult for all of us. But the main benefit of this, so coming to your revenue question, is a year from now – it's painful going through these kinds of realignments and organizational change, so you can imagine that people are feeling that, because it's a close knit company.

But a year from now, we're going to have a much nimbler and agile leadership structure, which allows us to action quicker on behalf of our customers in giving them integrated solutions, which quite frankly none of our competitors in specific business lines can do, because most of our competitors are either doing storage or scanning. None of them are doing storage, scanning, artificial intelligence have the data center and have a relationship with them that's – with the customers that are global.

So this is really about speed. So what we see, we haven't built any of that into our guidance, but we're doing this, because we expect to have a positive impact on the revenue side. But we haven't built that in, because we're much more saying, we'll tell you when we see it, we don't promise something that we don't see.

So, right now, what we laid out with the program by actually changing the way we lead and operate the company, we've outlined the cost impact that naturally flows from them. But this is all about speed and ease, both for our internal mountaineers, make their job easier, as well as our customers to interact with us.

Kevin McVeigh

Understood.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.