

September 16, 2016

Dear clients and colleagues,

Thematic investing is an important part of our investment process. Safestore, a company we initiated in our portfolios this summer, addresses the growing trend of urbanization and outsourcing.

By the measure of number of stores in the UK (134) and a portfolio in France consisting of 24 stores and operating under the "*Une Pièce en Plus*" brand, Safestore is the UK's largest self-storage provider. Originally founded in 1998, the business grew substantially through acquisitions in the mid-2000s before returning to the stock market in 2007. The new CEO (M. Vecchioli), who joined in 2013, has added strength to the management team.

#### Market:

- Self-storage demand is driven by several factors:
  - Population growth and household size creates additional demand for storage
  - As the percentage of home ownership falls, like we observed in many UK cities, the demand for extra storage space increases
  - Economic growth and household income could trigger a desire for additional space
  - Life events such as housing moves, student storage or travelling would also increase storage demand
- The total market size of UK self-storage consists of 975 stores totaling 34.4M square feet
- The self-storage market is fragmented with approximately 50% of self-storage sites being operated by businesses with less than 10 sites

#### Growth Strategy

- Overall we remain positive on storage fundamentals. Since self-storage is a relatively immature market, we conclude that there is room for growth and expect Safestore to profit from it.
- Safestore currently has 1.4 million square feet available for rent. As space gets filled, earnings will significantly increase.
- Safestore has increasingly invested on Search Engine Optimization in order to improve conversion rates. Since the majority of enquiries received are coming from the internet, we believe that this marketing strategy will deliver material operational improvements.
- Although the number of new locations has slowed down in recent years, we expect Safestore to continue its development pipeline in London, Paris and perhaps into new geographies.

### Strengths

- We like that Safestore operates mainly in high-density markets that have a combination of low supply and relatively high demand characteristics
- With its strong balance sheet, we believe the company will be well-positioned to increase market share and acquire smaller competitors
- Safestore benefits from strong brand awareness and enjoys a solid market share. Given the number of locations, it is the dominant player in the UK with 95 stores and approximately 9% market share.
- Safestore maintains a well-diversified customer base between businesses and individuals. As the number of internet start-up retailers increases, we expect demand for flexible storage to grow.

### Opportunities

- Compared to the US, the European self-storage market is immature. In the US storage per inhabitant is 7.8 square feet as compared to 0.5 in the UK and 0.3 in Paris.
- European self-storage operators have much to gain from increasing awareness. A recent survey highlighted that 48% of respondents had heard of self-storage but knew nothing about the offering. The survey also showed that 70% of respondents who are customers of self-storage were using the service for the first time.
- Shortages in newly built homes in the UK also bodes well for the trend toward renting self-storage

### Risks

- Economic downturns would negatively impact occupancy rates such as seen in 2008-2009.
- Rising interest rates would impact its real estate value just like any other property
- Fierce competition and new supply could impact pricing

Have a good weekend.

The Global Alpha Team