

February 8, 2019

Dear clients and colleagues,

In times of economic uncertainty, it's possible to find resilient businesses that can help provide downside protection as well as participate in any upward moves.

With Brexit still unresolved, Global Alpha believes that the UK is a region offering companies exposed to structurally growing industries at a discount, and one of these is self-storage provider Safestore. The UK accounts for nearly half of Europe's self-storage market, with France a distant second. Safestore, which has 146 stores in the UK and Paris, is one of three players that dominate the UK market along with Big Yellow and Lok'nStore.

We believe Safestore, and self-storage in general, can be considered defensive, as demand is not as tied to the health of the overall economy as one may think. Sixty percent of self-storage usage is commercial and 40% is personal. Business users usually rent larger units, and sometimes multiple units, for a longer average duration of 30 months. Business customers could be start-up online retailers or national accounts using many locations. Commercial use may even increase in the short term as businesses stockpile pre-Brexit.

Personal users rent smaller spaces of under 100 square feet (sq. ft.) and prefer locations to be within a 20-minute travel time of their residence. The average length of rental is 20 months. For personal users the most common reasons for use are home improvements, rental movers, student storage, general decluttering and significant life events (e.g. births, deaths and divorces). Safestore has also be able to sustain like-for-like growth when housing transactions are materially down. The geographic diversity from operations in Paris offers another layer of protection against a post-Brexit decline in economic activity.

Self-storage is still a relatively new market in the UK, especially compared to the US and Australia which have significantly more available storage space per capita. The UK has 0.67 sq. ft. of storage per capita compared to the US at 7.3 sq. ft. per capita and 2 sq. ft. per capita for Australia. For the UK to reach the same storage density as the US would imply a ten-fold increase is needed from the current 1,150 facilities currently in operation.

According to a recent survey by the Self Storage Association UK, 60% of those surveyed could not name a self-storage business in their local area and under 10% "have heard of self-storage and know the service very well". Estimates indicate that 2% of the population is using self-storage. Raising industry awareness is important, as most are unaware of sizing options and prices, and greater awareness encourages enquiries and first-time customers.

Significant demand for self-storage should see occupancy and rates rise, especially if supply growth remains muted. This is likely to be the case, especially in Safestore's key markets in London and Paris. Traditionally, UK self-storage locations have been clustered in London and the South East, meaning storage per capita in London is twice the UK average. With a challenging planning permission process, an increased focus on housing supply and higher land costs due to limited availability, London has the highest rental rates, 22% above the national average. More recently, geographic interest has been spreading and more stores are opening in other regions. It is a similar situation in the Paris city centre, which has seen two openings since 2005.

Safestore recently reported full-year numbers showing mid-single digit like-for-like growth in sales and EBITDA. The company has four more store openings in the pipeline (two in the UK, two in Paris) which will add 210,000 sq. ft., three openings coming in 2019 and Paris Magenta opening in 2020 (subject to planning). The company has made an encouraging start to the new financial year, and we believe they will emerge as a long-term winner in the structurally growing self-storage market.

Have a great weekend.

The Global Alpha team