



# Life Storage, Inc. (LSI)

Updated October 1<sup>st</sup>, 2021 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$115	<b>5 Year CAGR Estimate:</b>	6.0%	<b>Market Cap:</b>	\$9.4 B
<b>Fair Value Price:</b>	\$88	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	10/12/2021
<b>% Fair Value:</b>	131%	<b>5 Year Valuation Multiple Estimate:</b>	-5.3%	<b>Dividend Payment Date:</b>	10/26/2021
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$135	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	16.2%

## Overview & Current Events

Life Storage (LSI) is a real estate investment trust (REIT) that was founded in 1985. It is a leading U.S. owner and operator of self-storage properties, with more than 1,000 locations in 34 states. It serves both residential and commercial customers and has a market capitalization of \$9.4 billion. Its expansion to the West Coast in 2016 and its asset recycling in 2018-2019 have enhanced its demographics and its geographic diversification.

In early August, Life Storage reported (8/3/21) financial results for the second quarter of fiscal 2021. Revenue for the wholly owned stores grew 15% over last year's quarter thanks to an increase in occupancy from 91.5% to 95.7% and an 8% increase in rental rates. The company achieved same-store revenue growth in each of its 31 major markets. As a result, it grew its adjusted funds from operations (FFO) per unit 28%, from \$0.94 to \$1.20.

During the quarter, Life Storage acquired 17 stores for \$267.5 million and added 26 stores to its third-party management platform. Thanks to the impressive business momentum, management raised the quarterly dividend by 16%, from \$0.74 to \$0.86, and raised its guidance for annual core FFO per unit from \$4.33-\$4.41 to \$4.69-\$4.79. Given the tendency of management to issue conservative guidance, we expect the REIT to post FFO per unit of \$4.85 this year. We also note that Life Storage has not missed the analysts' consensus for 16 consecutive quarters.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>FFO</b>	\$1.62	\$2.09	\$2.48	\$2.72	\$3.23	\$2.88	\$3.29	\$3.67	\$3.75	\$3.97	<b>\$4.85</b>	<b>\$7.46</b>
<b>DPS</b>	\$1.20	\$1.22	\$1.48	\$1.86	\$2.20	\$2.53	\$2.67	\$2.67	\$2.71	\$2.88	<b>\$3.44</b>	<b>\$4.20</b>
<b>Shares<sup>1</sup></b>	41.6	44.2	47.2	49.8	53.4	65.1	69.7	69.9	70.0	71.2	<b>78.0</b>	<b>100.0</b>

Life Storage has stores in 20 of the top 25 fastest-growing markets in the U.S. Approximately 60% of its stores are in the Sun Belt region, which is characterized by high population and economic growth. The REIT grows by acquiring stores in markets with favorable demographics and high rental rates per square foot. During the last decade, it has grown its store count at a 9.4% average annual rate. It has thus greatly benefited from economies of scale. It also tries to expand the space of successful stores. This type of investments is low-risk, with attractive returns (higher than 8%). Thanks to its successful growth strategy, Life Storage has grown its FFO per unit at a 10.5% average annual rate over the last decade. As this industry is highly fragmented, it provides ample room for future growth via acquisitions. Moreover, as there are no signs of fatigue in the growth trajectory of Life Storage, we expect it to grow its FFO per unit at a 9.0% average annual rate over the next five years.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
<b>P/FFO</b>	16.4	17.0	18.2	18.8	19.4	23.0	16.4	16.6	17.9	17.5	<b>23.7</b>	<b>18.1</b>
<b>Avg. Yld.</b>	4.5%	3.4%	3.3%	3.6%	3.5%	3.8%	5.0%	4.4%	4.0%	4.2%	<b>2.7%</b>	<b>3.1%</b>

<sup>1</sup> In millions.

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Thanks to its strong business momentum, Life Storage is now trading at a price-to-FFO ratio of 23.7, which is a decade-high level, higher than the historical average FFO multiple of 18.1. The rich valuation level is somewhat justified by the high current growth, but Life Storage could revert towards its historical valuation level whenever it decelerates. If it reverts to its average valuation level over the next five years, it will incur a -5.3% annualized drag in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	74%	58%	60%	68%	68%	88%	81%	73%	72%	73%	71%	56%

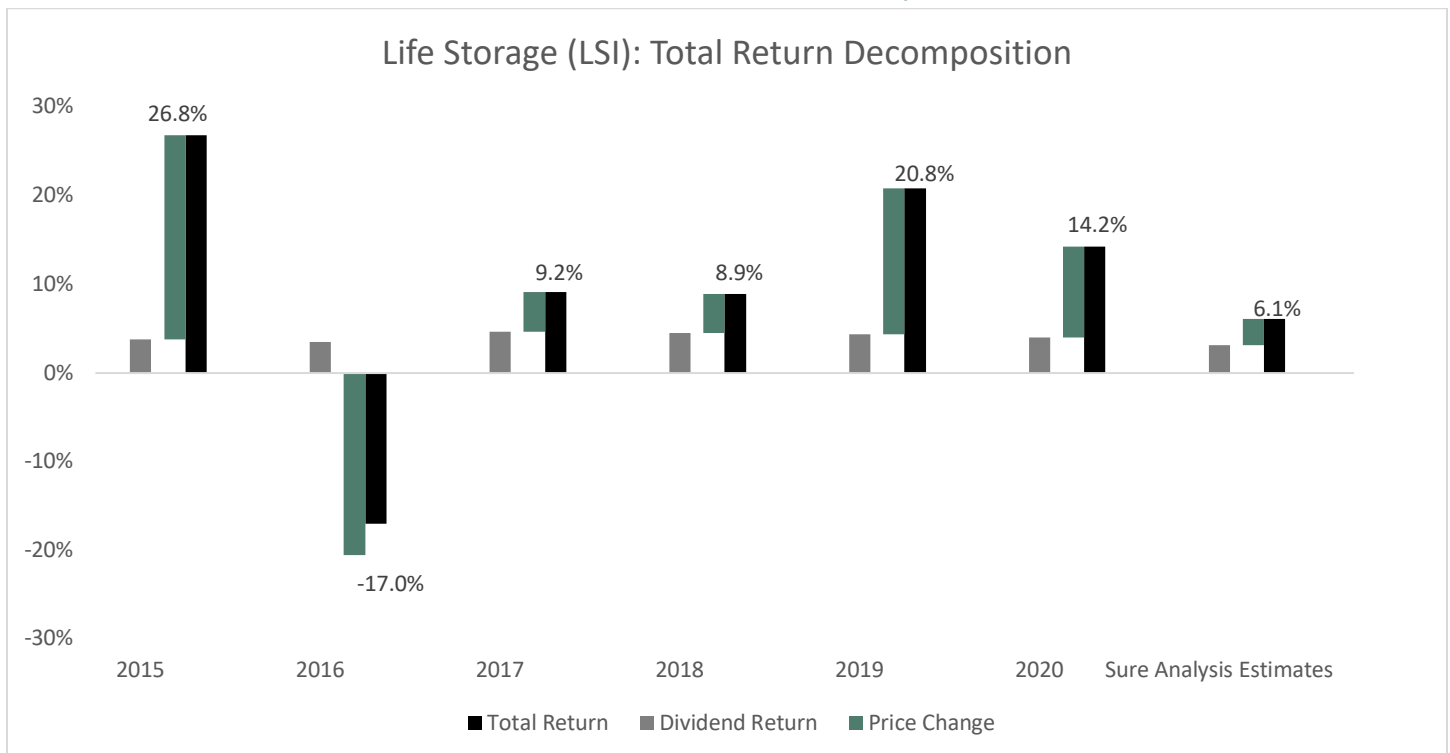
Life Storage operates in a market with niche characteristics, such as high operating margins and low capital expenses. As a result, the company has posted strong free cash flows every single year over the last decade. The REIT has also proved markedly resilient to recessions. Last year, while most REITs came under great pressure due to the pandemic, Life Storage grew its FFO per unit 6%, to a new all-time high. It is thus both a growth stock and a defensive holding.

Life Storage is offering a 3.0% dividend yield, a 71% payout ratio and a decent balance sheet, with an interest coverage ratio of 3.2. Also, given its promising growth prospects, Life Storage can raise its dividend at a meaningful rate in the upcoming years.

## Final Thoughts & Recommendation

Life Storage is recovering from the pandemic, with accelerated business momentum, but the stock has more than doubled off its bottom last year and is now 40% above the pre-pandemic level, at a decade-high valuation level. We expect the stock to offer a 6.1% average annual rate over the next five years, thanks to 9.0% growth of FFO per unit and a 3.0% dividend, which may be offset by a -5.3% annualized contraction of valuation level. As a result, Life Storage receives a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	188	218	253	302	338	428	485	502	511	540
<b>Gross Profit</b>	117	141	159	187	219	277	305	320	316	331
<b>Gross Margin</b>	62.3%	64.6%	62.9%	61.8%	64.8%	64.7%	62.8%	63.7%	61.8%	61.3%
<b>SG&amp;A Exp.</b>	26	32	30	35	39	43	50	49	47	52
<b>D&amp;A Exp.</b>	37	42	46	52	59	117	127	103	107	123
<b>Operating Profit</b>	69	84	104	124	150	151	171	217	225	233
<b>Operating Margin</b>	36.7%	38.5%	41.1%	41.0%	44.4%	35.3%	35.3%	43.2%	44.1%	43.2%
<b>Net Profit</b>	31	55	74	89	113	85	96	207	259	152
<b>Net Margin</b>	16.2%	25.3%	29.3%	29.3%	33.2%	19.9%	19.9%	41.1%	50.6%	28.1%
<b>Free Cash Flow</b>	80	99	121	146	186	226	249	262	279	299

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	1,344	1,484	1,562	1,855	2,119	3,858	3,877	3,892	4,233	4,728
<b>Cash &amp; Equivalents</b>	7	7	10	9	7	24	9	14	17	54
<b>Accounts Receivable</b>	3	3	5	6	7	5	7	8	12	15
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	---	---	17	17	17	17	17
<b>Total Liabilities</b>	688	756	691	879	917	1,769	1,848	1,834	2,100	2,350
<b>Long-Term Debt</b>	625	684	626	801	828	1,654	1,727	1,714	1,958	2,193
<b>Shareholder's Equity</b>	656	729	871	976	1,202	2,088	2,028	2,058	2,133	2,378
<b>D/E Ratio</b>	0.95	0.94	0.72	0.82	0.69	0.79	0.85	0.83	0.92	0.92

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	2.4%	3.9%	4.9%	5.2%	5.7%	2.9%	2.5%	5.3%	6.4%	3.4%
<b>Return on Equity</b>	4.8%	8.0%	9.3%	9.6%	10.3%	5.2%	4.7%	10.1%	12.3%	6.7%
<b>ROIC</b>	2.5%	4.1%	5.1%	5.4%	5.9%	3.0%	2.6%	5.5%	6.6%	3.5%
<b>Shares Out.</b>	41.6	44.2	47.2	49.8	53.4	65.1	69.7	69.9	70.0	71.2
<b>Revenue/Share</b>	4.53	4.93	5.37	6.10	6.34	6.58	6.96	4.79	4.87	5.05
<b>FCF/Share</b>	1.92	2.23	2.56	2.95	3.49	3.47	3.57	2.50	2.66	2.80

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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