



# Life Storage, Inc. (LSI)

Updated March 2<sup>nd</sup>, 2023 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$122	<b>5 Year CAGR Estimate:</b>	11.1%	<b>Market Cap:</b>	\$10.5 B
<b>Fair Value Price:</b>	\$127	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	4/12/2023 <sup>1</sup>
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.8%	<b>Dividend Payment Date:</b>	4/25/2023
<b>Dividend Yield:</b>	3.9%	<b>5 Year Price Target</b>	\$178	<b>Years Of Dividend Growth:</b>	4
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Buy

## 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 \$10.5 billion. Its expansion to the West Coast in 2016 and its asset recycling in 2018-2019 have enhanced its demographics and its geographic diversification.

On February 5<sup>th</sup>, 2023, Public Storage announced an unsolicited offer to acquire Life Storage for \$11 billion in an all-stock deal. Life Storage rejected the offer, stating that the offer was too low, but also stated that it remains open-minded to opportunities that will enhance shareholder value.

In late February, Life Storage reported (2/23/23) financial results for the fourth quarter of fiscal 2022. Same-store revenue grew 12% over the prior year's quarter thanks to increased rental rates. The company achieved double-digit same-store revenue growth in 21 of its 33 major markets. As a result, it grew its adjusted funds from operations (FFO) per unit 20%, from \$1.41 to \$1.69, thus exceeding the analysts' consensus by \$0.05. Life Storage has not missed the analysts' consensus for 22 consecutive quarters.

Thanks to its impressive business momentum, Life Storage recently raised its dividend for a third time in 5 quarters, by 40% in total. It also provided positive guidance for 2023, expecting FFO per unit of \$6.75-\$6.95. As Life Storage tends to provide conservative guidance, we expect FFO per unit of at least \$6.90 this year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>FFO</b>	\$2.48	\$2.72	\$3.23	\$2.88	\$3.29	\$3.67	\$3.75	\$3.97	\$5.07	\$6.51	<b>\$6.90</b>	<b>\$9.68</b>
<b>DPS</b>	\$1.48	\$1.86	\$2.20	\$2.53	\$2.67	\$2.67	\$2.71	\$2.88	\$3.08	\$4.16	<b>\$4.80</b>	<b>\$6.42</b>
<b>Shares<sup>2</sup></b>	47.2	49.8	53.4	65.1	69.7	69.9	70.0	71.2	82.5	85.9	<b>88.0</b>	<b>120.0</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 10% 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 investment is low-risk, with attractive returns (higher than 8%). Thanks to its successful growth strategy, Life Storage has grown its FFO per unit at an 11.3% average annual rate over the last decade. As this industry is highly fragmented, it provides ample room for future growth via acquisitions. Life Storage posted record acquisition volume of \$2.3 billion in 2021 and acquisitions of more than \$1.0 billion in 2022. Moreover, as there are hardly any signs of fatigue in the growth trajectory of Life Storage, we expect it to grow its FFO per unit at a 7.0% average annual rate over the next five years.

<sup>1</sup> Estimated date.

<sup>2</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Life Storage, Inc. (LSI)

Updated March 2<sup>nd</sup>, 2023 by Aristofanis Papadatos

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	18.2	18.8	19.4	23.0	16.4	16.6	17.9	17.5	21.5	18.6	17.7	18.4
Avg. Yld.	3.3%	3.6%	3.5%	3.8%	5.0%	4.4%	4.0%	4.2%	2.8%	3.4%	3.9%	3.6%

Life Storage is currently trading at a price-to-FFO ratio of 17.7, which is lower than the historical average FFO multiple of 18.4. If the stock trades at its average valuation level in five years, it will enjoy a 0.8% annualized gain in its returns.

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

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	60%	68%	68%	88%	81%	73%	72%	73%	61%	64%	70%	66%

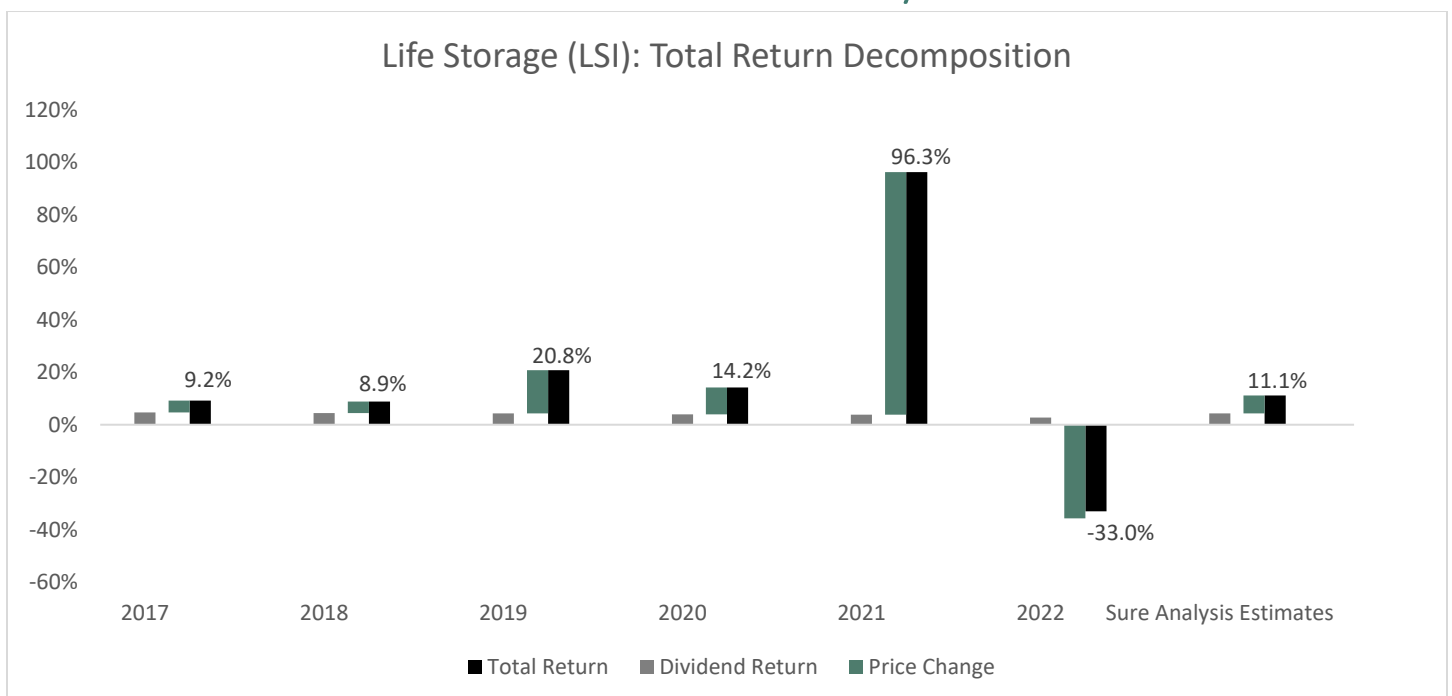
Life Storage operates in a market with niche characteristics, such as high operating margins and low capital expenses. As a result, the company has posted strong free cash flows every single year over the last decade. The REIT has also proved markedly resilient to recessions. In 2020, while most REITs 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 3.9% dividend yield, a 70% payout ratio and a decent balance sheet, with an interest coverage ratio of 4.3. Given also 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 strong business momentum. Since our last research report, in November, the stock has rallied 18%, mostly thanks to the unsolicited offer of Public Storage, but it remains attractive. We expect Life Storage to offer an 11.1% average annual rate over the next five years, thanks to 7.0% growth of FFO per unit, a 3.9% dividend and a 0.8% annualized valuation tailwind. As a result, we maintain our buy rating.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Life Storage, Inc. (LSI)

Updated March 2<sup>nd</sup>, 2023 by Aristofanis Papadatos

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	253	302	338	428	485	502	546	584	749	991
<b>Gross Profit</b>	159	187	219	277	305	320	351	376	502	682
<b>Gross Margin</b>	62.9%	61.8%	64.8%	64.7%	62.8%	63.7%	64.2%	64.3%	67.1%	68.8%
<b>SG&amp;A Exp.</b>	30	35	39	43	50	49	47	52	63	77
<b>D&amp;A Exp.</b>	46	52	59	117	127	103	107	123	147	193
<b>Operating Profit</b>	104	124	150	151	171	217	225	233	332	459
<b>Operating Margin</b>	41.1%	41.0%	44.4%	35.3%	35.3%	43.2%	41.3%	39.9%	44.4%	46.3%
<b>Net Profit</b>	74	89	113	85	96	207	259	152	249	358
<b>Net Margin</b>	29.3%	29.3%	33.2%	19.9%	19.9%	41.1%	47.4%	25.9%	33.3%	36.1%
<b>Free Cash Flow</b>	121	146	186	226	249	262	279	299	434	587

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	1,562	1,855	2,119	3,858	3,877	3,892	4,233	4,728	6,557	7,388
<b>Cash &amp; Equivalents</b>	10	9	7	24	9	14	17	54	172	24
<b>Accounts Receivable</b>	5	6	7	5	7	8	12	15	18	24
<b>Goodwill &amp; Int. Ass.</b>	---	---	---	17	17	17	17	17	17	17
<b>Total Liabilities</b>	691	879	917	1,769	1,848	1,834	2,100	2,350	3,178	3,564
<b>Long-Term Debt</b>	626	801	828	1,654	1,727	1,714	1,958	2,193	2,785	3,383
<b>Shareholder's Equity</b>	871	976	1,202	2,088	2,028	2,058	2,133	2,378	3,379	3,622
<b>LTD/E Ratio</b>	0.72	0.82	0.69	0.79	0.85	0.83	0.92	0.92	0.82	0.93

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	4.9%	5.2%	5.7%	2.9%	2.5%	5.3%	6.4%	3.4%	4.4%	5.1%
<b>Return on Equity</b>	9.3%	9.6%	10.3%	5.2%	4.7%	10.1%	12.3%	6.7%	8.7%	10.2%
<b>ROIC</b>	5.1%	5.4%	5.9%	3.0%	2.6%	5.5%	6.6%	3.5%	4.6%	5.3%
<b>Shares Out.</b>	47.2	49.8	53.4	65.1	69.7	69.9	70.0	71.2	82.5	84.9
<b>Revenue/Share</b>	5.37	6.10	6.34	6.58	6.96	4.79	7.80	8.21	9.53	11.67
<b>FCF/Share</b>	2.56	2.95	3.49	3.47	3.57	2.50	3.98	4.20	5.52	6.91

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.