



Life Storage, Inc. (LSI)

Updated May 4th, 2023 by Aristofanis Papadatos

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|------------------------|
| Current Price: | \$130 | 5 Year CAGR Estimate: | 9.7% | Market Cap: | \$11.3 B |
| Fair Value Price: | \$127 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date: | 7/13/2023 ¹ |
| % Fair Value: | 102% | 5 Year Valuation Multiple Estimate: | -0.5% | Dividend Payment Date: | 7/25/2023 |
| Dividend Yield: | 3.7% | 5 Year Price Target | \$178 | Years Of Dividend Growth: | 4 |
| Dividend Risk Score: | F | Retirement Suitability Score: | D | Rating: | 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 37 states. It serves both residential and commercial customers and has a market capitalization of \$11.3 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 5th, 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.

On April 3rd, 2023, Life Storage agreed to be acquired by Extra Space Storage (EXR) in an all-stock deal. The shareholders of Life Storage will receive 0.8950 shares of EXR for every share they own. The deal, which is expected to close in the second half of this year, will create the largest storage-facility operator in the U.S., with more than 3,500 locations.

In early May, Life Storage reported (5/2/23) financial results for the first quarter of fiscal 2022. Same-store revenue grew 10.5% over the prior year's quarter thanks to increased rental rates. The company achieved 9% or higher same-store revenue growth in 25 of its 38 major markets. As a result, it grew its adjusted funds from operations (FFO) per unit 13%, from \$1.44 to \$1.63, thus exceeding the analysts' consensus by \$0.01. Life Storage has not missed the analysts' consensus for 23 consecutive quarters.

Thanks to its sustained business momentum, Life Storage maintained its 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 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| FFO | \$2.48 | \$2.72 | \$3.23 | \$2.88 | \$3.29 | \$3.67 | \$3.75 | \$3.97 | \$5.07 | \$6.51 | \$6.90 | \$9.68 |
| DPS | \$1.48 | \$1.86 | \$2.20 | \$2.53 | \$2.67 | \$2.67 | \$2.71 | \$2.88 | \$3.08 | \$4.16 | \$4.80 | \$6.42 |
| Shares² | 47.2 | 49.8 | 53.4 | 65.1 | 69.7 | 69.9 | 70.0 | 71.2 | 82.5 | 85.9 | 88.0 | 120.0 |

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. The recently announced takeover of Life Storage by Extra Space Storage provides ample room for economies of scale and cost savings, as it will create the largest storage-facility operator in the country. Moreover, Extra Space Storage is expected to grow its FFO per share at a 7.0% average annual rate over the next five years. Therefore, as long as the above acquisition materializes, this is the appropriate growth rate to assume for Life Storage over the next five years.

¹ Estimated date.

² 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.



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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 | 18.8 | 18.4 |
| Avg. Yld. | 3.3% | 3.6% | 3.5% | 3.8% | 5.0% | 4.4% | 4.0% | 4.2% | 2.8% | 3.4% | 3.7% | 3.6% |

Life Storage is currently trading at a price-to-FFO ratio of 18.8, which is marginally higher than the historical average FFO multiple of 18.4. If the stock trades at its average valuation level in five years, it will incur a -0.5% annualized drag 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% |

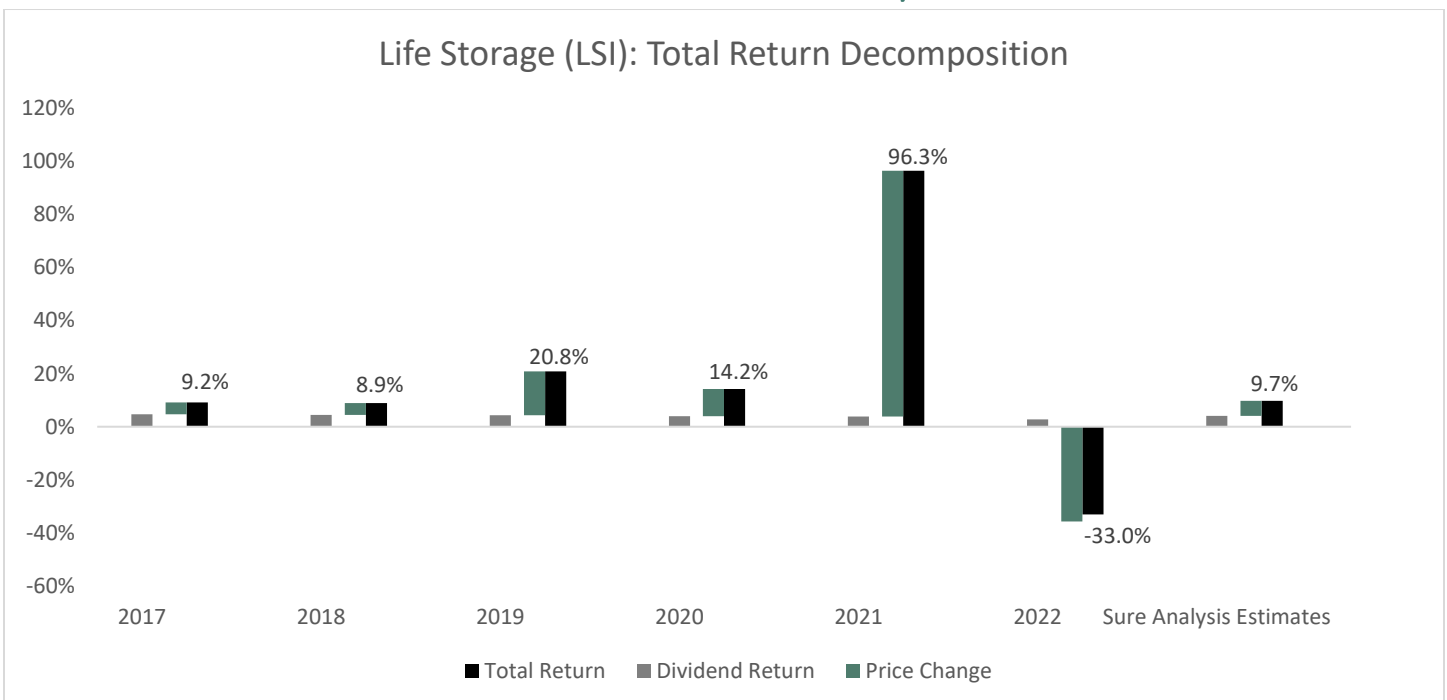
Life Storage operates in a market with niche characteristics, such as high operating margins and low capital expenses. As a result, the company has posted strong free cash flows every single year over the last decade. The REIT has also proved markedly resilient to recessions. In 2020, while most REITs 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 3.7% dividend yield, a 70% payout ratio and a decent balance sheet, with an interest coverage ratio of 4.1. As a result, its dividend is safe.

Final Thoughts & Recommendation

Life Storage has rallied 35% this year thanks to the aforementioned pending acquisition but it remains attractive. We expect Life Storage to offer a 9.7% average annual rate over the next five years, thanks to 7.0% growth of FFO per unit and a 3.7% dividend, partly offset by a -0.5% annualized valuation headwind. As we also consider Extra Space Storage highly attractive around its current price, we maintain our buy rating for Life Storage.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 1,562 | 1,855 | 2,119 | 3,858 | 3,877 | 3,892 | 4,233 | 4,728 | 6,557 | 7,388 |
| Cash & Equivalents | 10 | 9 | 7 | 24 | 9 | 14 | 17 | 54 | 172 | 24 |
| Accounts Receivable | 5 | 6 | 7 | 5 | 7 | 8 | 12 | 15 | 18 | 24 |
| Goodwill & Int. Ass. | --- | --- | --- | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Total Liabilities | 691 | 879 | 917 | 1,769 | 1,848 | 1,834 | 2,100 | 2,350 | 3,178 | 3,564 |
| Long-Term Debt | 626 | 801 | 828 | 1,654 | 1,727 | 1,714 | 1,958 | 2,193 | 2,785 | 3,383 |
| Shareholder's Equity | 871 | 976 | 1,202 | 2,088 | 2,028 | 2,058 | 2,133 | 2,378 | 3,379 | 3,622 |
| LTD/E Ratio | 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 |
|-------------------------|------|------|-------|------|------|-------|-------|------|------|-------|
| Return on Assets | 4.9% | 5.2% | 5.7% | 2.9% | 2.5% | 5.3% | 6.4% | 3.4% | 4.4% | 5.1% |
| Return on Equity | 9.3% | 9.6% | 10.3% | 5.2% | 4.7% | 10.1% | 12.3% | 6.7% | 8.7% | 10.2% |
| ROIC | 5.1% | 5.4% | 5.9% | 3.0% | 2.6% | 5.5% | 6.6% | 3.5% | 4.6% | 5.3% |
| Shares Out. | 47.2 | 49.8 | 53.4 | 65.1 | 69.7 | 69.9 | 70.0 | 71.2 | 82.5 | 84.9 |
| Revenue/Share | 5.37 | 6.10 | 6.34 | 6.58 | 6.96 | 4.79 | 7.80 | 8.21 | 9.53 | 11.67 |
| FCF/Share | 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.

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