

HEDGEYE



# Self-Storage Launch

Short EXR, Long PSA

April 5, 2021



## HEDGEYE REITs

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Please submit questions\* to  
**qa@hedgeye.com**

\*Answered at the end of the call

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# **[ 1 ] INTRODUCTION**

## Rob Simone, CFA - Managing Director

- ❑ 8 years of combined equity research experience
- ❑ Spent nearly 3 years at Paramount Group, Inc. (NYSE: PGRE), a New York-based office REIT, in a business development & investor relations role
- ❑ 3 years of real estate investment banking experience
- ❑ Direct sell-side research coverage of the office, industrial, self-storage and lodging REIT subsectors
- ❑ Earned CFA designation 2010
- ❑ B.S. in Finance & Economics, NYU Stern School of Business

# Intro | Hedgeye REITs Research Process

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## Research Process

### 1. Idea Generation

- ☐ Thematic and macro-driven within the Hedgeye Macro / Quad framework
- ☐ Focus extensively on REIT subsectors we understand, and “sharpshoot” select names which are lightly covered
- ☐ Seek out identifiable catalysts and second derivative inflection points
- ☐ Absolute performance and relative performance within subsectors – “battleground” stocks
- ☐ Screen for contrarian ideas (short interest, etc.)
- ☐ **Not a real estate “tour guide” franchise**

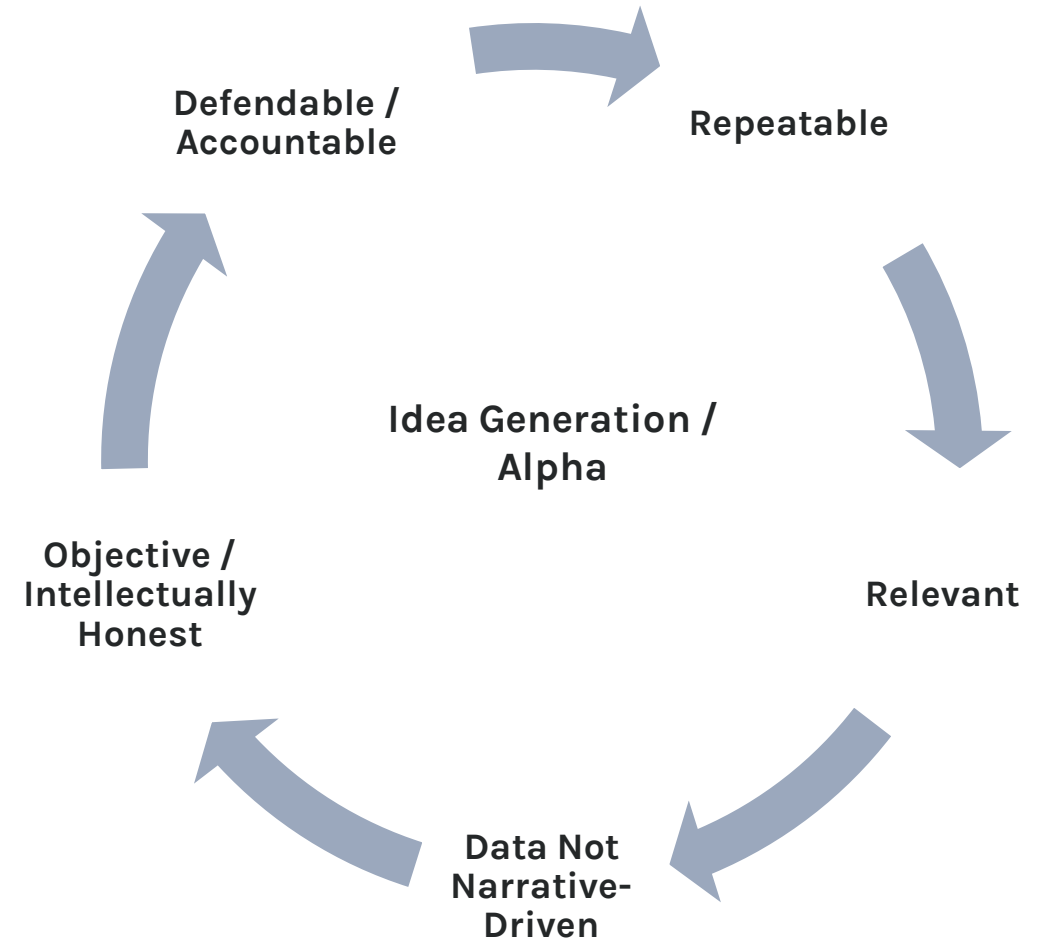
### 2. Fundamentals

- ☐ Build out detailed company models – If we don’t know a stock intimately, we can’t credibly pitch it
- ☐ **Understand Net Asset Value (NAV) as a starting point, but never base stock calls solely on discounts / premiums to NAV – avoid “value traps”**
- ☐ Consider all relevant valuation metrics (Multiples, DCF, factors, etc.) and “think outside of the REIT box”
- ☐ Understand and estimate long-term earnings power of the business
- ☐ Focus on management, platform value, balance sheets and capital structure
- ☐ Assess catalyst calendar, understand the event path and risk / reward

### 3. Data Driven

- ☐ Narrative must be supported by data
- ☐ To the greatest extent possible develop and leverage alternative, proprietary and third-party data
- ☐ Incorporate data science to gain insights

## Research Process Goals



# Intro | Hedgeye REITs Position Monitor

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## BEST / HIGHEST CONVICTION IDEAS

BEST IDEA - LONGS		Mkt Cap (\$B)	BEST IDEA - SHORTS		Mkt Cap (\$B)
PSA	Public Storage	\$44.1	EXR	Extra Space Storage Inc.	\$18.9

## OTHER CLOSELY FOLLOWED STOCKS

LONG BIAS (BENCH)		Mkt Cap (\$B)	DMZ - GIVE PEACE A CHANCE		Mkt Cap (\$B)	SHORT BIAS (BENCH)		Mkt Cap (\$B)
EQR	Equity Residential	\$28.0	AVB	AvalonBay Communities, Inc.	\$26.1	AMH	American Homes 4 Rent Class A	\$12.6
INVH	Invitation Homes, Inc.	18.7	ESS	Essex Property Trust, Inc.	18.1	CPT	Camden Property Trust	11.3
NSA	National Storage Affiliates Trust	4.8	LSI	Life Storage, Inc.	6.6	CUBE	CubeSmart	8.0

LAST UPDATED: 4/4/2021

### [POSITION MONITOR DISCLAIMER:](#)

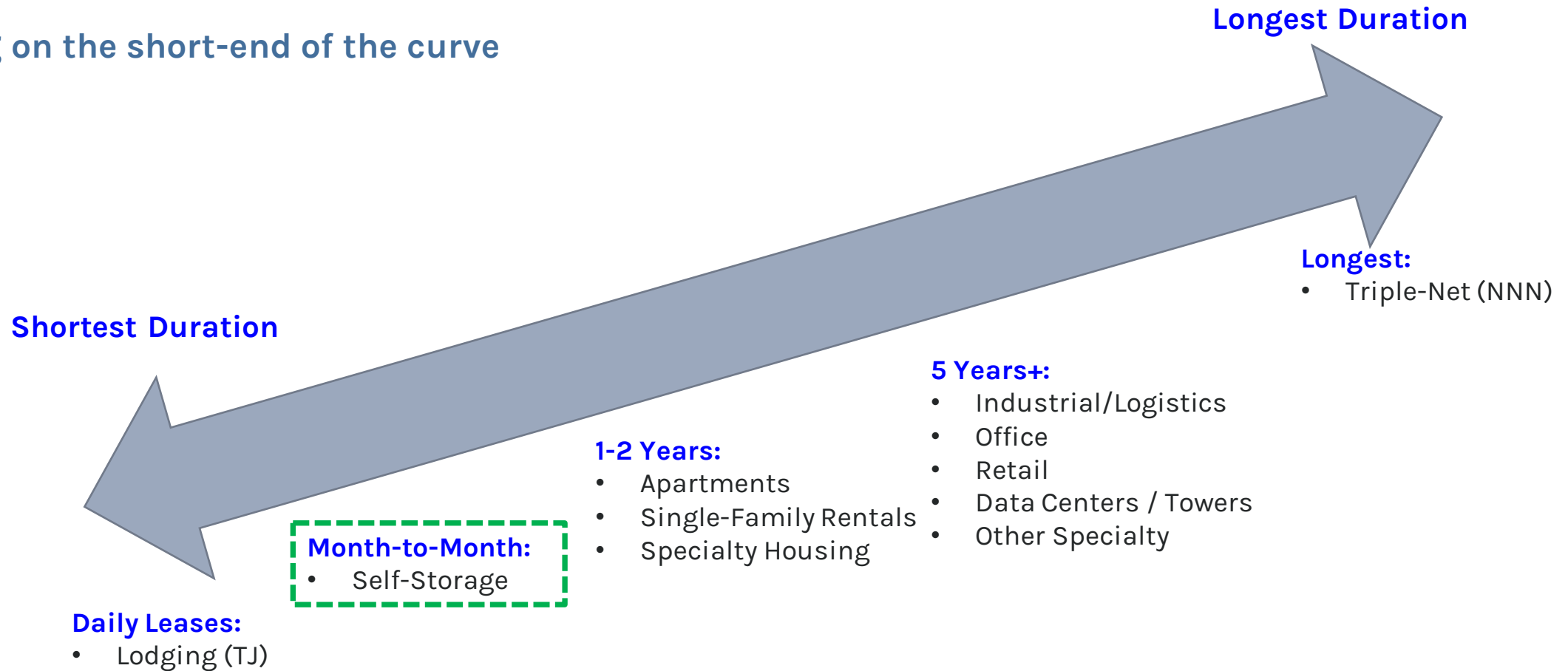
Hedgeye's "bench" represents Hedgeye's outlook on companies currently under Hedgeye's review, or for which timing is not right for greater coverage. Hedgeye may or may not provide further commentary on any or all companies represented on the bench and representation of a company on the bench does not forecast whether Hedgeye will or will not issue any additional material on that company.

- Initially launching with the 5 self-storage REITs
- Apartments, single-family rentals, specialty housing and later industrial to follow
- Currently 10 detailed and working company models
- Write on names only where we feel we have an edge or a non-consensus view versus the rest of the sell-side
- Limited maintenance research
- Focus on the stocks, not leading market and property tours
- Utilize every valuation tool, but focus on rate-of-change (ROC)



# Intro | Subsector Positioning Across the REIT Curve

Starting on the short-end of the curve



All else the same, **shorter-duration REITs** typically **outperform** the broader REIT universe as **inflation accelerates / interest rates rise**. These REITs will better pass on inflation to tenants. Conversely, **longer-duration REITs** typically **outperform** amidst **deflation / declining rates** as they are the most “bond-like” in the sector.

# Intro | How We Think About Situations Unique To REITs

## ❑ Stock repurchases

- ❑ REIT rules limit ability to retain internally-generated capital given required dividends, so buybacks are generally rare and small / don't move the needle
- ❑ When companies trading **consistently below "NAV"** begin buying back stock, **enormous red flag**. Math looks great on paper but track record poor: **short candidate?**
- ❑ REITs consistently growing rents, FFO, cash flow and value suddenly gap down in a market liquidation, opportunistically buy back stock: **long candidate?**
  - ❑ Example: PLD in March 2020 acquired ~\$35mm of stock at \$~65/share

## ❑ "Small" REITs consistently trading well-below NAV

- ❑ Less than ~20 assets, one or two "chunky" assets, no platform, small scale results in excessive G&A / Capex "REIT Tax"
- ❑ Essentially a public-traded private equity fund – **short candidate?**
- ❑ Probably went public reluctantly or for perverse reasons (e.g. to provide a founder or retail with a liquidity event), should not exist in public form but never finds an acquiror – something may be wrong or impaired with the business

## ❑ REITs with substantial JV exposure

- ❑ Consolidated and unconsolidated JVs are common in REITs, but too many or excessive size relative to consolidated assets is a **red flag – short candidate?**
- ❑ Huge misalignment of interests and management time – potential for more time / resources spent on partners vs. public shareholders
- ❑ Economics of core business likely poor, leading to overly financialized and structured situation to enhance equity returns

## ❑ Externally-managed public REITs

- ❑ With very few exceptions, un-investible and cannot credibly be longs – **short candidate?**
- ❑ Usually exist primarily for the purpose of generating fees and / or furthering the interests of the external manager
- ❑ Another huge misalignment of interests

# Intro | A Few Points on REIT Shorts

- ❑ Shorting REITs is a REALLY tough game, but we are going to work to find them anyway
  
- ❑ Need to pay attention to dividend yields – look for opportunities for positive carry
  - ❑ All else the same and before borrowing costs, every REIT short will immediately have a 3-4% annual negative carry from dividends
  - ❑ REITs in the same subsector tend to be highly correlated
  - ❑ Seek out opportunities within subsectors where a **positive dividend carry helps to fund borrowing costs**
  
- ❑ Important to remember that REITs are typically not high-octane vehicles – leases are contractual and growth profiles are relatively predictable
  - ❑ Total Return framework:
    - ❑ ~3% NOI growth + operating leverage + financial leverage = ~5-6% FFO growth
    - ❑ + 3-4% dividend yield
    - ❑ = ~8-10% total return in a typical year before multiple expansion or compression
  - ❑ More often than not, **best to think of REIT shorts as financing vehicles for core long positions**

# Intro | Glossary of Key Terms

## Just in case!

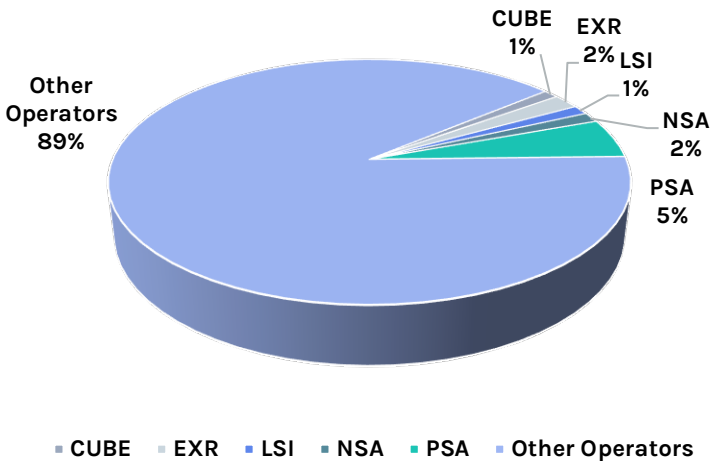
- ❑ **Adjusted Funds from Operations (AFFO):** FFO (see below) less maintenance capex and other non-cash items such as debt amortization and stock-based compensation expense
- ❑ **Annual Contract Rent per Occupied SF:** Represents the agreed upon or contracted weighted average rental rate to be paid by customers as of the time of measurement or at quarter-end
- ❑ **Economic Cap Rate:**  $(\text{NOI} - \text{Capex}) \div \text{gross asset value or purchase / sale price}$
- ❑ **ECRI** – “Existing Customer Rate Increases”
- ❑ **Funds from Operations (FFO):** REIT equivalent for earnings = Net income adding back real estate D&A and gains / (losses) on the sale of assets. “Core” FFO further normalizes for one-time items like severance, charges on debt retirement, etc.
- ❑ **Realized Annual Rent per Occupied SF:** Annualized rental revenue, inclusive of the impact of promotional discounts,  $\div$  by the weighted average occupied square feet for the period. Excludes late charges / fees and other ancillary revenue streams such as tenant reinsurance revenue and merchandise sales
- ❑ **Net Operating Income (NOI):** Property-level revenues less expenses, if possible excluding ancillary items. Think “EBITDA for the building”
- ❑ **Nominal Cap Rate / Unlevered Yield:**  $\text{NOI} \div \text{gross asset value or purchase / sale price}$
- ❑ **RevPAF: “Realized Annual Rent per Available Square Foot.”** Probably the most important operating metric that combines the impacts of rate and occupancy, similar to RevPAR in the lodging sector. Calculated as **Realized Annual Rent per Occupied SF x Weighted Average Occupancy**. **Rental Revenue = RevPAF x Total Square Feet**
- ❑ **Turnover Ratio** =  $\text{The number of units / SF vacated in a period} \div \text{total units / SF}$
- ❑ **Weighted Average Occupancy:** Represents the average square feet occupied for a period  $\div$  the total square feet in the asset pool

## [2] SHORT EXR

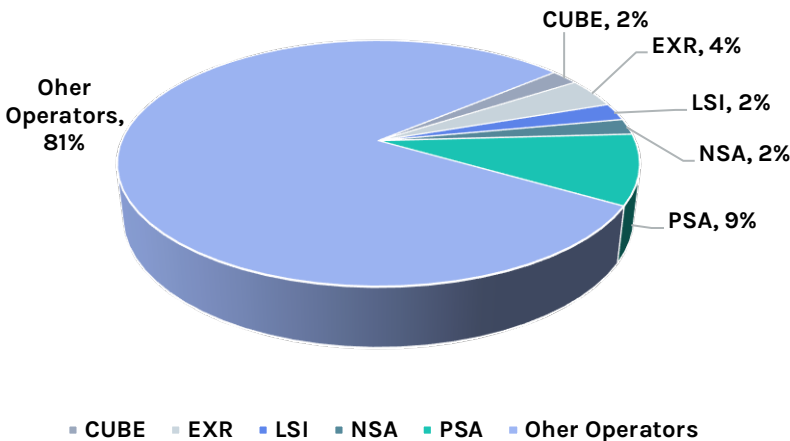


# Short EXR | Quick Sector Overview

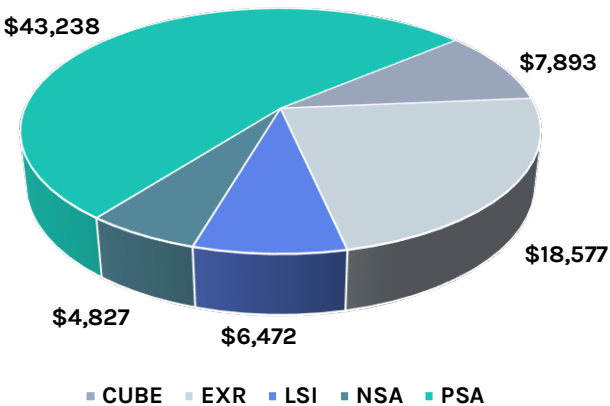
Breakdown By Wholly-Owned Assets



Breakdown By Wholly-Owned NRSF

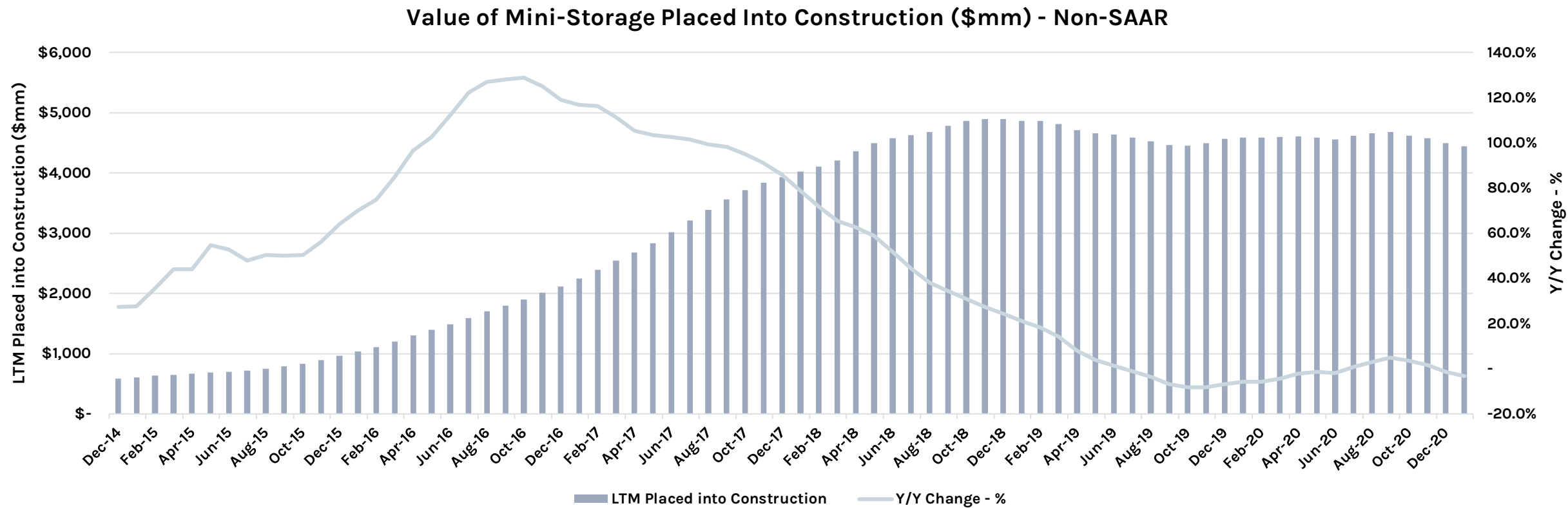


Breakdown By Equity Mkt. Cap (\$mm)



- ❑ Five publicly traded REITs: CUBE, EXR, LSI, NSA & PSA
- ❑ Highly fragmented subsector of real estate – over 49,000+ facilities in the U.S., of which roughly ~5,300 are wholly-owned by the REITs
- ❑ Equity market cap of public companies is about ~\$81bn, dominated by PSA at ~\$43bn
- ❑ Shortest duration leases among REITs next to lodging
- ❑ Historically has been very recession resistant – high NOI margin / very low capex model throws off a relatively high degree of cash flow under the REIT model
- ❑ Sector has been prone to overbuilding, with long lead time to lease-up newly developed assets – can be 3-4 years or longer

# Short EXR | Development Remains a Headwind



## Market-level storage supply data is notoriously difficult to obtain = longer-term project for Rob

The sector is heavily influenced by trends in supply growth, and aggregate data represents a reasonable proxy. Based on data from the U.S. Census, [the value of new mini-storage being placed into construction has remained near peak levels since late-2018](#). Long lease-up periods means supply is still being absorbed in some key markets such as Dallas, Atlanta and South Florida. Generally, deliveries in 2021 will look a lot like 2020 and then trail off thereafter, however will take several more years to fully stabilize.

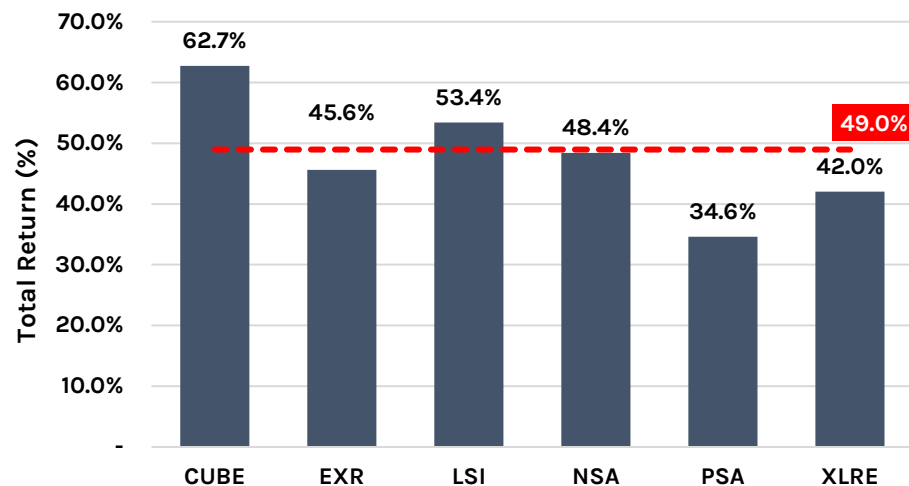
# Short EXR | Self-Storage Comp Table

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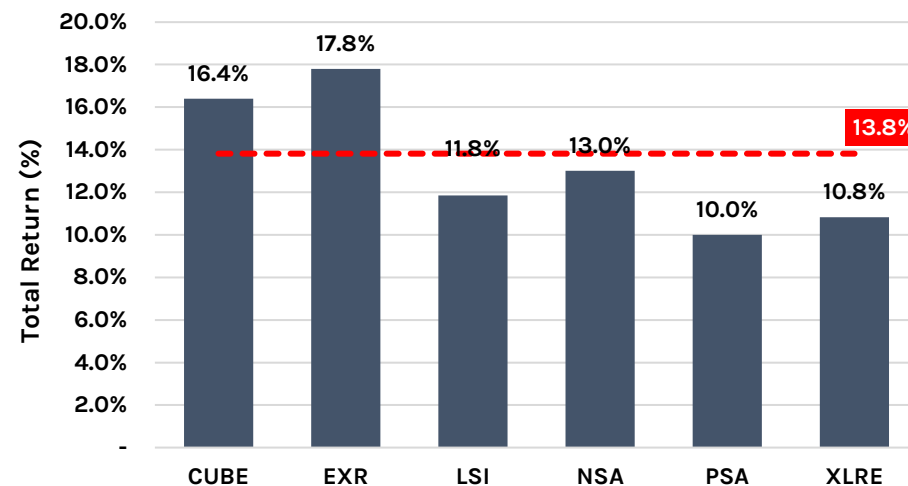
(\$ in millions, expect per share data)

Company Name	Current Share Price 4/5/2021	% of 52-Wk High	Equity Mkt. Cap.	Ent. Value (EV)	EBITDA Multiples		Core FFO Multples		Dividend Yield	2021E AFFO / Div. Payout %	2022E AFFO / FFO (Quality)	LTM Adj. Net Debt + Pref. / EBITDA	Mkt. Implied Cap Rate		
					2021E	2022E	2021E	2022E					Nominal	Incl. G&A + Main. Capex	
Self-Storage:															
CubeSmart	CUBE	\$38.77	-1.2%	\$7,979	\$10,434	22.9x	21.3x	21.7x	19.9x	3.51%	81.1%	93.7%	5.8x	4.81%	4.25%
Extra Space Storage Inc.	EXR	135.45	-0.0%	18,919	24,775	25.2x	24.3x	22.5x	21.5x	2.95%	70.2%	94.7%	6.4x	3.81%	3.25%
Life Storage, Inc.	LSI	88.21	-1.0%	6,591	8,848	20.9x	19.8x	20.6x	19.7x	3.36%	73.4%	94.1%	6.0x	4.96%	3.99%
National Storage Affiliates Trust	NSA	40.37	-3.3%	4,835	7,217	22.2x	20.8x	22.4x	21.3x	3.47%	77.8%	99.7%	8.1x	5.01%	4.26%
Public Storage	PSA	251.94	-0.1%	44,097	51,087	22.5x	21.8x	22.6x	21.9x	3.18%	80.1%	89.7%	3.2x	4.75%	4.09%
Total / Wtd. Avg.			-1.1%	\$82,421	\$102,362	22.7x	21.6x	22.0x	20.9x	3.29%	76.5%	94.4%	5.9x	4.67%	3.97%

Self-Storage: 1-Yr Total Return



Self-Storage: YTD Total Return





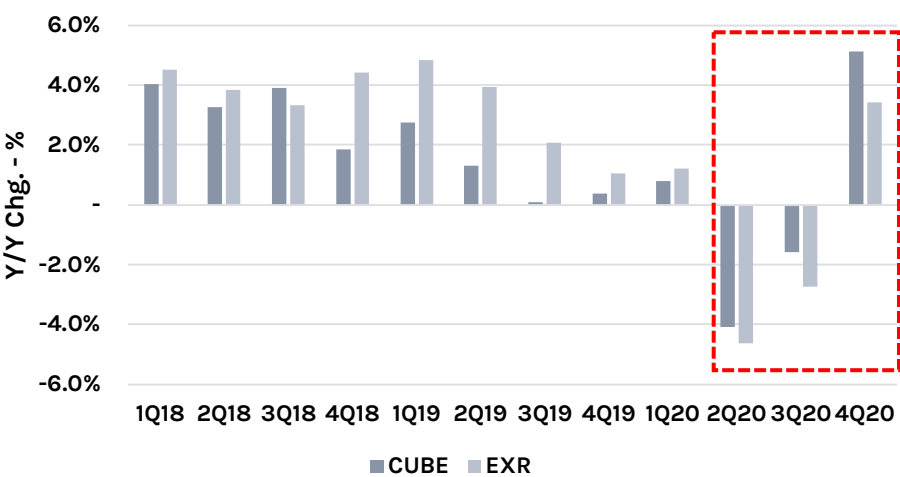
# Short EXR | Keep it Simple, Watch the ROC

- ❑ **Rate of change of NOI and earnings growth will decelerate meaningfully in 2H21 and early 2022 following exceptional performance through the pandemic. At the same time, EXR has been the most aggressive on its 2021 revenue outlook**
- ❑ **Same store comps become extremely difficult in 2H21, particularly in 4Q21**
  - ❑ Occupancies are currently running at all-time high levels during what should be the slowest portion of the leasing cycle
  - ❑ The typical seasonal “curve” was broken by COVID, and return to seasonality creates downside risk to numbers and very high probability of deceleration in growth
  - ❑ EXR and all the storage REITs are starting to push rate on new leases, but ECRI remains constrained by new supply + gov’t restrictions on rent increases in certain markets
  - ❑ High-level revenue growth framework points to the low-end of revenue guidance ranges, which are already wide to reflect uncertainty
  - ❑ Extremely easy comp in 2Q21 should not be ignored, but it’s the last layup before it starts to get dicey
- ❑ **EXR is ~2 Stdevs outside of its longer-term and shorter-term valuation history on an EV / EBITDA multiple basis**
- ❑ **View the short primarily as a way to finance and enhance yield on the PSA long**

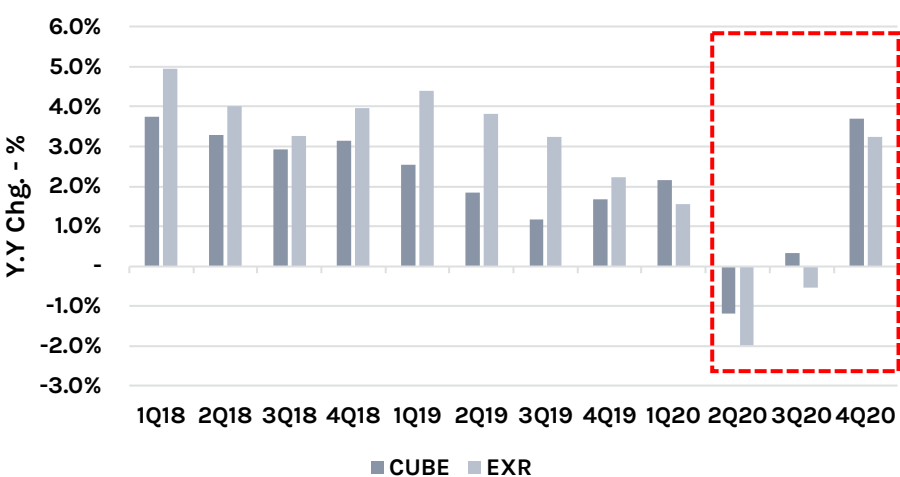
# Short EXR | Difficult Comps = Not Great for ROC

Comps getting tougher sequentially; 4Q21 will be toughest on occupancy growth

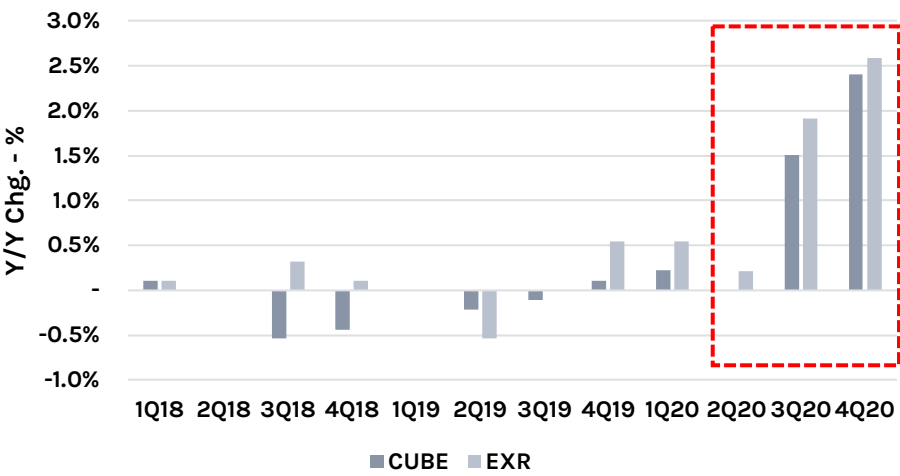
SS NOI



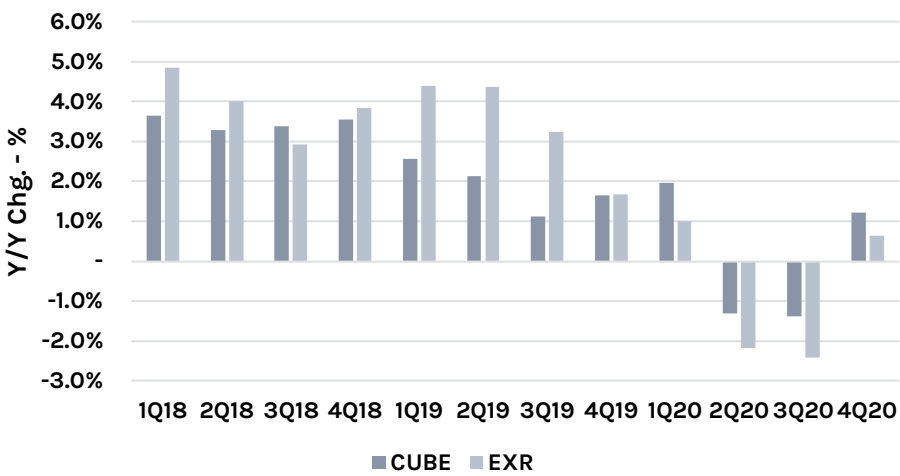
RevPAF



Occupancy

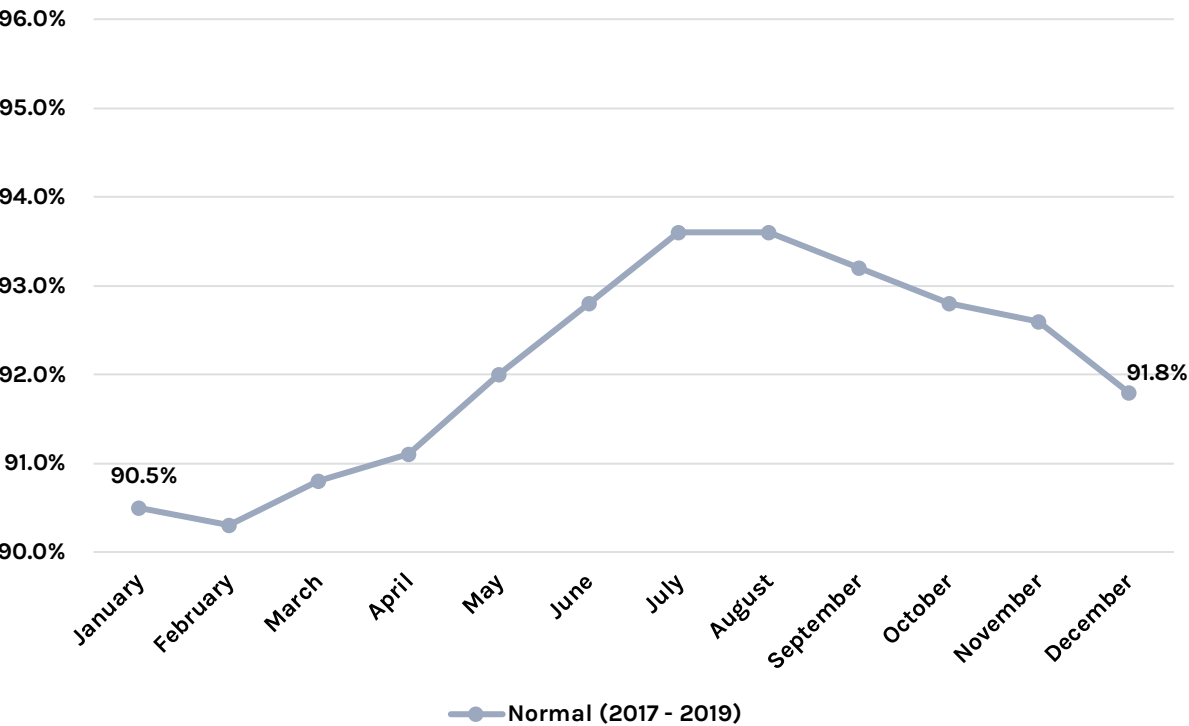


Realized Rent / Occ. SF

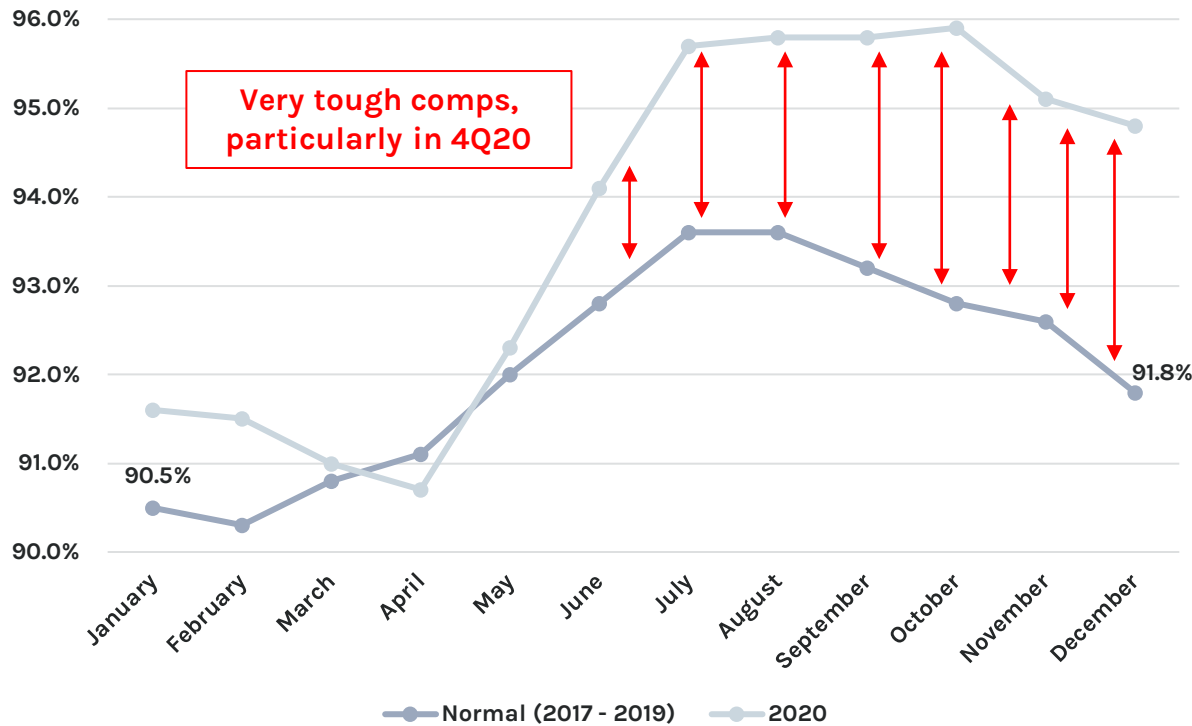


# Short EXR | Covid Broke Seasonal Occupancy Curve

Illustrative “Normal” Occupancy Curve



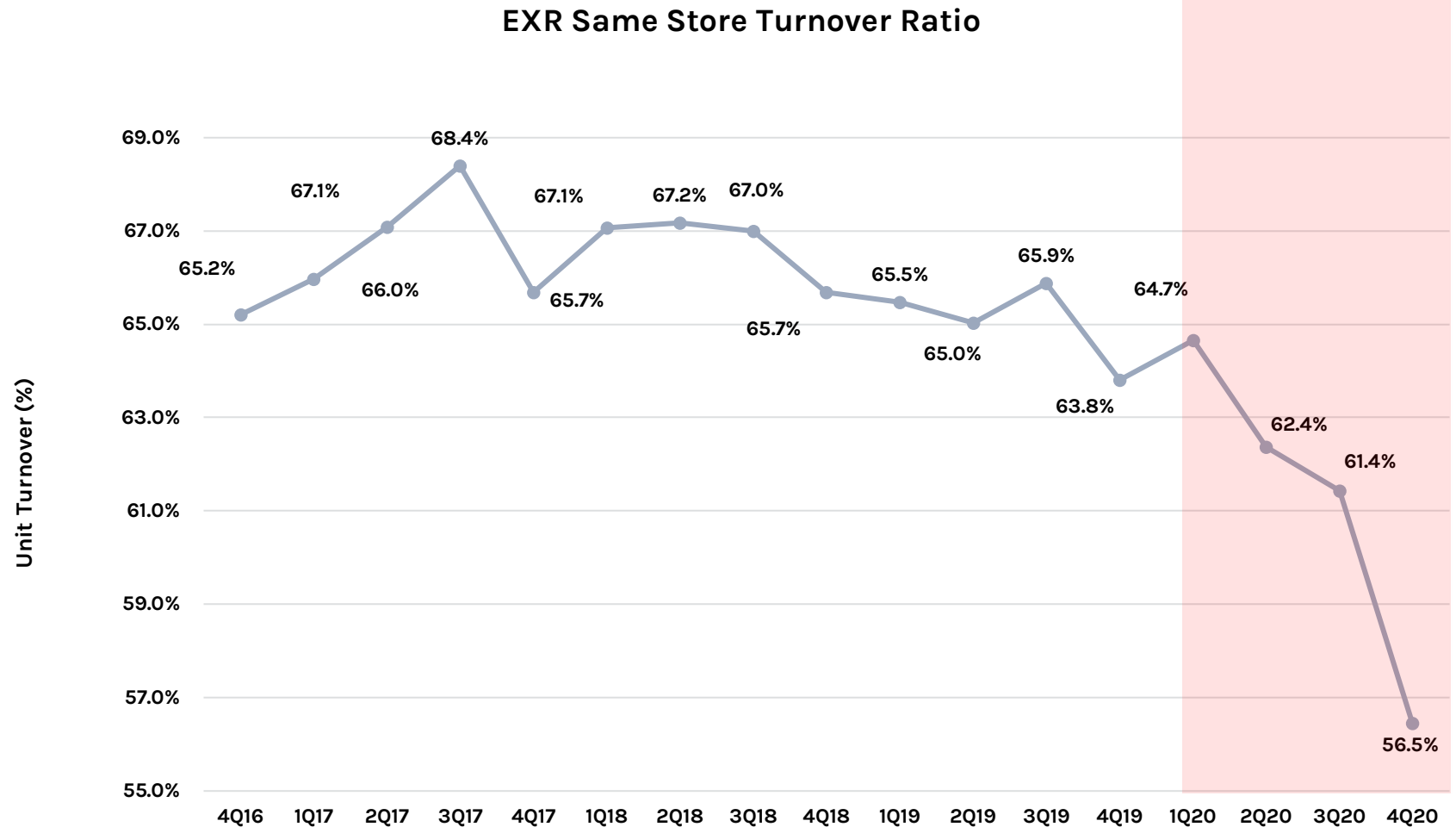
2020 Actual / vs. “Normal” Occupancy Curve



Self-storage is a highly seasonal business, with peak leasing seasons in the spring and summer months followed by higher move-out activity through the fall and winter. While average occupancy could gradually trend higher over a longer duration, the shape of monthly “curve” is repetitive with little variation year-to-year. COVID produced a meaningful divergence as work-from-home and an accelerating housing market extended average length-of-stay and led to well-above average occupancy levels. This had positive follow-on effects for pricing and turnover costs. **Big picture = very tough comps in 2H21 a serious headwind for rate-of-change (ROC)**

# Short EXR | Turnover Will Not Stay This Low Forever

- ❑ Turnover had been trending down pre-COVID, but fell off a cliff last year
- ❑ Avg. customer length of stay elongated further during the pandemic = lower maintenance / turnover costs, higher average occupancy, offset by lower late & admin fees.
- ❑ Reinforced the thesis that storage is indeed recession resistant
- ❑ However, important to note that these **impacts will likely reverse in 2H21, as return to normal leads to a return of typical seasonality, higher portfolio churn and lower average occupancy levels for a time**
- ❑ The companies are flagging it
- ❑ Return to typical seasonality could mean a **~200bp drag on occupancy growth**
- ❑ Working through the math, unless average in-place rent growth across the portfolio accelerates to over 3%, **it is likely that consolidated revenue growth will be flat-to-negative over 4Q21 and early 2022**



# Short EXR | Self-Storage Revenue Growth Framework

## Hedgeye Revenue Growth Model

Assumed 2021E Turnover % <sup>(1)</sup>	60.0%
<b>ECRI:</b>	
Units Retained for Entire Year	40.0%
( x ) Assumed Avg. ECRI <sup>(2)</sup>	3.00%
<b>( = ) Rental Growth Contr. ( A )</b>	<b>1.8%</b>
<b>Rent Growth - New Customers:</b>	
Units Turned	60.0%
( x ) Est. Portfolio-Wide Units Rolling Up	40.0%
( x ) Assumed Avg. Rent Roll-Up <sup>(3)</sup>	10.0%
<b>( = ) Rental Growth Contr. ( B )</b>	<b>2.4%</b>
( - ) Avg. Occupancy Change <sup>(4)</sup>	-
<b>( = ) Total Rental Growth ( A + B = C )</b>	<b>4.2%</b>
<b>Total Rental Growth Contribution:</b>	
Blended Rate Growth	4.2%
( x ) % of SS Revenue <sup>(5)</sup>	95.0%
<b>Rate Growth Contribution ( D )</b>	<b>4.0%</b>
<b>Other Income Growth Contribution:</b>	
Assumed Other Income Growth <sup>(6)</sup>	15.0%
( x ) % of SS Revenue	5.0%
<b>Other Income Contribution ( E )</b>	<b>0.8%</b>
<b>Blended SS Revenue Growth ( D + E )</b>	<b>4.7%</b>

## Company 2021E SS Revenue Guidance Ranges

	vs. Model	Midpoint	Low	High
CUBE	0.37%	4.38%	3.75%	5.00%
EXR	(0.14%)	4.88%	4.25%	5.50%
LSI	0.49%	4.25%	3.75%	4.75%
NSA	0.99%	3.75%	3.00%	4.50%
PSA			NA	NA

### NOTES:

- (1) Assumes return to average unit turnover, implying higher turnover in 2H21
- (2) Represents estimate of ECRI realized across portfolio
- (3) REITs citing "double-digit" roll-ups in some markets
- (4) Assumes above-average occupancy in 1H21 offset by return to seasonality in 2H21
- (5) Rental revenue can represent 95-96% of revenue excl. tenant insurance
- (5) Driven by higher late & admin. Fees as seasonality returns

- ❑ At a high level, **reasonable assumptions produce revenue growth rates below the midpoint of 2021 guidance for EXR**
- ❑ 2021E SS Revenue guidance ranges introduced wider than normal to reflect the uncertainty - typically ~100bps wide
- ❑ We are probably being generous on growth in ECRI and other income - several markets still subject to rate freezes and there will be turnover in that bucket
- ❑ At best, revenue growth could come in towards the low-end, with the REITs lowering / tightening ranges down in 2H21
- ❑ At worst, occupancy declines overwhelm any pricing power and guidance ranges revised down
- ❑ Either way, **EXR set the highest bar, we think the risk is to the downside and numbers may need to come down**, particularly as the market begins looking through to 2022

# Short EXR | Potential to Lower Guidance

## EXR offered most aggressive revenue guidance in the sector

Amounts in 000s, except per share data

2021 Guidance (2.22.21)

	Hedgeye	Midpoint	Low	High
Core FFO	5.92	5.95	5.85	6.05
Same Store Revenue Growth	4.06%	4.88%	4.25%	5.50%
Same Store Expense Growth	3.92%	4.00%	3.50%	4.50%
Same Store NOI Growth	4.12%	5.25%	4.25%	6.25%
Wtd. Avg. 1-Month LIBOR		0.13%	0.13%	0.13%
Net TI Income	131,295	131,000	130,000	132,000
Management Fee & Other	58,244	58,500	58,000	59,000
Interest Income	53,896	52,000	51,500	52,500
G&A Expense	101,763	100,500	99,500	101,500
Avg. Monthly Cash Balance	75,017	25,000	25,000	25,000
Equity in Earnings of Real Estate	28,144	28,500	28,000	29,000
Acquisitions	350,000	350,000	350,000	350,000
Net Bridge Loans	100,000	100,000	100,000	100,000
Interest Expense	162,730	161,500	160,500	162,500
Taxes Associated w/ TRS	19,902	19,500	19,000	20,000
Wtd. Avg. Shares	141,655	140,100	140,100	140,100

<-- Having tough time getting to this range

# Short EXR | ROC for '22 / '21 Looks Scary...

## Massive deceleration in ROC on the horizon

### EBITDA Multiples:

	EV 4/5/2021	Hedgeye Adj. EBITDA			Y/Y Chg. - %			2nd Deriv. 2022E	EV / EBITDA Multiple		
		2020A	2021E	2022E	2020A	2021E	2022E		2020A	2021E	2022E
CUBE	\$10,434	\$422	\$450	\$461		6.7%	2.4%	-63.2%	24.7x	23.2x	22.6x
EXR	24,775	917	1,029	1,068		12.3%	3.8%	-69.3%	27.0x	24.1x	23.2x
LSI	8,848	377	423	446		12.3%	5.3%	-56.6%	23.5x	20.9x	19.8x
NSA	7,217	293	325	347		10.8%	6.6%	-39.2%	24.6x	22.2x	20.8x
PSA	51,087	2,177	2,280	2,382		4.7%	4.5%	-5.1%	23.5x	22.4x	21.4x

### FFO Multiples:

	Stock Price 4/5/2021	Hedgeye Core FFO			Y/Y Chg. - %			2nd Deriv. 2022E	P / FFO Multiple		
		2020A	2021E	2022E	2020A	2021E	2022E		2020A	2021E	2022E
CUBE	\$38.77	\$1.72	\$1.76	\$1.81		2.5%	2.8%	10.7%	22.5x	22.0x	21.4x
EXR	135.45	5.28	6.01	6.31		13.8%	5.0%	-64.1%	25.7x	22.5x	21.5x
LSI	88.21	3.97	4.29	4.47		8.1%	4.2%	-48.0%	22.2x	20.6x	19.7x
NSA	40.37	1.71	1.80	1.90		5.6%	5.2%	-7.5%	23.6x	22.4x	21.3x
PSA	251.94	10.60	11.17	11.69		5.4%	4.6%	-13.4%	23.8x	22.5x	21.5x

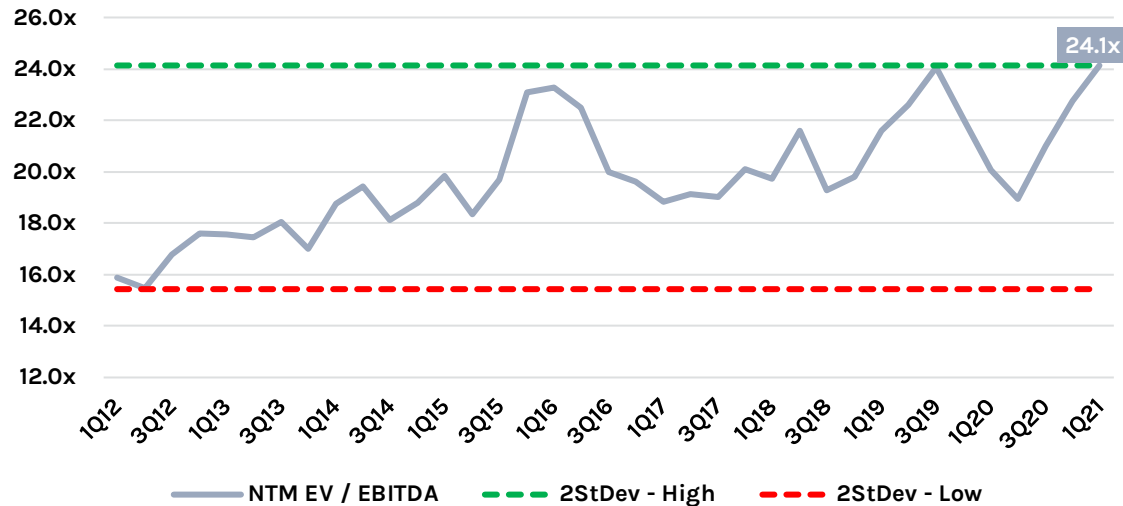
# Short EXR | ...And Valuation At Upper-End of Ranges

EXR trading 2Stdevs above its average historical valuation – last time fell over ~15% peak-to-trough

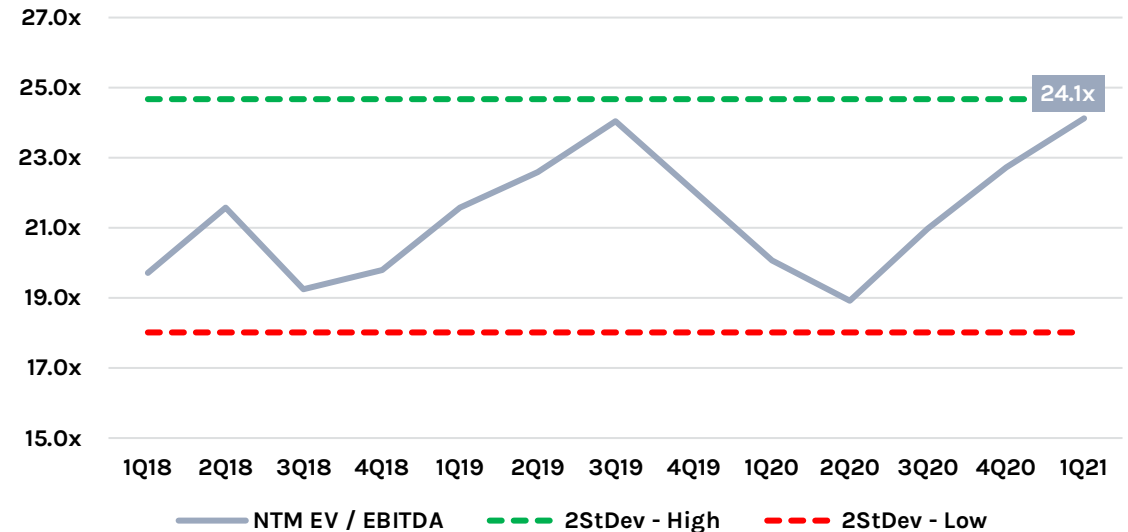
(\$ in millions, except per share data)

Company Name	Current Share Price 4/5/2021	% of 52-Wk High	Equity Mkt. Cap.	Ent. Value (EV)	EBITDA Multiples		Core FFO Multitples		Dividend Yield	2021E AFFO / Div. Payout %	2022E AFFO / FFO (Quality)	LTM Adj. Net Debt + Pref. / EBITDA	Mkt. Implied Cap Rate		
					2021E	2022E	2021E	2022E					Incl. G&A +		
													Nominal	Main. Capex	
Self-Storage:															
CubeSmart	CUBE	\$38.77	-1.2%	\$7,979	\$10,434	22.9x	21.3x	21.7x	19.9x	3.51%	81.1%	93.7%	5.8x	4.81%	4.25%
Extra Space Storage Inc.	EXR	135.45	-0.0%	18,919	24,775	25.2x	24.3x	22.5x	21.5x	2.95%	70.2%	94.7%	6.4x	3.81%	3.25%
Life Storage, Inc.	LSI	88.21	-1.0%	6,591	8,848	20.9x	19.8x	20.6x	19.7x	3.36%	73.4%	94.1%	6.0x	4.96%	3.99%
National Storage Affiliates Trust	NSA	40.37	-3.3%	4,835	7,217	22.2x	20.8x	22.4x	21.3x	3.47%	77.8%	99.7%	8.1x	5.01%	4.26%
Public Storage	PSA	251.94	-0.1%	44,097	51,087	22.5x	21.8x	22.6x	21.9x	3.18%	80.1%	89.7%	3.2x	4.75%	4.09%
Total / Wtd. Avg.			-1.1%	\$82,421	\$102,362	22.7x	21.6x	22.0x	20.9x	3.29%	76.5%	94.4%	5.9x	4.67%	3.97%

EXR NTM EV / EBITDA (2012 - Present)



EXR NTM EV / EBITDA (2018 - Present)





## **[3] LONG PSA**

**“I’m the straw that stirs the drink...”**  
**– Reggie Jackson**

# Long PSA | Let the Straw Stir the Drink

- ❑ **PSA is a Best Long idea with a tail duration, as the rate of change of growth is set to inflect upwards by the end of 2022 amidst necessary and overdue operational changes. At the same time, expectations are lowest and there are near-term positive catalysts**
  
- ❑ **PSA has lagged both operationally and from a stock performance perspective for several years**
  - ❑ There are many things that have needed to be addressed – **revenue management**, reinvestment in stores and the customer experience, third-party management (3PM) growth, external growth, stance towards Wall Street, governance and perhaps capital structure. Occupancy focus is particularly problematic
  - ❑ PSA lost its premium valuation despite having the largest platform in a fragmented and consolidating industry, as well as the most recognizable brand name
  
- ❑ **Clear and identifiable catalyst in the form of an activist investor advocating and achieving required change**
  - ❑ Elliott Management (the Straw) took a stake in late-2020, achieved Board representation, signed a standstill agreement and we are already seeing changes particularly on the shareholder engagement and external growth fronts
  - ❑ Customer and revenue management, expansion of 3PM and capital deployment / unit growth will be key
  - ❑ First investor day in memory upcoming on May 3<sup>rd</sup> is a near-term catalyst → expect to discuss revenue management, guidance?
  - ❑ Interestingly, the stock has basically traded sideways since Elliott made its presence known → free call option on Elliott's campaign
  
- ❑ **Upside case (which is probably the most likely case now) supports a materially higher stock price today**

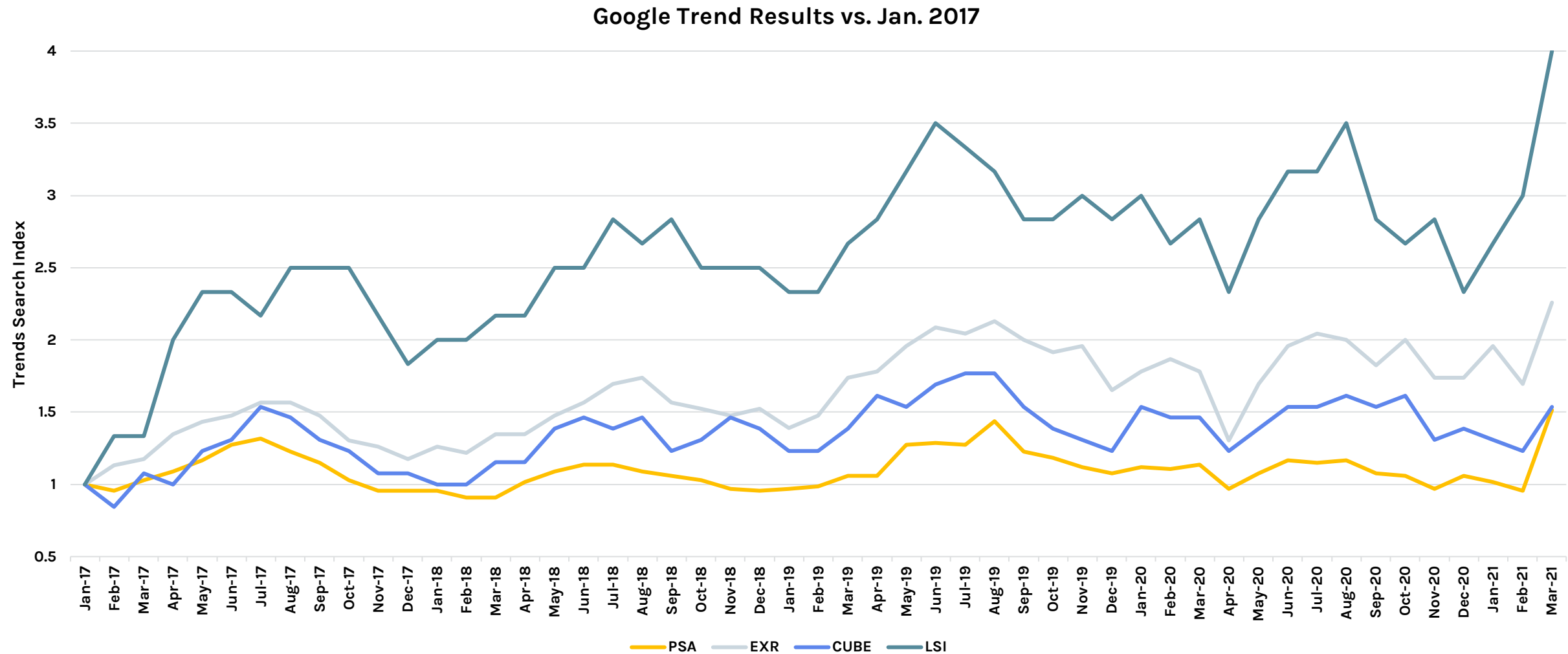
# Long PSA | This Pretty Much Sums it Up

Hiding in plain sight, LSI's performance over the past three years

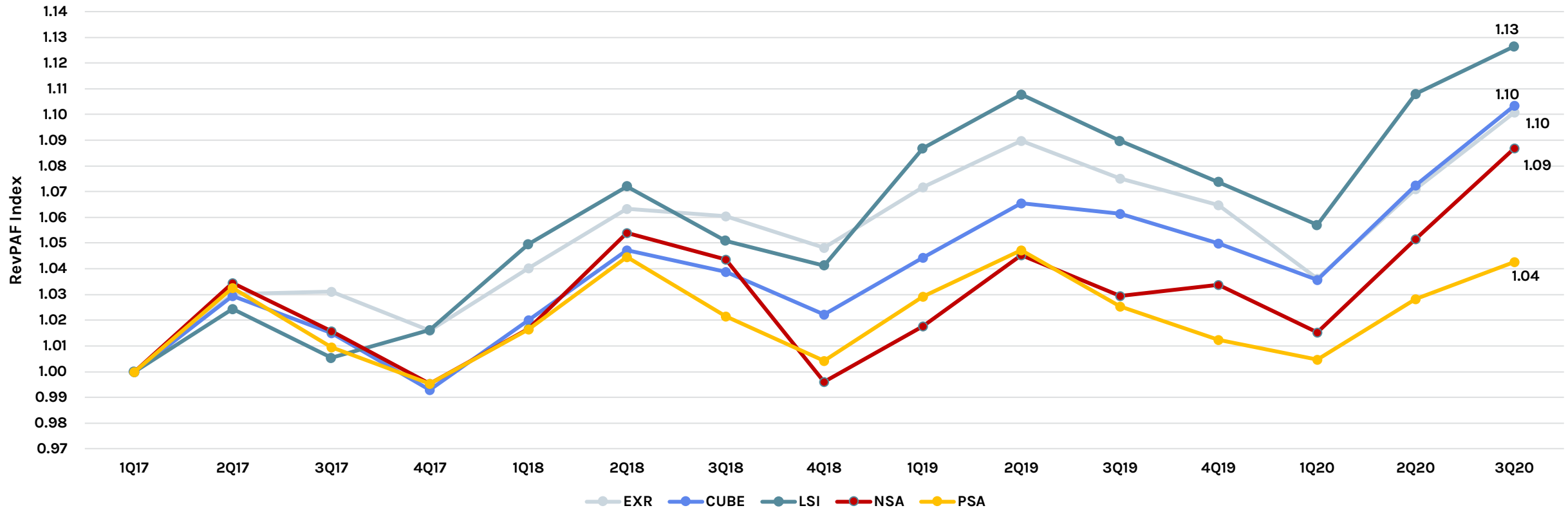
Annual Total Shareholder Return Ranking of Self-Storage Companies												
	YTD 2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
1st												
2nd												
3rd												
4th												

# Long PSA | Storage Google Trend Search Results

PSA losing share of online search to competitors



# Long PSA | Occupancy-Focus Driving Slower Growth



PSA has focused on “maximizing occupancy” throughout its history, at the expense of optimizing rental rate growth and overall revenue growth. Self-storage revenue management is a statistically-driven mix of street rates, promotions, ECRI and portfolio churn. The strategy worked fine in the early-to-mid 2010’s when PSA was many multiples the size of EXR & CUBE and there was less institutional capital entering the space, but has fallen short as the industry has matured. **RevPAF growth (the product of occupancy x average rate) has trailed every other company in the space** and left significant value creation on the table

# Long PSA | Quick Review of Elliott's Campaign

- ❑ On 12/13/20, the WSJ reported that Elliott Management built a significant stake (undisclosed size) and had held private talks with PSA
- ❑ On 12/14/20, PSA went public and the situation appeared to be headed towards a Proxy contest:
  - ❑ Defended the company's track record
  - ❑ Announced the appointment of three new Trustees, including two long-time REIT industry veterans
  - ❑ Announced retirement of three legacy Trustees, including founder B. Wayne Hughes
- ❑ Also on 12/14/20, Elliott publicly filed its letter:
  - ❑ Underperformance due to lack of "investment" and "lagging same store growth" despite the best assets and largest platform in the industry - what you should take away from this language is "tired stores and customer experience," "failure to expand the store base at the same rate as competitors" and "poor revenue management"
  - ❑ Board refreshment and better governance best practices
  - ❑ Restore credibility with investors and improve investor communication
  - ❑ Six Trustee nominees
- ❑ On 1/5/21 PSA announced it added two of Elliott's nominees to the Board, formed a new Board committee to address long-term strategy and growth and signed a standstill agreement with Elliott
- ❑ Situation has largely gone unnoticed as evidenced by the share price performance since December

# Long PSA | The LSI “Road Map”

- ❑ **Sovran Self Storage (formerly SSS) acquired Life Storage, LP in mid-2016 for \$1.3 billion**
  - ❑ Narrative was that Sovran was paying full price and creating modest dilution for 84 storage assets
  - ❑ Sovran was renamed Life Storage – acquired the IP to remake the company’s image and rebrand stores through 2Q 2017
  - ❑ Complete portfolio rebranding over subsequent ~2 years
  
- ❑ **Focus on revenue management, operations and portfolio quality**
  - ❑ Developed and implemented institutional-quality revenue management system similar to CUBE and EXR, which are considered best-of-breed
  - ❑ Adoption of new technology: “Rent Now” program allowing online unit reservation, payment and essentially contactless interaction, which later became critical in the pandemic.
  - ❑ New Warehouse Anywhere 3PL concept
  - ❑ Sold 32 non-core, mature assets to Inland, improving overall portfolio quality
  
- ❑ **Expansion of the 3PM and JV programs**
  - ❑ Capital efficiency through “asset light” expansion of the management platform
  - ❑ Developed a captive acquisition pipeline through third-party management and UJVs for owners looking to exit, similar to CUBE and EXR
  - ❑ Owned Stores + 3PM = “Asset Right”
  - ❑ In 3Q20 acquired 32 assets from UJVs into the consolidated asset pool



# Long PSA | Yes, There Was a Publicly-Traded “Uncle Bob’s”

HEDGEYE





# Long PSA | Life Storage > Uncle Bob's

HEDGEYE



# Long PSA | Status Quo Case NOI Build

Return to typical seasonality in 2H21, retain occupancy focus, ~2.0% compounded rental income growth

Amounts in 000s, except per share data	Historical			Projections					Terminal	CAGRs vs. 2020A	
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	3-Year	5-Year
Same Store Storage Build											
Net Rentable SF ( NRSF )	131,180	139,315	143,721	143,721	143,721	143,721	143,721	143,721	143,721		
Wtd. Avg. Occ. %	93.2%	93.5%	94.5%	93.6%	93.0%	93.0%	93.0%	93.0%	93.0%		
Y/Y Chg. - %	(0.6%)	0.4%	1.2%	(1.0%)	(0.6%)	-	-	-	-		
Y/Y Chg. - bp	(60)	40	110	(94)	(59)	-	-	-	-		
Realized Rent / Occupied SF	\$17.54	\$17.60	\$17.34	\$17.78	\$18.36	\$18.72	\$19.10	\$19.48	\$19.87		
Y/Y Chg. - %	2.2%	1.1%	(1.1%)	2.5%	3.3%	2.0%	2.0%	2.0%	2.0%		
RevPAF	\$16.35	\$16.45	\$16.40	\$16.63	\$17.07	\$17.41	\$17.76	\$18.11	\$18.47	2.0%	2.0%
Y/Y Chg. - %	1.6%	1.5%	0.1%	1.5%	2.6%	2.0%	2.0%	2.0%	2.0%		
RevPAF Index vs. '20A				1.01x	1.04x	1.06x	1.08x	1.10x	1.13x		
Rental Income	\$2,146,447	\$2,296,080	\$2,356,883	\$2,390,336	\$2,452,513	\$2,501,775	\$2,551,810	\$2,602,847	\$2,654,904	2.0%	2.0%
SS Y/Y Chg. - %	1.6%	1.4%	0.1%	1.4%	2.6%	2.0%	2.0%	2.0%	2.0%		
Late Charges & Admin. Fees	98,530	104,046	81,061	82,123	95,213	104,734	106,829	108,966	111,145		
Per Occupied SF	0.81	0.80	0.60	0.61	0.71	0.78	0.80	0.82	0.83		
Y/Y Chg. - %	0.8%	0.2%	(24.9%)	3.3%	16.7%	10.0%	2.0%	2.0%	2.0%		
Total Revenue	\$2,244,977	\$2,400,126	\$2,437,944	\$2,472,458	\$2,547,726	\$2,606,509	\$2,658,640	\$2,711,812	\$2,766,049	2.3%	2.2%
SS Y/Y Chg. - %	1.5%	1.4%	(1.0%)	1.5%	3.0%	2.3%	2.0%	2.0%	2.0%		
Net Operating Income (NOI) <sup>(1)</sup>	\$1,664,824	\$1,756,558	\$1,761,404	\$1,781,801	\$1,843,796	\$1,902,752	\$1,940,807	\$1,979,623	\$2,019,215	2.6%	2.4%
Margin %	74.2%	73.2%	72.2%	72.1%	72.4%	73.0%	73.0%	73.0%	73.0%		
SS Y/Y Chg. - %	1.0%	0.4%	(2.2%)	1.2%	3.5%	3.2%	2.0%	2.0%	2.0%		
Non-Same Store Storage Build											
Net Rentable SF ( NRSF )	30,867	29,593	31,330	31,330	31,330	31,330	31,330	31,330	31,330		
Total RevPAF <sup>(2)</sup>	\$12.27	\$10.53	\$10.34	\$11.01	\$11.48	\$11.89	\$12.30	\$12.73	\$13.11	4.8%	4.3%
Y/Y Chg. - %	(0.4%)	(14.2%)	(1.8%)	6.5%	4.3%	3.5%	3.5%	3.5%	3.0%		
Total Revenue	\$352,630	\$284,426	\$283,686	\$345,024	\$359,781	\$372,373	\$385,406	\$398,895	\$410,862		
Y/Y Chg. - %	14.5%	(19.3%)	(0.3%)	21.6%	4.3%	3.5%	3.5%	3.5%	3.0%		
Net Operating Income (NOI) <sup>(3)</sup>	237,052	175,415	165,833	222,240	233,312	\$243,340	\$253,784	\$264,661	\$274,655		
Margin %	67.2%	61.7%	58.5%	64.4%	64.8%	65.3%	65.8%	66.3%	66.8%		
Y/Y Chg. - %	12.0%	(26.0%)	(5.5%)	34.0%	5.0%	4.3%	4.3%	4.3%	3.8%		

Notes  
(1) Excludes stock-based compensation beginning in 2020  
(2) For non-same store assets, includes late charges & admin fees  
(3) Excludes impact of future acquisitions, dispositions & dvlp't

# Long PSA | Status Quo Case NOI Build (Cont'd)

Key swing factor for Ancillary Ops. is NOI contribution from 3PM, but assumes zero contribution

Amounts in 000s, except per share data	Historical			Projections					Terminal	CAGRs vs. 2020A	
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	3-Year	5-Year
Ancillary Operations Build											
Revenues:											
Tenant Reinsurance Premiums	\$125,575	\$131,913	\$149,286	\$158,168	\$162,105	\$165,347	\$168,654	\$172,027	\$175,467		
Merchandise Sales	31,098	30,358	29,702	29,702	30,296	30,902	31,520	32,150	32,793		
Third-Party Management	-	-	3,942	17,482	20,629	23,587	26,654	29,836	33,134		
Total	\$156,673	\$162,271	\$182,930	\$205,352	\$213,029	\$219,835	\$226,828	\$234,013	\$241,394	6.3%	5.0%
Y/Y Chg. - %	0.4%	3.6%	12.7%	12.3%	3.7%	3.2%	3.2%	3.2%	3.2%		
NOI:											
Tenant Reinsurance Premiums	\$99,929	\$105,711	\$120,800	\$126,337	\$129,486	\$132,277	\$134,923	\$137,621	\$140,374		
Merchandise Sales	12,753	12,356	12,093	12,093	12,335	12,582	12,833	13,090	13,352		
Third-Party Management <sup>(1)</sup>	-	-	78	346	408	703	1,060	1,485	1,981		
Total	\$112,682	\$118,067	\$132,971	\$138,776	\$142,229	\$145,561	\$148,817	\$152,197	\$155,706	3.1%	2.7%
Margin %	71.9%	72.8%	72.7%	67.6%	66.8%	66.2%	65.6%	65.0%	64.5%		
Y/Y Chg. - %	6.6%	4.8%	12.6%	4.4%	2.5%	2.3%	2.2%	2.3%	2.3%		
Tenant Reinsurance											
Revenue	\$125,575	\$131,913	\$149,286	\$158,168	\$162,105	\$165,347	\$168,654	\$172,027	\$175,467	3.5%	2.9%
Per Available SF	0.78	0.79	0.87	0.90	0.93	0.94	0.96	0.98	1.00		
Y/Y Chg. - %		1.1%	9.9%	3.9%	2.5%	2.0%	2.0%	2.0%	2.0%		
NOI	\$99,929	\$105,711	\$120,800	\$126,337	\$129,486	\$132,277	\$134,923	\$137,621	\$140,374	3.1%	2.6%
Margin %	79.6%	80.1%	80.9%	79.9%	79.9%	80.0%	80.0%	80.0%	80.0%		
Merchandise Sales											
Revenue	\$31,098	\$30,358	\$29,702	\$29,702	\$30,296	\$30,902	\$31,520	\$32,150	\$32,793	1.3%	1.6%
Y/Y Chg. - %	(6.5%)	(2.4%)	(2.2%)	-	2.0%	2.0%	2.0%	2.0%	2.0%		
NOI	\$12,753	\$12,356	\$12,093	\$12,093	\$12,335	\$12,582	\$12,833	\$13,090	\$13,352	1.3%	1.6%
Margin %	41.0%	40.7%	40.7%	40.7%	40.7%	40.7%	40.7%	40.7%	40.7%		
Third-Party Management											
Revenues			\$3,942	\$17,482	\$20,629	\$23,587	\$26,654	\$29,836	\$33,134	81.5%	49.9%
Y/Y Chg. - %				343.5%	18.0%	14.3%	13.0%	11.9%	11.1%		
Managed Stores			92	108	124	139	154	169	184		
Y/Y Chg.				16	16	15	15	15	15		
Mgmt. Fees / Store			\$43	\$162	\$166	\$170	\$173	\$177	\$180		
Y/Y Chg. - %				277.8%	2.8%	2.0%	2.0%	2.0%	2.0%		
NOI			\$78	\$346	\$408	\$703	\$1,060	\$1,485	\$1,981	108.1%	80.3%
Margin %			2.0%	2.0%	2.0%	3.0%	4.0%	5.0%	6.0%		

Notes  
(1) Assumes minimal NOI contribution from 3PM

Long PSA | Discounted Cash Flow Analysis (DCF)

HEDGEYE

Status Quo Case → ~\$250 / share today with no significant operating / capital structure changes

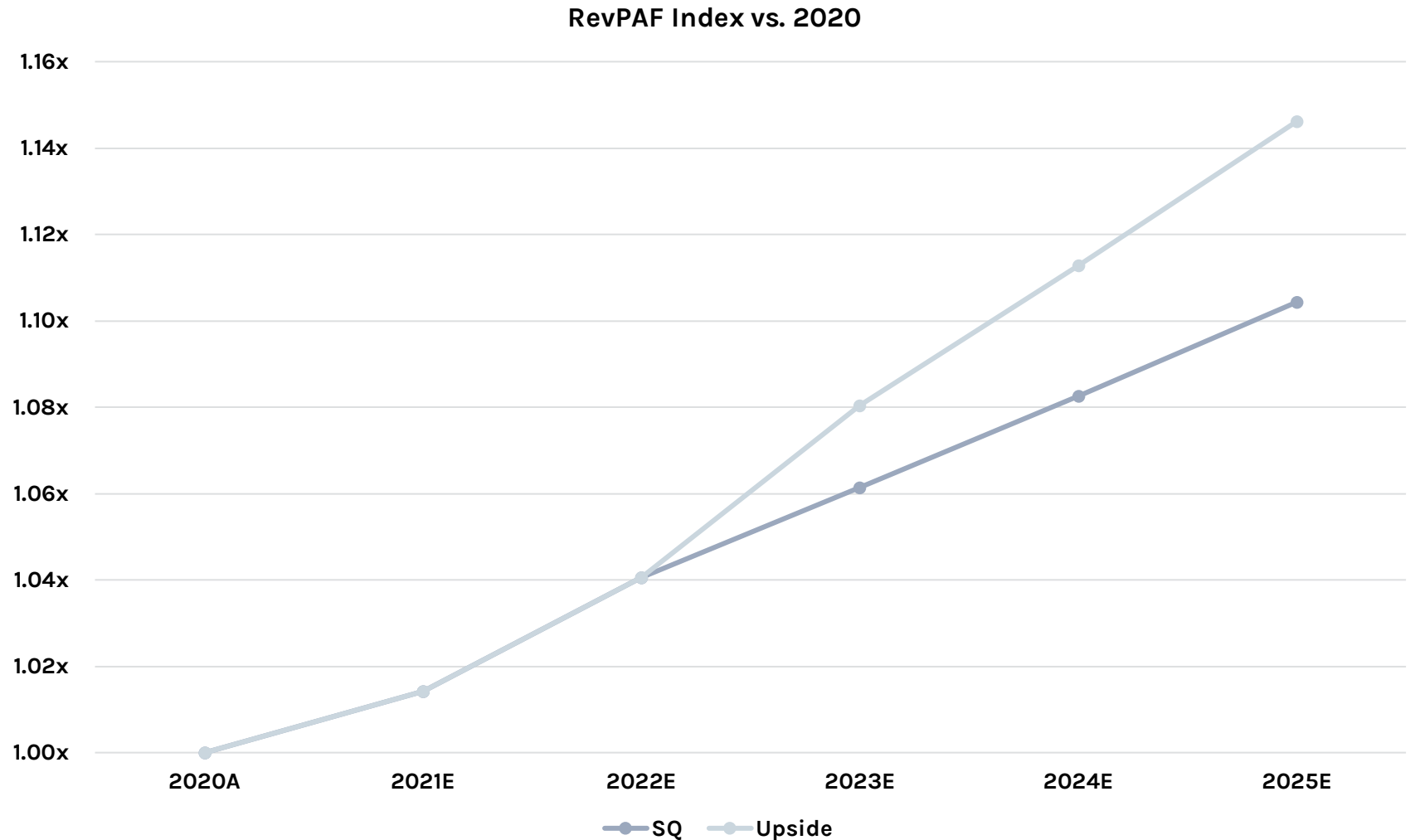
Amounts in 000s, except per share data	Historical			Projections					Terminal
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
<b>NOI:</b>									
Same Store Storage	\$1,664,824	\$1,756,558	\$1,761,404	\$1,781,801	\$1,843,796	\$1,902,752	\$1,940,807	\$1,979,623	\$2,019,215
Non-Same Store Storage	237,052	175,415	165,833	222,240	233,312	243,340	253,784	264,661	274,655
Ancillary Operations	112,682	118,067	132,971	138,776	142,229	145,561	148,817	152,197	155,706
Total Consolidated NOI	\$2,014,558	\$2,050,040	\$2,060,208	\$2,142,818	\$2,219,337	\$2,291,653	\$2,343,407	\$2,396,480	\$2,449,577
G&A Expenses	(47,689)	(45,371)	(62,540)	(63,392)	(65,575)	(67,542)	(69,568)	(71,656)	(73,805)
Capex	(139,397)	(192,539)	(163,834)	(245,071)	(175,051)	(160,957)	(153,621)	(134,657)	(137,632)
Unlevered FCF	\$1,827,472	\$1,812,130	\$1,833,834	\$1,834,354	\$1,978,711	\$2,063,154	\$2,120,217	\$2,190,168	\$2,238,139
Terminal Value	-	-	-	-	-	-	-	\$51,902,896	
Total Consolidated CF	\$1,827,472	\$1,812,130	\$1,833,834	\$1,834,354	\$1,978,711	\$2,063,154	\$2,120,217	\$54,093,064	
G&A - Y/Y Chg. - %	5.2%	(4.9%)	37.8%	1.4%	3.4%	3.0%	3.0%	3.0%	3.0%
Capex - % of Storage NOI	7.3%	10.0%	8.5%	12.2%	8.4%	7.5%	7.0%	6.0%	6.0%
Period				0.5	1.5	2.5	3.5	4.5	
Discount Factor				0.9653	0.8996	0.8383	0.7811	0.7279	
PV of Total CF				\$1,770,756	\$1,779,955	\$1,729,455	\$1,656,186	\$39,375,062	

Cost of Capital Calculation			
	\$	%	Cost of Cap.
Common Equity	\$44,097,240	86.6%	8.00%
Preferred Equity	3,792,500	7.4%	4.00%
Debt	3,057,408	6.0%	1.50%
Total Capital	\$50,947,148	100.0%	7.31%
WACC	7.31%		
Perpetual Growth Rate	3.00%		
Terminal Value	\$51,902,896		
Sum of PV of Total CF			\$46,311,413
Cash & Cash Equivalents			\$257,560
Restricted Cash			25,040
Construction in Progress			188,079
Marke Value of PSB Investment			2,095,213
Marke Value of SHUR Investment			1,231,977
Consolidated Debt			(3,057,408)
Preferred Equity			(3,792,500)
Preferred Shares Called for Redemption			-
Equity Value			\$43,259,374
Shares / Units Outstanding			175,031
Equity Value / Share			\$247.15
Current Share Price			251.94
Upside / (Downside)			(1.9%)
Dividend Yield			3.2%
Total Return			1.3%
x '20E Core FFO			22.1x
x '21E Core FFO			21.1x

		Perpetual Growth Rate				
		2.50%	2.75%	3.00%	3.25%	3.50%
WACC	7.75%	\$204.89	\$213.60	\$223.22	\$233.91	\$245.85
	7.60%	211.30	220.60	230.90	242.39	255.29
	7.45%	218.10	228.05	239.11	251.49	265.43
	7.30%	225.33	235.99	247.89	261.26	276.38
	7.15%	233.02	244.47	257.30	271.78	288.23
	7.00%	241.22	253.55	267.42	283.14	301.10
	6.85%	249.99	263.29	278.32	295.44	315.12

# Long PSA | Getting PSA Off Its Current Trajectory

- ❑ Status Quo assumes ~2% compounded RevPAF growth through 2025, which would easily be the lowest in the sector
- ❑ Upside Case assumes two years to change the same store revenue trajectory through better revenue management with less focus on maximizing occupancy
- ❑ **Upside Case assumes additional 70bps of RevPAF growth per year over the same duration**, as well as more aggressive expansion of 3PM
- ❑ Again, there is precedent for this degree of operational improvement in a similar timeframe
- ❑ We would make the argument that the **Upside Case is becoming the more likely scenario**, which would translate into a higher stock price today
- ❑ Elliott is the catalyst, investors essentially get to piggyback on these changes





# Long PSA | Upside Case NOI Build

More aggressive “revenue maximization,” 2.8% compounded rental income growth

Amounts in 000s, except per share data	Historical			Projections					Terminal	CAGRs vs. 2020A	
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	3-Year	5-Year
Same Store Storage Build											
Net Rentable SF ( NRSF )	131,180	139,315	143,721	143,721	143,721	143,721	143,721	143,721	143,721		
Wtd. Avg. Occ. %	93.2%	93.5%	94.5%	93.6%	92.2%	92.2%	92.2%	92.2%	92.2%		
Y/Y Chg. - %	(0.6%)	0.4%	1.2%	(1.0%)	(1.5%)	-	-	-	-		
Y/Y Chg. - bp	(60)	40	110	(94)	(59)	-	-	-	-		
Realized Rent / Occupied SF	\$17.54	\$17.60	\$17.34	\$17.78	\$18.49	\$19.23	\$19.80	\$20.40	\$21.01		
Y/Y Chg. - %	2.2%	1.1%	(1.1%)	2.5%	4.0%	4.0%	3.0%	3.0%	3.0%		
RevPAF	\$16.35	\$16.45	\$16.40	\$16.63	\$17.07	\$17.72	\$18.25	\$18.80	\$19.36	2.6%	2.8%
Y/Y Chg. - %	1.6%	1.5%	0.1%	1.5%	2.6%	3.8%	3.0%	3.0%	3.0%		
RevPAF Index vs. '20A				1.01x	1.04x	1.08x	1.11x	1.15x	1.18x		
Rental Income	\$2,146,447	\$2,296,080	\$2,356,883	\$2,390,336	\$2,452,513	\$2,546,648	\$2,623,047	\$2,701,739	\$2,782,791	2.6%	2.8%
SS Y/Y Chg. - %	1.6%	1.4%	0.1%	1.4%	2.6%	3.8%	3.0%	3.0%	3.0%		
Late Charges & Admin. Fees	98,530	104,046	81,061	82,123	95,213	111,225	114,562	117,999	121,539		
Per Occupied SF	0.81	0.80	0.60	0.61	0.76	0.84	0.86	0.89	0.92		
Y/Y Chg. - %	0.8%	0.2%	(24.9%)	3.3%	25.0%	10.0%	3.0%	3.0%	3.0%		
Total Revenue	\$2,244,977	\$2,400,126	\$2,437,944	\$2,472,458	\$2,547,726	\$2,657,873	\$2,737,609	\$2,819,738	\$2,904,330	2.9%	3.0%
SS Y/Y Chg. - %	1.5%	1.4%	(1.0%)	1.5%	3.0%	4.3%	3.0%	3.0%	3.0%		
Net Operating Income (NOI) <sup>(1)</sup>	\$1,664,824	\$1,756,558	\$1,761,404	\$1,781,801	\$1,859,840	\$1,966,826	\$2,039,519	\$2,100,704	\$2,163,726	3.7%	3.6%
Margin %	74.2%	73.2%	72.2%	72.1%	73.0%	74.0%	74.5%	74.5%	74.5%		
SS Y/Y Chg. - %	1.0%	0.4%	(2.2%)	1.2%	4.4%	5.8%	3.7%	3.0%	3.0%		
Non-Same Store Storage Build											
Net Rentable SF ( NRSF )	30,867	29,593	31,330	31,330	31,330	31,330	31,330	31,330	31,330		
Total RevPAF <sup>(2)</sup>	\$12.27	\$10.53	\$10.34	\$11.01	\$11.78	\$12.37	\$12.99	\$13.51	\$13.92	6.2%	5.5%
Y/Y Chg. - %	(0.4%)	(14.2%)	(1.8%)	6.5%	7.0%	5.0%	5.0%	4.0%	3.0%		
Total Revenue	\$352,630	\$284,426	\$283,686	\$345,024	\$369,176	\$387,635	\$407,016	\$423,297	\$435,996		
Y/Y Chg. - %	14.5%	(19.3%)	(0.3%)	21.6%	7.0%	5.0%	5.0%	4.0%	3.0%		
Net Operating Income (NOI) <sup>(3)</sup>	\$237,052	\$175,415	\$165,833	\$222,240	\$247,348	\$267,468	\$284,911	\$300,541	\$309,557		
Margin %	67.2%	61.7%	58.5%	64.4%	67.0%	69.0%	70.0%	71.0%	71.0%		
Y/Y Chg. - %	12.0%	(26.0%)	(5.5%)	34.0%	11.3%	8.1%	6.5%	5.5%	3.0%		

Notes  
(1) Excludes stock-based compensation beginning in 2020  
(2) For non-same store assets, includes late charges & admin fees  
(3) Excludes impact of future acquisitions, dispositions & divlt

<-- Lower occupancy / higher rate growth = more aggressive revenue management

# Long PSA | Upside Case NOI Build (Cont'd)

~30 3PM stores added per year + positive NOI flow-through

Amounts in 000s, except per share data	Historical			Projections					Terminal	CAGRs vs. 2020A	
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	3-Year	5-Year
Ancillary Operations Build											
Revenues:											
Tenant Reinsurance Premiums	\$125,575	\$131,913	\$149,286	\$158,168	\$162,105	\$163,744	\$167,838	\$172,033	\$177,194		
Merchandise Sales	31,098	30,358	29,702	29,702	30,296	30,902	31,520	32,150	32,793		
Third-Party Management	-	-	3,942	17,482	20,629	25,487	30,531	34,224	38,054		
Total	\$156,673	\$162,271	\$182,930	\$205,352	\$213,029	\$220,132	\$229,888	\$238,408	\$248,042	6.4%	5.4%
Y/Y Chg. - %	0.4%	3.6%	12.7%	12.3%	3.7%	3.3%	4.4%	3.7%	4.0%		
NOI:											
Tenant Reinsurance Premiums	\$99,929	\$105,711	\$120,800	\$126,337	\$129,486	\$130,995	\$134,270	\$137,627	\$141,756		
Merchandise Sales	12,753	12,356	12,093	12,093	12,335	12,582	12,833	13,090	13,352		
Third-Party Management <sup>(1)</sup>	-	-	78	346	408	4,090	7,116	9,517	12,389		
Total	\$112,682	\$118,067	\$132,971	\$138,776	\$142,229	\$147,666	\$154,219	\$160,234	\$167,496	3.6%	3.8%
Margin %	71.9%	72.8%	72.7%	67.6%	66.8%	67.1%	67.1%	67.2%	67.5%		
Y/Y Chg. - %	6.6%	4.8%	12.6%	4.4%	2.5%	3.8%	4.4%	3.9%	4.5%		
Tenant Reinsurance											
Revenue	\$125,575	\$131,913	\$149,286	\$158,168	\$162,105	\$163,744	\$167,838	\$172,033	\$177,194	3.1%	2.9%
Per Available SF	0.78	0.79	0.87	0.90	0.91	0.94	0.96	0.98	1.01		
Y/Y Chg. - %		1.1%	9.9%	3.9%	1.0%	2.5%	2.5%	2.5%	3.0%		
NOI	\$99,929	\$105,711	\$120,800	\$126,337	\$129,486	\$130,995	\$134,270	\$137,627	\$141,756	2.7%	2.6%
Margin %	79.6%	80.1%	80.9%	79.9%	79.9%	80.0%	80.0%	80.0%	80.0%		
Merchandise Sales											
Revenue	\$31,098	\$30,358	\$29,702	\$29,702	\$30,296	\$30,902	\$31,520	\$32,150	\$32,793	1.3%	1.6%
Y/Y Chg. - %	(6.5%)	(2.4%)	(2.2%)	-	2.0%	2.0%	2.0%	2.0%	2.0%		
NOI	\$12,753	\$12,356	\$12,093	\$12,093	\$12,335	\$12,582	\$12,833	\$13,090	\$13,352	1.3%	1.6%
Margin %	41.0%	40.7%	40.7%	40.7%	40.7%	40.7%	40.7%	40.7%	40.7%		
Third-Party Management											
Revenues			\$3,942	\$17,482	\$20,629	\$25,487	\$30,531	\$34,224	\$38,054	86.3%	54.1%
Y/Y Chg. - %				343.5%	18.0%	23.5%	19.8%	12.1%	11.2%		
Managed Stores			92	112	142	172	202	222	242		
Y/Y Chg.				20	30	30	30	20	20		
Mgmt. Fees / Store			\$43	\$156	\$145	\$148	\$151	\$154	\$157		
Y/Y Chg. - %				264.3%	(6.9%)	2.0%	2.0%	2.0%	2.0%		
NOI			\$78	\$874	\$1,661	\$4,090	\$7,116	\$9,517	\$12,389	274.3%	161.4%
Margin %			2.0%	5.0%	8.1%	16.0%	23.3%	27.8%	32.6%		
Flow-Through					25.0%	50.0%	60.0%	65.0%	75.0%		

Notes  
(1) Assumes minimal NOI contribution from 3PM

<-- Assumes ~30 managed stores added per year

<-- Operating leverage on additional management contracts



# Long PSA | Discounted Cash Flow Analysis (DCF)

Upside Case → ~\$300 / share today with +50bps improvement in LT growth rate; no capital structure changes

Amounts in 000s, except per share data	Historical			Projections					Terminal
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
<b>NOI:</b>									
Same Store Storage	\$1,664,824	\$1,756,558	\$1,761,404	\$1,781,801	\$1,859,840	\$1,966,826	\$2,039,519	\$2,100,704	\$2,163,726
Non-Same Store Storage	237,052	175,415	165,833	222,240	247,348	267,468	284,911	300,541	309,557
Ancillary Operations	112,682	118,067	132,971	138,776	142,229	147,666	154,219	160,234	167,496
<b>Total Consolidated NOI</b>	<b>\$2,014,558</b>	<b>\$2,050,040</b>	<b>\$2,060,208</b>	<b>\$2,142,818</b>	<b>\$2,249,417</b>	<b>\$2,381,960</b>	<b>\$2,478,650</b>	<b>\$2,561,479</b>	<b>\$2,640,779</b>
G&A Expenses	(47,689)	(45,371)	(62,540)	(63,392)	(65,575)	(67,542)	(69,568)	(71,656)	(73,805)
Capex	(139,397)	(192,539)	(163,834)	(245,071)	(175,051)	(167,572)	(162,710)	(144,075)	(148,397)
<b>Unlevered FCF</b>	<b>\$1,827,472</b>	<b>\$1,812,130</b>	<b>\$1,833,834</b>	<b>\$1,834,354</b>	<b>\$2,008,791</b>	<b>\$2,146,846</b>	<b>\$2,246,371</b>	<b>\$2,345,749</b>	<b>\$2,418,577</b>
Terminal Value	-	-	-	-	-	-	-	\$63,443,634	-
<b>Total Consolidated CF</b>	<b>\$1,827,472</b>	<b>\$1,812,130</b>	<b>\$1,833,834</b>	<b>\$1,834,354</b>	<b>\$2,008,791</b>	<b>\$2,146,846</b>	<b>\$2,246,371</b>	<b>\$65,789,382</b>	
G&A - Y/Y Chg. - %	5.2%	(4.9%)	37.8%	1.4%	3.4%	3.0%	3.0%	3.0%	3.0%
Capex - % of Storage NOI	7.3%	10.0%	8.5%	12.2%	8.3%	7.5%	7.0%	6.0%	6.0%
Period				0.5	1.5	2.5	3.5	4.5	
Discount Factor				0.9653	0.8996	0.8383	0.7811	0.7279	
<b>PV of Total CF</b>				<b>\$1,770,756</b>	<b>\$1,807,013</b>	<b>\$1,799,610</b>	<b>\$1,754,729</b>	<b>\$47,888,968</b>	

		Perpetual Growth Rate				
		3.00%	3.25%	3.50%	3.75%	4.00%
WACC	7.75%	\$240.47	\$252.02	\$264.93	\$279.45	\$295.91
	7.60%	248.77	261.19	275.12	290.86	308.78
	7.45%	257.63	271.01	286.08	303.19	322.77
	7.30%	267.11	281.56	297.91	316.56	338.03
	7.15%	277.28	292.92	310.71	331.11	354.75
	7.00%	288.21	305.19	324.61	347.00	373.13
	6.85%	299.99	318.49	339.75	364.44	393.46

Cost of Capital Calculation			
	\$	%	Cost of Cap.
Common Equity	\$44,097,240	86.6%	8.00%
Preferred Equity	3,792,500	7.4%	4.00%
Debt	3,057,408	6.0%	1.50%
<b>Total Capital</b>	<b>\$50,947,148</b>	<b>100.0%</b>	<b>7.31%</b>
<b>WACC</b>	<b>7.31%</b>		
<b>Perpetual Growth Rate</b>	<b>3.50%</b>		
<b>Terminal Value</b>	<b>\$63,443,634</b>		
<b>Sum of PV of Total CF</b>			<b>\$55,021,076</b>
Cash & Cash Equivalents			\$257,560
Restricted Cash			25,040
Construction in Progress			188,079
Marke Value of PSB Investment			2,095,213
Marke Value of SHUR Investment			1,231,977
Consolidated Debt			(3,057,408)
Preferred Equity			(3,792,500)
Preferred Shares Called for Redemption			-
<b>Equity Value</b>			<b>\$51,969,037</b>
Shares / Units Outstanding			175,031
<b>Equity Value / Share</b>			<b>\$296.91</b>
Current Share Price			251.94
Upside / (Downside)			17.9%
Dividend Yield			3.2%
Total Return			21.0%

# Long PSA | LT Earnings Power Supports Higher Stock Price

HEDGEYE

Amounts in 000s, except per share data

## Estimated Earnings Power

### Consolidated Storage Operations:

2020A RevPAF	\$16.40
2020-2023E Incr. in RevPAF Index <sup>(1)</sup>	1.08x
<b>2023E RevPAF</b>	<b>\$17.71</b>
3-Yr CAGR	2.6%

(x) Cons. Net Rentable SF (NRSF) 175,051

2023E Rental Revenue	\$3,100,503
(+) Late Charges & Admin. Fees	131,288
<b>2023E Rental Revenues</b>	<b>3,231,792</b>
(x) Assumed NOI Margin % <sup>(2)</sup>	72.0%
<b>2023E Storage NOI (A)</b>	<b>\$2,326,890</b>

### Acquisitions:

<b>2021E Acquisitions Volume</b>	<b>\$500,000</b>
(x) Assumed Yield	5.0%
<b>NOI</b>	<b>\$25,000</b>

<b>2022E Acquisitions Volume</b>	<b>\$400,000</b>
(x) Assumed Yield	4.5%
<b>NOI</b>	<b>\$18,000</b>

Total Incr. NOI	\$43,000
(x) Period Adj. (Yrs)	2.25x
<b>Incr. NOI (B)</b>	<b>\$96,750</b>

### NOTES

- (1) Represents improvement to RevPAR after three years of operational changes
- (2) Assumes unchanged margins versus 2022E
- (3) Reflects contribution from tenant reinsurance and merchandise sales
- (4) Assumes 3.0% growth over 2022E G&A
- (5) Assumes no debt issued to finance acquisition activity beyond 2022
- (6) Assumes no retirement / refinancing of existing preferred equity balances

### Ancillary Operations: <sup>(3)</sup>

Assumed Ancillary / Available SF 1.10

2023E Ancillary Revenues	\$192,401
(x) Assumed NOI Margin %	75.0%
<b>2023E Ancillary NOI (C)</b>	<b>\$144,300</b>

<b>Total Consolidated NOI (A + B + C)</b>	<b>\$2,567,940</b>
3-Yr CAGR	7.7%

(-) G&A Expenses <sup>(4)</sup>	(102,178)
(-) Est. Interest Expense <sup>(5)</sup>	(77,711)
(+) Int. & Other Income	8,700
(+) FFO from UJVs	152,153
(-) Preferred Distributions <sup>(6)</sup>	(180,717)
(-) Noncontrolling Int & Adjustments	(6,106)
(-) Allocations to RSUs	(1,800)
<b>2023E "Earnings Power"</b>	<b>\$2,360,282</b>

( / ) Wtd. Avg. Shares / Units	174,799
<b>Core FFO / Share</b>	<b>\$13.50</b>
3-Yr CAGR	11.5%

(x) Assumed Fwd. Multiple	22.0x
<b>Price / Share</b>	<b>\$297.06</b>
Dividends / Share	16.00
Total Return	24.3%
IRR	13.2%

❑ **Big takeaway: analysis implies a 30%+ total return including dividends, or a ~mid-teens IRR through year-end 2022**

❑ Most important assumption is the improvement in RevPAF index over the next 3 years, driven by improved revenue management and elimination of occupancy focus

❑ ~\$900 million of acquisition activity executed through year-end 2022

❑ Assumes 3PM platform remains at break-even = **potential upside**

❑ Assumes no refinancing of higher-cost preferred stock / further optimization of the capital structure = **potential upside**

❑ **~\$300 / share = 22.0x forward P / FFO multiple applied to 2023E earnings power**

# Long PSA | LT Earnings Power (Cont'd)

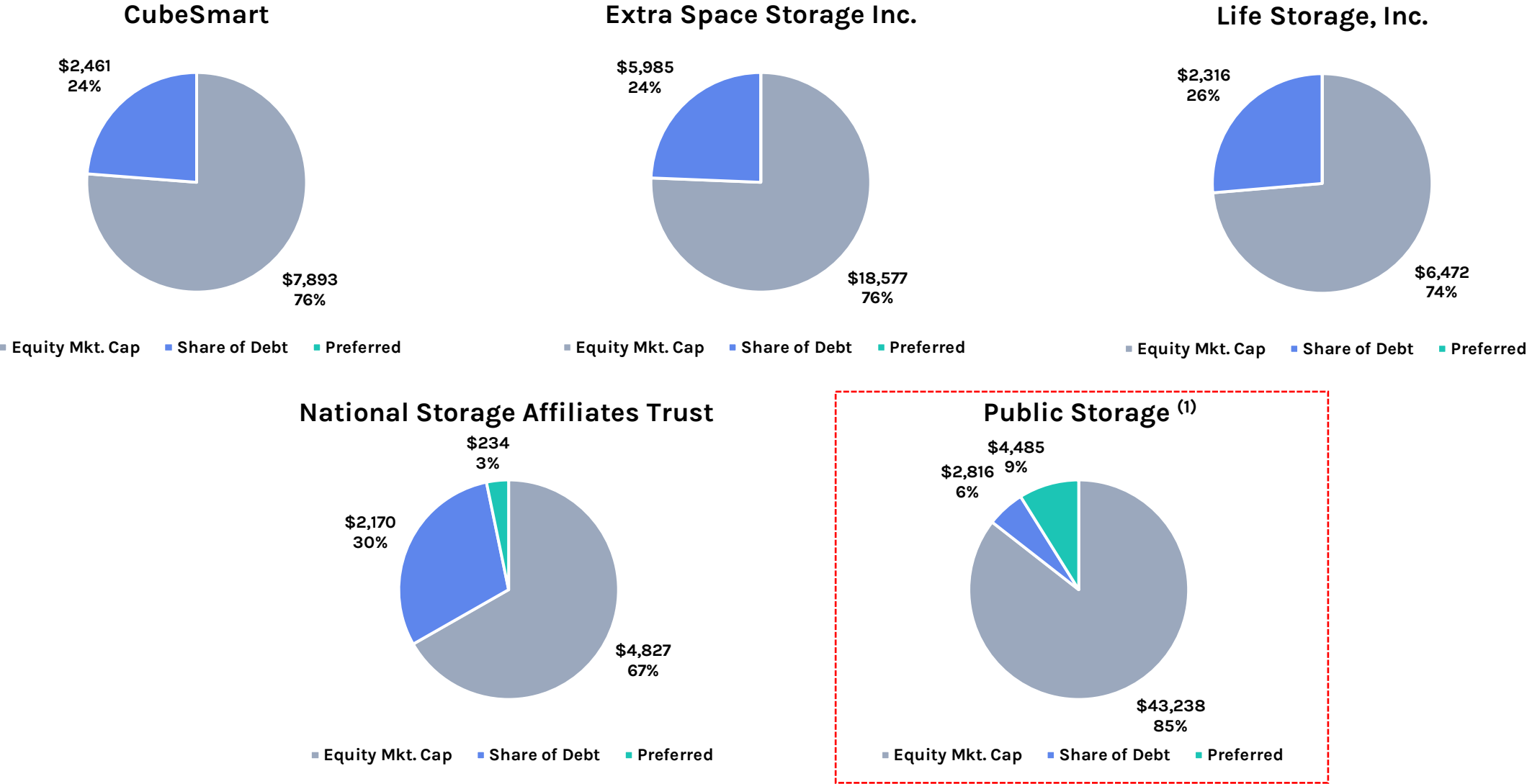
## Stand-alone IRR sensitivity analysis

Estimated Earnings Power									
	4/4/21	5/15/21	8/31/21	11/30/21	2/28/22	5/31/22	8/31/22	11/30/22	12/31/22
Initial Investment	(\$251.94)	-	-	-	-	-	-	-	-
Dividends / Share	-	2.00	2.00	2.00	2.00	2.00	2.00	2.00	-
Terminal Value	-	-	-	-	-	-	-	-	297.06
<b>Total Cash Flow</b>	<b>(\$251.94)</b>	<b>\$2.00</b>	<b>\$2.00</b>	<b>\$2.00</b>	<b>\$2.00</b>	<b>\$2.00</b>	<b>\$2.00</b>	<b>\$2.00</b>	<b>\$297.06</b>

XIRR	13.2%
Multiple	1.23x

XIRR Sensitivity						
		Fwd. PE Multiple				
		21.0x	21.5x	22.0x	22.5x	23.0x
RevPAF Index	1.06x	9.2%	10.6%	12.1%	13.5%	14.9%
	1.07x	9.7%	11.2%	12.6%	14.1%	15.5%
	1.08x	10.3%	11.7%	13.2%	14.6%	16.0%
	1.09x	10.8%	12.3%	13.7%	15.2%	16.6%
	1.10x	11.4%	12.8%	14.3%	15.7%	17.2%
	1.11x	11.9%	13.4%	14.8%	16.3%	17.7%

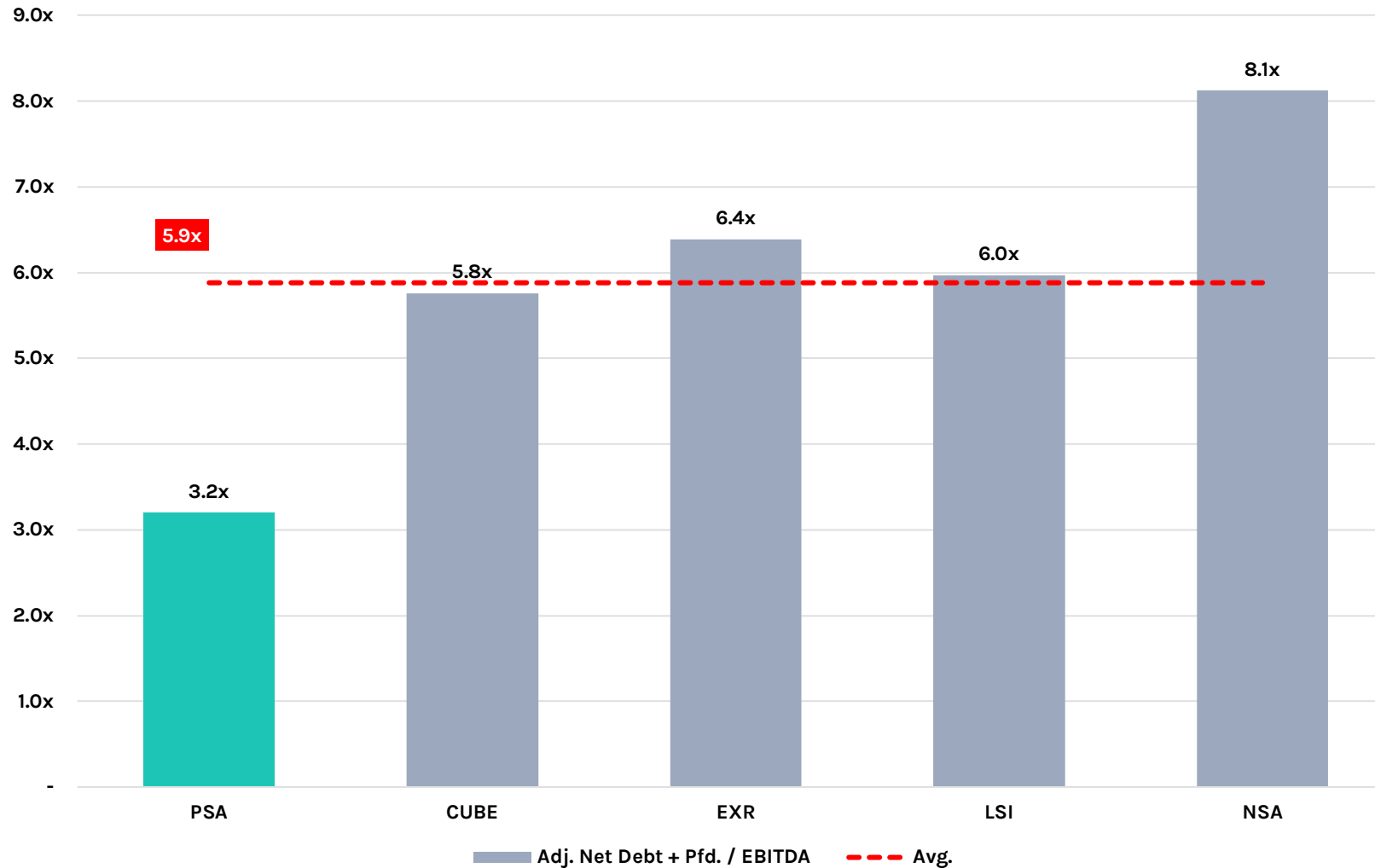
# Long PSA | Outlier on Composition of Leverage



Notes:  
(1) PSA preferred includes \$300 million Series B already called for redemption + PSA's share of PSB preferred. Remaining on-balance sheet preferred = \$3.8 billion at 5.0%.

# Long PSA | PSA is Meaningfully Under-levered

Sector is comfortably supporting 2x leverage levels vs. PSA today

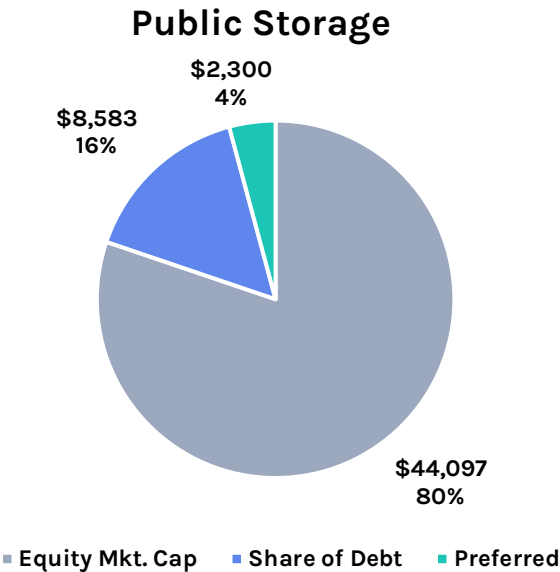


# Long PSA | Long-Term Capital Structure Fix

Target Debt & Preferred - 5x Leverage	
Current Adj. Net Debt + Pfd. / EBITDA	3.1x
Target Leverage	5.0x
LTM Adj. EBITDA	\$2,176,580
Target Debt + Pfd.	10,882,898
% Debt	78.9%
% Preferred	21.1%
Target Debt	\$8,582,898
Target Preferred	2,300,000

Illustrative Capital Structure - 5x Leverage			
	\$	%	Cost of Cap.
Common Equity	\$44,097,240	80.2%	8.00%
Preferred Equity	2,300,000	4.2%	4.00%
Debt	8,582,898	15.6%	1.50%
Total	\$54,980,138	100.0%	6.82%

DCF Under SQ Case	
Current Share Price	252
% Upside / (Downside)	11.1%



- ❑ PSA is a significant outlier in both its degree and composition of leverage, and investors have been looking for changes for years
- ❑ Typical storage REIT is levered ~6.0x Adj. Net Debt + Pfd. / EBITDA; PSA has always been the most conservative at ~3.0x
- ❑ Mix of debt / preferred is currently 45% / 55% on a consolidated basis which is highly unusual and makes no sense - started shifting mix in '19 and '20
- ❑ PSA just issued \$500mm of USD-denominated unsecured notes at 0.875% in Q1
- ❑ \$1.5 billion of preferred becomes callable through year-end 2022
- ❑ **Normalizing leverage levels and changing the composition has meaningful implications for value,** and could be executed over time apart from any other operational changes

## **[4] PUTTING IT ALL TOGETHER**

# Combined Trade | Illustrative Returns on Combined Trade

HEDGEYE

~30%+ IRR; Assumes 15% downside on EXR; EXR typically raises dividends in 1Q

## Illustrative IRR - Hold Through 6/30

	4/4/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	12/31/2022
Buy PSA	(\$1,000,000)	-	-	-	-	-	-	-
PSA Dividends	-	7,938	7,938	7,938	7,938	7,938	7,938	7,938
Sell PSA	-	-	-	-	-	-	-	1,179,101
Short EXR	1,000,000	-	-	-	-	-	-	-
EXR Dividends	-	(7,383)	-	-	-	-	-	-
Cover EXR	-	(840,000)	-	-	-	-	-	-
<b>Total Cash Flows</b>	<b>(\$0)</b>	<b>(\$839,444)</b>	<b>\$7,938</b>	<b>\$7,938</b>	<b>\$7,938</b>	<b>\$7,938</b>	<b>\$7,938</b>	<b>\$1,187,040</b>

XIRR 29.3%

## Dividend Carry

Dividend Yield - Long PSA	3.18%
Dividend Yield - Short EXR	(2.95%)
<b>Positive / (Negative) Carry</b>	<b>0.23%</b>

Picking up +25bps on an annualized basis

## Illustrative IRR - Hold Through 12/31

	4/4/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	12/31/2022
Buy PSA	(\$1,000,000)	-	-	-	-	-	-	-
PSA Dividends	-	7,938	7,938	7,938	7,938	7,938	7,938	7,938
Sell PSA	-	-	-	-	-	-	-	1,179,101
Short EXR	1,000,000	-	-	-	-	-	-	-
EXR Dividends	-	(7,383)	(7,383)	(7,383)	-	-	-	-
Cover EXR	-	-	-	(840,000)	-	-	-	-
<b>Total Cash Flows</b>	<b>(\$0)</b>	<b>\$556</b>	<b>\$556</b>	<b>(\$839,444)</b>	<b>\$7,938</b>	<b>\$7,938</b>	<b>\$7,938</b>	<b>\$1,187,040</b>

XIRR 45.1%



# Combined Trade | Self-Storage Correlations

EXR & PSA are highly positively correlated over multiple durations → lower probability of getting hurt

Daily Return Correlations - 30D					
	CUBE	EXR	LSI	NSA	PSA
CUBE		0.89	0.85	0.86	0.81
EXR	0.89		0.91	0.84	0.86
LSI	0.85	0.91		0.88	0.79
NSA	0.86	0.84	0.88		0.73
PSA	0.81	0.86	0.79	0.73	

Daily Return Correlations - 180D					
	CUBE	EXR	LSI	NSA	PSA
CUBE		0.84	0.79	0.76	0.77
EXR	0.84		0.80	0.84	0.83
LSI	0.79	0.80		0.77	0.73
NSA	0.76	0.84	0.77		0.78
PSA	0.77	0.83	0.73	0.78	

Daily Return Correlations - 90D					
	CUBE	EXR	LSI	NSA	PSA
CUBE		0.85	0.70	0.71	0.76
EXR	0.85		0.76	0.81	0.83
LSI	0.70	0.76		0.70	0.75
NSA	0.71	0.81	0.70		0.74
PSA	0.76	0.83	0.75	0.74	

Daily Return Correlations - 1Yr					
	CUBE	EXR	LSI	NSA	PSA
CUBE		0.85	0.83	0.81	0.80
EXR	0.85		0.83	0.79	0.84
LSI	0.83	0.83		0.79	0.75
NSA	0.81	0.79	0.79		0.75
PSA	0.80	0.84	0.75	0.75	

For more information, contact us at:

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