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**CFA Institute Research Challenge**  
**Atlanta, GA - Americas Competition**  
**Canisius College**  
**Buffalo, NY**

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**Matthew Coad**

**Carl Larsson**

**Stephen Miller**

**Kevin Monheim**

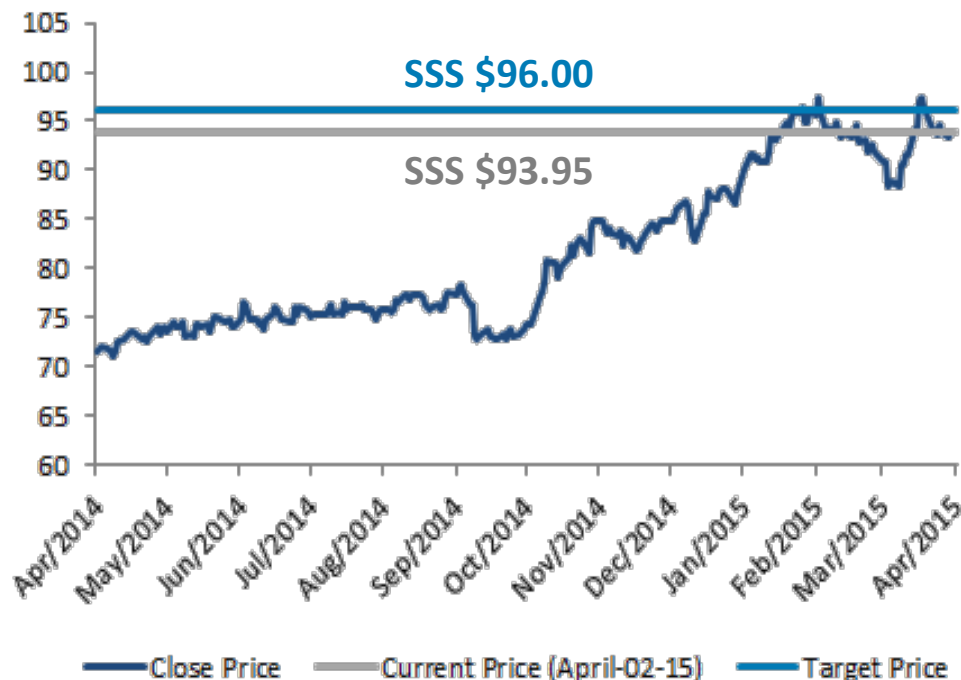
**Ryan Zimmer**



# Executive Summary

## Main Features

- 4<sup>th</sup> largest Self-Storage Company in the U.S.
- 92% of Revenue is derived from Rental Income
- Strong Management Platform
- Over 500 Properties in Portfolio



Market Profile	
Closing Price (04/02/2015)	\$93.95
52-Week High / Low	\$97.76 / \$72.88
Average Volume (3M)	247,279
Diluted Shares Out.	34,217,717
Market Cap	\$3.18B
Dividend Yield	3.20%
Beta	0.87
EV / Revenue	14.5x
EV / EBITDA	23.3x
P / FFO Share	23.5x
Institutional Holdings	96.85%
Insider Holdings	2.60%



# Competitive Advantage

## Location and Convenience:

- 24/7 Security System; keyboard controlled access

## Web Marketing:

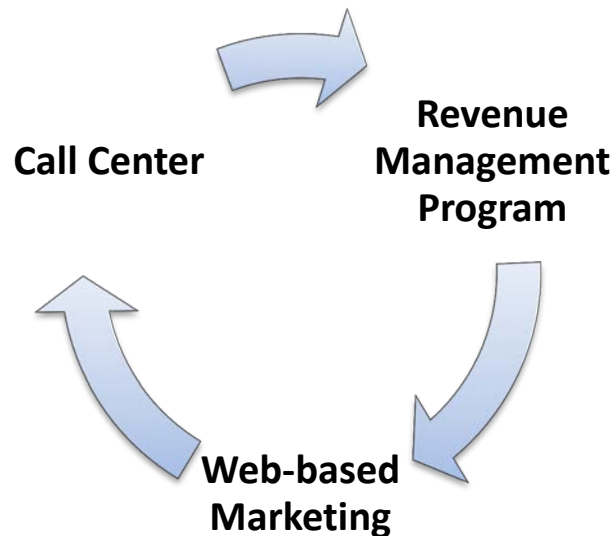
- 70% of sales driven by internet contact with customers

## Call Center:

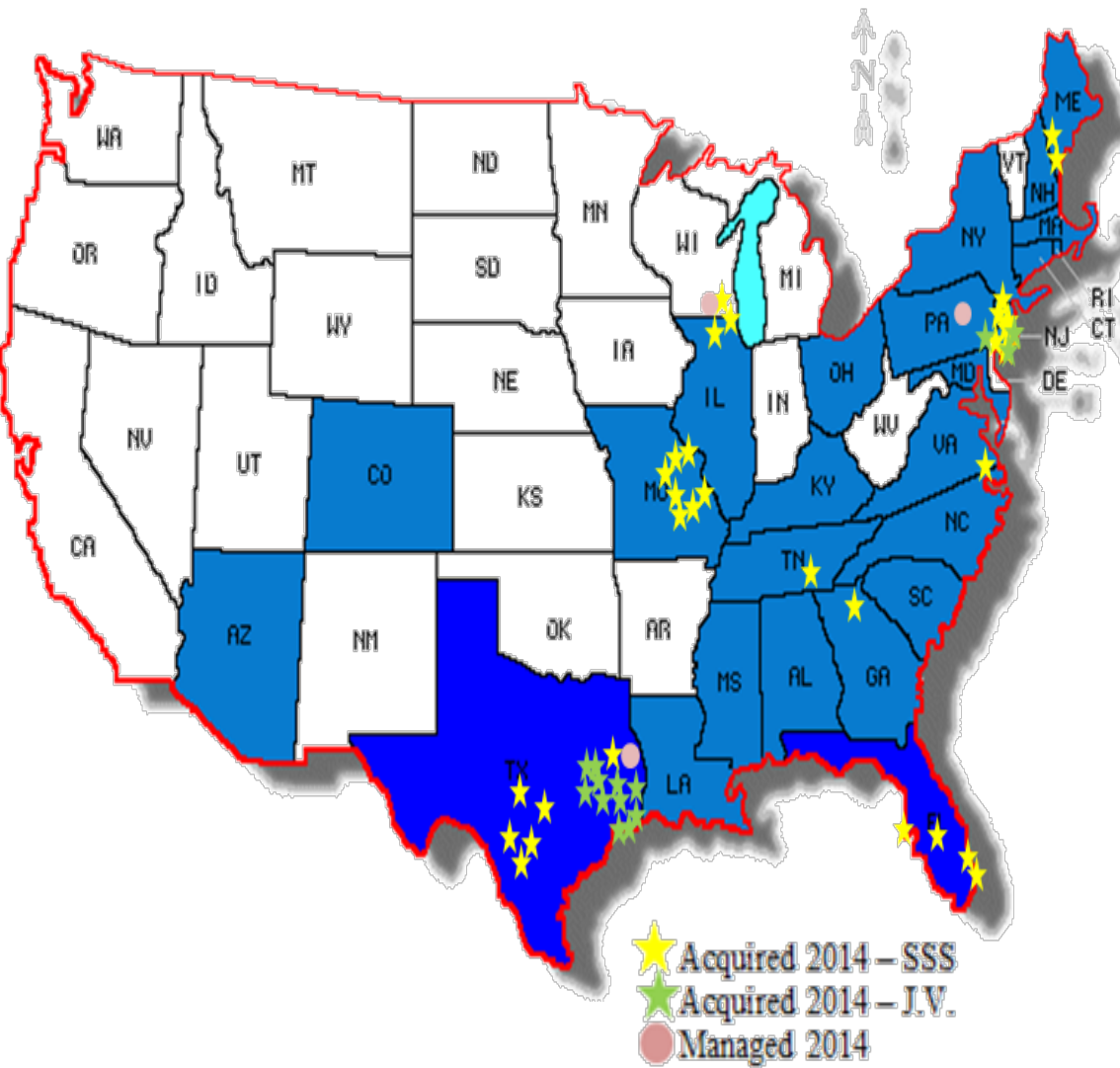
- 31,000 Rental Inquiries a Month

## Revenue Management System:

- Uses 10-year historical information



# Properties

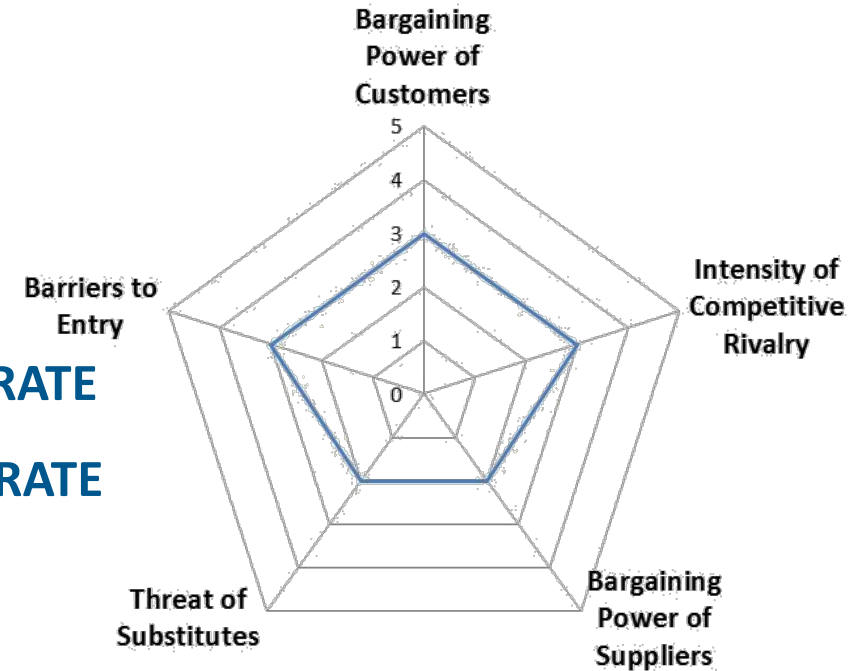


State	% of 2013	# Of Prop.	% of 2014	# Of Prop.
Texas	26.1%	117	25.1%	133
Florida	13.9%	68	14.3%	72
New York	6.7%	34	8.4%	35
New Jersey	7.7%	21	7.6%	29
Georgia	5.6%	30	5.5%	30
Ohio	4.4%	23	4.0%	23
Alabama	4.2%	22	3.4%	22
Virginia	3.9%	19	3.3%	19
Louisiana	3.7%	16	2.6%	17
Mississippi	2.9%	15	2.6%	15
Remaining 15	20.9%	113	23.2%	123
<b>Total</b>	<b>100%</b>	<b>478</b>	<b>100%</b>	<b>518</b>



## Porter's Five Forces

- **Bargaining Power of Customers – MODERATE**
- **Intensity of Competitive Rivalry – MODERATE**
- **Bargaining Power of Suppliers – LOW**
- **Threat of Substitutes – LOW**
- **Barriers to Entry – MODERATE**



### LEGEND

- 0** No threat to Sovran
- 1** Insignificant threat to Sovran
- 2** Low threat to Sovran
- 3** Moderate threat to Sovran
- 4** Significant threat to Sovran
- 5** High Threat to Sovran

# Industry Overview

- Economies of Scale vs Smaller Competitors
- Increasing Ancillary Revenue Segment
- Diverse Service Offerings

Competitive Positioning	SSS	CUBE	EXR	PSA
Market Cap	\$3.12B	\$3.82B	\$7.71B	\$34.03B
3rd Party Management	✓	✓	✓	
Store Locator on Homepage	✓	✓	✓	✓
Interactive Facility Location Map	✓		✓	
List of Alternative Storage Locations			✓	
Van or Truck Rental Options	✓	✓	✓	
Climate-Controlled Units	✓	✓	✓	✓
Vehicle Storage	✓	✓	✓	✓
Packing Supplies	✓	✓	✓	✓
Promotions for New Customers	✓	✓	✓	✓
24-Hour Call Center	✓			

Company Overview

**Industry &  
Competitive  
Positioning**

Financial Analysis

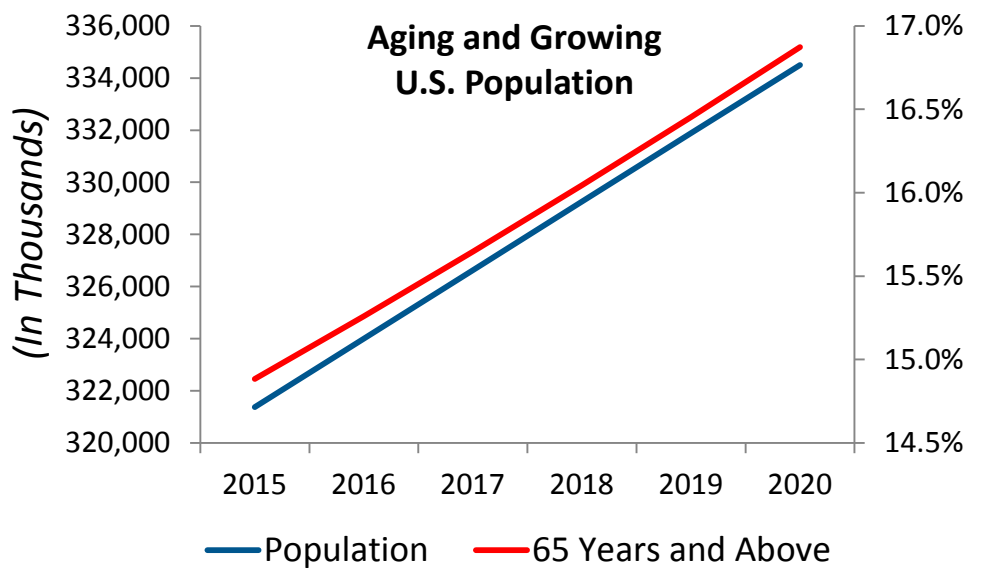
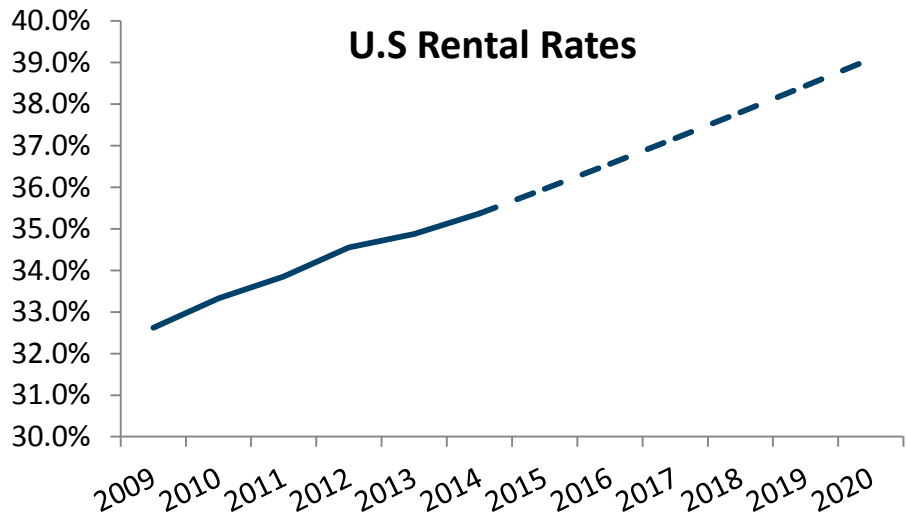
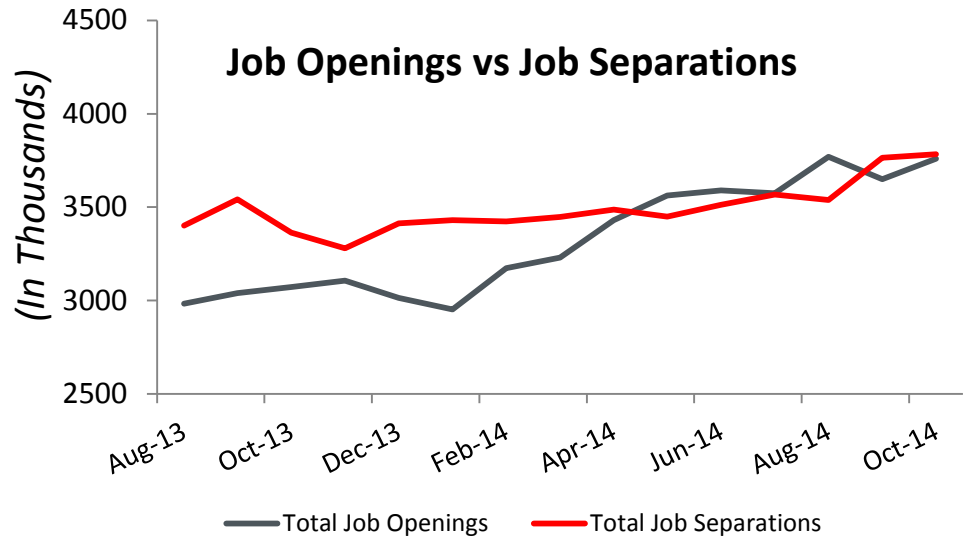
Valuation

Risk Analysis

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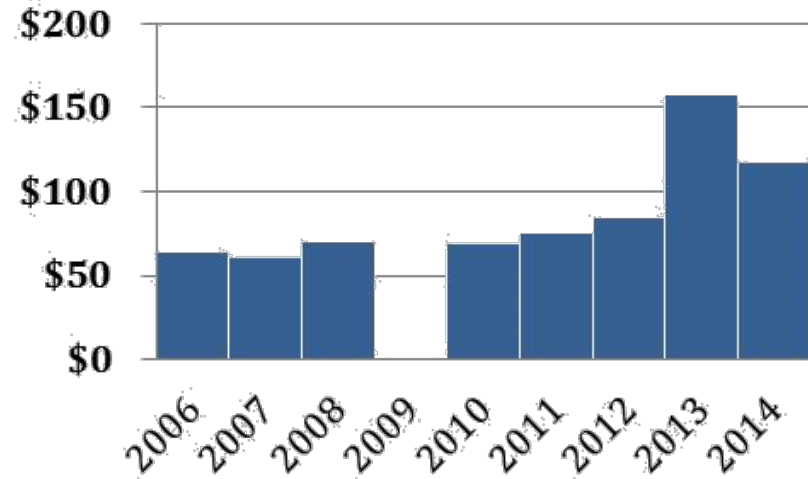
# Demand Drivers

- U.S. Economic Growth
- Improving Job Market
- Encouraging Demographic Trends



# Acquisitions

## Price Paid per Acq. Square Foot



## Historical Acquisitions



- UPREIT Structure
- Increasing Cost per Acquired Sq. Ft.
- Increasing Acquisition Expenditures

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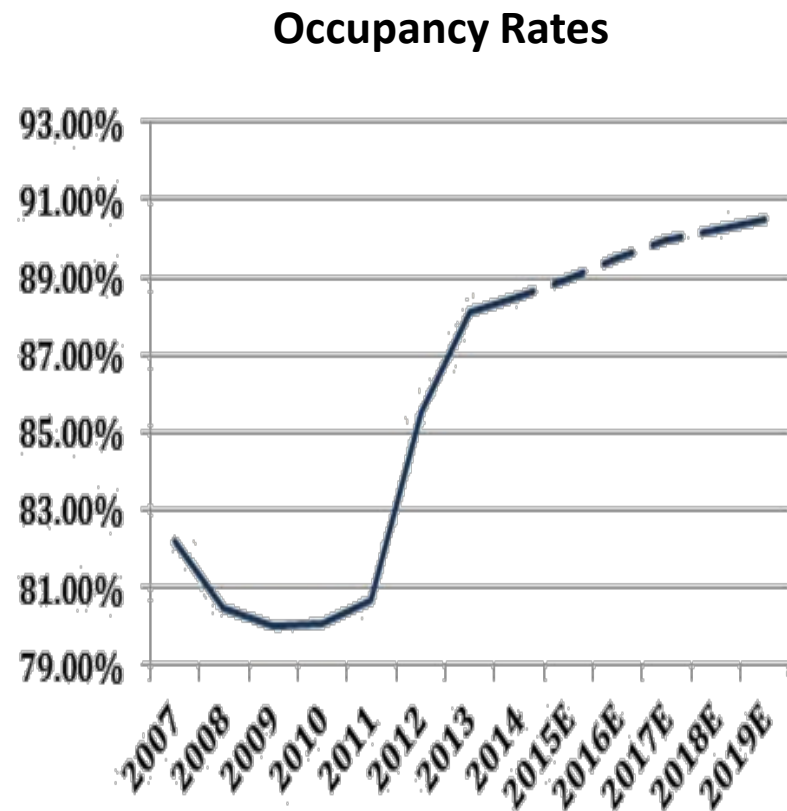
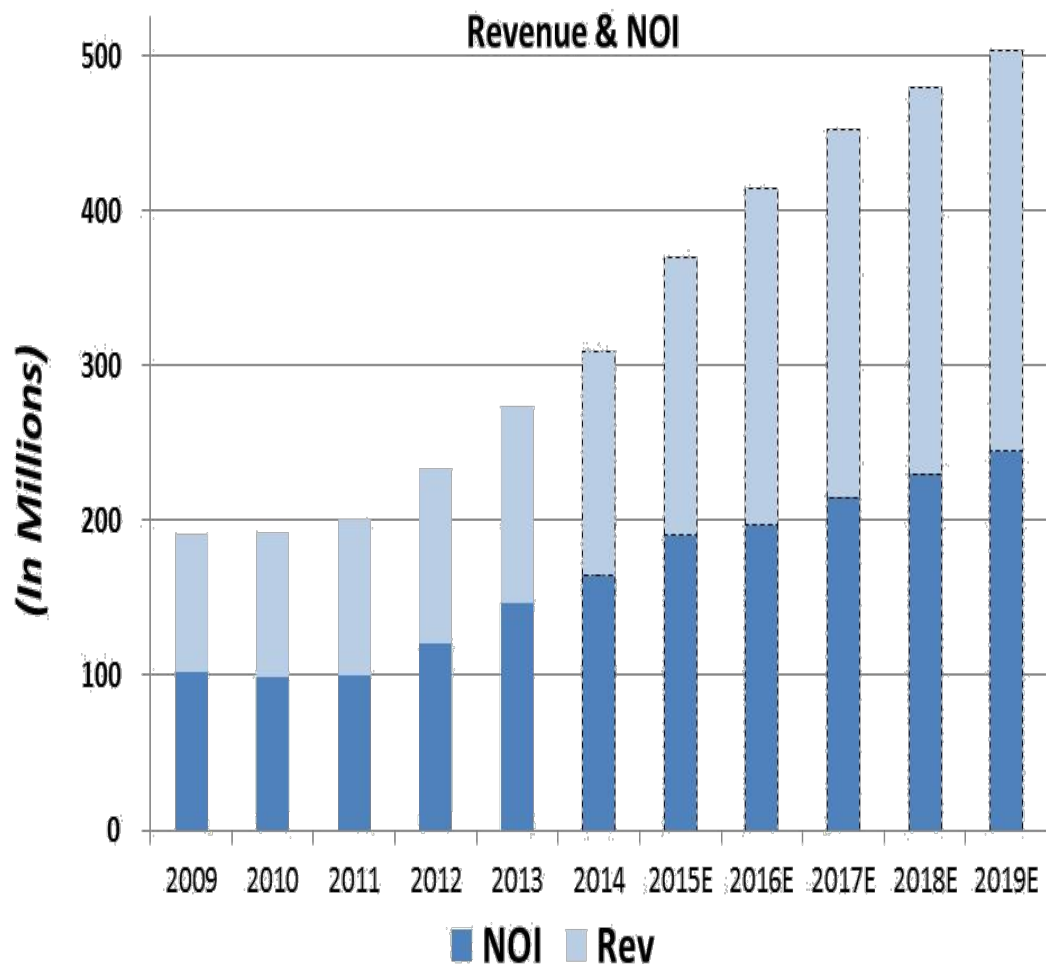
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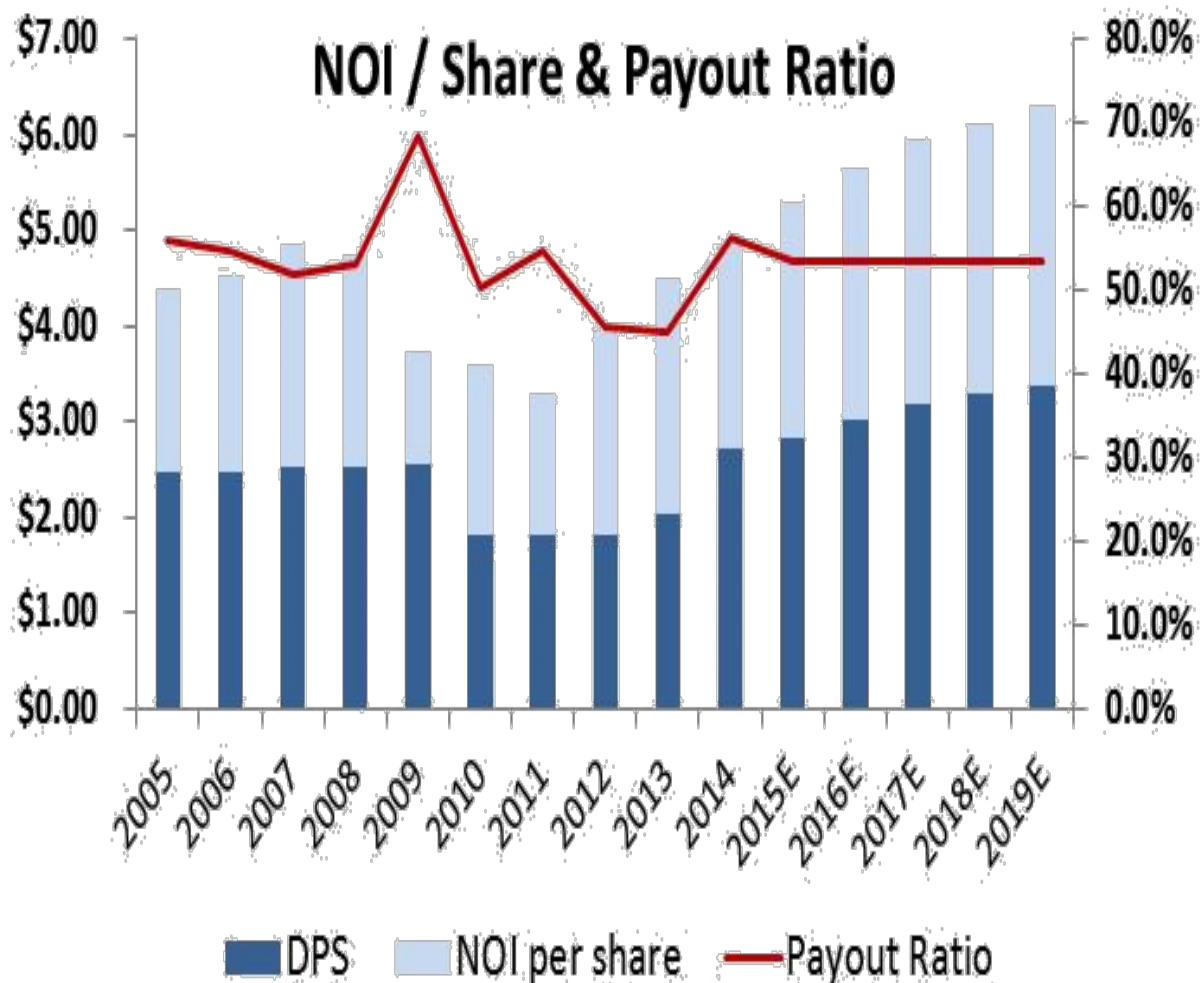


# Revenue Analysis



# Profitability

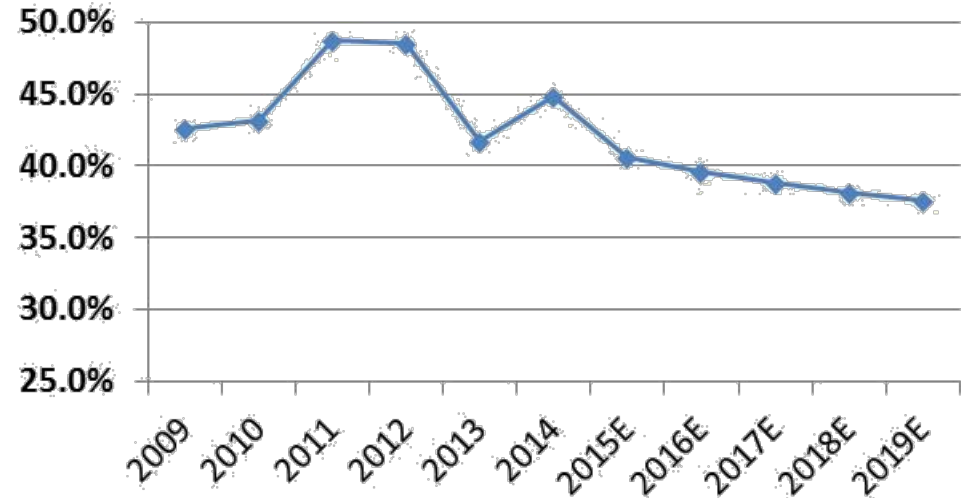
Year	Net Profit Margin
2008	19.8%
2009	10.9%
2010	23.2%
2011	16.3%
2012	25.2%
2013	29.0%
2014	27.3%
2015E	28.8%
2016E	29.2%
2017E	29.7%
2018E	30.0%
2019E	30.2%



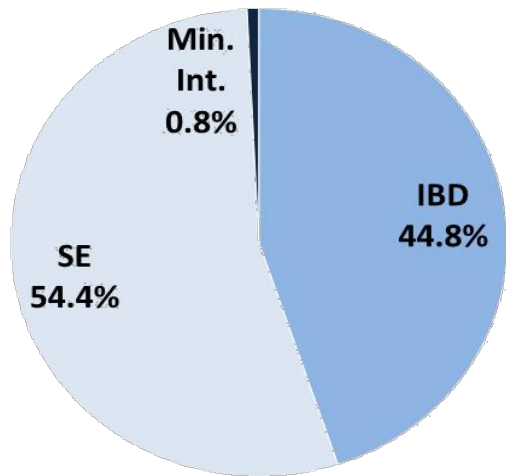
# Debt Analysis

- Increasing Capacity to Maintain BBB- Credit Rating
- Financing through Equity-Debt Ratio of 70%-30%

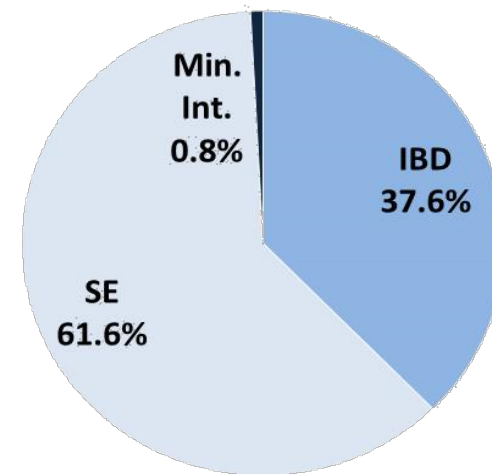
## Long-Term Debt to Assets



2014 Capital Structure



2019E Capital Structure



Company Overview

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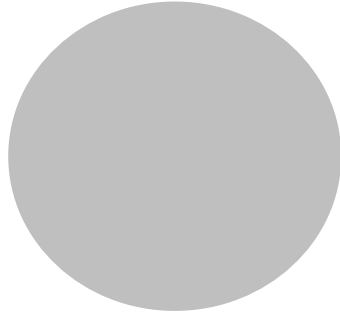
Valuation

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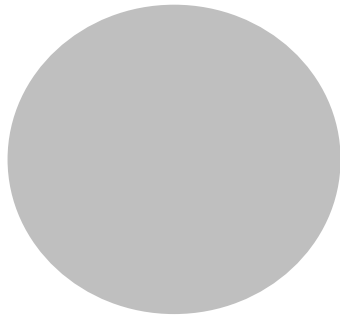
Conclusion

# Valuation Methods

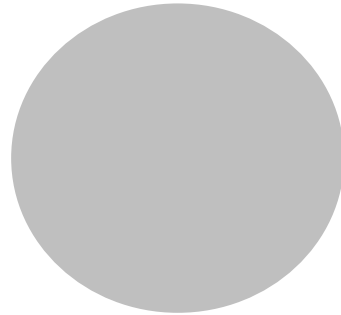
**DCF Analysis**  
**50%**



**EV/EBITDA Multiple**  
**25%**



**Price / FFO Multiple**  
**25%**



## Discounted Cash Flow (DCF)

- Net Operating Income (NOI)
- Monte Carlo Simulation

## Relative Multiple Valuation

- EV / EBITDA
- Price / FFO

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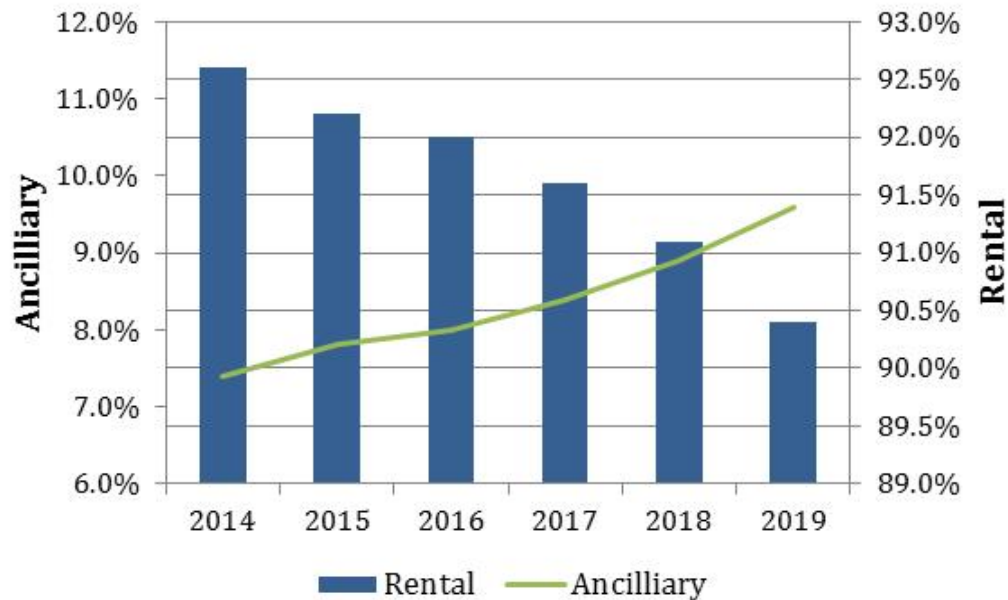
**Valuation**

Risk Analysis

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# DCF Assumptions - Revenue

Revenue Growth Breakdown	2015E	2016E	2017E	2018E	2019E
Increase in Occupancy Rates	1.0%	0.5%	0.5%	0.3%	0.3%
Increase in Sales per Square Ft.	6.0%	5.4%	3.8%	1.5%	1.0%
Increase in Total Square Ft.	5.8%	6.0%	4.5%	3.5%	3.0%
<b>Rental Revenue Growth</b>	<b>12.8%</b>	<b>11.9%</b>	<b>8.8%</b>	<b>5.3%</b>	<b>4.3%</b>
Ancilliary Revenue Growth	20.0%	15.0%	15.0%	12.5%	12.5%
<b>Total Revenue Growth</b>	<b>13.3%</b>	<b>12.2%</b>	<b>9.3%</b>	<b>6.0%</b>	<b>5.1%</b>



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# DCF Assumptions - WACC

Cost of Equity	2015-16	2017-19
Risk Free Rate <sup>(1)</sup>	2.25%	3.00%
Adjusted Beta	0.913	0.913
Market Risk Premium	7.75%	7.00%
<b>Cost of Equity</b>	<b>9.33%</b>	<b>9.39%</b>

(1) Expected 10-Year U.S. Treasury

Cost of Debt	2015-16	2017-19
Risk Free Rate <sup>(1)</sup>	2.25%	3.00%
BBB Options Spread <sup>(2)</sup>	2.08%	2.24%
<b>Cost of Debt</b>	<b>4.33%</b>	<b>5.24%</b>

(1) Expected 10-Year U.S. Treasury

(2) Option-Adj Spread (OAS) of the BofA ML  
US Corporate BBB Index

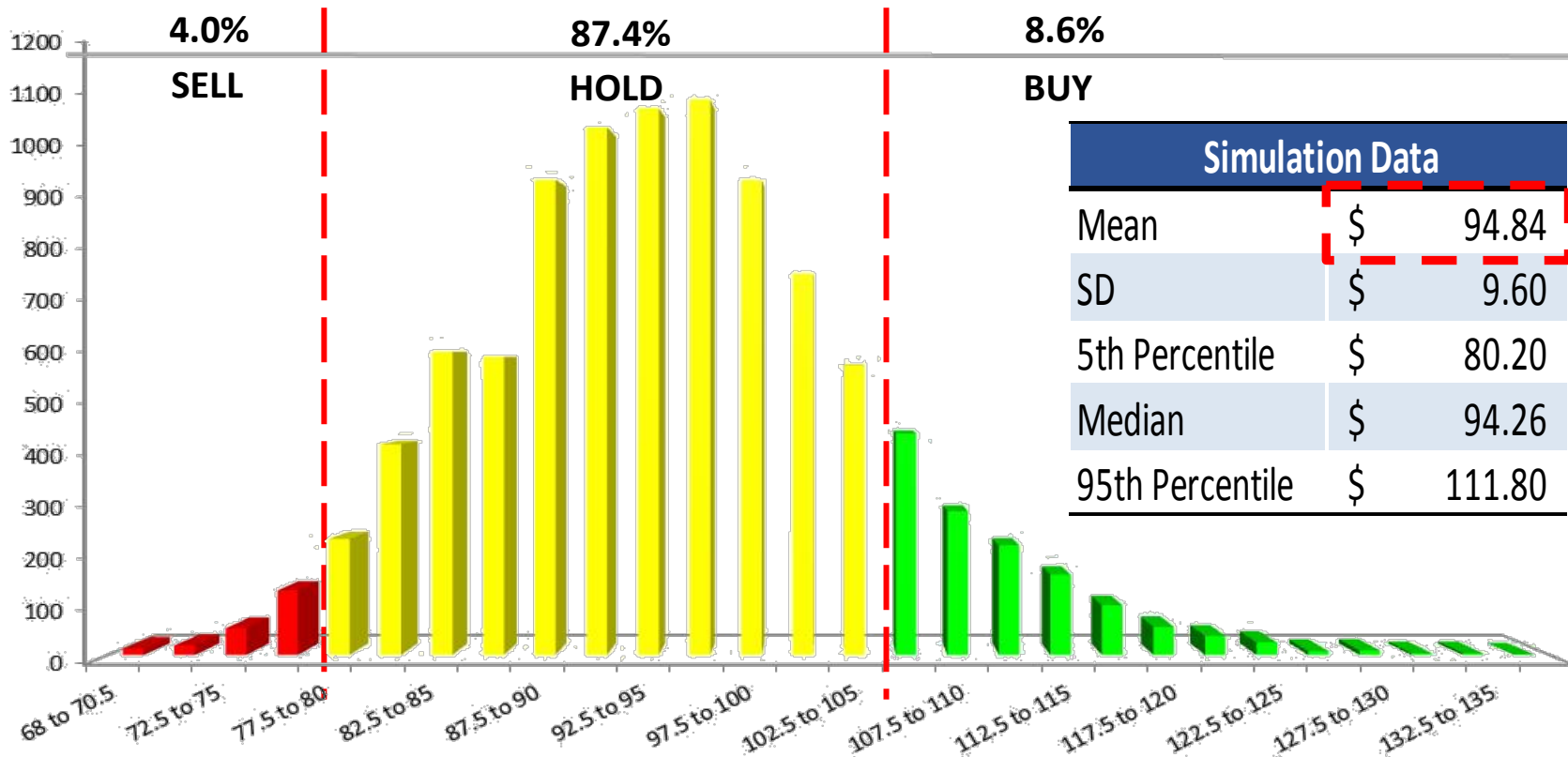


WACC	2015-16	2017-19
	8.33%	8.77%

Cap Rate	6.00%



# DCF Output - Monte Carlo Simulation



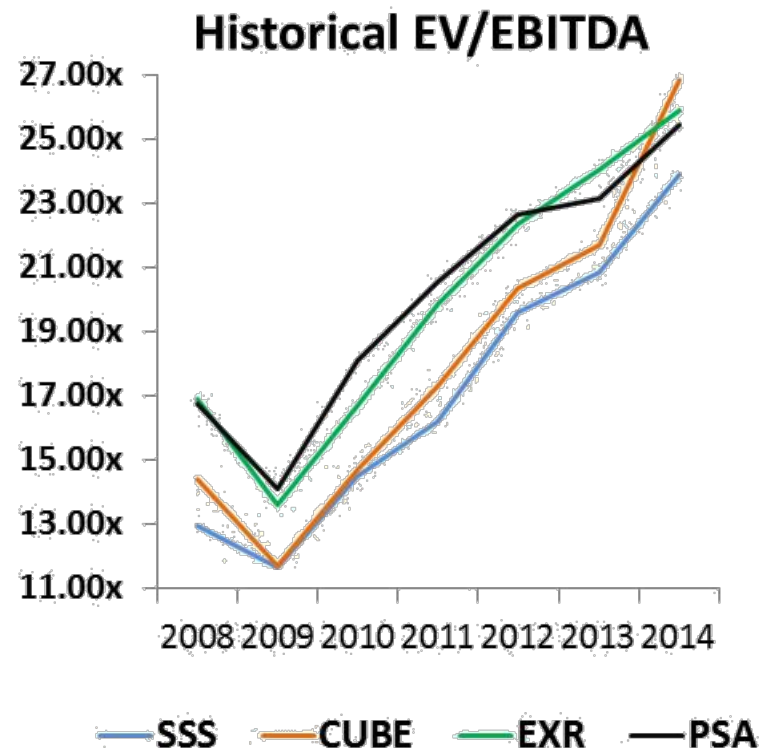
## Inputs to Simulation

- Occupancy Rate
- Asking Rate Per Square Foot
- Acquisition Rate
- WACC
- Cap Rate



# Relative Valuation

Company	Ent. Val. (M)	EV / EBITDA	P / FFO	EV / Rev
SSS	\$3,957.4	23.3x	23.5x	14.5x
CUBE	\$5,077.5	25.1x	22.9x	13.7x
EXR	\$10,266.4	25.4x	26.3x	15.6x
PSA	\$38,284.7	23.9x	24.5x	16.8x
<b>Mean</b>		<b>24.4x</b>	<b>24.3x</b>	<b>15.1x</b>
<b>Median</b>		<b>24.5x</b>	<b>24.0x</b>	<b>15.0x</b>



## Valuation Metrics

Current Price	EV / EBITDA	Price / FFO
\$93.95	\$98.81	\$97.13

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# Price Target

**DCF Analysis**

**50%**

**\$94.84**

**+**

**\$98.81**

**EV/EBITDA Multiple**

**25%**

**\$97.13**

**Price / FFO Multiple**

**25%**

**\$96.00**

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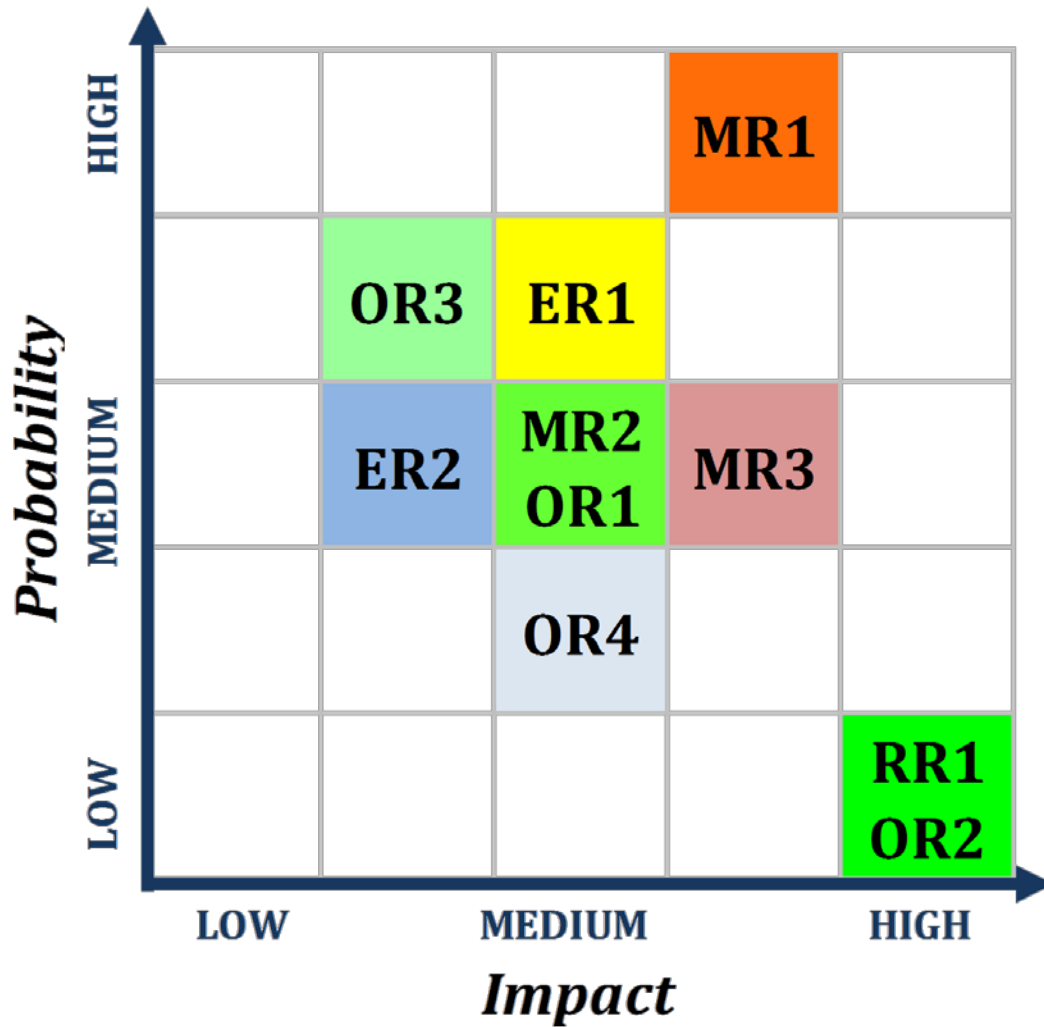
Financial Analysis

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# Main Risks



**RR1 = Regulatory Risk – REIT Classification**

**OR2 = Operational Risks – Loss Credit Rating**

**MR1 = Market Risk – Rise in Interest Rates**

**ER1 = Economic Risks – Easing of Loan Requirements**

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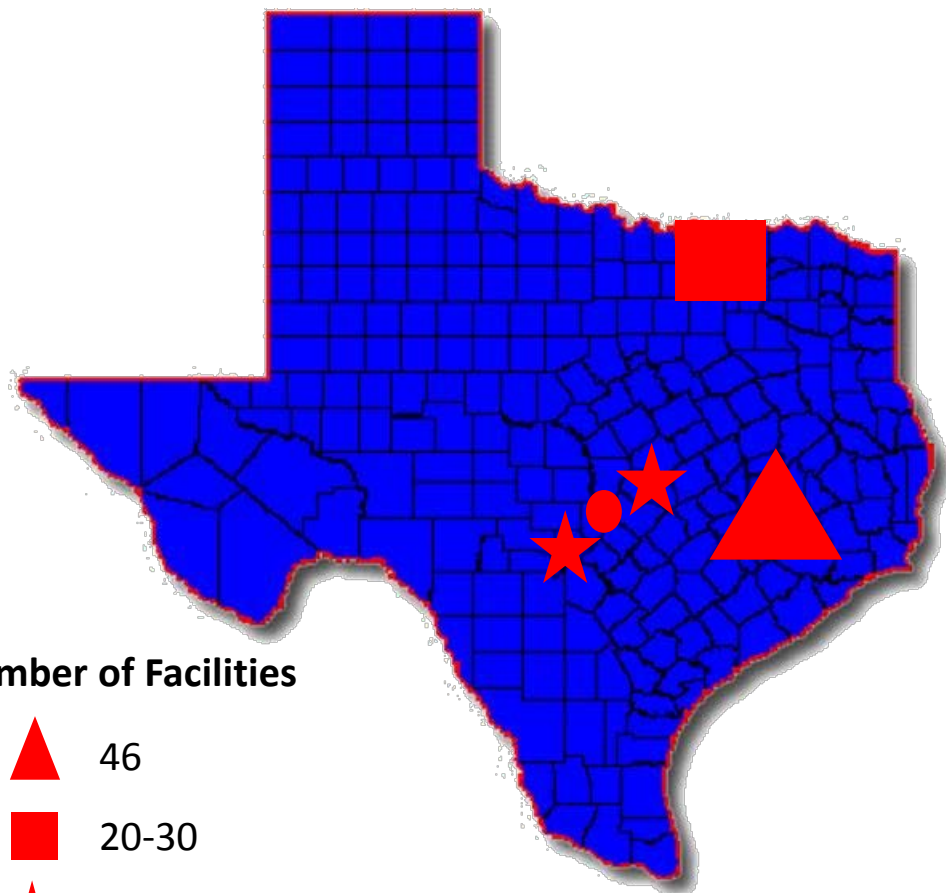
Financial Analysis

Valuation




**Risk Analysis**

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# Concentration Risk (MR3)



## Number of Facilities

-  46
-  20-30
-  10-19
-  < 10

Time	Oil Price / Barrel	# Oil Rigs in Texas
Sep-14	\$94.51	905
Apr-15	\$51.91	455
% Change	-45.1%	-49.7%

Company Overview

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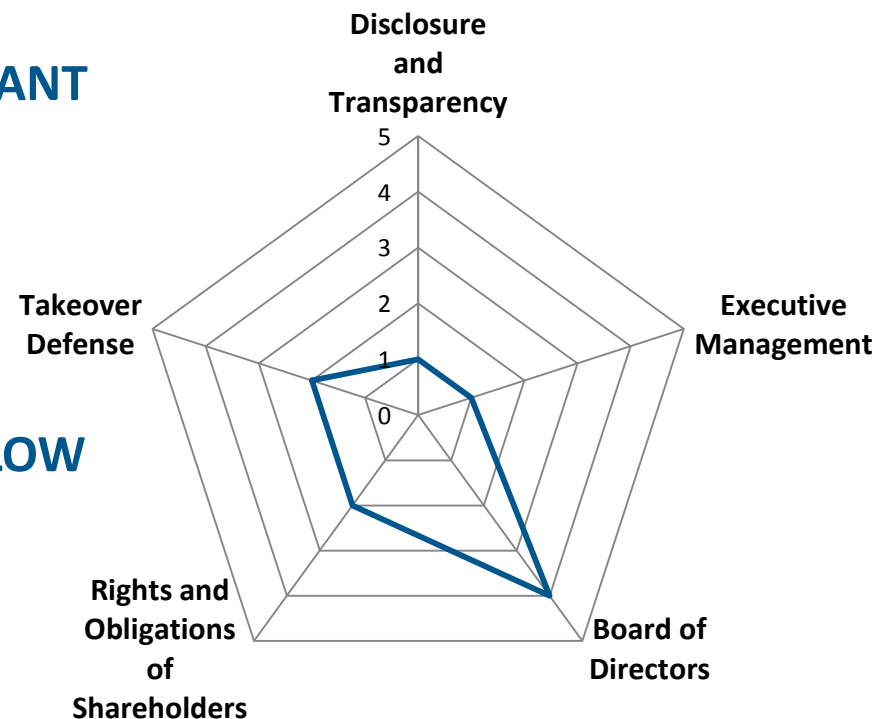
Conclusion

## Rating Methodology

- Disclosure and Transparency – **INSIGNIFICANT**
- Executive Management – **INSIGNIFICANT**
- **Board of Directors – SIGNIFICANT**
- Takeover Defense – **LOW**
- Rights and Obligations of Shareholders – **LOW**

### KEY

- 1 Insignificant threat to Shareholders
- 2 Low threat to Shareholders
- 3 Moderate threat to Shareholders
- 4 Significant threat to Shareholders
- 5 High Threat to Shareholders



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## Potential Loss of BBB- Credit Rating (OR2)

- Increase in Cost of Debt due to downgrade to Junk Bond Status is roughly 175 basis points

Description	Principal Due (thousands)	Coupon Rate	Increase in Coupon Rate if Credit Rate Downgraded
2016 Term Note	\$150,000	6.38%	<b>8.13%</b>
2020 Term Note	\$100,000	5.54%	<b>7.29%</b>
2024 Term Note	\$175,000	4.53%	<b>6.27%</b>

### Mitigations:

- **Maintain 70E – 30D Financing Structure**
- **Management Guidance**

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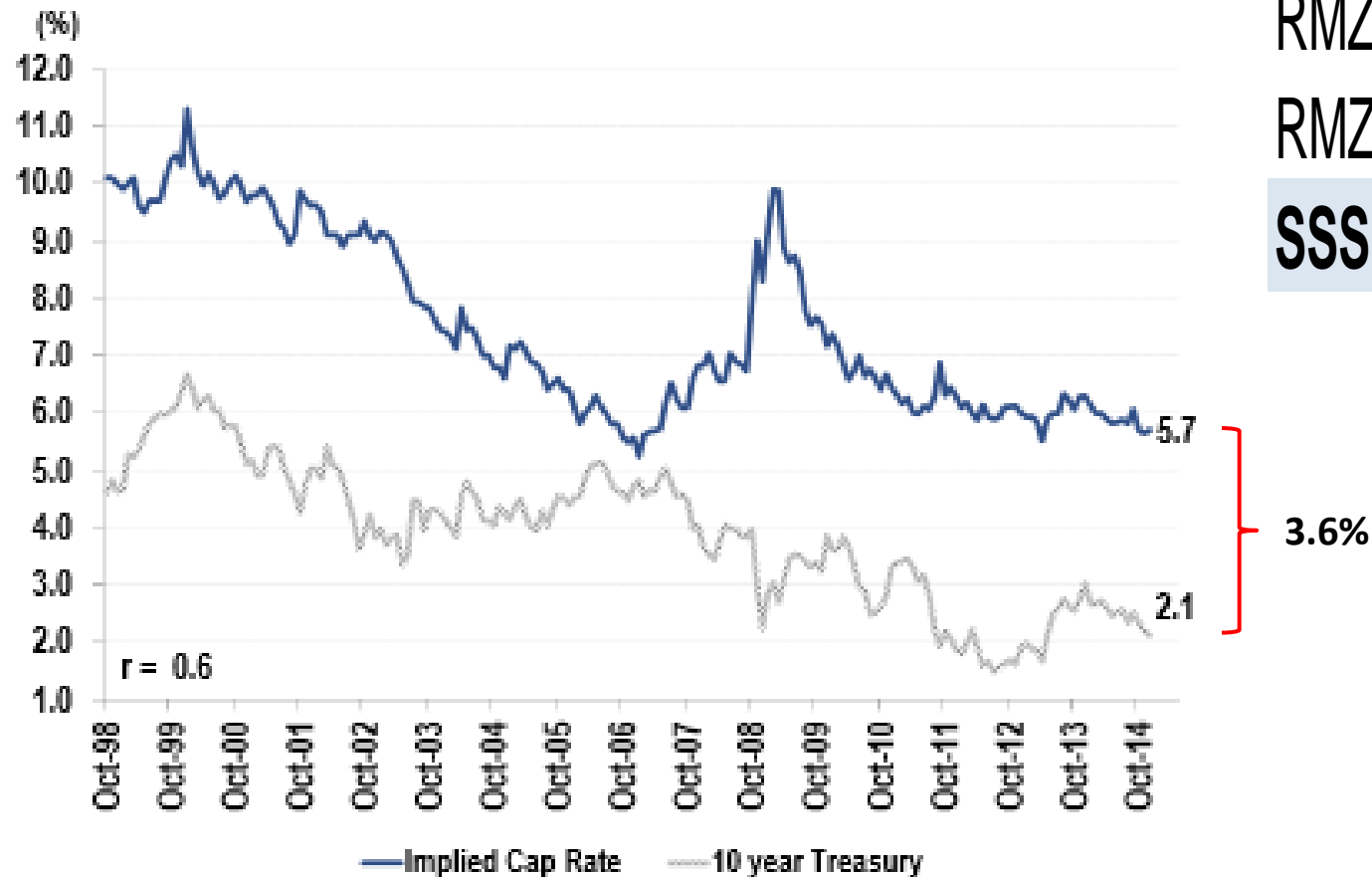
Valuation

**Risk Analysis**

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# Interest Rates and Cap Rates Spread (MR1)

Figure 117. REIT Implied Cap Rate vs. 10-Year U.S. Treasury Yield



## 1 Year Correlation

RMZ and SSS 0.97

RMZ and 10 Yr -0.93

SSS and 10 Yr **-0.94**

# Conclusion

## Merits

- Experienced Management
- Technology Platforms
- Macroeconomic Tailwinds
- Improving Financial Position
- Limited Supply

**HOLD**

## Concerns

- Maturing Occupancy Rates
- Increasing Price of Acquisitions
- Concentration Risk
- Interest Rate Uncertainty

**Current Price**

**SSS \$93.95**

**Target Price**

**SSS \$96.00**

**Upside**

**2.2%**

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