

Extra Space Storage (EXR)

\$111.55 (As of 02/11/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

Extra Space Storage has solid presence in key cities and opts for joint ventures to drive long-term profitability. The company's focus on expansion of geographical footprint through accretive acquisitions and third-party management platform bodes well. The self-storage REIT has also adopted net-lease transactions, in order to fuel growth. However, rise in property taxes and marketing expenses are likely to strain the company's earnings. Further, there is a development boom of self-storage units in many markets, which, in turn, is likely to intensify competition and curb the company's power to raise rents. Additionally, the company's shares have underperformed its industry in the past six months. Also, the trend in estimate revisions of current-year funds from operations (FFO) per share does not indicate a favorable outlook.

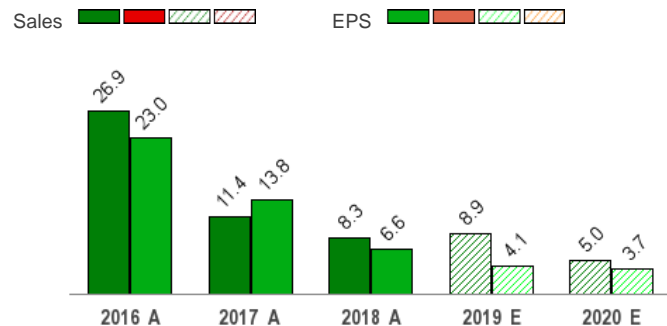
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.46 - \$91.00
20 Day Average Volume (sh)	697,515
Market Cap	\$14.4 B
YTD Price Change	5.6%
Beta	0.17
Dividend / Div Yld	\$3.60 / 3.2%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 33% (171 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/18/2020
Earnings ESP	-0.6%
P/E TTM	23.1
P/E F1	22.1
PEG F1	4.5
P/S TTM	11.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	334 E	343 E	355 E	353 E	1,368 E
2019	312 A	324 A	338 A	335 E	1,303 E
2018	285 A	297 A	307 A	307 A	1,197 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.21 E	\$1.25 E	\$1.27 E	\$1.29 E	\$5.04 E
2019	\$1.16 A	\$1.22 A	\$1.24 A	\$1.25 E	\$4.86 E
2018	\$1.09 A	\$1.15 A	\$1.20 A	\$1.22 A	\$4.67 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

Overview

Headquartered in Salt Lake City, UT, Extra Space Storage Inc. is a notable name in the self-storage industry. This real estate investment trust (REIT) offers a vast array of well-located storage units to its customers, including boat storage, recreational vehicle storage and business storage.

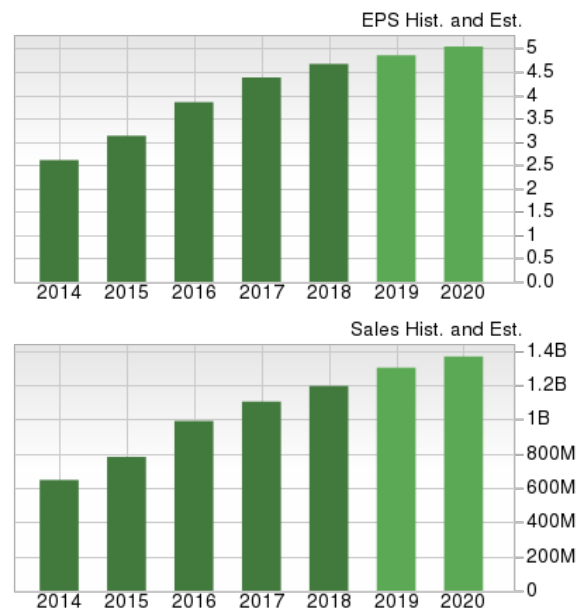
As of Sep 30, 2019, Extra Space Storage enjoyed ownership, had ownership stakes in or managed 1,797 stores in 40 states, Washington, D.C. and Puerto Rico. Out of these 1,797 stores, the company wholly owned 920 stores, had 247 in joint ventures, and managed 630 stores for third parties.

The company's stores comprised around 1.3 million units and approximately 138 million square feet of rentable space. The stores are located in Atlanta; Baltimore/Washington, D.C.; Boston; Chicago; Dallas; Houston; Las Vegas; Los Angeles; Miami; New York City; Orlando; Philadelphia; Phoenix; St. Petersburg/Tampa and San Francisco/Oakland.

Notably, on Jun 1, 2019, the company closed a transaction to begin net leasing 22 stores from W.P. Carey Inc. This marked the first of three sets of leases that will be concluded between Extra Space Storage and W.P. Carey aggregating 36 stores, of which 31 were earlier managed by Extra Space Storage.

On Aug 1, the company started leasing additional five stores under its net lease agreements with W.P. Carey Inc., denoting the second of three bunches of stores that will be leased to the company by W.P. Carey. Through Oct 29, 27 of the 36 previously-disclosed net leases have started.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Extra Space Storage is the second largest self-storage operator in the United States and the largest self-storage management company in the nation. The company significantly expanded its business in recent years, growing its branded store count from 820 in 2010 to 1,797 in third-quarter 2019. Also, total stores managed for third-party owners increased from 181 in 2012 to 630 in the third quarter. Moreover, the majority of its stores are gathered around large population centers, such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These markets enjoy above-average population and income demographics for stores.
- ▲ The company also made concerted efforts to consistently grow its business and achieve geographical diversity through accretive acquisitions, mutually beneficial joint-venture partnerships and third-party management services. Over the past five years, Extra Space Storage has acquired \$4.6 billion in properties. The company gained an increased scale in several core markets on the back of these acquisitions as well as fortified its presence in a number of new markets.
- ▲ The self-storage asset category is basically need-based and recession-resilient in nature. This asset class has low capital expenditure requirements and generates high operating margins. Additionally, the self-storage industry continues to witness solid demand, backed by favorable demographic changes. Specifically, the downsizing trend, an encouraging labor market, increase in the number of people renting homes have escalated the needs of consumers to rent space at a storage facility to park their possessions.
- ▲ Furthermore, the industry is characterized by fragmented ownership and only around 30% of the total self-storage square footage is under REIT's ownership. This creates solid scope for consolidation at some level in the future and with a solid balance sheet, Extra Space Storage remains well poised to compete for acquisitions.
- ▲ Extra Space Storage remains focused on improving its balance sheet. The company exited third-quarter 2019 with roughly \$62.3 million of cash and cash equivalents, up from the \$57.5 million recorded at the end of 2018. As of Sep 30, 2019, the company's percentage of fixed-rate debt to total debt was 77.2%. Notably, in July, it amended its unsecured credit facility, and enhanced borrowings by \$500 million, to a total of up to \$1.85 billion in aggregate borrowings. Moreover, during the quarter, the company sold 849,200 shares of common stock using its ATM program at an average price of \$119.30, for net proceeds of \$100.1 million. Finally, as of Sep 30, 2019, Extra Space Storage had \$298.6 million available for issuance under its ATM program.
- ▲ Moreover, the company remains committed to increasing shareholders' wealth. In May 2019, the company announced a 4.7% hike in quarterly dividend payout. The company has achieved a five-year total increase of 91.5% in dividend. Such shareholder-friendly efforts are encouraging.

High brand value, acquisitions and robust presence in key cities serve as growth drivers amid healthy demand in the self-storage industry. Consolidation opportunities offer scope for future growth.

Reasons To Sell:

- ▼ Extra Space Storage operates in a highly fragmented market in the United States, with intense competition from numerous private, regional and local operators. In addition, there is a development boom of self-storage units in many markets. This high supply is likely to fuel competition, curb its power to raise rents and turn on more discounting.
- ▼ Self-storage spaces are leased on a month-to-month basis. Therefore, tenants have the flexibility to vacate the properties in times of distress. Moreover, the company's operating results would be adversely affected in case if the storage units are not re-let promptly or if rates upon re-letting fall substantially. Also, escalation in property tax and marketing expense are resulting in elevated expense levels, which is a concern.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ Shares of Extra Space Storage have declined 6.3% in the past six months, as against its industry's rally of 5.1%. The trend in estimate revisions of 2020 FFO per share indicates a bleak outlook for the company. In fact, the Zacks Consensus Estimate for the current-year FFO per share has been revised marginally downward, over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

High supply is likely to intensify competition for the company, curb its power to raise rents and turn on discounting. Moreover, increases in property tax and marketing expense remain woes.

Last Earnings Report

Extra Space Storage Q3 FFO Meets, Revenues Top Estimates

Extra Space Storage's third-quarter 2019 core FFO per share of \$1.24 came in line with the Zacks Consensus Estimate. The figure also came in 3.3% higher than the prior-year quarter's \$1.20.

Results reflect growth in same-store NOI. Further, it witnessed higher net rental rates for customers amid headwinds from new supply. Though occupancy was near all-time highs, it remained flat with the same period in 2018. Also, the company experienced increases in marketing expenses and property taxes.

Quarterly revenues of \$337.5 million climbed 10% year over year. The revenue figure also exceeded the Zacks Consensus Estimate of \$332.7 million.

Behind the Headlines

Same-store rental revenues increased 3.3% year over year to \$262.7 million during the third quarter, while same-store NOI was up 2.1% to \$189 million. This upswing in same-store revenues stemmed from higher net rental rates for customers. Same-store square foot occupancy was 93.8% as of Sep 30, 2019, unchanged from the same period in 2018.

Notably, during the reported quarter, Cincinnati, Hawaii, Las Vegas, Norfolk/Virginia Beach, Oklahoma City and Phoenix were the major markets, which registered revenue growth above the company's portfolio average.

Nonetheless, markets, including Charleston, Denver, Houston, Miami, Tampa and West Palm Beach/Boca Raton, performed below the company's portfolio average.

Portfolio Activity

Extra Space Storage acquired one store at the completion of construction, for around \$16.8 million. Moreover, in association with joint-venture partners, the company acquired three operating stores as well as completed one development for a total cost of about \$29.3 million. Of this, the company invested \$11.1 million.

Also, Extra Space Storage added 42 stores (gross) to its third-party management platform. As of Sep 30, 2019, the company managed 630 stores for third-party owners. Furthermore, with additional 247 stores owned in joint ventures, total stores under management summed 877.

Notably, on Aug 1, the company started leasing an additional five stores under its net lease agreements with W.P. Carey Inc. (WPC - Research Report) , denoting the second of three bunches of stores that will be leased to the company by W.P. Carey. So far, 27 of the 36 previously-disclosed net leases have started.

Balance Sheet

Extra Space Storage exited third-quarter 2019 with roughly \$62.3 million of cash and cash equivalents, up from the \$57.5 million recorded at the end of 2018. As of Sep 30, 2019, the company's percentage of fixed-rate debt to total debt was 77.2%. Notably, in July, it amended its unsecured credit facility, and enhanced borrowings by \$500 million, to a total of up to \$1.85 billion in aggregate borrowings.

During the September-end quarter, the company sold 849,200 shares of common stock using its ATM program at an average price of \$119.30, for net proceeds of \$100.1 million. Finally, as of Sep 30, 2019, Extra Space Storage had \$298.6 million available for issuance under its ATM program.

Outlook

Extra Space Storage anticipates full-year 2019 core FFO per share of \$4.84-\$4.87. The company projects same-store revenue growth of 3-3.5% and same-store NOI growth of around 2.25-3% for the current year (excluding tenant reinsurance).

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	1.45%
EPS Surprise	0.00%
Quarterly EPS	1.24
Annual EPS (TTM)	4.84

Recent News

Dividend Update

On Nov 11, Extra Space Storage announced a cash dividend of 90 cents per share for the fourth quarter. The dividend was paid on Dec 31, to stockholders of record as of Dec 16, 2019.

Valuation

Extra Space Storage's shares have been up 12.7% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 14.3% and 9.4% in the past year, respectively.

The S&P 500 index is up 20.9% in the past year.

The stock is currently trading at 22.04X forward 12-month FFO, which compares to 18.58X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.27X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.91X and as low as 16.6X, with a 5-year median of 20.52X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$118 price target reflects 23.31X FFO.

The table below shows summary valuation data for EXR.

Valuation Multiples - EXR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.04	18.58	14.92	19.27
	5-Year High	24.91	18.92	16.21	19.34
	5-Year Low	16.6	14.32	12.01	15.18
	5-Year Median	20.52	16.11	14.15	17.47
P/S F12M	Current	10.51	8.42	6.55	3.55
	5-Year High	12.34	8.42	6.65	3.55
	5-Year Low	8.07	5.91	5.39	2.54
	5-Year Median	9.93	6.88	6.04	3
P/B TTM	Current	4.96	2.91	2.84	4.32
	5-Year High	5.57	2.91	2.89	4.42
	5-Year Low	3.31	2.07	1.83	2.85
	5-Year Median	4.22	2.52	2.51	3.62

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (171 out of 254)



Top Peers

CubeSmart (CUBE)	Neutral
Innovative Industrial Properties, Inc. (IIPR)	Neutral
Iron Mountain Incorporated (IRM)	Neutral
Gladstone Land Corporation (LAND)	Neutral
Life Storage, Inc. (LSI)	Neutral
National Storage Affiliates Trust (NSA)	Neutral
Public Storage (PSA)	Neutral
Safehold Inc. (SAFE)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	EXR Neutral	X Industry	S&P 500	CUBE Neutral	LSI Neutral	PSA Neutral
VGM Score	F	-	-	F	F	F
Market Cap	14.45 B	3.00 B	24.31 B	6.15 B	5.35 B	39.54 B
# of Analysts	9	4	13	8	7	8
Dividend Yield	3.23%	3.94%	1.78%	4.15%	3.73%	3.53%
Value Score	D	-	-	F	D	F
Cash/Price	0.00	0.02	0.04	0.00	0.00	0.01
EV/EBITDA	22.24	18.18	13.97	21.20	19.08	23.23
PEG Ratio	4.58	3.53	2.06	5.67	4.65	6.04
Price/Book (P/B)	4.97	1.75	3.24	3.38	2.51	7.86
Price/Cash Flow (P/CF)	21.05	14.90	13.65	19.13	17.09	17.96
P/E (F1)	22.32	15.69	19.12	18.52	19.14	20.59
Price/Sales (P/S)	11.29	7.25	2.67	10.03	9.47	14.01
Earnings Yield	4.52%	6.37%	5.23%	5.41%	5.22%	4.86%
Debt/Equity	1.65	0.89	0.70	1.00	0.90	0.38
Cash Flow (\$/share)	5.30	2.28	6.94	1.66	6.71	12.60
Growth Score	D	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	14.55%	2.91%	10.85%	10.20%	4.81%	6.58%
Proj. EPS Growth (F1/F0)	3.87%	3.77%	7.30%	2.16%	6.80%	2.33%
Curr. Cash Flow Growth	-0.90%	12.76%	8.92%	9.53%	37.08%	15.71%
Hist. Cash Flow Growth (3-5 yrs)	18.05%	16.89%	8.36%	19.52%	21.65%	8.80%
Current Ratio	0.54	1.24	1.22	0.09	0.28	1.22
Debt/Capital	62.33%	46.90%	42.90%	50.91%	47.31%	17.72%
Net Margin	34.38%	13.74%	11.81%	28.58%	54.38%	60.98%
Return on Equity	15.63%	4.48%	16.98%	9.98%	14.85%	33.96%
Sales/Assets	0.16	0.13	0.54	0.16	0.14	0.25
Proj. Sales Growth (F1/F0)	4.99%	4.82%	3.90%	5.43%	4.86%	2.50%
Momentum Score	D	-	-	C	D	C
Daily Price Chg	0.27%	0.27%	0.65%	-0.13%	-0.04%	-0.03%
1 Week Price Chg	-0.42%	1.85%	2.47%	0.03%	0.75%	0.66%
4 Week Price Chg	2.95%	2.88%	1.35%	2.62%	3.29%	4.65%
12 Week Price Chg	4.45%	3.94%	5.63%	1.40%	4.20%	5.90%
52 Week Price Chg	12.68%	10.63%	16.19%	2.91%	15.90%	8.96%
20 Day Average Volume	697,515	456,175	1,995,746	1,376,180	243,240	769,837
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.13%	0.00%	0.00%	-0.22%	-0.05%	0.06%
(F1) EPS Est 12 week change	-0.11%	-0.12%	-0.19%	-0.38%	-0.47%	-0.39%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.82%	-0.29%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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