

Extra Space Storage (EXR)

\$96.71 (As of 06/12/20)

Price Target (6-12 Months): **\$103.00**

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: C

Momentum: F

Summary

Extra Space Storage's better-than-expected first-quarter performance reflects growth in same-store revenues, partially offset by elevated marketing expenses and property taxes. The company withdrew its current-year guidance in light of the coronavirus pandemic and announced about collection of about 93% of rents for April compared with the 98% collection witnessed in April 2019. The lower collection was due to the company temporarily postponing auctions and other collection efforts. It has solid presence in key cities and focuses on geographical footprint expansion through accretive acquisitions and third-party management platform. Yet, the adverse impact on demand due to the pandemic and high competition will likely curb its pricing power and turn on discounting. The company's shares have underperformed its industry over the past year.

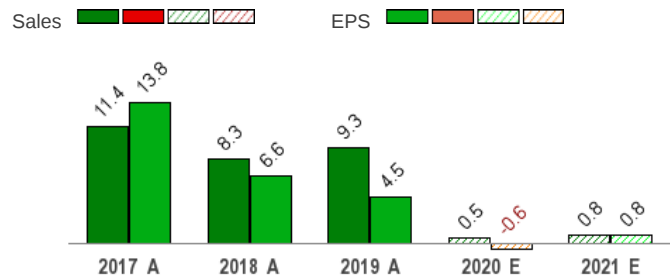
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.46 - \$72.70
20 Day Average Volume (sh)	910,743
Market Cap	\$12.5 B
YTD Price Change	-8.4%
Beta	0.20
Dividend / Div Yld	\$3.60 / 3.7%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 44% (142 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	08/04/2020
Earnings ESP	-1.7%
P/E TTM	19.5
P/E F1	19.9
PEG F1	4.1
P/S TTM	9.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	328 E	329 E	337 E	341 E	1,325 E
2020	332 A	327 E	333 E	332 E	1,315 E
2019	312 A	324 A	338 A	336 A	1,308 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.19 E	\$1.17 E	\$1.20 E	\$1.22 E	\$4.89 E
2020	\$1.24 A	\$1.18 E	\$1.22 E	\$1.23 E	\$4.85 E
2019	\$1.16 A	\$1.22 A	\$1.24 A	\$1.27 A	\$4.88 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 06/12/2020. The reports text is as of 06/15/2020.

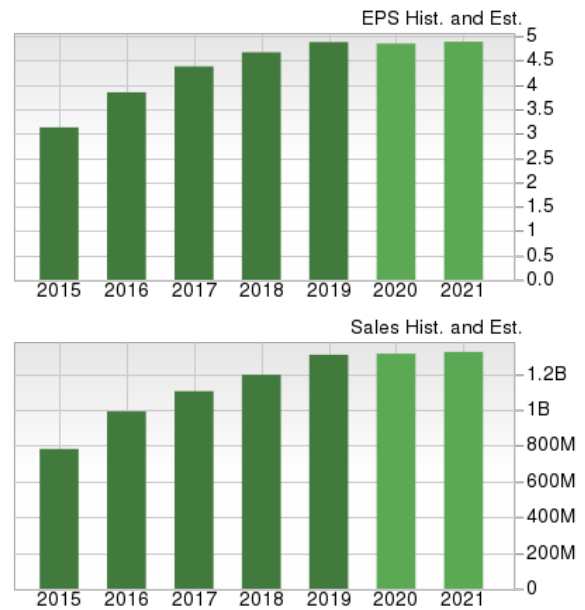
Overview

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 Mar 31, 2020, Extra Space Storage had ownership stakes in or managed 1,852 stores in 40 states, Washington, DC and Puerto Rico. Out of these 1,852 stores, the company wholly-owned 927 stores, had 249 store in joint ventures and managed 676 stores for third parties.

The company's stores comprised 1.3 million units and approximately 143 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.

Extra Space Storage had an encouraging external growth in 2019, acquiring 47 stores with an additional 177 stores added to its third-party management platform. The company banked on several ways for external growth, including redevelopment and net lease transaction with W. P. Carey, a preferred equity investment with SmartStop, and the launch of a bridge loan program.



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 1,852 in the firstquarter of 2020. Also, total stores managed for third-party owners increased from 160 to 676 over the same period. Moreover, the majority of its stores are gathered around large population centers. Apart from having above-average population, these markets enjoy favorable income demographics for stores. Therefore, with a geographically diversified portfolio and significant scale, the company is poised for long-term growth.
- ▲ 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 10 years, Extra Space Storage has spent \$6.8 billion in acquisitions. The company gained an increased scale in several core markets on 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 benefit from favorable demographic changes. Specifically, migration and downsizing trend, and 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.
- ▲ Extra Space Storage remains focused on improving its balance sheet. The company exited first-quarter 2020, with \$93.3 million of cash and cash equivalents, up from the \$65.7 million recorded at the end of 2019. The company had \$546 million in revolving line of credit availability as of Mar 31, 2020. As of Mar 31, 2020, the company's percentage of fixed-rate debt to total debt was 78.3%. The company had \$298.6 million available for issuance under its ATM program as of Mar 31, 2020. The company made efforts to delever its balance sheet and achieved a BBB stable rating from S&P in 2019. With solid balance-sheet strength, the company remains well poised to capitalize on external growth opportunities which will likely increase going forward.
- ▲ 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.
- ▲ Moreover, solid dividend payouts are arguably the biggest enticement for REIT investors and Extra Space Storage 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 52.5% in dividend. Such shareholder-friendly efforts are encouraging.

High brand value, strategic acquisitions, robust presence in key cities and healthy balance sheet serve as growth drivers. Moreover, consolidation opportunities offer scope for future growth.

Reasons To Sell:

- ▼ The coronavirus pandemic has been wreaking havoc and the self-storage market too has not been immune to the impacts of the coronavirus. In the short term, lower walk-in traffic might impact rental activity and occupancy levels. Furthermore, stress on customers' financial capacity will likely result in rent collection issues. As such, same-store rental income and net operating income are expected to be affected in the near term. Moreover, elevated property tax and marketing expense is concerning.
- ▼ 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 affected if the storage units are not relet promptly or if rates upon re-letting fall substantially.
- ▼ Shares of Extra Space Storage have declined 11.1% over the past year compared with its industry's loss of 7.6%. Moreover, the trend in estimate revisions for 2020 FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for the current-year FFO per share has been revised 1.2% downward over the past two months. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential in the upcoming period.

Adverse impact on demand due to the coronavirus pandemic and high competition are likely to curb its pricing power and turn on discounting. Elevated property tax and marketing expense remain woes.

Last Earnings Report

Extra Space Storage Beats on Q1 FFO, Suspends View

Extra Space Storage's first-quarter 2020 core FFO per share of \$1.24 outpaced the Zacks Consensus Estimate of \$1.20. The figure also comes in 6.9% higher than the prior-year quarter's \$1.16.

Results reflect growth in same-store revenues on higher average occupancy and net rental rates for customers. However, the company witnessed rise in payroll, marketing expenses and property taxes.

Quarterly revenues came in at \$332.5 million, up 6.7% year over year. However, the revenue figure marginally missed the Zacks Consensus Estimate of \$332.9 million.

The company informed that it has collected about 93% of total rents for April compared with 98% collection witnessed in April 2019. The collection was lower partially due to the company temporarily postponing auctions and other collections efforts. Moreover, the company achieved same-store occupancy of 91.1% as of Apr 30, 2020, compared with 91.7% as of Apr 30, 2019.

The company withdrew its current-year guidance due to uncertainties related to the coronavirus pandemic.

Quarter in Detail

Same-store rental revenues inched up 1.9% year over year to \$270.1 million during the first quarter, while same-store NOI was up 1.2% to \$191.7 million. This upswing in same-store revenues stemmed from higher average occupancy of 0.5% and net rental rates for customers. However, same-store square foot occupancy was 91.3% as of Mar 31, 2020, down 10 basis points year on year.

Notably, during the first quarter, Chicago, Las Vegas, Memphis, 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, Houston, Miami, San Diego and Tampa, performed below the company's portfolio average.

Balance Sheet

Extra Space Storage exited first-quarter 2020, with \$93.3 million of cash and cash equivalents, up from the \$65.7 million recorded at the end of 2019. The company had \$546 million in revolving line of credit availability as of Mar 31, 2020. As of Mar 31, 2020, the company's percentage of fixed-rate debt to total debt was 78.3%.

During the quarter, the company repurchased 653,597 shares of common stock using its stock-repurchase program at an average purchase price of \$79.85 per share for a total cost of \$52.2 million including transaction costs. As of Mar 31, 2020, the company had authorization to purchase up to an additional \$347.8 million under the plan.

During the March-end quarter, the company did not sell any shares of common stock using its ATM program. Extra Space Storage had \$298.6 million available for issuance under its ATM program as of Mar 31, 2020.

Portfolio Activity

During the first quarter, Extra Space Storage acquired one operating store and one store at completion of construction for a total of \$19.4 million. Moreover, in conjunction with its joint-venture partners, the company purchased one operating store and two "Certificate of Occupancy" stores, for a total cost of \$40.6 million. Of this, the company invested \$9.7 million.

Extra Space Storage added 48 stores (gross) to the company's third-party management platform. As of Mar 31, 2020, it managed 676 stores for third-parties. Furthermore, with additional 249 stores owned in joint ventures, total stores under management summed 925.

Outlook

Extra Space Storage withdrew its 2020 guidance in light of the coronavirus pandemic, though the company stated that it might reinstate the same once the economic impact from the pandemic gets clearer.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-0.12%
EPS Surprise	3.33%
Quarterly EPS	1.24
Annual EPS (TTM)	4.97

Recent News

Dividend Update

On May 15, Extra Space Storage announced a cash dividend of 90 cents per share for the second quarter. The dividend will be paid on Jun 30, to stockholders of record as of Jun 15, 2020.

Valuation

Extra Space Storage's shares have been down 11.1% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 7.6% and 13% over the past year, respectively.

The S&P 500 Index is up 5.3% over the past year.

The stock is currently trading at 19.87X forward 12-month FFO, which compares to 18.81X for the Zacks sub-industry, 16.39X for the Zacks sector and 21.93X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.91X and as low as 14.68X, with a 5-year median of 20.06X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$103 price target reflects 21.16X FFO.

The table below shows summary valuation data for EXR.

Valuation Multiples - EXR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.87	18.81	16.39	21.93
	5-Year High	24.91	18.81	16.39	22.11
	5-Year Low	14.68	14.32	11.57	16.41
	5-Year Median	20.06	16.08	14.26	17.68
P/S F 12M	Current	9.46	8.11	6.00	3.41
	5-Year High	12.34	8.14	6.65	3.44
	5-Year Low	6.98	5.91	4.95	2.80
	5-Year Median	9.78	6.89	6.21	3.19
P/B TTM	Current	4.52	2.36	2.32	4.16
	5-Year High	5.57	3.01	2.87	4.56
	5-Year Low	3.31	1.8	1.71	3.03
	5-Year Median	4.27	2.5	2.69	4.07

As of 06/12/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (142 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
CubeSmart (CUBE)	Neutral	3
Innovative Industrial Properties, Inc. (IIPR)	Neutral	3
Iron Mountain Incorporated (IRM)	Neutral	3
Gladstone Land Corporation (LAND)	Neutral	2
Life Storage, Inc. (LSI)	Neutral	3
National Storage Affiliates Trust (NSA)	Neutral	3
Public Storage (PSA)	Neutral	3
Safhold Inc. (SAFE)	Neutral	3

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	EXR	X Industry	S&P 500	CUBE	LSI	PSA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	C	B	D
Market Cap	12.48 B	2.00 B	21.47 B	5.38 B	4.52 B	34.34 B
# of Analysts	8	4	14	8	7	10
Dividend Yield	3.72%	4.10%	1.96%	4.75%	4.44%	4.07%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.06	0.06	0.01	0.00	0.02
EV/EBITDA	19.78	14.41	12.36	17.62	14.86	20.00
PEG Ratio	4.10	3.64	2.92	8.50	3.93	4.86
Price/Book (P/B)	4.52	1.32	2.96	3.01	2.11	6.90
Price/Cash Flow (P/CF)	18.34	11.10	11.51	16.02	12.17	16.85
P/E (F1)	19.94	15.52	20.86	17.08	16.72	18.64
Price/Sales (P/S)	9.39	4.94	2.25	8.21	7.73	11.95
Earnings Yield	5.01%	6.05%	4.55%	5.87%	5.98%	5.36%
Debt/Equity	1.85	0.92	0.76	1.08	0.97	0.49
Cash Flow (\$/share)	5.27	2.03	7.01	1.73	7.92	11.66
Growth Score	C	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	12.19%	2.02%	10.87%	8.10%	3.83%	5.54%
Proj. EPS Growth (F1/F0)	-0.59%	-2.81%	-10.81%	-3.77%	2.67%	-1.96%
Curr. Cash Flow Growth	1.87%	3.36%	5.46%	8.38%	18.22%	-7.35%
Hist. Cash Flow Growth (3-5 yrs)	17.88%	12.74%	8.55%	16.69%	21.23%	5.16%
Current Ratio	0.84	1.83	1.29	0.28	0.41	2.01
Debt/Capital	64.88%	48.50%	44.75%	52.58%	49.16%	21.26%
Net Margin	34.99%	12.85%	10.54%	26.18%	44.55%	52.93%
Return on Equity	16.27%	3.98%	16.08%	9.53%	12.33%	30.33%
Sales/Assets	0.16	0.13	0.55	0.16	0.14	0.25
Proj. Sales Growth (F1/F0)	0.48%	0.00%	-2.60%	2.58%	3.49%	0.12%
Momentum Score	F	-	-	B	B	A
Daily Price Chg	2.75%	3.88%	1.48%	4.40%	1.63%	0.28%
1 Week Price Chg	6.81%	13.45%	7.51%	3.79%	6.02%	1.79%
4 Week Price Chg	14.86%	21.03%	9.78%	15.23%	13.39%	9.76%
12 Week Price Chg	11.55%	31.08%	27.11%	24.31%	22.76%	4.73%
52 Week Price Chg	-10.49%	-18.47%	-5.42%	-18.35%	-1.82%	-18.90%
20 Day Average Volume	910,743	916,008	2,634,935	1,399,409	325,055	959,898
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.08%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.08%	0.00%	0.00%	-0.69%	-0.30%	-0.12%
(F1) EPS Est 12 week change	-3.85%	-4.72%	-15.86%	-4.06%	-3.79%	-3.91%
(Q1) EPS Est Mthly Chg	-0.35%	0.00%	0.00%	-1.56%	0.55%	-0.52%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Momentum Score	F
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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