

## Extra Space Storage (EXR)

**\$96.58** (As of 03/13/20)

Price Target (6-12 Months): **\$102.00**

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:D

Value: F

Growth: B

Momentum: C

### Summary

Extra Space Storage's better-than-expected core funds from operations (FFO) per share for fourth-quarter 2019 reflects growth in same-store revenues on higher occupancy and net rental rates for customers despite headwinds from new supply. However, the company witnessed rise in payroll, marketing expenses, repairs and maintenance and property taxes in the quarter. This REIT has solid presence in key cities and opts for joint ventures to drive long-term profits. Expansion of geographical footprint through accretive acquisitions and third-party management platform bodes well. However, increased expenses are likely to strain its earnings and a development boom of self-storage units in many markets is likely to intensify competition, curbing the company's pricing power. Its shares have also underperformed its industry over the past year.

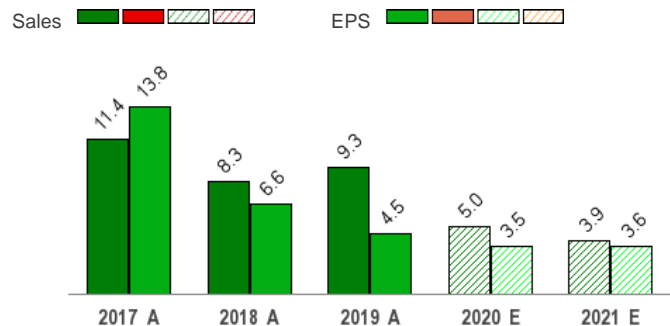
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$124.46 - \$88.39
20 Day Average Volume (sh)	1,270,477
Market Cap	\$12.5 B
YTD Price Change	-8.6%
Beta	0.30
Dividend / Div Yld	\$3.60 / 3.7%
Industry	<a href="#">REIT and Equity Trust - Other</a>
Zacks Industry Rank	Bottom 40% (153 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.6%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	05/05/2020
Earnings ESP	0.3%
P/E TTM	19.8
P/E F1	19.1
PEG F1	3.9
P/S TTM	9.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	352 E	360 E	370 E	369 E	1,426 E
2020	336 E	344 E	355 E	353 E	1,373 E
2019	312 A	324 A	338 A	336 A	1,308 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.26 E	\$1.30 E	\$1.33 E	\$1.33 E	\$5.23 E
2020	\$1.21 E	\$1.25 E	\$1.29 E	\$1.29 E	\$5.05 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 03/13/2020. The reports text is as of 03/16/2020.

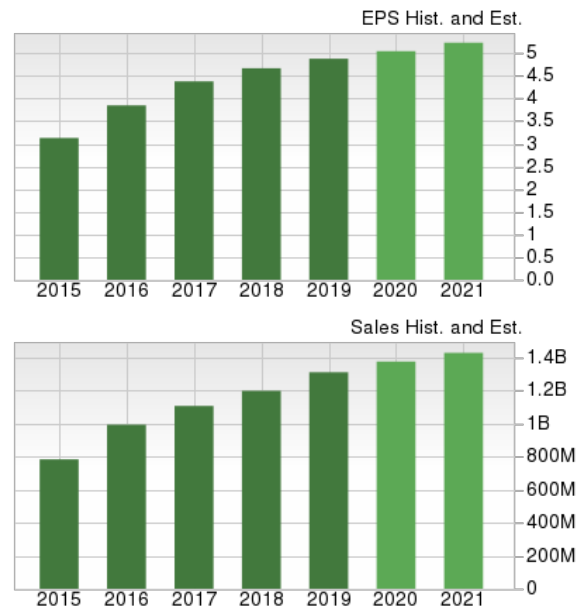
## Overview

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 Dec 31, 2019, Extra Space Storage had ownership stakes in or managed 1,817 stores in 40 states, Washington, DC and Puerto Rico. Out of these 1,817 stores, the company wholly-owned 925 stores, had 246 store in joint ventures and managed 646 stores for third parties.

The company's stores comprised around 1.3 million units and approximately 140 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.



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## 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 766 in 2009 to 1,817 in 2019. Also, total stores managed for third-party owners increased from 124 in 2009 to 646 in 2019. 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 10 years, Extra Space Storage spent \$6.8 billion in acquisitions. 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 fourth-quarter 2019 with \$65.7 million of cash and cash equivalents, up from the \$57.5 million recorded at the end of 2018. As of Dec 31, 2019, the company's percentage of fixed-rate debt to total debt was 78.7%. Finally, as of Dec 31, 2019, Extra Space Storage had \$298.6 million available for issuance under its ATM program. The company made efforts to delever its balance sheet and achieved a BBB stable rating from S&P in 2019.
- ▲ 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.
- ▲ Shares of Extra Space Storage have declined 7.7% over the past year, compared with its industry's slip of 6.5%. Moreover, the trend in estimate revisions for 2020 FFO per share indicates is favorable for the company. In fact, the Zacks Consensus Estimate for the current-year FFO per share has been revised marginally upward over the past week. Therefore, given the positive factors and upward estimate revisions, the stock has decent upside potential.

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.

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## 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.
- ▼ Moreover, escalation in property tax and marketing expense is concerning. In fact, for 2020, management expects same-store expenses to rise 4-5%, as property taxes and marketing expenses are projected to be high. The projected increases in property taxes are heavily weighted to Florida, Illinois, New York, and Texas. This rise in expenses is likely to limit the growth tempo of same-store net operating income (NOI) in the current year.
- ▼ 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.
- ▼ 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.

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 Q4 FFO & Revenues Beat Estimates

Extra Space Storage's fourth-quarter 2019 core FFO per share of \$1.27 outpaced the Zacks Consensus Estimate of \$1.25. The figure also came in 4.1% higher than the prior-year quarter reported tally of \$1.22.

Results reflect growth in same-store revenues on higher occupancy and net rental rates for customers amid headwinds from new supply. However, the company witnessed rise in payroll, marketing expenses, repairs and maintenance and property taxes in the quarter.

Quarterly revenues came in at \$335.8 million, climbing 9.3% year over year. The revenue figure also surpassed the Zacks Consensus Estimate of \$335.3 million.

For full-year 2019, the company recorded core FFO per share of \$4.88, up 4.5% from the prior-year tally of \$4.67. The reported figure also beat the Zacks Consensus Estimate of \$4.86. The company generated revenues of \$1.31 billion for the year, up 9.3% year on year. The revenue figure also surpassed the Zacks Consensus Estimate of \$1.3 billion.

Quarter Ending **12/2019**

Report Date	Feb 18, 2020
Sales Surprise	0.14%
EPS Surprise	1.60%
Quarterly EPS	1.27
Annual EPS (TTM)	4.89

### Behind the Headlines

Same-store rental revenues increased 2.5% year over year to \$259.5 million during the fourth quarter, while same-store NOI was up 1% to \$187.1 million. This upswing in same-store revenues stemmed from higher occupancy and net rental rates for customers. Same-store square foot occupancy was 92.4% as of Dec 31, 2019, up 70 basis points year on year.

Notably, during the reported 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, Denver, Houston, Miami, Tampa and West Palm Beach/Boca Raton, performed below the company's portfolio average.

### Portfolio Activity

During the final quarter of 2019, the company acquired five operating stores for \$50.9 million. Moreover, in conjunction with its joint-venture partners, the company purchased three stores at the completion of construction, for a total cost of roughly \$60 million. Of this, the company invested \$18.1 million.

Extra Space Storage added 41 stores (gross) to the company's third-party management platform. As of Dec 31, 2019, it managed 646 stores for third-party owners. Furthermore, with additional 246 stores owned in joint ventures, total stores under management summed 892.

### Balance Sheet

Extra Space Storage exited fourth-quarter 2019, with \$65.7 million of cash and cash equivalents, up from the \$57.5 million recorded at the end of 2018. As of Dec 31, 2019, the company's percentage of fixed-rate debt to total debt was 78.7%.

During the December-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 Dec 31, 2019.

### Outlook

Extra Space Storage anticipates full-year 2020 core FFO per share of \$4.99-\$5.08. The company projects same-store revenue growth of 0.75-1.75%, same-store expense growth of 4-5% and same-store NOI growth of around -0.5 to 1% for the current year (excluding tenant reinsurance).

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## Recent News

### Dividend Update

On Feb 13, Extra Space Storage announced a cash dividend of 90 cents per share for the first quarter. The dividend will be paid on Mar 31, to stockholders of record as of Mar 16, 2020.

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## Valuation

Extra Space Storage's shares have been down 7.7% in the trailing 12 months. Stocks in the Zacks sub-industry and Zacks Finance sector have declined 6.5% and 17.8%, over the past year, respectively.

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

The stock is currently trading at 18.99X forward 12-month FFO, which compares to 15.54X for the Zacks sub-industry, 11.62X for the Zacks sector and 15.72X 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 20.49X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$102 price target reflects 20.06X 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	18.99	15.54	11.62	15.72
	5-Year High	24.91	18.7	16.21	19.34
	5-Year Low	16.6	14.32	11.62	15.18
	5-Year Median	20.49	16.08	13.97	17.42
P/S F12M	Current	9.04	6.95	5.99	2.9
	5-Year High	12.34	8.14	6.64	3.43
	5-Year Low	8.07	5.91	5.39	2.54
	5-Year Median	9.91	6.88	6.04	3
P/B TTM	Current	4.28	2.34	2.19	3.64
	5-Year High	5.57	2.92	2.89	4.55
	5-Year Low	3.31	2.07	1.83	2.85
	5-Year Median	4.25	2.52	2.52	3.63

As of 03/13/2020

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## Industry Analysis Zacks Industry Rank: Bottom 40% (153 out of 253)



## Top Peers

Innovative Industrial Properties, Inc. (IIPR)	Outperform
CubeSmart (CUBE)	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
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Market Cap	12.52 B	2.07 B	19.05 B	5.50 B	4.76 B	36.93 B
# of Analysts	9	4	13	8	7	10
Dividend Yield	3.73%	5.24%	2.31%	4.65%	4.19%	3.79%
<b>Value Score</b>	<b>F</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Cash/Price	0.00	0.02	0.05	0.01	0.00	0.01
EV/EBITDA	19.75	13.89	11.57	17.87	15.14	21.18
PEG Ratio	3.66	2.86	1.68	5.03	4.13	5.22
Price/Book (P/B)	4.28	1.29	2.56	3.04	2.23	7.35
Price/Cash Flow (P/CF)	18.31	10.68	10.18	16.39	12.88	18.13
P/E (F1)	17.84	11.90	14.94	16.76	17.01	19.29
Price/Sales (P/S)	9.57	4.67	2.02	8.54	8.29	12.97
Earnings Yield	5.23%	8.40%	6.67%	5.98%	5.88%	5.18%
Debt/Equity	1.73	0.88	0.70	1.07	0.92	0.38
Cash Flow (\$/share)	5.27	2.01	7.01	1.73	7.92	11.66
<b>Growth Score</b>	<b>B</b>	-	-	<b>B</b>	<b>C</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	13.34%	2.75%	10.85%	9.11%	4.27%	6.07%
Proj. EPS Growth (F1/F0)	3.42%	3.17%	5.99%	0.30%	6.71%	1.90%
Curr. Cash Flow Growth	1.87%	3.51%	6.15%	8.38%	18.22%	-7.35%
Hist. Cash Flow Growth (3-5 yrs)	17.88%	12.77%	8.52%	16.69%	21.23%	5.16%
Current Ratio	0.64	1.28	1.24	0.42	0.30	1.07
Debt/Capital	63.33%	46.73%	42.57%	52.45%	47.86%	17.32%
Net Margin	34.48%	13.67%	11.64%	26.26%	45.01%	53.41%
Return on Equity	15.82%	4.47%	16.74%	9.50%	12.38%	30.16%
Sales/Assets	0.16	0.13	0.54	0.16	0.14	0.25
Proj. Sales Growth (F1/F0)	4.96%	4.09%	3.54%	6.37%	5.56%	3.21%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Daily Price Chg	0.31%	7.43%	8.21%	2.12%	6.27%	4.88%
1 Week Price Chg	9.63%	1.97%	-0.67%	7.90%	10.17%	9.48%
4 Week Price Chg	-14.56%	-25.86%	-22.67%	-12.53%	-11.28%	-7.53%
12 Week Price Chg	-7.00%	-20.05%	-20.46%	-9.23%	-4.40%	0.58%
52 Week Price Chg	-3.47%	-16.50%	-10.79%	-9.78%	5.27%	-3.31%
20 Day Average Volume	1,270,477	789,064	3,061,271	2,352,340	512,489	1,427,470
(F1) EPS Est 1 week change	-0.17%	0.00%	0.00%	-0.69%	-0.10%	-0.26%
(F1) EPS Est 4 week change	-0.09%	-0.27%	-0.32%	-1.72%	0.05%	-0.36%
(F1) EPS Est 12 week change	-0.10%	-0.56%	-0.65%	-2.10%	-0.15%	-0.55%
(Q1) EPS Est Mthly Chg	0.24%	-0.09%	-0.62%	-1.48%	-0.79%	-0.65%

## 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	F
Growth Score	B
Momentum Score	C
VGM Score	D

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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