

# INTRODUCING STOR-AGE

## ABOUT STOR-AGE

Stor-Age is the leading and largest self storage property fund and brand in South Africa, and the first and only self storage Real Estate Investment Trust (REIT) listed on any emerging market exchange. During the period, we made a strategic entry into the UK market with the acquisition of Storage King – the sixth largest self storage brand in the UK. Our Listed Portfolio comprises 50 properties across South Africa and the UK, with a combined value of over R3.9 billion.

Our highly specialised business focuses on the fast-growing self storage sector – a niche subsector of the broader commercial property market. Stor-Age develops, acquires and manages high-quality self storage properties, which enable us to compete strongly in new market segments and grow our market share. This allows us to benefit from economies of scale and produce favourable operating margins. The REIT company is managed internally.

Our South African portfolio comprises 49 properties, totalling 348 000 m<sup>2</sup>. Stor-Age owns and operates 36 of these properties, covering 264 000 m<sup>2</sup> GLA and R2.5 billion in value (Listed Portfolio). The balance makes up the unlisted Managed Portfolio (84 000 m<sup>2</sup> GLA), from which Stor-Age receives property and asset management fees and over which it holds a pre-emptive right of acquisition. In the UK, Stor-Age owns a 97.4% majority interest in Storage King, comprising 14 properties with 57 000 m<sup>2</sup> GLA and R1.4 billion in value.

## DYNAMIC SELF STORAGE SECTOR SPECIALISTS

Leading and largest self storage property fund in South Africa, with a recent strategic entry into the UK

High-quality properties, with excellent visibility and easy access from arterial roads

Outstanding locations with high barriers to entry

Business model based on global best practice

Development capability and innovation

Market-leading operations and digital platform

Decade-long track record of developing, tenanting and operating self storage assets

	Listed Portfolio	South Africa	United Kingdom	Managed Portfolio (South Africa)	Trading Portfolio	Pipeline Portfolio
Number of properties <sup>1</sup>	50	36	14	13	63	10
GLA (m <sup>2</sup> )	321 000	264 000	57 000	84 000	405 000	70 000
Value (Rm)	3 906	2 543	1 363	1 050	4 956	1 000

<sup>1</sup> Includes All-Store – acquired 6 April 2018

# INTRODUCING STOR-AGE (continued)

## OUR INVESTMENT CASE

- Dynamic sector specialists, allowing for focused attention
- Track record of growing investor returns
- Recession-resilient sector: self storage is a niche asset class uncorrelated to traditional property drivers
- Attractive forecast distribution growth, underpinned by robust self storage metrics
- Secured pipeline of acquisition and development opportunities
- Proven ability to identify, close and integrate value-add acquisitions
- Strong cash flow
- Favourable operating margins
- Attractive earnings growth
- Healthy balance sheet and conservative gearing
- Low bad debt record (< 0.5% of revenue)
- Low obsolescence and ongoing maintenance capex
- High barriers to entry in key target locations

is underpinned by

## OUR SUCCESS DRIVERS

- Diversified tenant risk (23 500+ tenants across South Africa and the UK)
- Presence in South Africa's main metropolitan centres – Johannesburg, Tshwane, Cape Town and Durban
- Prominent locations on main roads or arterials, with high visibility to passing traffic
- Committed and passionate employees
- UK management team with significant self storage operations experience, proven local expertise and a well-located property portfolio
- Average length of stay in South Africa – 24 months
- Average length of stay in UK – 13.5 months
- Growing demand and awareness among customers
- Strong customer satisfaction, with customer service rated as “world class” according to the global Net Promoter Score (“NPS”) standard
- In South Africa, 54% (2017: 53%) of customers store for more than one year
- In the UK, 51% of customers store for more than one year

and

### OUR VISION

To be the best self storage business in the world

### OUR MISSION

To rent space

## OUR CORE VALUES

Excellence • Sustainability • Relevance • Integrity

# HIGHLIGHTS



**97.83 cents** | Up 11.1%

Total dividend



**86%** | Including 10.6% like-for-like

Growth in rental income



**82%** | Including 11.8% like-for-like

Growth in net property operating income



**84 200 m<sup>2</sup>**

Increase in occupied space

SA – 27 200 m<sup>2</sup> including 4 700 m<sup>2</sup> organic; UK – 57 000 m<sup>2</sup>



**85.2% (SA) | 78.2% (UK)**

Closing occupancy



**R3.85 billion** | Up 88%

Investment property

Including strategic acquisitions – Storage King (UK); StorTown (DBN); Unit Self Storage (CPT)



**16%**

Loan to value (LTV)

100% hedged on a net-debt basis



**405 000 m<sup>2</sup> GLA** | Up 105 000 m<sup>2</sup>

Trading Portfolio – 63 properties



**29 500+**

Total number of tenants in Trading Portfolio



**R1.3 billion**

Oversubscribed equity capital raised in October 2017



**R2.05 billion** | **23** properties

Pipeline and Managed Portfolio

**stor-age**  
self storage

**get spaced**

### **'Big Box' self storage properties**

Our properties are developed in prime locations across South Africa. Light, bright, safe and secure, our Big Box properties are modern, purpose-built and multistorey.

As the leading developer of these properties in the South African market, we capitalise on market requirements more efficiently than our competitors.

# INTRODUCING STOR-AGE

## CHAIRMAN'S LETTER

Since listing in November 2015, Stor-Age has continued to deliver an excellent financial performance, exceeding expectations and consistently meeting all our financial and strategic milestones.

### MAINTAINING THE GROWTH TRAJECTORY AND TRACK RECORD OF DELIVERY

Stor-Age continued to deliver real gains in rental rates and occupancies, both key drivers of sustainable growth in returns. This result was achieved in a difficult operating environment, clearly seen in the weaker performance of many of our sector peers. The group's acquisition of StorTown and strategic entry into the UK with the acquisition of Storage King are both evidence of our ability, as sector specialists, to grow the business in challenging market conditions by identifying and executing opportunities that add long-term value to Stor-Age.

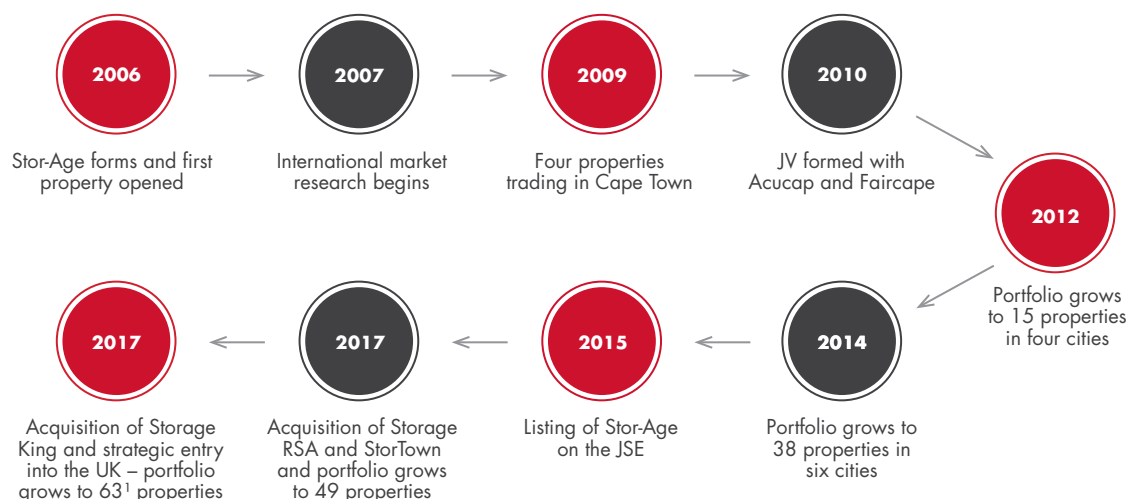
Investor interest was affirmed by the significantly oversubscribed bookbuild to fund the UK acquisition. Initially looking to raise R900 million, strong demand increased the amount of equity raised to the maximum allowable value of R1.27 billion.

This reflects investor confidence in the group's performance and our successful track record of acquisitions to date, and pleasing support for our growth strategy, which has been well articulated by the management team.

The group's entry into the UK presents an excellent growth opportunity relative to more established markets, such as Australia and the United States. To this end, our balance sheet capacity, flexibility, and still low level of gearing post-acquisition of Storage King will enable us to pursue further selected development and acquisition opportunities that meet our investment criteria.

“ With more than a decade of experience successfully acquiring, developing, leasing and operating self storage assets, Stor-Age has established itself as a leading and dynamic sector specialist. The group is well positioned to maintain its strong growth trajectory – with an ambition to outperform the sector and its own benchmarks. ”

### TIMELINE

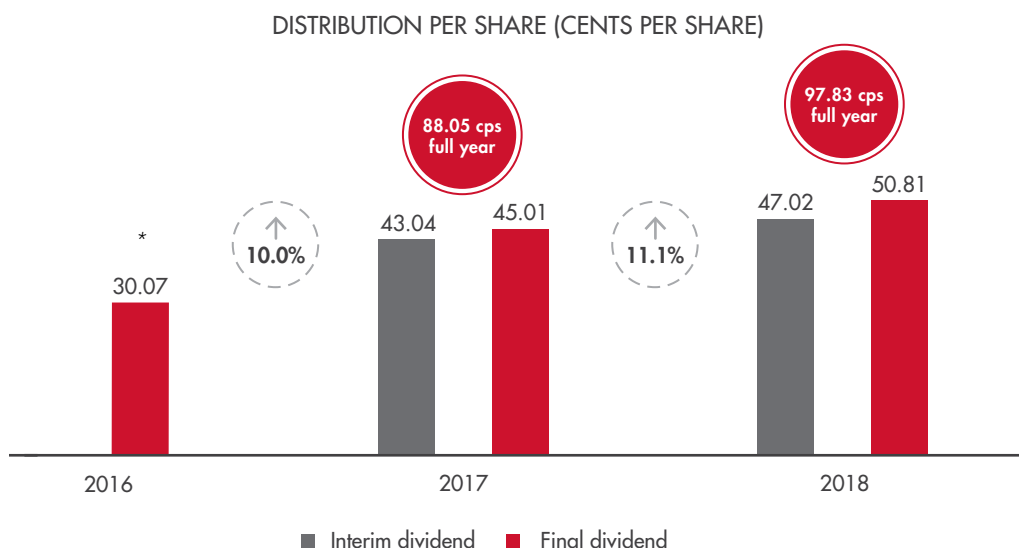


<sup>1</sup> Includes All-Store – acquired 6 April 2018

## CHAIRMAN'S LETTER (continued)

Stor-Age is the market leader in South Africa and one of only nine publicly-traded self storage REITs globally. Our business model is based on global best practice and strong networks with leading first-world market peers. Since listing, our shareholders have enjoyed increasing earnings and dividend flows, supported by consistent growth in net asset value.

The value of our portfolio has increased from R1.33 billion to R3.85 billion, and market capitalisation has almost trebled to R3.9 billion as at 31 March 2018. At the same time, the number of properties in the REIT has increased from 24 at listing to 50<sup>1</sup>, all of which provides compelling evidence of business scalability.



\* Listed November 2015, 4.5 month trading period to year end, distribution annualised

### CREATING VALUE AND MEETING DEMAND

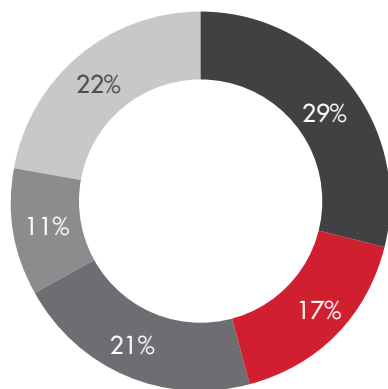
Underpinned by a high-quality property portfolio, the recession-resilient nature of self storage sustains the business through the different economic cycles. The product remains flexible and needs-based, meeting the demands of customers from different market segments, whether they are scaling up or down in response to changing economic or personal circumstances.

The core demand drivers for self storage are set to continue – accelerated by consumption-led economies. Urban crowding, an emerging middle class, and the trend toward security living create demand for space in a space-limited economy. The digital age has also seen a rise in the number of online start-ups requiring adaptable storage options when growing or downsizing their businesses.

<sup>1</sup> Includes All-Store – acquired 6 April 2018

The same social and built-environment trends propelling self storage in South Africa are evident in the United States, UK, Europe and Australia. Over the past twelve years, the group has established a purpose-built, high-quality portfolio to meet these demands. This is supported by a sophisticated operational platform, a strong administrative capability and a highly skilled digital marketing team, ensuring that we deliver unrivalled value and service to our customers, locally and in the UK.

“ The resilience of self storage is evidenced by more than 24 500 new tenants moving into our South African and UK properties during the year. ”

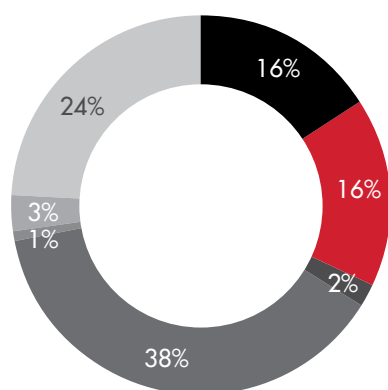


#### AVERAGE LENGTH OF STAY<sup>1</sup>

- < 6 months
- 6 - 12 months
- > 12 months
- 2 - 3 years
- > 3 years

#### DEMAND PROFILE

Demand is driven by two significant user groups – those who need the product for short stays due to “life-changing events” (< six months: 29%) and those requiring the product for longer-term space requirements (≥ one year: 54%).



#### REASONS FOR STORING

- Business needs
- Excess stuff
- Lifestyle choice
- Lifestyle change
- Moving
- Renovating
- Other

#### SELF STORAGE – A “NEEDS” DRIVEN PRODUCT

Self storage is a “needs” driven product. All tenants initially use our product due to a tangible “need”. This makes the business case cyclically resilient.

<sup>1</sup> Listed Portfolio South Africa



## CHAIRMAN'S LETTER (continued)

### SELF STORAGE INDUSTRY TRENDS

#### South Africa's self storage industry

The South African self storage industry is well established and fast developing. However, it remains relatively young in comparison to first-world market peers, with a number of market cycles still to evolve.

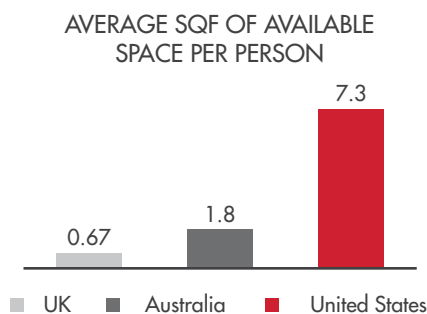
Over the past 18 months, the group has seen the early stages of development of good-quality self storage properties in sought-after locations across the country (excluding Stor-Age). We anticipate we will see a reinvestment of self storage industry capital into the market by previous vendors.

We are positive about both trends. We envisage the development of new self storage properties will supplement our pipeline of local acquisition opportunities over the medium term as we continually look to consolidate.

While self storage is an attractive sector in terms of economic return, barriers to entry in key target locations remain significant. To this end, we are confident in the skills of our management team who have demonstrated their ability to identify and execute on strategic opportunities when they present themselves. Combined with our position as dynamic sector specialists, our development, acquisition and integration capabilities provide a distinct competitive advantage, supported by a strong balance sheet.

#### Operating in a global self storage market

Self storage remains a growth sector globally. In the UK, occupancy growth and increasing profits indicate demand is growing faster than supply. This is despite supply levels increasing by approximately 2.4 million square foot (sqf) or 70 new properties in 2017<sup>1</sup>.



With more than 1 500 self storage properties<sup>1</sup>, it is our view that the UK market is more than 10 years ahead of the South African market in its life cycle and stage of development. However, it is a growing and undersupplied market relative to many of its peers. With approximately 30% of UK self storage properties owned or managed by large operators (10 or more properties)<sup>1</sup>, we believe the UK displays attractive consolidation opportunities over the medium term. For more information on the UK self storage industry, refer to page 17.

While Brexit has created uncertainty in the UK, the strength of the self storage sector has ensured the industry continues to perform attractively. This is evidenced by 2% and 8% growth in average rental rates and the total amount of space used by customers in 2017<sup>1</sup>.

Oxford Economics has provided a reasonably confident outlook for the UK economy, forecasting growth of 1.8% in 2018 and 1.6% in 2019. Despite this, we remain vigilant in monitoring the UK operating environment and are prepared for any shifts that could negatively impact growth.

Post-acquisition of Storage King, approximately 35% of our business is exposed to UK property assets. We envisage that over the short to medium term, our UK asset exposure will remain in the target range of approximately 30% to 40%. Stor-Age remains a South Africa-focused business, with the added benefit of a significant portion of our underlying earnings serving as a hard currency Rand-hedge from an attractive growing first world market.

### PERFORMANCE BACKED BY SOLID GOVERNANCE

At Stor-Age, our decision-making is guided by our four Core Values of Excellence, Sustainability, Relevance and Integrity.

We are aware that our actions taken today will have an impact on the risks and opportunities that present in the short and medium term. This is particularly relevant to the sustainability of Stor-Age – a relatively young business that is continuing to grow and evolve.

Understanding the impact of this growth on our organisation and employees therefore remains top of mind at board and executive level.

<sup>1</sup> The Self Storage Association UK Annual Industry Report, 2018.



We work tirelessly to ensure our organisational structures and employees are equipped to grow in tandem with our business. This includes, for example, our ongoing investment in employee learning and development, and our strategic focus on technology.

As discussed in more detail on page 23, our growth strategy is on track to 2020 – and the group is already in the process of formulating our thinking towards 2025. This will ensure that when the time comes, we are appropriately positioned to deal with the task at hand.

With regard to governing a multinational business, we have established a clear framework of authority to guide our decision-making within the context of a well-defined medium-term strategy for our UK business.

In South Africa, the board made significant progress on our transformation journey. We launched a detailed three-year transformation plan, effective April 2018. This plan will assist us in our quest to achieve compliance with the recently amended Property Sector Code, which supports transformation within the property sector. Read more about this plan from page 39 of this report.

We also welcome two new members to our board – Phakama Mbikwana and Kelly de Kock. In addition to adding diversity, we look forward to their contributions to the skill set, expertise and independence of the board.

In line with our Core Values, the board and executive team promote and support ethical standards of business conduct and corporate governance. We endorse the principles of King IV™, and more information about our application of King IV™ can be found in our corporate governance report from page 39.

The board further undertook a detailed self-evaluation during the year, a process that was managed and co-ordinated by our independent auditors. Each board member was given an opportunity to comment on eight key performance areas, expanded into 40 specific questions around the functioning of the board. Members were also given the opportunity to comment on the performances of their peers across a number of relevant categories. Some very helpful insights emerged from this process, and these will undoubtedly help to strengthen the board's performance and competence.

## OUTLOOK AND THANKS

With an excellent portfolio, a robust and sophisticated operational platform, and a pipeline of exciting acquisition opportunities, Stor-Age is well positioned across the South African and UK markets to continue to deliver attractive, risk-adjusted growth in distributions and underlying portfolio value.

I would like to thank my fellow non-executive directors, and congratulate the management team and all employees on another successful year. Thank you for the energy, commitment, skill and competence you bring to the operation of this business.

Guided by a well-articulated vision and mission, the disciplined execution of Stor-Age's strategy continues to cement our position of market leadership, and we remain excited about the group's growth prospects, to the benefit of all stakeholders.



**Paul Theodosiou**  
Chairman  
11 June 2018

