

## Our Strategy

# Building futures

A strategy to deliver sustainable earnings growth and shareholder value.

Our strategy from the outset has been to develop Big Yellow into the market leading self storage brand, delivering excellent customer service, with a great culture and highly motivated employees. We continue to be the market leading brand, with unprompted awareness of six times that of our nearest competitor (source: YouGov survey, April 2019). We concentrate on developing our stores in main road locations with high visibility, where our distinctive branding generates high awareness of Big Yellow. Our accreditation in the year for The 100 Best Companies to Work For was pleasing as an independent assessment of our employee engagement, and our customer satisfaction survey scores remain very high, with an average customer net promoter score of 79.1 in the year, and average Trustpilot scores of 9.6 out of 10.

Self storage demand from businesses and individuals at any given store is linked in part to local economic activity, consumer and business confidence, all of which are inter-related. Fluctuations in housing activity whether in the rented or owner occupied sector, are also a factor and in our view influence the top slice of demand over and above a core occupancy. The performance of our stores was relatively resilient during the collapse in housing activity and GDP over the period 2007 to 2009, with London and the South East proving to be less volatile. In the last 12 years since April 2007, we have added 2.1 million sq ft of capacity and 2.0 million sq ft of occupancy.

Local GDP and hence business and housing activity are greatest in the larger urban conurbations and in particular London and the South East. Furthermore, people and businesses are space constrained in these more densely populated areas. Barriers to entry in terms of competition for land and difficulty around obtaining planning are also highest in more urbanised locations.

Over the last 20 years we have built a portfolio of 75 Big Yellow self storage centres, largely freehold, purpose-built and focussed on London, the South East and large metropolitan cities. We believe that by owning a predominantly freehold estate we are insulating ourselves against adverse rent reviews and in the long term possible redevelopment of key stores by the landlord. We currently have a pipeline of twelve freehold development opportunities and are looking to expand that pipeline with a view to growing the Big Yellow platform to 100 stores over the next seven to ten years.

66% of our current annualised store revenue derives from within the M25; for London and the South East, the proportion of current annualised store revenue is 83%. Any future external growth will be executed in a way so as to maintain a proportion of 80% or more in London and the South East with the balance in regional cities.

Our Big Yellow stores are on average 62,000 sq ft, compared to an industry average of approximately 44,000 sq ft (source: The Self Storage Association 2019 UK Annual Survey). The upside from filling our larger than average sized stores is, in our view, only possible in large metropolitan markets, where self storage demand from domestic and business customers is the highest. As the operating costs of our assets are relatively fixed, larger stores in bigger urban conurbations, particularly London, drive higher revenues and higher operating margins.

### The self storage market

In the recently published 2019 Self Storage Association UK Survey, only 48% of those surveyed had a reasonable or good awareness of self storage. Furthermore, only 9% of the 2,170 adults surveyed were currently using self storage, or were thinking of using self storage, in the next year. This indicates a continued opportunity for growth and with increasing use of self storage, together with the ongoing marketing efforts of everyone in the industry, we anticipate awareness will grow.

Self storage is not a commoditised product and awareness is driven largely by businesses and individuals using self storage. Consequently, the increase in awareness over time has been relatively slow, with good awareness of self storage increasing from 38% in 2014 to 48% in 2019 across the UK (source: UK SSA Survey 2019). Our YouGov Survey carried out in April 2019 showed higher levels of awareness in London of 65%, up from 58% in 2014.

Growth in new facilities across the industry has been largely in regional areas of the UK and in particular in smaller towns. In London in the year to 31 December 2018, there were four new store openings offset by three closures. We are aware of only two planned store openings in London in 2019.

The Self Storage Association ("SSA") estimates that the UK industry is made up of approximately 1,582 self storage facilities (of which 381 are purely container operations), providing 45.6 million sq ft of self storage space, equating to 0.68 sq ft per person in the UK. This compares to 9.4 sq ft per person in the US, 1.8 sq ft per person in Australia and 0.1 sq ft for mainland Europe, where the roll-out of self storage is a more recent phenomenon (source: FEDESSA European Self Storage Annual Survey 2018). 30% of the self storage facilities in the UK are held by large operators (defined as those managing 10 facilities or more), but the SSA estimate over 40% of total capacity. Given the dominance of the larger brands in the South East, we would expect the proportion of revenue earned by the top five operators to be approximately 50% of the annual industry turnover of £720 million.

Big Yellow is well placed to benefit from the growing self storage market, given the strength of our brand, and our online platform which delivers approximately 90% of our prospect enquiries. Our portfolio is strategically focussed on London, the South East and large metropolitan cities, where barriers to entry and economic activity are at their highest.

### KPIs

The Group's KPIs are shown in the charts on page 20 and 21. The key performance indicators of our stores are occupancy and net rent per sq ft, which together drive the revenue of the business. These are three key measures which are focussed on by the Board, and are reported on a weekly basis. Over the course of the past five years, both occupancy and revenue have grown significantly. Closing net rent per sq ft decreased by 3.5% in 2015 principally reflecting the acquisition of the Big Yellow Limited Partnership stores, a regional portfolio, with a lower average net rent per sq ft. In 2016 closing net rent increased by 2.7%, by 0.5% in 2017, by 2.7% in 2018 and by 2.0% in the current year. Our key focus is on continuing to grow occupancy, with growth in net rent following once the stores have reached higher occupancy levels.









Adjusted profit before tax, adjusted earnings per share which drive the distributions to shareholders (as our dividend policy is to pay 80% of adjusted earnings as dividends) are also KPIs. The Group focuses on adjusted profits and earnings measures as they give a clearer underlying picture of the Group's trading performance without distortion from external factors such as property valuations and the fair value of derivatives. We have delivered compound adjusted eps and dividend growth of 11% over the past five years. Compound adjusted eps growth since 2004/5 is 15%. We have illustrated the Group's performance in these measures over the past five years on pages 20 and 21.

Our non-financial KPIs are the net promoter scores we receive from our customers and the carbon intensity of the Group's business. The Group's net promoter score received from its customers during the year was 79.1. This has increased by 19% over the past five years. We believe this overall score compares very favourably with other consumer facing businesses.

The Group has reduced its carbon intensity (our carbon emissions divided by our average occupied space) by 54% over the past five years. This has been achieved through investment in renewable technology, roof mounted solar photovoltaic systems, and LED lighting across the Group's portfolio.

We continue to believe that the medium term opportunity to create shareholder value will be achieved principally by increasing occupancy and net rent per sq ft in our existing platform to drive revenue, the majority of which flows through to the bottom line. Our key objectives remain:

### Our strategic objectives

<p><b>1. LEVERAGING OUR POSITION</b></p> 	<p>Leveraging our market leading brand position to generate new prospects, principally from our digital, mobile and desktop platforms</p>	<p><b>6. ACQUIRING ARMADILLO ASSETS</b></p> 	<p>Selectively acquiring existing self storage assets into the Armadillo platform</p>
<p><b>2. STRENGTHENING OUR CUSTOMER RELATIONSHIPS</b></p> 	<p>Focusing on training, selling skills, and customer satisfaction to maximise prospect conversion and referrals</p>	<p><b>7. A SUSTAINABLE BUSINESS</b></p> 	<p>Through our corporate social responsibility initiatives, aim to operate a sustainable business which will increase shareholder and customer value in both the medium and longer term</p>
<p><b>3. GROWING OCCUPANCY</b></p> 	<p>Growing occupancy and net rent so as to drive revenue optimally at each store</p>	<p><b>8. A CONSERVATIVE CAPITAL STRUCTURE</b></p> 	<p>Maintaining a conservative capital structure in the business with Group interest cover of a minimum of five times</p>
<p><b>4. FOCUS ON COST CONTROL</b></p> 	<p>Maintaining a focus on cost control, so revenue growth is transmitted through to earnings growth</p>	<p><b>9. PRODUCING SUSTAINABLE RETURNS</b></p> 	<p>Producing sustainable returns for shareholders through a low leverage, low volatility, high distribution REIT</p>
<p><b>5. INCREASING OUR FOOTPRINT</b></p> 	<p>Increasing the footprint of the Big Yellow platform principally through new site development and where possible, existing prime freehold stores that meet our quality criteria</p>		