

# Our Strategy

## Brand and customer service

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 concentrate on developing our stores in main road locations with high visibility, where our distinctive branding generates high awareness of Big Yellow.

## Real estate

The other main plank of our strategy has been to build a portfolio of large purpose-built freehold self storage centres, focussed on London, the South East and large metropolitan cities. We believe that by owning a predominantly freehold estate we are insulating ourselves against: economic downturns as we operate at higher margins; adverse rent reviews; and in the long-term possible redevelopment of key stores by the landlord. It also provides us financing flexibility as rent is a form of gearing.

Two thirds 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 to maintain a proportion of 80% or more in London and the South East with the balance in regional cities.

We currently have a pipeline of thirteen freehold development opportunities and are looking to expand that pipeline with a view to growing the Big Yellow platform to 100 stores over the medium term.

New supply and competition is a key risk to our business model, hence our focus on London and its commuter towns, where barriers to entry in terms of competition for land and difficulty around obtaining planning are highest. We continue to see limited new supply growth in our key areas of operation, with only two store openings in London in 2019, and we anticipate five new stores in London in 2020, including two Big Yellow openings.

Our Big Yellow stores are on average 62,500 sq ft, compared to an industry average of approximately 43,000 sq ft (source: UK Self Storage Association 2020 Annual Survey). The upside from filling our larger than average sized stores is, in our view, only possible in large metropolitan markets. As our operating costs are relatively fixed, larger stores in bigger urban conurbations, particularly London, drive higher revenues and higher operating margins.

## Capital structure

Following the Global Financial Crisis, we have materially reduced the financial risk within the business and diversified our sources of debt, whilst at the same time, increasing our store platform by deploying significant capital investment. We measure leverage by looking at our interest cover and that has increased from 1.9 times in 2008 to 8.3 times for the year ended 31 March 2020. Our objective is to not let this fall below 5 times, compared to the consolidated EBITDA covenant of 1.5 times. We did this because in running this business we have to assume an external economic shock could potentially happen at any time and low leverage allows us to manage the business through the crisis. The current Covid-19 lockdown induced downturn is a very good example of this.

## Self storage demand drivers

Economic activity and change are key drivers of self storage demand and are greatest in the larger urban conurbations, and in particular London and the South East. The structural changes consisting of the conversion of ex-industrial brownfield land to other uses, in particular residential; the reduction in home ownership and increased proportion of those choosing to rent; increasing density of living with new properties being built with optimised living space and very little provision for storage; will continue and are resulting in increased demand for our product. These changes have resulted in a significant shortage of available warehousing space, particularly in London, which has been accentuated by the current crisis.

Self storage provides a convenient flexible solution to businesses such as online retailers, importers and exporters, service providers, the public sector, and marketing companies looking for mini-warehousing space.

In addition to domestic customers taking space to declutter their homes, our largest customer base is those using us short-term around an event, such as moving home, refurbishment, inheritance, household formation, separation, relocation, and students.

**Resilience**

The location of our stores, brand, security, and most importantly customer service, together with the diversity of our 56,500 customers, serve better than any contract in providing income security.

The business proved to be relatively resilient, but not immune during the Global Financial Crisis and recession of 2007 to 2009, with London and the South East proving to be less volatile. The current crisis and recession generated by the Covid-19 lockdown is very different and has resulted in a much larger short-term collapse in economic activity with significant restrictions for a period of time on personal freedoms. After an initial burst of activity in the immediate days after the introduction of the lockdown, our activity levels both in and out of the business fell by approximately 50%.

We traded like that through April and the first half of May, and after an initial net loss of occupancy of 47,000 sq ft from 1 April to 24 April, we have started to see occupancy increase again which has improved further following the partial lifting of the lockdown, with growth of 85,000 sq ft from 25 April to 8 June. Over 80% of our customers pay by direct debit, and we have not seen a significant deterioration in cash collection, with 96.7% of our April and May revenue collected as of 8 June, which compares to 97.3% over the same period last year. We are continuing to see some rate growth in the business, despite suspending rate increases to existing customers on 24 March. We intend to review this in July.

Overall, in the period since the introduction of the lockdown, the business is again proving to be resilient, but is clearly not immune to a collapse in economic activity, the restrictions on freedoms of movement, and the effect on consumer and business confidence, all of which have an impact on demand for our product.

**Creating shareholder value**

We continue to believe that the medium-term opportunity to create shareholder value will be achieved principally by increasing occupancy which will then generate average rent growth through our yield management systems in our existing platform. This will drive revenue, the majority of which flows through to the bottom line.

**Our key objectives remain:**



**Leveraging our market-leading brand**

Leveraging our market-leading brand position to generate new prospects, principally from our digital, mobile and desktop platforms



**Acquiring Armadillo assets**

Selectively acquiring existing self storage assets into the Armadillo platform



**Strengthening our customer relationships**

Focusing on training, selling skills, and customer satisfaction to maximise prospect conversion and referrals



**A sustainable business**

Through our corporate social responsibility initiatives, aim to create a more sustainable business which will increase shareholder and customer value in both the medium and long-term



**Growing occupancy**

Growing occupancy and net rent to drive revenue optimally at each store



**Big Yellow's culture**

Maintaining Big Yellow's culture as an accessible, apolitical, inclusive, non-hierarchical, socially responsible, and enjoyable place to work



**Focus on cost control**

Maintaining a focus on cost control, so revenue growth is transmitted through to earnings growth



**A conservative capital structure**

Maintaining a conservative capital structure in the business with Group interest cover of a minimum of five times



**Increasing our footprint**

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



**Producing sustainable returns**

Producing sustainable returns for shareholders through a relatively low leverage, low volatility, high distribution REIT