

18 May 2007

Support Services

United Kingdom

Buy

284p

Accelerating roll out

Lok'nStore is generating increasing value from its portfolio by strengthening its brand, filling space and raising prices. This was evidenced by the 74% increase in EBITDA in H1 2007. Following impressive results from the new build site at Farnborough, the group is focusing more on constructing its own stores. This more aggressive strategy will increase the average site size and accelerate value creation.

Performance

Year End: 31 July	2005	2006	2007E	2008E	2009E
Turnover (£m)	7.8	8.9	10.5	11.0	11.9
EBITDA (£m)	1.4	1.8	2.6	2.9	3.3
EBITA (£m)	0.6	0.9	1.5	1.7	2.0
EBITA Margin (%)	8.1	9.8	14.6	15.5	16.8
PBT (Normalised) (£m)	0.1	0.1	0.6	0.7	0.9
Tax Rate (%)	n/a	67.6	n/a	n/a	n/a
EPS (Normalised) - Fully Diluted (p)	0.5	0.2	2.1	2.6	3.3
EPS (Reported) - Fully Diluted (p)	0.4	0.1	2.1	2.5	3.2
DPS (p)	0.00	0.00	1.00	1.05	1.10

Source: Company Accounts/Investec Securities Estimates

Valuation

Year End: 31 July	2005	2006	2007E	2008E	2009E
PE (Normalised) (x)	528.8	1,532.4	131.9	109.3	85.0
EV/Sales (x)	10.7	9.9	8.7	8.2	7.8
EV/EBITDA (x)	61.4	50.8	35.1	31.0	28.1
FCF Yield (%)	(1.1)	(7.2)	(10.9)	(3.3)	(3.1)
Yield (%)	0.0	0.0	0.4	0.4	0.4

Source: Company Accounts/Investec Securities Estimates

- **Strong H1.** In H1 sales were up 24%, EBITDA up 74% and PBT up 504%. A £40m facility (which will provide all the external funding currently needed) has been agreed and a maiden dividend will be declared at the year end.
- **Filling space and raising prices.** The strong H1 results were driven by fitted space occupied increasing by 18% to 528k sq. ft. and prices rising 3.2% on last year. Lok'nStore now owns 1.023m sq. ft. of potential storage space.
- **Improving the brand.** Recent efforts (improved signage, lighting and colour schemes) to strengthen the brand have generated immediate returns.
- **Target price 329p.** We believe the current portfolio supports an NAV per share of 290p. Our target price of 329p assumes three sizeable, freehold stores are added. The risks to this target include a deterioration in trading at the current stores and an inability to acquire additional sites.

Refer to important disclosures starting on page 10

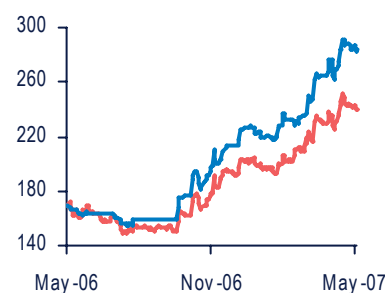
Potential Upside 16%

Target Price 329p

Market Cap	£75.7m
Enterprise Value	£91.2m
Reuters Code	LOK.L
12m high/low	292p/155p

Free Float	79.5%
Average daily volume (000s)	107.7
Next News	FY - Nov 07
Website	www.loknstore.co.uk

Share Price Performance



	1m	3m	12m
Price	5.6	21.7	65.3
Rel. All Share	4.2	18.3	40.0

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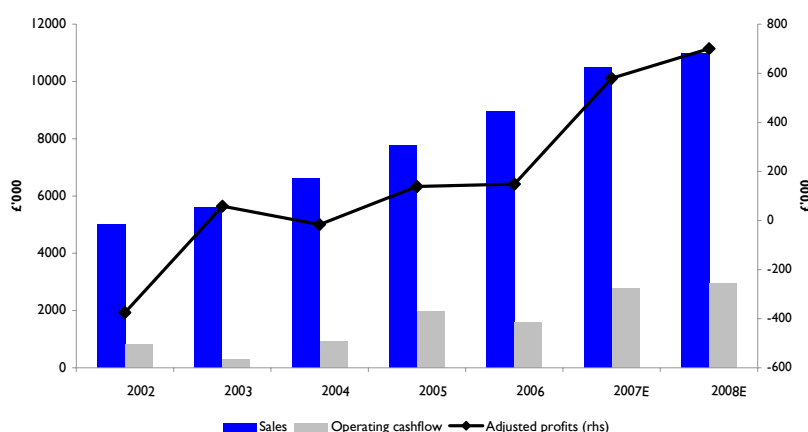
Investec acts as Broker and Advisor to Lok'nStore Group

Looking forward

Improving profits and cashflow

We believe Lok'nStore has reached a size and maturity whereby it can generate improving group profits and operating cashflow, while also continuing to expand the number of stores in the portfolio. We expect this combination of short-term financial progress (as evidenced in the recent interim results) and increasing long-term potential (as new sites are announced) to push the shares to new levels.

Lok'nStore Track Record



Source: Company, Investec estimates

Strong HI

Prices rising on increasing levels of occupied space

Interim results for the six months to January 2007 (reported on 23 April 2007) were strong. The key features were:

- Turnover up 24% to £5.3m. This was driven by an increase in average self-storage prices from £16.40 per sq ft in July 2006 to £16.70 per sq ft at January 2007 and an 18% increase in fitted space occupied from 445,228 sq ft to 527,504 sq ft over the last 12 months. Prices have continued to rise post the period end.
- Turnover at the more established stores (over 250 weeks old) grew by 13%, supporting our view that the UK self storage market is still immature.
- Group EBITDA was up 74% to £1.4m as the operational gearing inherent in the business model benefited. The cost base broadly comprises 50% property costs (which will vary with turnover) and staff costs and overheads 50% (which will be relatively fixed per store).

- Operating profit grew by 109% to £0.9m and profit before tax was up 504% to £0.4m.
- Net debt increased from £13.2m at July 2006 to £15.4m January 2007 following a £1.3m investment in existing stores and a £2.3m spend on site acquisition and related works.
- A new banking facility of £40m has been agreed and Kingston has been sold for £10m. Management has commented that this will provide all the external funding currently required.

The model is working

Established store performance

The following table details the progress made by the established stores (> 250 weeks old) since July 2004.

Established store (>250 weeks) operating performance

	July 04	July 05	July 06	Jan 07*
Sales (£m)	3.1	4.8	7.2	8.5
Store EBITDA (£m)	1.5	2.3	2.9	3.8
Store EBITDA margin (%)	48.0	47.9	39.8	45.1
Max. lettable area ('000 sq ft)	305	423	630	683
no. stores	8	11	15	16
Freehold / Leasehold (%)	75	64	47	50
Sales/ lettable area (£)	10.2	11.4	11.5	12.4
Store EBITDA/ lettable area (£/sq ft)	4.9	5.5	4.6	5.6
Sales per store (£'000)	388	438	483	531
Store EBITDA per store (£'000)	186	210	192	239

* Interim results to Jan 07 annualised

Source: Company, Investec estimates

Increasing sales, strong margins

The key points are:

1. Sales per lettable area (and sales per store) have increased every year despite the dilutive effect of new stores entering the category (the number of established stores has increased from 8 in 2004 to 16 currently).
2. Store EBITDA margin declined in 2006 due to the higher proportion of leaseholds, but margins have remained high in the 40-48% range. Freehold margins at an established store average c.60% whereas leasehold will be much lower at c.30% due to the payment of rent.
3. The maximum lettable area in this category has more than doubled from 305,000 sq ft in 2004 to 683,000 sq ft currently.

Market is still immature, potential returns are high

We believe the performance of the established stores demonstrates that the market is still immature (the older stores are still growing) and potential returns are high.

Maximising value

We believe management is maximising value in three ways.

Increasing the value of existing stores

Increasing the value of existing stores

During the first half two projects were started to increase the value of existing stores.

1. A new lease was signed at the Fareham store which will double its size to c.60,000 sq ft. The store fronts the busy M27 motorway, and will carry the distinctive orange livery and neon lighting that is proving an effective marketing tool at the other stores. The expansion of the store adds significantly to the potential profit margins as no further operating costs are required.
2. A new freehold site has been acquired for the existing store in Portsmouth which currently occupies leasehold premises. This new freehold increases the space available to the Portsmouth business by 63% to 64,000 sq ft.

Management continues to explore options to create value at both the freehold and leasehold operations.

Increasing the number of stores

New site in Harlow

Lok'nStore has a portfolio of 21 stores and has recently announced the acquisition of a new site at Harlow with a proposed 69,000 sq ft of storage space. The Harlow store will be purpose built, with opening targeted for spring 2008. It is prominently located opposite a busy retail park and will increase the group's potential fitted space to 1.023m sq ft.

Success in Farnborough and Crayford

Following the success of the new build stores at Farnborough and Crayford (both opened last financial year), management has stated that it plans to accelerate its growth rate of larger new build stores.

80% uplift on investment in 18 months

The Farnborough site was acquired in July 2004 for £1.8m. A 59,000 sq ft store was constructed and it has been fully fitted out. The total cost of the Farnborough store has been £4.5m. In the July 2006 external valuation it was valued at £8.1m, representing an 80% uplift on investment 18 months after the opening in January 2006. The Farnborough store broke even at the store EBITDA level after only six months.

Pursuing redevelopment potential

Kingston sold for £10m

In March 2007 Lok'nStore sold its Kingston site for £10m to a residential developer. The existing self-storage customers are being transferred to the group's other locations close by.

The Kingston property was bought for £1.0m in 1996 and was valued in July 2005 (by an external valuer) at £2.8m and in July 2006 at £9.2m as a residential development site.

Actively managing the portfolio

We believe the specific location of the Kingston site and its suitability as a residential development site was unique within the group's portfolio. However, the sale was in line with the core strategy of actively managing the existing portfolio in order to maximise the growth of asset values for shareholders. This includes increasing the size of stores, buying in the freeholds of leasehold stores when possible and selling stores if appropriate.

Planning being sought at Reading

Planning permission is currently being sought for residential development at the Reading site. This site was valued in July 2006 at £4.6m. If planning permission is obtained there is likely to be material upside to this figure.

The following table details the age profile and location of Lok'nStore's self storage portfolio.

Lok'nStore Portfolio – Age Profile and Location

Established stores (>250 weeks)	Operational (100-250 weeks)	Start-up (<100 weeks)
Ashford	Eastbourne	Crayford
Basingstoke	Luton	Farnborough
Fareham	Tonbridge	Harlow *
Horsham		
Kingston		
Milton Keynes		
Northampton		
Poole		
Portsmouth		
Reading		
Southampton		
Staines		
Sunbury		
Swindon (east)		
Swindon (west)		
Woking		
16 stores	3 stores	2 stores, 1 site (*)
Freehold/leasehold (8/8)	Freehold/leasehold (1/2)	Freehold (3)

Source: Company

Current portfolio supports 290p

Valuation model assumes existing sites matured and run for cash

We value the current portfolio by assuming the existing sites (and the recently acquired Harlow site) are mature and run for cash.

Our major assumptions are:

1. Available space is 1.023m sq ft. This is the current maximum available space.
2. Occupancy of 80%. The US market, which is mature, has seen occupancy levels of 80-90% since 1990 (source: 2004 & 2006 Self Storage Association Almanac).
3. Revenue per occupied sq ft of £21.50. This compares to the £16.70 per sq ft that is currently being achieved and prices continue to rise.
4. EBITDA margin 50.0%. This is higher than the 45.1% margin currently being achieved in the >250 week stores as sales in these more established stores are still growing at 13% pa (ie they are not yet mature).
5. Additional, one-off, capex of £4.4m is required to fit-out the remaining space available.
6. Dividend (or valuation) yield 5.5%. Under this scenario Lok'nStore would still produce some growth, as the underlying market is growing, but the key characteristics would be the defensive and cash-generative nature of self storage.

Current portfolio worth 290p

Using this method we value the current portfolio at £94.1m, supporting a group NAV of 290p per share.

The external valuation of £66m is £28m lower than our estimate because:

1. We have included the new Harlow site at maturity. The external valuation was performed at July 2006 and hence does not include Harlow. We estimate this accounts for £9m of the difference.
2. We would also expect a significant difference on the valuation of the younger sites such as Farnborough and Crayford.
3. The external valuation assumes the leases only run their current term. As they are almost entirely within the Landlord and Tenants Act we have effectively assumed the leases are renewed on similar terms. The valuation includes the leasehold stores at £6m within the total value of £66m, whereas they account for 40% of the current portfolio's space.

Conclusion: substantial potential

Evidenced management's skill

We believe Lok'nStore's recent results and store developments have substantially evidenced management's skill at maximising value from the existing portfolio and its ability to continue to expand the group.

Established stores still growing and producing attractive returns

The current portfolio consists of 16 established stores in a portfolio of 21 stores and one newly-acquired site. We believe the returns the established stores are generating are both attractive and strongly support the potential value of the group. They are generating an EBITDA margin of 45.1% and still currently growing sales at 13% per annum.

Immature market

A comparison of the UK self storage market with the US suggests the UK will see continued strong growth in the number of self storage sites. There are c.41,000 sites in the US and c.600 in the UK. This equates to 5.54 sq ft of self storage per population in the US but only 0.33 sq ft per population in the UK.

Customer awareness

The main driver behind growth in the UK market appears to be customer awareness. Consequently, site location and store appearance are key to trading results. Indeed, Lok'nStore has seen almost immediate improvements at stores where it has improved external colour schemes and lighting to make them more visible and attractive.

Upside from expansion

We value the current portfolio at £94m, representing a group NAV per share of 290p. This is broadly in line with the current share price. Share price upside will be provided by future expansion of the portfolio.

Target price 329p

Our target price of 329p includes 290p for the current portfolio and an additional 39p (£10.5m of value) for future stores. We believe each new freehold store could add an average £3.5m to the group valuation (Farnborough has added £3.6m after 18 months). Our target price, therefore, assumes three additional stores (three freehold sites have been acquired over the last three years and management is looking to accelerate the rollout). Risks to this target include a deterioration in trading conditions within the current portfolio and an inability to acquire additional sites.

Vs. competitors

We have provided a comparison with Lok'nStore's two quoted competitors Safestore (SAFE.L, not rated) and Big Yellow (BYG.L, not rated) in the appendix. On an EV/Lettable space basis Lok'nStore is valued at £89 per sq ft, Safestore at £137 per sq ft and Big Yellow at £221 per sq ft. On a market cap./NAV basis Lok'nStore is valued at 1.5x, Safestore 1.8x and Big Yellow 1.7x.

Exposure to portfolio expansion for free

We believe buyers of the shares have their investment underpinned by the long-term value of the current portfolio and are getting exposure to growth in the UK self storage market with an established operator for free.

Appendix

Investec valuation model

Current portfolio valuation

	Assumptions	Value (£m)
Lettable space (sq ft)	1,023,000	
Utilisation (%)	80	
Revenue per sq ft (£)	21.50	
EBITDA margin (%)	50.0	
Operating margin (%)	40.8	
Target PAT yield (%)	5.5	
Potential revenue		17.6
EBITDA		8.8
Maintenance capex		-1.6
Operating profit and cash before tax		7.2
Tax (at 28%)		-2.0
Profit and cash after tax		5.2
EPS (p)		19.9
no. shares, fully diluted (m)	27.0	
PER on target price (x)	14.6	
Target EV (using PAT yield)		94.1
Less one-off fit out capex		-4.4
Deduct net debt		-11.5
Target market cap.		78.2
Target share price (p)		290

Source: Investec estimates

Sector comparison

Company	Mkt. cap. (£m)	Annualised sales (£m)	Stores	Additional sites	EV/Lettable space (£)	Mkt. cap./NAV (x)
Safestore	429.0	69	95	16*	137.0	1.8
Big Yellow	683.0	49	43	19	221.5	1.7
Lok'nstore	76.0	11	21	1	89.3	1.5

* Includes 3 business centres

Source: Investec estimates, Company data

NAV calculated pre deferred tax on historic basis

Lettable space includes potential space from sites being developed

Summary P&L (£m)

Year End: 31 July	2005	2006	2007E	2008E	2009E
Turnover	7.8	8.9	10.5	11.0	11.9
Sales growth (%)	17.6	15.1	17.4	4.8	8.1
EBITDA	1.4	1.8	2.6	2.9	3.3
EBITA Margin (%)	8.1	9.8	14.6	15.5	16.8
Operating profit	0.6	0.9	1.5	1.7	2.0
Operating Margin (%)	8.1	9.8	14.6	15.5	16.8
Net Interest	(0.5)	(0.7)	(1.0)	(1.0)	(1.1)
PBT (Normalised)	0.1	0.1	0.6	0.7	0.9
Goodwill	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
PBT (Reported)	0.1	0.1	0.6	0.7	0.9
Taxation	0.0	(0.1)	0.0	0.0	0.0
Tax Rate	0.0	67.6	0.0	0.0	0.0
Profit Attributable	0.1	0.0	0.6	0.7	0.9
Ordinary Dividend	0.0	0.0	0.0	(0.3)	(0.3)
Retained Profit	0.1	0.0	0.6	0.4	0.6
EPS (Reported) - Fully Diluted (p)	0.4	0.1	2.1	2.5	3.2
EPS (Normalised) - Fully Diluted (p)	0.5	0.2	2.1	2.6	3.3
DPS (p)	0.00	0.00	1.00	1.05	1.10
Average no. of Shares - Fully Diluted (m)	25.8	26.0	27.0	27.0	27.0

Source: Company Accounts/Investec Securities Estimates

Summary Cash Flow (£m)

Year End: 31 July	2005	2006	2007E	2008E	2009E
Operating profit	0.6	0.9	1.5	1.7	2.0
Depreciation	0.7	0.9	1.1	1.2	1.3
Other Non-Cash Movements	0.0	0.0	0.3	0.3	0.3
Change in Working Capital	0.6	(0.1)	(0.1)	(0.2)	(0.3)
Other Cash Movements	0.0	0.0	0.0	0.0	0.0
Operating cash flow	2.0	1.6	2.8	3.0	3.3
Interest	(0.5)	(0.8)	(1.0)	(1.0)	(1.1)
Dividends from Associates & JV's	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
Net Capex	(2.3)	(6.3)	(10.1)	(4.5)	(4.5)
Free Cash Flow	(0.8)	(5.4)	(8.3)	(2.5)	(2.3)
Dividends Paid	0.0	0.0	0.0	(0.3)	(0.3)
Cash Impact of Exceptionals	0.0	0.0	0.0	0.0	0.0
Acquisitions & Disposals	0.0	0.0	6.0	4.0	0.0
Share Issues	0.0	0.0	0.0	0.0	0.0
Other Financial	0.0	0.0	0.0	0.0	0.0
Change in net debt	(0.8)	(5.5)	(2.3)	1.2	(2.6)

Source: Company Accounts/Investec Securities Estimates

Summary Balance Sheet (£m)

Year End: 31 July	2005	2006	2007E	2008E	2009E
Intangible Fixed Assets	0.4	0.3	0.3	0.3	0.3
Tangible Fixed Assets	20.0	25.4	34.5	37.8	41.0
Net Working Capital	(2.0)	(1.8)	(1.7)	(1.5)	(1.2)
Assets Employed	18.4	24.0	33.1	36.6	40.0
Investments/Other Assets	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)	(7.7)	(13.2)	(15.5)	(14.3)	(16.9)
Provisions & Other Liabilities (inc. Pension)	0.0	0.0	0.1	0.1	0.1
Net assets	10.7	10.7	17.7	22.3	23.2
Minority Interests	0.0	0.0	0.0	0.0	0.0

Source: Company Accounts/Investec Securities Estimates

Definition of Research Ratings

	Expected 12m performance vs the FT Allshare
Buy	Appreciation of 10% or more
Hold	Appreciation or depreciation of less than 10%
Sell	Depreciation of 10% or more

UK Stock Ratings Distribution

	Coverage Universe		Investment Banking Clients	
	Count	% of total	Count	% of rating category
Buy	117	48%	35	30%
Hold	108	44%	22	20%
Sell	20	8%	1	5%

Source: Investec

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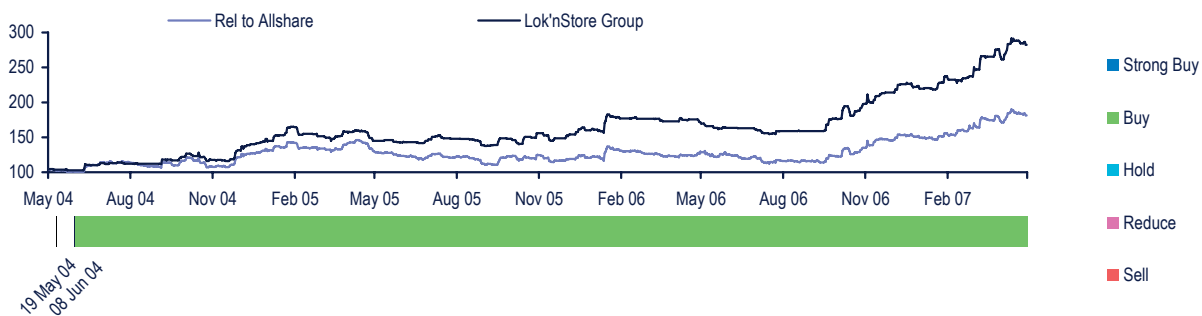
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Lok'nStore Group Ratings Plotter as at 18 May 07



Source: JCF Group/Investec Securities

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Company Profile

Lok'nStore is the fourth largest operator of self storage centres in the UK. The company has a maximum lettable area in excess of 1m sq ft. Storage space is available in sizes from 12 sq ft to 10,000 sq ft. Storage is provided in steel storage units, pallet or open storage. The companies 4,500 customers range from householders to businesses and government.

Performance Ratios

Year End: 31 July	2005	2006	2007E	2008E	2009E
Sales growth (%)	17.6	15.1	17.4	4.8	8.1
EBITA Growth (y-on-y) (%)	332.3	38.7	74.7	11.1	17.6
EPS (Normalised) growth (%)	n/a	(65.5)	-	20.7	28.6
EBITDA margin (%)	17.5	19.6	24.8	26.4	27.8
EBITA Margin (%)	8.1	9.8	14.6	15.5	16.8
Interest Cover (x)	1.3	1.2	1.6	1.7	1.8
ROCE (%)	3.4	3.7	4.6	4.6	5.0
Net Cash/(Debt) (£m)	(7.7)	(13.2)	(15.5)	(14.3)	(16.9)
Net Debt/Equity (%)	72.2	122.9	87.6	63.9	72.8
NWC/Sales (%)	(25.2)	(19.9)	(16.0)	(13.4)	(9.9)

Source: Company Accounts/Investec Securities Estimates Source: JCF Group

Bull Points

Market immature & growing
 Focused on South of England
 Corporate activity high

Bear Points

Losses in newer sites
 Consuming cash in short term
 Difficult to acquire new sites

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