

Growing potential

Lok'nStore is moving onto the next stage of its growth story. The self storage portfolio has reached a size and maturity that can generate improving profits and cash flow, and there is the prospect of significant redevelopment gains. Coupled with the potential for continued strong expansion in a growing market and the background of sector consolidation, we expect the shares to continue upwards.

Performance

Year End: 31 July	2003	2004	2005E	2006E	2007E
Turnover (£m)	5.6	6.6	7.8	8.4	9.3
EBITDA (£m)	0.7	0.8	1.3	1.7	2.2
EBITA (£m)	0.1	0.1	0.7	0.9	1.4
EBITA Margin (%)	1.8	2.2	8.5	11.1	14.6
PBT (Normalised) (£m)	0.1	0.0	0.1	0.3	0.5
Tax Rate (%)	0.0	0.0	0.0	0.0	0.0
EPS (Normalised) - Fully Diluted (p)	0.2	(0.1)	0.5	1.0	2.0
EPS (Reported) - Fully Diluted (p)	(1.4)	(0.6)	0.4	0.9	2.0
DPS (p)	0.00	0.00	0.00	0.00	0.00

Source: Company Accounts/Investec Securities Estimates

Valuation

Year End: 31 July	2003	2004	2005E	2006E	2007E
PE (Normalised) (x)	808.5	nm	339.5	154.4	77.2
EV/Sales (x)	6.8	7.0	6.1	5.9	5.5
EV/EBITDA (x)	53.3	57.3	35.5	29.3	23.4
FCF Yield (%)	(4.8)	(7.6)	(3.9)	(5.0)	(4.0)
Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company Accounts/Investec Securities Estimates

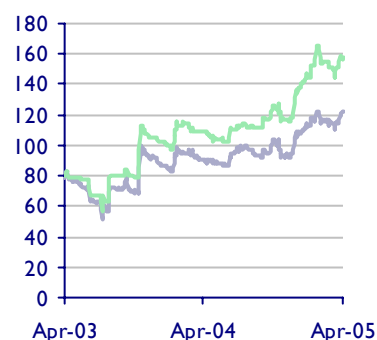
- Improving profits and cash flow.** Interim results to January 2005 revealed operating profits of £332k, up from £8k last year. This was supported by operating cash flow of £870k, up 388% on 2004.
- Redevelopment potential.** Lok'nStore has obtained residential planning permission at Kingston. We believe this site could now be worth £8-10m to the group, potentially generating a substantial profit on the £1.2m book value.
- Growing market.** The UK self storage market is massively immature in comparison to the US. The US market is c.100x larger than the UK, whereas the population is only c.5x greater.
- 155p base case.** We value the current portfolio at 155p per share. However, this ignores the potential for additional value from further expansion in a growing market and additional redevelopment potential beyond Kingston.

Refer to important disclosures starting on page 10

Market Cap	£39.5m
Enterprise Value	£48.0m
Reuters Code	LOK.L
12m high/low	165p/103p

Free Float	72.3%
Average Daily Volume (000s)	68.7
Next News	FY - Nov
Website	www.loknstore.co.uk

Share Price Performance



	1m	3m	12m
Price	4.0	8.6	45.2
Rel. All Share	6.4	8.4	36.6

Source: JCF Group

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The model is working

Strong growth in the six months to January 2005

Growth in profits and cash flow

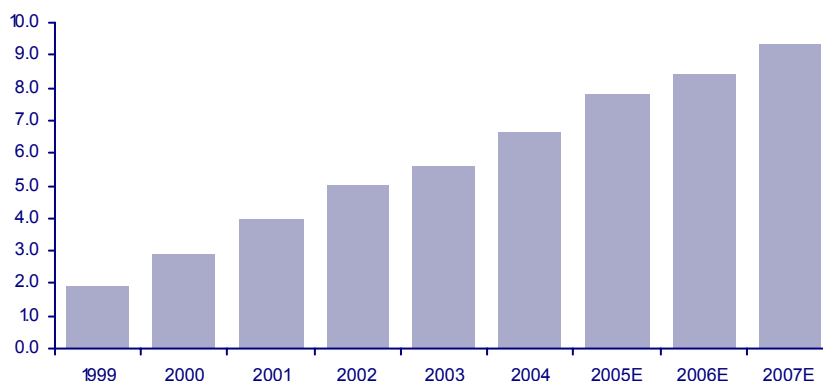
Interim results to 31 January 2005 showed profits and cash flow improving strongly. While this progress is from a low (near breakeven) base, we believe these results provide a glimpse of the growth Lok'nStore's business model is capable of producing when the portfolio matures. The key points are:

- Turnover increased by 24%, year on year, to £3.89m – driven by customer numbers up 21.2% and area let up 21.6%.
- Annualised turnover was £8.1m at March 2005, up from £7.7m at November 2004.
- Operating profits increased from £7.7k to £332.4k – driven by the operational gearing on the strong sales growth. Operating margins rose from 0.2% to 8.6%.
- Operating cash flow increased from £178.4k to £870.5k, demonstrating the cash generative nature of the business.
- Interest costs rose from £37k to £244k as net debt rose to £7.1m from net cash of £0.6m at January 2004. Over the last twelve months the group spent £3.4m on share buybacks, £2.6m on a headlease acquisition, £1.4m on capex and £1.6m on a site acquisition.
- Adjusted profit before tax of £88k was up from a loss of £30k last year.

Annualised sales £8.1m from £1.9m in 1999

Lok'nStore has grown sales from £1.9m in 1999 to an annualised rate of £8.1m at March 2005.

Lok'nStore sales profile (£m)



Source: Lok'nStore, Investec estimates

Strategy is to maintain operational profitability

Forecasts sensitive to pace of growth

Lok'nStore's strategy is to maximise growth in self storage while maintaining operational profitability. The number of store openings is, therefore, regulated by both market opportunity and the profitability of the existing portfolio. Our forecasts are, hence, quite sensitive to the pace of new store openings.

Certainty of long term returns ?

When the pace of expansion slows Lok'nStore, of course, should be highly profitable, cash generative and relatively stable. In the short to medium term we expect the share price to be heavily influenced by the perception of expansion prospects at attractive prices and the degree of certainty over long term returns.

Good prospects for new stores

Management stated with the interim results that there is currently good prospects for new store acquisitions and they are cautiously reviewing proposals.

The well established stores are highly profitable

It is possible to obtain a good degree of clarity on long term prospects by looking at the older properties in the current portfolio.

The following table shows the portfolio split into three main age categories at July 2004 and January 2005 (we have used our estimate of annualised figures to January 2005 for comparative purposes).

- Sites that have been in operation for >250 weeks are established (we've refrained from terming them mature as they are still growing) and hence more focused on increasing returns.
- Sites that have been in operation for 100-250 weeks are profitable and fully operational but focused on increasing occupancy and sales.
- Sites that are <100 weeks old are in a start-up phase.

Poole and Luton have moved up

The major changes between the age categories were one store moving into >250 weeks (Poole) and one store moving into 100-250 weeks (Luton).

Operating performance analysis by age of store

Store age	>250 wks		100-250 wks		< 100 wks		Group	
	Jul-04	Jan 05*	Jul-04	Jan 05*	Jul-04	Jan 05*	Jul-04	Jan 05*
Sales (£'000)	3105	4006	3159	3200	270	374	6534	7580
Store EBITDA (£'000)	1491	2148	536	540	-271	-224	1756	2464
Store EBITDA margin (%)	48.0	53.6	17.0	16.9	-100.4	-59.9	26.9	32.5
Max. lettable area ('000 sq ft)	305	370	365	342	80	80	750	792
Sales/ lettable area (£/sq ft)	10.18	10.83	8.65	9.36	3.38	4.68	8.71	9.57
Store EBITDA/ lettable area (£/sq ft)	4.89	5.8	1.47	1.58	-3.39	-2.80	2.34	3.1
No. stores	8	9	8	8	3	2	19	19
Sales per store (£'000)	388	445	395	400	90	187	344	399
Store EBITDA per store (£'000)	186	239	67	68	-90	-112	92	130

* HI figures annualised

Source: Lok'nStore, Investec estimates

	We note the following:
<i>Established stores sales +10.7%</i>	Sales per lettable area and per store have increased in all age categories. As would be expected the pace of expansion is greatest in the start-ups but the established stores are still growing. Stores >250 weeks increased occupancy revenue by 10.7% year-on-year in H1.
<i>Age of store key variable</i>	Store EBITDA per lettable area and per store increased in all age categories. As we would expect, the rate of improvement was greatest <100 weeks (as the stores move towards profitability), followed by the established stores (as the focus moves from sales growth to margins). In the 100-250 week category, EBITDA by lettable area and per store was relatively stable, suggesting the market being supplied is stable and profits, therefore, only change significantly by age.
<i>53.6% peak margins</i>	EBITDA margins increased from 48.0% to 53.6% in the established stores, giving some clarity on the level of peak margins for Lok'nStore. It should be noted, however, that this margin is impacted by the number of freehold vs. leasehold stores.
<i>Freehold vs. leasehold</i>	<p>The leasehold stores will generate a lower margin due to the payment of rents. Of the nine stores currently in this category, seven are freehold and two are leaseholds. The additional store in the period (eight stores rising to nine) is a freehold and will have, hence, helped to raise the overall average margin to the 53.6% level. However, it is clear that the underlying EBITDA margin increased as the stores matured further.</p> <p>Margins for 100-250 weeks were essentially flat. Negative margins in the loss making start-ups improved as one store aged into the next category and there were no new entrants (the average age therefore rose).</p> <p>In short, we believe all categories are behaving in line with the group's business model:</p> <ol style="list-style-type: none"> 1. New stores will be loss making for 18-24 months as they are fitted out and a customer base established. 2. Occupancy and available area at each store is then progressively increased while achieving positive EBITA. 3. Well established stores, while still growing sales, will generate EBITA margins >50% and produce strong predictable cash flows.
<i>Maturity will release value</i>	As the average age of Lok'nStore's portfolio increases we, therefore, expect the group to generate a substantial and stable level of profit and cash.

Current portfolio worth 155p-171p

Assume run for cash

We value Lok'nStore by assuming the current portfolio is matured, no further sites are acquired and it is run for cash, which is then returned to shareholders. We have then assumed a dividend yield of 6.0%.

Our major assumptions are:

1. Available space is 849,000 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 Self Storage Association Almanac).
3. Revenue per sq ft of £13.55. Applying the 80% occupancy, this equates to the £10.83 per square foot that we estimate is currently being achieved in the >250 week stores (see previous table).
4. EBITDA margin 50.0%. This compares to the 53.6% we estimate is currently being achieved in the >250 week stores. Our assumption contains some caution to allow for a higher proportion of leaseholds.
5. Dividend yield 6.0%. 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. With this in mind we believe a 6% dividend yield is cautious.
6. Kingston valued at £8m and no tax is payable due to rollover relief. We have excluded Kingston's sales and profits from the core valuation model.

155p per share

Via this method we value the current portfolio at 155p. This calculation, of course, ignores the potential for additional value from further expansion in a growing market and additional redevelopment profits from Reading, where the group is currently seeking planning permission.

171p with higher redevelopment profits

If we increase our valuation assumption on Kingston to £10m and value Reading at £5m our valuation increases to 171p per share.

Downside limited by independent valuation

Independent valuation

On 31 January 2005 a professional, independent valuation of each self storage site was conducted. It was prepared on the basis of their existing use, as self storage, and excluded any potential for redevelopment. The newly acquired Farnborough site was included at cost.

124p – 144p base case

The properties were valued at £33.6m and compares to the current net book value of £18.4m. Using this valuation and including Kingston at £8m (but

Reading at existing use) we estimate current net assets per share at 124p. If we include Kingston at £10m and Reading at £5m then this estimate rises to 144p.

We, therefore, believe the current portfolio, at today's independent valuation, limits share price downside to either 124p or 144p depending on the redevelopment value achieved from Kingston and Reading.

Difference to our valuation

The independent valuation is £11.4m lower than our estimate due to:

1. We have valued Farnborough assuming it is a successful self storage site. The independent valuation includes it at cost. We estimate this accounts for £2.4m of the difference.
2. Equally we would expect a similar difference on the valuation of the younger sites such as Tonbridge and Eastbourne.
3. The independent valuation assumes leases only run their current term. As they are within the Landlord and Tenants act we have effectively assumed the leases are renewed on similar terms.

Consolidation continues

Public to private

In August 2003, Safestore announced that agreement had been reached on the terms of a recommended offer from the management team backed by private equity. The offer valued Safestore at £40m.

Lok'nStore rejected bid

In January 2004, Lok'nStore announced that the board had rejected an offer of 115p per share on the basis it did not fully reflect a fair value for the business and its prospects.

Public to private

In April 2004, Safestore acquired Mentmore (UK, quoted) for £209m, making it the UK's largest self storage provider.

Peer group valuation comparison

Company	Mkt. Cap (£'m)	Sales/fitted space (£/sq ft)	EV/fitted space (£/sq ft)	Mkt cap./Net assets (x)
Mentmore	209.0	9.4	82.4	n/a
Big Yellow	205.0	18.8	156.6	1.09
Safestore	40.0	14.4	89.0	n/a
LoK'nStore	39.6	15.2	87.6	1.28

Source: Investec estimates

Note: Mentmore and Safestore data are our estimates at time of acquisition. Lok'nStore net assets includes stores at independent valuation, Kingston at £8m.

Conclusion: substantial potential

<i>Prove business model</i>	The key to Lok'nStore's share price is its ability to prove that established stores are generating attractive returns and there is potential to continue to acquire and develop stores on the same basis.
<i>9 established stores, 19 in total</i>	Lok'nStore currently owns nine established stores in a portfolio of 19 operating stores. We believe the returns the established stores are generating are both attractive and strongly support the group's overall business model. They are currently generating an EBITDA margin of 53.6% and still generating c.10% sales growth per annum.
<i>UK immature vs. US</i>	A comparison of the UK self storage market with that in the US suggests the UK will see continued growth in the number of self storage sites. There are c.40,000 sites in the US and c.400 in the UK. The US market is therefore c.100x bigger than the UK but serves a population only c.5x the size.
<i>No.4 in UK</i>	Lok'nStore has c.5% market share and is the fourth largest in the UK. It is, therefore, very well placed to benefit from the growth of the UK market.
<i>Current portfolio worth 155p-171p</i>	We value the group by assuming the current portfolio is matured and the substantial level of cash generated is returned to shareholders. On this basis, and with cautious assumptions on the redevelopment of Kingston (value £8m), we value the group at 155p per share. If we raise our assumptions on Kingston to £10m and include Reading, where planning permission is currently being sought, at £5m our valuation rises to 171p.
<i>Growth for free</i>	The current share price of 158p sits at the lower end of this range. We believe buyers of the stock at today's levels have their investment underpinned by the current portfolio and are getting exposure to growth in the self storage market with an established operator for free.

Appendix: Investec valuation model

Current portfolio valuation

	Assumptions	Value (£m)
Space available to let (sq ft)	849,000	
Utilisation (%)	80	
Revenue per sq ft (£)	13.55	
EBITDA margin (%)	50.0	
Operating margin (%)	45.7	
Target dividend yield (%)	6.0	
Potential revenue		9.2
EBITDA		4.6
Maintenance capex		-0.4
Operating profit and cash before tax		4.2
Tax (at 30%)		-1.3
Profit and cash after tax		2.9
EPS (p)	10.9	
no. shares, fully diluted (m)	27.0	
PER on target price (x)	14.2	
Target EV (using 6.0% yield)		49.0
Less one-off fit out capex		-4.0
Less net debt forecast July 2005		-8.5
Add Kingston redevelopment uplift		5.3
Target market cap.		41.8
Target share price (p)		155

Source: Investec

Summary P&L (£m)

Year End: 31 July	2003	2004	2005E	2006E	2007E
Turnover	5.6	6.6	7.8	8.4	9.3
EBITDA	0.7	0.8	1.3	1.7	2.2
EBITDA margin	12.8	12.3	17.3	20.2	23.7
Operating profit	0.1	0.1	0.7	0.9	1.4
Operating Margin	1.8	2.2	8.5	11.1	14.6
Net Interest	0.0	(0.2)	(0.5)	(0.7)	(0.8)
PBT (Normalised)	0.1	0.0	0.1	0.3	0.5
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0
Exceptionals	(0.5)	(0.1)	0.0	0.0	0.0
PBT (Reported)	(0.4)	(0.2)	0.1	0.3	0.5
Taxation	0.0	0.0	0.0	0.0	0.0
Profit Attributable	(0.4)	(0.2)	0.1	0.3	0.5
Ordinary Dividend	0.0	0.0	0.0	0.0	0.0
Retained Profit	(0.4)	(0.2)	0.1	0.3	0.5
EPS (Reported) - Fully Diluted (p)	(1.4)	(0.6)	0.4	0.9	2.0
EPS (Normalised) - Fully Diluted (p)	0.2	(0.1)	0.5	1.0	2.0
DPS (p)	0.00	0.00	0.00	0.00	0.00
Average no. of Shares - Fully Diluted (m)	30.3	27.4	27.0	27.0	27.0

Source: Company Accounts/Investec Securities Estimates

Summary Cashflow (£m)

Year End: 31 July	2003	2004	2005E	2006E	2007E
Operating profit	0.1	0.1	0.7	0.9	1.4
Depreciation	0.6	0.7	0.7	0.8	0.8
Other Non-Cash Movements	(0.1)	(0.1)	0.0	0.0	0.0
Change in Working Capital	(0.4)	0.3	(0.1)	(0.1)	(0.1)
Other Cash Movements	0.0	0.0	0.0	0.0	0.0
Operating cash flow	0.3	0.9	1.2	1.6	2.1
Interest & Tax	0.0	(0.1)	(0.5)	(0.7)	(0.8)
Net Capex	(2.1)	(3.8)	(2.3)	(2.9)	(2.9)
Free Cashflow	(1.9)	(3.0)	(1.6)	(2.0)	(1.6)
Dividends	0.0	0.0	0.0	0.0	0.0
Cash Impact of Exceptionals	0.0	0.0	0.0	0.0	0.0
Acquisitions & Disposals	0.0	(1.6)	0.0	0.0	0.0
Share Issues	0.0	(3.4)	0.0	0.0	0.0
Other Financial	0.0	0.0	0.0	0.0	0.0
Change in net debt	(1.9)	(8.0)	(1.6)	(2.0)	(1.6)

Source: Company Accounts/Investec Securities Estimates

Summary Balance Sheet (£m)

Year End: 31 July	2003	2004	2005E	2006E	2007E
Intangible Fixed Assets	0.4	0.4	0.4	0.3	0.3
Tangible Fixed Assets	13.4	18.2	19.7	21.9	23.9
Net Working Capital	(0.7)	(1.0)	(0.9)	(0.8)	(0.7)
Assets Employed	13.1	17.5	19.2	21.4	23.5
Investments/Other Assets	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)	1.1	(6.9)	(8.5)	(10.5)	(12.0)
Provisions & Other Liabilities	0.0	0.0	0.0	0.0	0.0
Net assets	14.2	10.6	10.7	10.9	11.4
Equity Shareholders Funds	14.2	10.6	10.7	10.9	11.4
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Shareholder Funds	14.2	10.6	10.7	10.9	11.4

Source: Company Accounts/Investec Securities Estimates

Major assumptions

Year End: 31 July	2003	2004	2005E	2006E	2007E
Av. no. operating stores	17	18	19	20	22
Average occupied space (sq ft)	398,560	423,574	480,576	519,123	574,123
Sales per av. occupied sq ft (£)	14.1	15.6	16.2	16.2	16.2
Sales per store (£'000)	330.2	367.3	410.5	420.5	422.8
Operating cost per store (£'000)	324.4	359.2	375.5	374.0	361.0

Source: Company Accounts/Investec Securities Estimates

Definition of Research Ratings

	Expected 12m performance vs the FT Allshare
Strong Buy	Outperform by greater than 20%
Buy	Outperform 10% - 20%
Hold	Outperform/Underperform by less than 10%
Reduce	Underperform 10% - 20%
Sell	Underperform by greater than 20%

UK Stock Ratings Distribution

	Coverage Universe		Investment Banking Clients	
	Count	% of total	Count	% of rating category
Buy	124	53%	50	40%
Hold	83	35%	8	10%
Sell	28	12%	0	0%

Source: Investec

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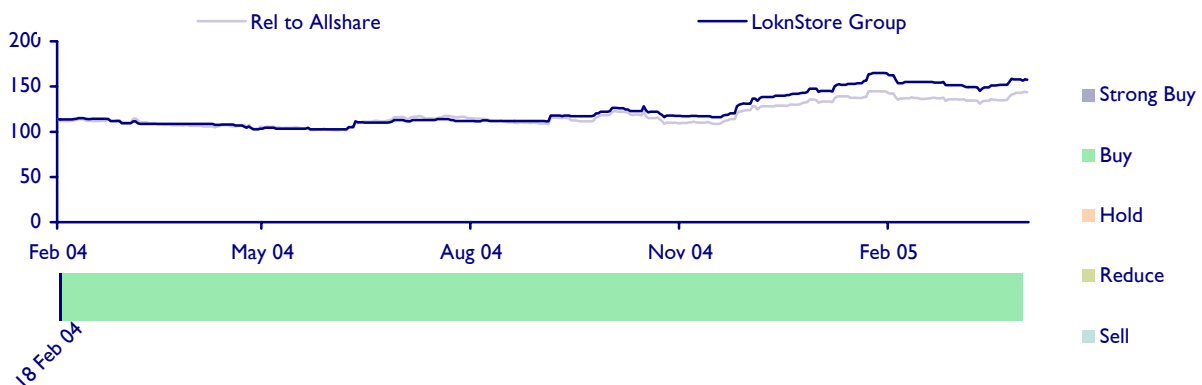
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LoknStore Group Ratings Plotter as at 20 Apr 05



Source: FTSE All Share/Investec Securities

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Company Profile

LoK'nStore is one of the leading self storage companies in the UK having opened its first centre in 1995. The company has a maximum lettable area of 849,000 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	2003	2004	2005E	2006E	2007E
Sales growth (%)	12.2	17.8	18.0	7.8	10.6
EBITA Growth (y-on-y) (%)	262.0	48.5	353.3	40.5	46.1
EPS (Normalised) growth (%)				119.9	100.0
EBITDA margin (%)	12.8	12.3	17.3	20.2	23.7
EBITA Margin (%)	1.8	2.2	8.5	11.1	14.6
Interest Cover (x)	2.5	0.9	1.2	1.4	1.7
ROCE (%)	0.8	0.8	3.5	4.3	5.8
Net Cash/(Debt) (£m)	1.1	(6.9)	(8.5)	(10.5)	(12.0)
Net Debt/Equity (%)	(7.7)	65.8	79.8	96.0	105.3
NWC/Sales (%)	(12.5)	(15.8)	(12.1)	(10.0)	(8.0)

Source: Company Accounts/Investec Securities Estimates

Bull Points

Market immature & growing

Focused on South

Corporate activity high

Bear Points

Losses in newer sites

Consuming cash in short term

Difficult to acquire new sites

Investec Securities

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