BRIDGEWELL

Lok'n Store

FTSE AiM / Support Services / LOK.L

Bridgewell Limited makes markets in Lok'n Store

A new way forward emerging

The interim results earlier in the year from Lok'n Store ("Lok") reflected good progress within the business. However, the key development was the new Farnborough site. We believe this offers a more profitable model and a new way forward for the group, involving a more visible (and replicable) pipeline than in the past. Lok's current market value does not yet recognise the potential for the new larger and purpose-built sites. Upside also remains within the existing portfolio as the older sites continue to mature, and we expect the new Cushman valuation to reflect some of the extra value within the portfolio. Recommendation Overweight, fair value 240p.

- **Good trading reflected in updates and results**: The trading update in August highlighted good progress – this after a strong H1 (sales +12%, and EBITA and EBITDA +23% and +32% respectively), underpinned by double-digit increases in customer numbers. The Farnborough fit-out is being accelerated. We anticipate good full-year results on 30th October, keeping up the momentum.
- **New model:** Farnborough (seen by 120,000 people daily) and Crayford, the newest stores, are landmark buildings 60% larger than the group average, offering better pricing and a product at least comparable with competitors such as Big Yellow. **More new sites anticipated – and increased visibility.** Having developed the expertise and confidence to build Farnborough, we believe Lok will now exploit this with further new sites predominantly on the same model, implying significant potential extra value creation. We expect more visibility on this after the results later this month and after the disposal of the Kingston site, which we anticipate either with the results or shortly afterwards.
- **Planning gains:** The 106 agreement on Kingston removed the last barrier to realising the £8-10m that we expect from this site (which has planning permission for 78 private flats). Planning permission on the new site for the Reading store is also good news. Given the company's geographical profile, it seems likely that there are further potential planning gains within the portfolio.
- **Valuation upside:** We believe there is upside on the valuation based on the forthcoming Cushman valuation and also on the value of the portfolio – either the existing portfolio in a mature state, or an expanded portfolio with attendant costs and benefits. Our fair value is raised to 240p (215p), a slight discount to the lower of our DCF models.

Financial Overview

	Turnover	EBITA	PBT	EPS	DPS	PE	Yield	Net debt
Y/end Jul	£m	£m	£m	p	p	x	%	£m
2004A	6.6	0.1	0.0	-0.15	0.0	n/a	n/a	-6.9
2005A	7.8	0.6	0.1	0.45	0.0	386.7	n/a	-7.7
2006E	8.4	0.9	0.2	0.75	0.0	232.0	n/a	-12.5
2007E	9.3	0.4	0.2	0.70	0.0	248.6	n/a	-3.1*

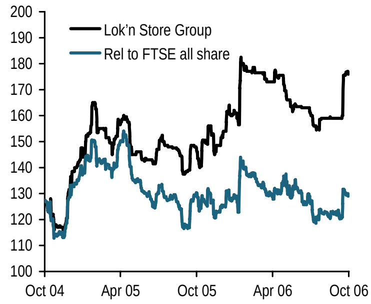
** Assuming disposal of Kingston.*

Source: Company, Bridgewell Limited estimates

Overweight

No change

20 October 2006



Vital Statistics

	Current	Year ago
Share price (p)	174	148
Issued shares (m)	25	25
Mkt Cap (£m)	44	37

Performance	Actual	Relative*
1 month	11%	6%
6 months	2%	0%
12 months	19%	0%

**relative to FTSE AllShare*

Priced intraday on 19 October 2006

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Investment case

SWOT analysis

Table 1: SWOT analysis

Strengths	Weaknesses
Top four player – good sites across South of England	Approaching half the sites are leasehold – but this does confer extra flexibility
Low-cost model, operational gearing	Only in the South of England – but plenty of opportunities there
Cash-generative – strong returns	Self-storage not well understood by the financial community
Good buyer of property	
Fragmented, growth market – low competitive pressures	
Owner of valuable sites (e.g. Kingston, £8-10m)	
Low bad debts	
Opportunities	Threats
Immature, high-growth market	Competitive pressures – but UK is very immature, so these are a long way off
Extremely profitable once sites are mature	Housing sector weakness – but Lok'n Store has above-average business exposure
Ongoing consolidation offers opportunities	Liabilities if the wrong items are stored in a site – but well insured
Reinvestment of planning gains	
New, large sites – a very visible new model	
Improved pricing and operational gearing on the back of these	

Source: Bridgewell Limited

Strong (and evolving) business model

The business model is focused on achieving maturity in the sites as quickly as possible. Traditionally sites have been fitted out in stages, and unfitted space (open space) used for large items.

Farnborough marked a new phase in the group's model; it is larger, self-built and fully replicable, raising the possibility of a faster than anticipated rate of store openings.

Immature, rapidly expanding sector

High growth

The self-storage sector is a high-growth area that continues to generate double-digit sales growth. The UK market is immature, with low penetration and stores relatively scarce. There are demographic, structural and cost drivers behind the growth. The main limitations on growth appear to be potential customers' lack of awareness of the product (the most important limitation) and also to some degree limits on the availability of property.

Valuation expansion

Valuation upside

The valuation is underpinned by the investment value of the properties, the increasing quality of the sites and the strong cash flows. The divestment of Kingston, one of the group's twelve freehold sites, is expected to raise £8-10m (with comparable space locally selling for £480/sq ft). Sites such as Farnborough also add a significant new dimension to the valuation. Lok'n Store trades at a significant discount to its only quoted competitor, Big Yellow Group.

Experienced management

Hands-on operators

Lok is a well-managed business with experienced management and an effective (and flat) management structure.

Few competitors at Lok's level

Little competition

There are only four competitors similar in size to Lok'n Store or larger. Entry barriers include a strong balance sheet, the ability to operate the model effectively and the availability of suitable sites.

Entry barriers

Cash, reputation, expertise and security know-how/relationships – all entry barriers

The main entry barriers are brand/reputation, cash, and expertise. All of these are positives for Lok'n Store, which is well established and has reached a point where significant capital is available to it, with or without the disposal of Kingston.

The company has built up expertise over a number of years and the jump to building Farnborough-style stores is a significant expansion in its expertise. It has also developed significant skills with regard to security, working closely with the authorities (the Home Office/Metropolitan Police/Customs & Excise) post 9/11 in what remains a self-regulated business. The leading operators follow established procedures and use identification protocols for new customers. Episodes where, say, firearms (or dead bodies) are stored are extremely rare, and detailed records (plus CCTV and electronic evidence) are kept.

Cash-generative

Filling up well

The mature sites are extremely cash-generative. The new model sites (Farnborough and Crayford) have rapid fill-up rates and become cash-generative more quickly than the smaller sites.

Attractive strategic asset

Consolidating sector

Corporate activity has been strong in the sector in the past two years, with numerous transactions as the sector consolidated. There are also numerous potential US buyers for self-storage businesses in the UK – the model is well-understood in the US, and it is considerably easier and less risky to buy an existing operator than to attempt a start-up.

Real Estate Investment Trust (REIT) potential

REITs – longer-term potential?

The government's plans to create a more tax-efficient vehicle for property investment are taking more detailed shape, and look likely to offer upside for a company such as Lok'n Store, assuming that the conversion requirements are not too onerous.

After a one-off "conversion" payment in lieu of CGT to the Treasury, property trusts will become tax-free vehicles on the condition that they pay out 90% of qualifying earnings via dividends (other than those that they reinvest). Clearly this could be an attractive vehicle for Lok'n Store in the longer term as it accelerates its rate of growth. The other quoted self-storage business, Big Yellow, is actively investigating the option of becoming a REIT.

Investment risks

Housing downturn/interest rates

There is some exposure to the housing market, as housing moves partly support the personal self-storage side. However, Lok'n Store has a lower proportion of household users (as against business users) than its main competitors. Moreover, when there are fewer house moves, arguably people try to make better use of the space they already have, leading to increases in self-storage.

The evidence is difficult to gather, owing to the lack of good data within the self-storage industry. However, there appears to be no reliable correlation between interest rate rises and self-storage usage historically.

Obviously interest rate rises may impact the whole property market; but in that event, self-storage would remain a relatively attractive area within property, as it is an immature market and a substantial growth opportunity.

Competition

During 2000-2003, competitors such as **Mentmore** warned of increasing competition at some of their sites. We have researched extensively the impact of competition on a self-storage site and believe that there is ample evidence to suggest that an urban area of, for example, 100,000 inhabitants can easily support at least six major self-storage sites.

This has been the experience of towns such as Reading, and indeed of the London suburbs. Access, visibility and closeness to the client base are key determinants for self-storage usage, and looking at pricing in some of the better supplied areas, there is no evidence that pricing has suffered as more good quality stores have opened. Rather to the contrary; as ignorance is a main reason for not using self-storage, self-storage clusters often lead to more growth for all the operators.

In certain cases, where new stores have opened in the vicinity of older stores, it appears weaknesses have been exposed in the established stores, including:

- difficult to access
- difficult to see from the road
- under-invested and therefore shabby, uninviting and run-down.

However, Lok'n Store's sites do not usually fit this profile.

Availability of new sites

New sites may become less available for planning or financial reasons, militating against the company's extra growth dimension. However, currently and for the foreseeable future, there appear to be available opportunities and it is open to self-storage companies to hedge against this risk by building up a bank of sites.

Potential liability

The risk of liability to the self-storage operator if damage is caused to items that are being stored on a site is inoperative in Lok's case; the company does not accept uninsured goods for storage. Lok itself offers customers the opportunity to insure their goods, buying block insurance from a major Lloyd's underwriter and parcelling specific policies out to individual customers.

This is a profitable business for Lok, but also ensures that the company is protected from customer losses in the event of damage caused by external factors such as fire or flooding. Customers who choose not to insure in this way have to declare to Lok that they have insurance arrangements in place elsewhere. In either case, customers are insured.

Industrial property values

Industrial property values have risen sharply in recent years, with corresponding yield tightening, and this clearly strengthens the underlying NAV. However, while the alterative use valuations are of interest, they are only a very limited part of the valuation picture. On the property development front, falls in industrial property valuations will benefit Lok, which will then have to pay less for sites.

A strongly growing market

Immature, high-growth and rapidly developing market

Summary

A specialised sector on the edge of the property market (but revolving around providing a service)

Self-storage is a specialised service offered to consumers, either private individuals or businesses. It is relatively mature (albeit still growing) in the US, the largest global market. However, in the UK, the self-storage market is immature and growing at double-digit rates. Encouragingly, the main barrier to growth is the UK customer's relative unfamiliarity with the product, suggesting the potential as momentum increases.

Offering

Key parameters

The product consists of renting space in a locker or room to the client, with the following key parameters:

- The space is usually situated in a storage centre.
- The client is responsible for their individual space and how it is filled – the room will be locked. The customer has the key and is responsible for its safe custody.
- The self-storage provider is responsible for the security of the building (usually protected by security fences, CCTV and electronic control of access by clients). In Lok'n Store's case, all sites have 24-hour security provision.
- In practice, most clients insure the goods they deposit, with the self-storage company usually acting as an intermediary; other added services include packaging/storage consumable and insurance protection for the customer's goods.
- Approaching half the market by value in the UK is accounted for by business users.

Leased or owned?

The average size of a centre is 30-40,000 sq ft, with small private operators operating centres as small as 20,000 sq ft and the market leaders working from much larger centres (up to 100,000 sq ft). Successful sites are usually highly visible from a road, provide easy access to drivers, and are in or around significant population centres.

Lease or own?

Self-storage providers either own or lease the property, giving rise to different models of profitability: a leased site should achieve c50% EBITDA margins within the first thirty-six months; an owned site will take longer (but be more profitable in the long run). Typically, a leased site will be cash-neutral at 6-18 months and become profitable in the second year. An owned site will break even at c30% occupancy.

Table 2: Freehold/leasehold variables

	Freehold	Leasehold
Breakeven	12 months	24 months
Mature EBITDA margin	50%-plus	40-45%
Lok'n Store sites	11	10

Source: Company, Bridgewell Limited

Self-build or adapt properties with existing industrial planning permission?

Another variable is whether providers self-build or adapt existing industrial properties; the latter strategy is evidently significantly more expensive.

UK/US comparison

The US is a major developed global market

The US market, although different in a number of respects is generally regarded as a key comparator for the UK, and is one of the major developed global markets.

UK growth - immature

Reliable information covering the whole of the UK market is not available. However, the Self-Storage Association has provided estimates. We believe that the market has grown by over 15% p.a. over the past decade to a £350-400m market, and has the potential on the American model to grow well beyond this, ultimately to at least 3,000 centres (still representing a significantly lower per capita rate than in the US). This would value the market at well over £1bn. A per capita rate in the UK identical to that in the US would mean there would be as many as 9,000 centres in the UK.

Table 3: UK self-storage market 2002-2006E

	1996	2002	2006
SSA members' sites	100	265	400
Total	150	400	600
Smaller centres	41	108	162
Sites > 20,000 sq ft	110	292	438
1996-2006 CAGR (%)			15%

Source: Self-Storage Association, Big Yellow, Lok'n Store, Bridgewell Limited,

US growth – double-digit or close, despite maturity

The US market has continued to grow strongly, with double-digit growth in rentable space and units matched by the uptake in utilisation. In the past three years per capita utilisation in the US has risen by 28%, illustrating the continuing strong appetite for the product in what is generally regarded as a mature market.

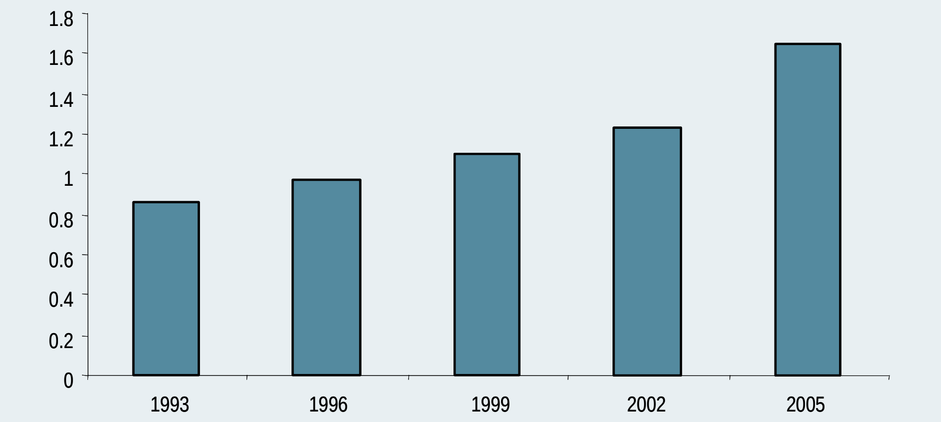
These growth rates are matched if one takes a longer term view; the amount of space available has increased by c70% in the past thirteen years, while the per capita utilisation has increased by well over 50%.

Table 4: US self-storage industry, per capita utilisation 2002-2005

	2002	2003	2004	2005
Total rentable space (sq ft m)	1,233	1,321	1,459	1,654
Change (%)		*7.1%*	*10.4%*	*13.4%*
Number of units	9,950	10,400	11,600	12,600
Change (%)		*4.5%*	*11.5%*	*8.6%*
Sq ft per capita	4.33	4.54	4.94	5.54
Change (%)		*4.8%*	*8.8%*	*12.1%*

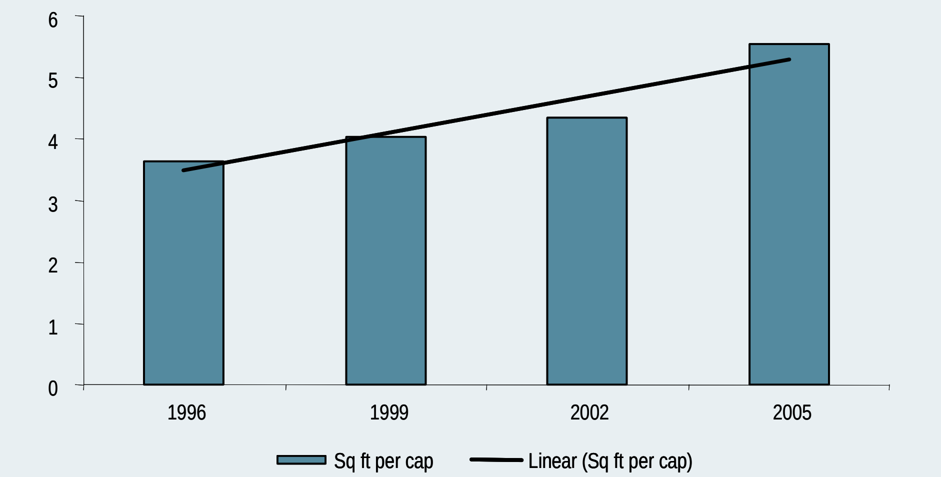
Source: Self-Storage Almanac)

Chart 1: US self-storage industry (1993-2005): total rental area*



Source: Self-Storage Almanac

Chart 2: US self-storage industry (1993-2005): ft2 per capita



Source: Self-Storage Almanac

Disparities between the UK and the US support the UK growth story

Interesting disparities between the UK and the US support the UK growth story, as many of the underlying drivers are stronger in the UK than in the US:

- Property values are higher in UK, and space at a premium.
- Underlying social or demographic trends that support self-storage are strong in the UK, where arguably we are catching up with the US.
- Property issues specific to the UK mean that self-storage is significantly more attractive to businesses in the UK than it is in the US (where the ratio of business users is much smaller – 18%, half the UK rate).
- More churn in the UK, price opportunities.

Table 5: Average rental period

Months	Business	Private
UK	c14.0	c8.0
US	22.4	12.0

Source: Lok'n Store, Self-Storage Almanac (US), Bridgewell Limited,

Key growth drivers

Overview

Key drivers are convenience, efficiency, cost, family changes, demographics and growing mobility. Typical triggers for using self-storage are

- Seasonal (sports equipment, students' possessions, seasonal stock/fitments stored by retailers);
- Personal changes (divorce, moving house, changing employment, overseas travel/employment, etc, growth of family requiring space to be released);
- Other changes ("de-cluttering" a house).

Business users are also extremely eclectic.

Table 6: Typical business uses of self-storage

User	Goods stored	Drivers
Legal, financial services	Archives	Compliance
Producer	Equipment, materials, stocks	Cost, efficiency
Marketing/sales	Goods/samples	Cost, efficiency
Retailers	Fitments, stocks	Cost, efficiency (and seasonal drivers)

Source: Bridgewell Limited

An important part of the role of the workforce staffing a self-storage centre is to market to local manufacturing industry (e.g. the motor industry in the Midlands) and also to all other major potential business or institutional users, such as schools, hospitals and local authorities within its area.

Underlying drivers

Self-storage is an exceptionally widely distributed activity, driven by a huge variety of uses and small-scale developments right across the economy. Underlying these are fundamental secular changes that are very supportive, with the key development being the increasing number of (usually smaller) households – creating ever-increasing pressure on limited space. This in turn is driven by:

- Divorce
- More flexible employment/increased mobility
- Increasing single occupancy (forecast to increase by 50% over the next fifteen years
- Generally speaking, the average size of a household is steadily falling in the UK, as indicated by official statistics:

Table 7: Underlying trend statistics

	1991	2001	2011
Persons/household	2.47	2.34	2.24
Change (%)		-5%	-4%
		2003	2021
One person households (m)		6.4	9.9
Change			*54.7%*

Source: Department for Communities & Local Government

How cyclical?

Businesses increasingly aware of benefits

The business side is slightly less impacted by downturns than the personal side, with business customers' use of storage (archives, equipment, fittings, etc) driven primarily by cost, flexibility and convenience. Flexibility from the client's point of view means being free not to use longer-term leased warehouse storage on more onerous terms. We believe businesses are increasingly waking up to the advantages of self-storage, given their problems with the alternative model. Evidence for this is provided by some of the retail national chains, which are increasingly using self-storage operators such as Lok'n Store, apparently to supplement their distribution networks at relatively less expense than the alternatives.

On the private side the exposure to the housing market is not wholly negative, since with fewer house-moves there is a stronger incentive for people to make the best use of the existing space by storing their belongings.

Given the extremely eclectic customer profile of the self-storage industry, it is clear that the industry's downside is limited by the mix of many very disparate influences, except in the event of a severe downturn. More broadly, we believe that the immaturity of the sector is an important reason that so much more growth can be expected in the longer term.

Overview of Lok'n Store

Top four player

Mature site EBITDA margins within the portfolio 55% or more

Leading player; industry fragmented below Lok

Lok'n Store is a top four player in the UK self-storage market, and one of only two quoted self-storage groups. The company was founded in the mid-1990s by the current management as a private company, capitalizing on the immature, rapidly growing self-storage market. Thirteen sites (more than half of the total) are over 250 weeks old, an important measure of the margin profile. With 59% of the square footage, these sites can generate EBITDA margins of up to 55% (average 46% at the half year), illustrating the high profits that are achievable by a mature business in this sector.

Table 8: Key information (2006)*

Forecast sales ('000)	EBITA (£'000)	EBITDA (£'000)	EBITDA margin (%)	F'cast ann. sales (£m)	Mature site EBITDA (%)	
8431.4	894.9	1,104.9	13.1%	9,500	>55%	
Freehold ('000 sq ft)	**Leasehold ('000 sq ft)**	**Total ('000 sq ft)**	**Fitted space ('000 sq ft)**	**Fitted share (%)**	**Occupied space ('000 sq ft)**	**Occupied share (%)**
520 (56.5%)	400 (43.5%)	919 (100%)	445.2	48%	521.7	57%
Freehold stores	**Leasehold stores**	**Total stores**	**No. clients**			
11	10	21	6,703			

** Financial information forecast for FY2006, store information as at 31/01/06 Source: Lok'n Store*

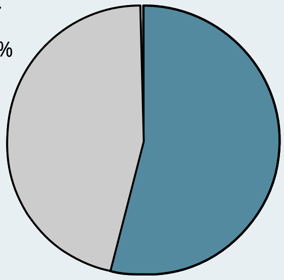
Table 9: Site overview*

	Freehold			Leasehold	
>250 wks	100-250 wks	<100 weeks	>250 wks	100-250 wks	<100 weeks
Poole, Dorset (2000)**	Luton, Beds (2002)	Farnborough, Hants (2006)	Milton Keynes, Bucks (2001)	Eastbourne, Sussex (2003)	Tonbridge, Kent (2004)
Southampton, Hants (1999)	Ashford, Kent (2000)	Crayford, E. London (2005)	Northampton, Northants (2000)	Sunbury, Middlesex (2001)	
Reading, Berks (1997)			Fareham, Hants (2000)		
Basingstoke, Hants. (1997)			Swindon, Wilts (2000)		
Kingston, West London (1996)			Portsmouth, Hants (1998)		
Woking, Surrey (1996)			Staines, Middlesex (1995)		
Horsham, Sussex (1995)					

** Highlighted sites are 40,000 sq ft-plus ** Converted to freehold in 2005*

Source: Lok'n Store

Chart 3: Polarised sector



Source: Bridgewell Limited, industry

Significant corporate activity

There has been significant corporate activity in recent years, with the leaders consolidating (Safestore/Mentmore/Aardvark) and Access also changing hands. Among the secondary players the market is highly fragmented.

Table 10: Top 5 player in UK market

Operator	Share*
Safestore (Bridgepoint)	22.6
Big Yellow Group	13.5
Access Self-Storage	8.6
Lok'n Store	*6.2*
Shurgard	3.1
Sub-Total	53.9
Smaller players	46.1
Total	100.0

** Based on est. square footage. Source: Bridgewell Limited, industry*

Key USPs

- Momentum starting with self-build stores – a new development
- A leader in the most rewarding geographical area
- Well established and highly profitable in the mature sites (a high proportion)
- Experienced management and a strong operational model
- Leveraging its position as a top four player
- Area up by over 25% in recent years
- Experienced management incentivised by share ownership (CEO and Chairman own approaching 30% of the shares).
- Distinctive model

Strong growth and margins

Strong growth and high margins within the older stores

Sales +30% CAGR, area +20%

Since its inception Lok'n Store has adopted a cautious approach to funding its growth, with only one post-flotation fund-raising (a £10m placing in 2002) and most of the growth thus funded internally and from borrowings. Notwithstanding this prudent investment style, and although never highly capitalised, Lok'n Store has experienced strong growth, with revenues up by over 30% p.a. compound over the past decade on the back of area growing by 20%-plus p.a., reflecting its flexible model and the strong underlying growth drivers in the sector.

Highly profitable within the mature sites, profits reinvested in growing the business

Profitability has been strong as the model suggests, with each freehold store delivering typically c£0.5m-£1m EBITA profits on sales of £1m-2m. Thus overall EBITDA margins of between 28% and 10% do not reflect the business's underlying profitability, with EBITDA margins well in excess of 50% common among the mature, fully owned properties. While it remains in an expansion phase, the company reinvests its profits in developing new sites, and given the strong underlying growth characteristics we would envisage Lok continuing to capture growth by developing more stores for the foreseeable future.

55% EBITDA margin in the freehold stores older than 250 weeks

This is particularly obvious if one looks at the 46% operating margin achieved across the company for the stores which are older than 250 weeks. This includes several stores that are making significantly higher margins, with a freehold 250 week-plus EBITDA margin average across seven freehold stores of 55%. Table 11 below also illustrates how the more profitable part of the portfolio is taking up an increasingly large share as the sites mature.

Mature space delivering the profits, more freehold space than leasehold space, and more freehold space in the immature sites – better margins

The company has slightly more freehold than leasehold space: eleven freeholds out of a total of twenty-one sites and 55% measured by area. In terms of the less mature space, again significantly more is freehold, with a large concentration in the <100 weeks area (Farnborough and Crayford). The importance of this is the higher profitability of the freehold as opposed to leasehold sites.

Table 11: Lok'n Store financial record 1995-2005

Y/end Jul	1997	1998	1999	2000	2001	2002	2003	2004	2005	CAGR
Sales (£m)	0.7	1.4	1.9	2.9	4.0	5.0	5.6	6.6	7.8	35.1%
Change (%)		*82*	*39*	*54*	*36*	*26*	*12*	*18*	*18*	-
EBITDA £m)			0.4	0.8	0.7	0.5	0.7	0.7	1.4	-
EBITDA margin (%)			*21%*	*28%*	*18%*	*10%*	*13%*	*11%*	*17%*	-
Number of stores	6	7	8	12	16	17	19	20	21	17.6%
Area ('000 sq ft)	186	226	344	570	726	759	770	840	919	22.4%
Change (%)		*21.5%*	*52.2%*	*65.7%*	*27.4%*	*4.5%*	*1.4%*	*9.1%*	*9.4%*	-
Number of customers								5,566	6,715	
Change (%)									*20.6*	-

Source: Lok'n Store

Table 12: Analysis of margins

Store	Area	Acquired	Freehold/	Net lettable ('000 sq ft)	Maturity	EBITDA	Share (%)
Crayford	S.E. London	2005	Freehold	67.2	<100	Start-up	
Sunbury	Surrey	2001	Leasehold	64.0	100-250	<50%	
Farnborough	Hants	2006	Freehold	58.5	<100	Start-up	
Southampton	Hants	1999	Freehold	83.8	>250	>50%	
Northampton	Northants	2000	Leasehold	55.0	>250	<50%	
Milton Keynes	Bucks	2001	Leasehold	55.7	100-250	<50%	
Poole	Hants	2000	Freehold	64.4	>250	>50%	
Sub-total (7 stores)				448.6			49%
Other stores				470.3			51%
Total*				919.0			100%

** At 31/01/06; ** * Max net area*

Source: Lok'n Store

Table 13: Lok'n Store maturity profile*

	Phase 3 (<250 wks)	Phase 2 (100-250)	Phase 1 (<100 wks)
Sales (£m)	3,095	1,040	125
Share (%)	*72.7%*	*24.4%*	*2.9%*
EBITDA (£m)	1,434	174	-91
EBITDA margin (%)	*46.3%*	*16.7%*	-
Area ('000 sq ft**)	543	211	166
Number of stores	13	5	3

** At 31/01/0 ** Max net area* *Source: Lok'n Store*

Chart 4: Site maturity profile by sites/sq ft *

** At 31/01/06 Source: Lok'n Store*

Table 14: Freehold/leasehold analysis (January 2006)

	Freehold			Leasehold			Overall			Total
(Weeks)	>250	250-100	>100	>250	250-100	>100	>250	250-100	>100	
Sites	7	2	2	2	6	2	9	8	4	21
Margins:										
>50% EBITDA	7			1						8
Loss-making			2			2				4
Average (%)#	*54.8*	*---- n/a ----*		*---- n/a ----*			*46.3^*	*16.8*	*n/a*	*35.6*

Source: Lok'n Store

Efficient operators

Effective at managing the whole process

Good acquirers

- New properties are sourced and reviewed by a team of two experienced people that constantly reviews acquisition candidates. Typically the team will have tracked a potential acquisition for a lengthy period before buying the site.
- Sites that are due to be adapted will already have B8 (industrial) planning permission. However, the focus is now on more prominent sites that offer a new-build opportunity. Lok'n Store has expertise in communicating with planners and developers.
- Lok has an excellent record of acquiring sites for good prices, for instance by converting a leasehold into a freehold (Reading and Poole), thus maximising pricing opportunities by leveraging from its acquired sites.

Efficient fit-out

- The model is geared towards reaching maturity speedily (partial fit-outs).

Flat management structure, good incentives

- The company has a relatively flat structure, with two regional managers overseeing the sites (each of which has a site manager supported by a 2-3 person team). This makes it possible to set sales and quality control targets and to incentivise staff to meet them.

Shared costs

- The concentrated network in the South of England makes it possible to share some costs (operational gearing). Variable costs are generally held down.
- Good cash flow controls: customers pay monthly in advance and also provide a 28 day deposit. Direct debit is now c37% of revenues, and has been steadily rising as a proportion of the total.

Bad debts are minimal

- Bad debts (£36,000 in the year to July 2005) are typically less than half or one quarter of a percentage point of revenues, indicating that internal credit controls are effective and that customers are influenced by the disincentive of having their units over-locked in the event of payment deficit. Lok'n Store also retains the right to operate a lien on customers' goods in the event of a serious payment default.

Effective systems

- Lok'n Store has developed bespoke systems to enable it to manage its space effectively, to develop the yield (e.g. by differential pricing) and to give good visibility.

Extra earnings streams

Lok has been successful in raising the proportion of sales and profits that it derives from alternative sources such as packaging and insurance. This is an attractive opportunity, since these activities can generate high margins; insurance is very profitable, and packaging (boxes) represents in addition a good marketing tool.

Table 15: Additional revenues

Y/end Jul 2005	Revenues (£m)	Share (%)
Units	)	)
Open storage	)	)
Storage	7,175.9	92.3
Retail/Packaging	)	)
Insurance	)	)
	598.6	7.7
	====	====
Total	7,774.5	100.0

Source: Lok'n Store

Diverse and balanced customer base

Like other self-storage operators, Lok'n Store benefits from a varied customer base, giving a good risk profile and exposing it to a good mix on the business side of high-growth areas and stability. The proportion of its clients that are business users is higher than for the industry as a whole in the UK.

Table 16: Higher than average proportion of business sales

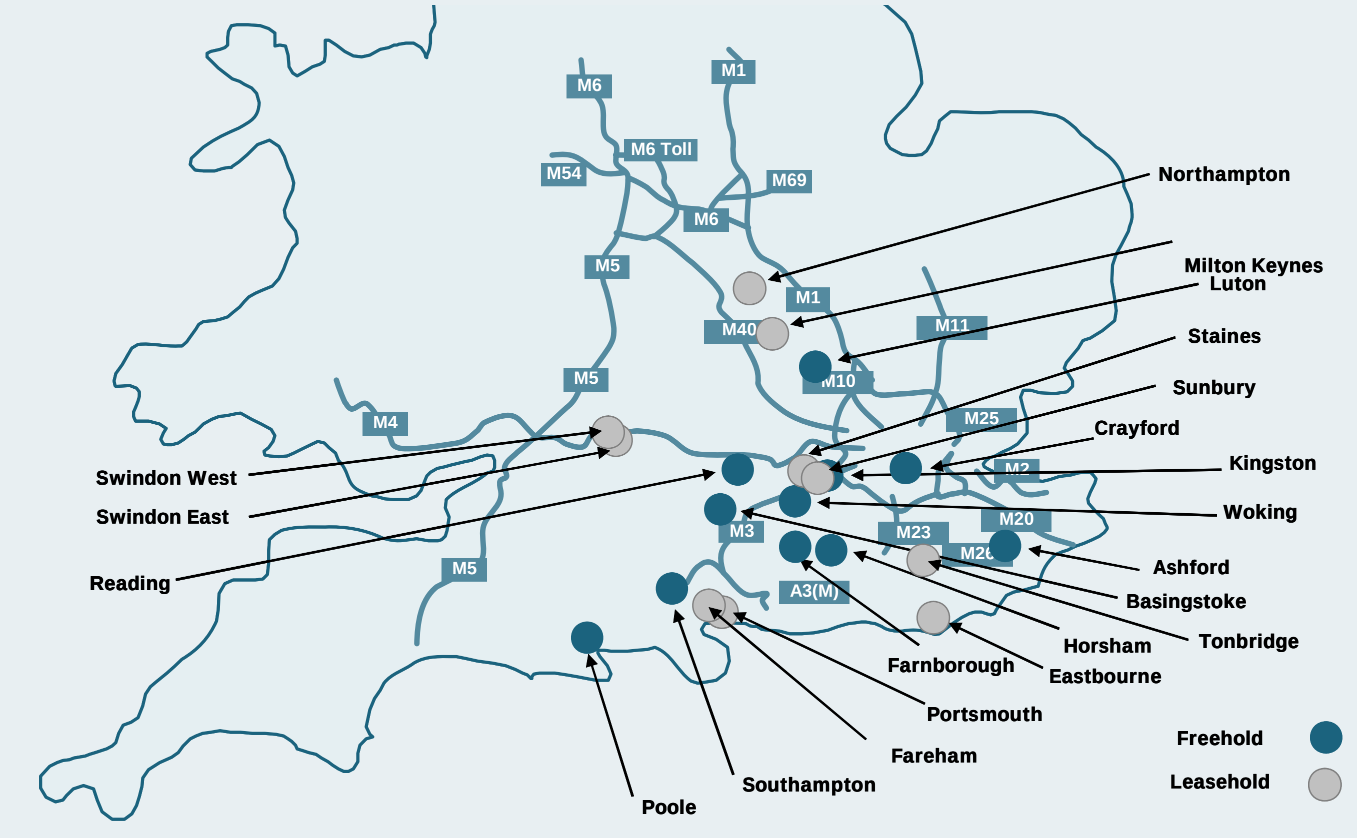
	Business	Household
Sales	43%	57%
UK average (sales)	37%	63%

Source: Lok'n Store, Bridgewell Limited

Geographically focused and good motorway network

- The group has maintained its focus on the South of England, the area within the UK where self-storage has achieved the greatest recognition, and therefore where the immediate growth prospects are the greatest.
- It has achieved strong name-recognition in its core areas: Hampshire, Surrey, Sussex, Berkshire, West London.
- The sites are well placed in terms of the motorway network, with the M3/M27 corridor extremely well covered (Poole, Farnham, Woking, Staines, Basingstoke, Farnborough, Sunbury). There is also a good spread of stores off/beyond the M23 and M25 (Horsham, Tonbridge, Crayford), the M4 (Reading, Swindon), and the M20 (Ashford).
- Farnborough exemplifies the potential for Lok of exploiting the motorway network. Not only do 55,000 people live within a five-mile radius of the site, but the site is seen by 120,000 people per day who drive past what is a significant landmark building.

Chart 5: Key geographical focus



Source: Lok'n Store, Bridgewell Limited

Distinctive model – new upside as it evolves

Long-standing model

Focus on reaching profitability

Steady and cost-effective model

Over the years, the company's model has typically included:

- **Stores generally 30-40,000 sq ft** – above the UK industry average, but not as large as some leading competitors, although Lok does have some larger stores.
- **Partial fit-outs** – a cost-effective solution, enabling the fit out to be funded from the growth of the store.
- **A mix of leased and owned sites**, rather than owning all the sites – currently around 50/50. Leasing enables the store to be opened more quickly (while using less cash).
- **Adapting existing buildings** (i.e. buildings with existing B8 planning permission) **rather than building new** has proved an effective means of controlling costs. Lok has been extremely effective at converting industrial buildings into visible, effective self-storage sites while using less cash to do so.
- **Maximum focus on sales and marketing**, e.g. by leafleting and telephone campaigns or simply by making the building itself as prominent and therefore as visible as possible.
- The main focus has been on making the stores profitable as soon as possible by opening quickly and then filling them.
- Finding sites that can be adapted, a specialised skill.

Progress to maturity

Distinctive and flexible/evolving model

Lok has chosen a distinctive model that speeds the progress to maturity as far as possible, and the company now has 21 self-storage stores with a total area of 920,000 sq ft. The company focuses exclusively on the area around London and the South East – where self-storage has taken root to the greatest degree - and has a relatively high exposure (43% by value) to business as opposed to personal storage. The model is continuing to evolve as the stores become larger and are increasingly purpose-built.

Phased fit-outs

More than its competitors, Lok'n Store has been committed to phasing the fit-out of its stores and thus minimising the immediate costs of opening. The reasoning is that profits will flow from the moment the site is opened, so it is logical to get sites to the point where letting can start as quickly as possible. The parts of the store that are not fitted out can be used for open storage of bulky items and for storage on pallets, thus generating a yield (at £8-9 per ft2 typically half the regular yield) even in the early phases.

Phasing the fit-outs of its stores enables Lok'n Store to open up storage to larger users until they are ready to fit out a specific space ("open space") – generating a yield even while the space is not being used for storage purposes.

Flexible and economical

Flexible and low-cost – reflected in the partial fit-out approach, in the owned/leased mix within the portfolio, in the strategy of adapting existing sites; and in a bespoke approach to operational issues such as opening times and in-store pricing models.

Evolving as Lok develops new-build

Repeatable and scaleable

More Farnboroughs

We believe the construction of Farnborough, the group's first store to be built from scratch, is an important development, and we anticipate further similar stores once the Kingston site has been disposed of.

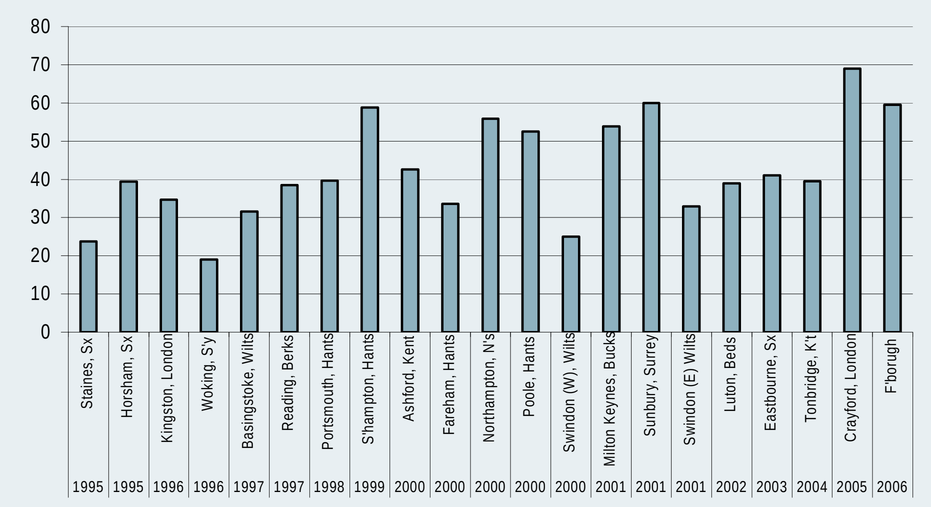
The model exemplified by Farnborough is:

- **Greater size** – with resulting operating efficiencies, particularly in sales and marketing, but also on an operational level, as the company has low variable costs.
- **Greater visibility** (prominent site, visible from motorway, railway etc).
- **Fully owned** (not leased).
- **Significant pricing upside**.
- Unlike stores that are based on an existing building that has to be painstakingly adapted by the self-storage provider, the self-build model can be reproduced in another setting, again driving operational gearing.
- **Purpose-built frame structure** constructed so as to facilitate easily building out mezzanine floors/units.

Charts illustrate the move to larger stores

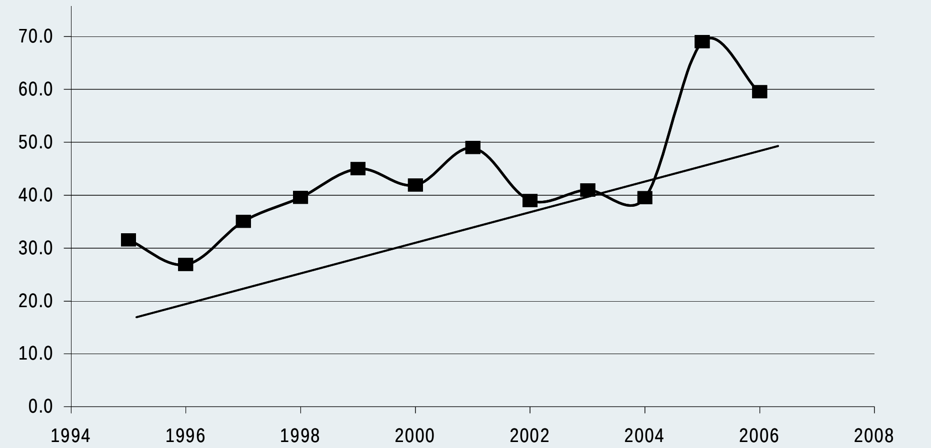
The charts below reflect the gradual movement within the portfolio towards larger stores, with the average now above 43,000 sq ft. Thus for the first five years of the company's life, all the stores with the exception of Southampton were below 40,000 sq ft, c. 40% smaller than recent new stores such as Crayford and Farnborough.

Chart 6: Annual new site acquisitions by sq ft



Source: Lok'n Store

Chart 7: Annual new site acquisitions (trend)*



** Adj. for Southampton.* *Source: Lok'n Store, Bridgewell Limited*

Farnborough is a big step forward

Top quality site

At 58,500 sq ft, Farnborough is slightly smaller than Crayford; however, this includes an extra 14,000 sq ft added when it became possible to make the Farnborough building a four-floor structure. The store is the result of a successful collaboration between the company and the local planning authority, which was looking for a landmark building to fill the site. Prices of over £17/sq ft lift the store well above Lok'n Store's £16.20 average (as at 31st January 2006), but it has the potential to achieve still higher levels of £20-plus per sq ft (more in line with Big Yellow, Safestore and others in large, highly visible stores). A large store such as Farnborough has the ability to raise customer numbers by 8-10% (currently nearly 7,000 customers).

Table 17: Farnborough key information

Size (sq ft)	Customer capacity	Visibility (vehicles/day)
58,000	750	120,000
£/sq ft (Lok average)	£/sq ft	
>16.20	Potentially 20.0-plus	

Source: Lok'n Store

What the new model does for Lok

Efficient

Higher costs from a larger store model, but much higher revenues – good operational gearing

There are significant efficiencies; broadly speaking, the extra costs of running a 60,000 sq ft store (as against a 40,000 sq ft store) are much less than the potential increases in revenue. In our outline model below we have raised staff numbers per store by 8% (i.e. to the same level as Big Yellow).

Better pricing

Pricing is significantly better in the self-build, larger store model, with Lok's Farnborough site already commanding better prices than the January '06 average of £16.20/sq ft. As an example, Lok's Store's sites on a 60,000 sq ft basis, with the same capacity utilisation as the existing portfolio, and on the manning and pricing levels that appear to be typical of a 60,000 sq ft self-build store, would appear capable of delivering around double their current revenues, illustrating the potential of the new sites.

Significant earnings uplift

This in turn clearly delivers significant potential earnings uplift, with a base level of 60% EBITDA margin in the mature stores.

Table 18: "Traditional" Lok store compared with 60,000 sq ft self-build#

	Lok'n Store	60k self-build model	Big Yellow**
Average price per sq ft (£)	16.20	21.0	22.5
Revenues (£'000)	7,774.5	15,876	
Staff costs (£'000)	1,974.1	2,184.1	
Number of staff (overall)	94	104	
Number of staff (exc. admin.)	75	83	
Number of stores	21	21	
Average store size	43.8	60	
Total available space ('000 sq ft)	919	1,260	
Total occupied space ('000 sq ft)	555.4	756	
Staff per store*	3.6	3.9	3.9
Revenues per head (£'000)	82.7	152.7	235.3

*# Year to July 2005. * Includes part-time staff. ** Reference point.* *Source: Bridgewell Limited, Lok'n Store, Big Yellow*

Replicable

It is much easier to roll out three new Farnboroughs a year than three old-style Lok'n Store sites. The reason is that a new self-build store can be replicated on each new site (once the site has been obtained). Planning and design remain key, but the development of the site to a (relatively) set model is much a much easier process to manage than adapting an existing building to create a self-storage site.

Maintenance costs

Ongoing maintenance charges are likely to be reduced when compared to managing the maintenance of an adapted building.

Table 19: Roll-out comparison on 60,000 sq ft and c40,000 sq ft basis

	2004A	2005A	2006E	2007E	2008E	2009E	2010E	2011E
Number of stores	18	21	21	24	27	30	33	36
Total area on 60,000 sq ft model ('000 sq ft)	n/a	n/a	n/a	1,100	1,280	1,460	1,640	1,820
Total area on 42,000 sq ft model* ('000 sq ft)	840	919	919	1,008	1,134	1,260	1,386	1,512
Extra space ('000sq ft)				92	146	200	254	308
Extra space (%)				9.1%	12.9%	15.9%	18.3%	20.4%
Extra revenues @ £17.20 (£m)				1.490	2.365	3.240	4.115	4.990
Extra revenues @ £20.00 (£m)				1.840	2.920	4.000	5.080	6.160

** In forecast years* *Source: Lok'n Store, Bridgewell Limited*

Profitable

Given the relatively high fixed cost, low variable cost structure of Lok's business, most of the "new" sales that are identified above would be expected to drop through to the bottom line, creating significant increases in the (already good) cash generation.

While the established freehold sites are, with one exception, all achieving at least 55% EBITDA margins, much more than this is possible, with targets in the 70-75% area achievable. On new 60,000 sq ft sites with sales of £1m or more, this introduces a disproportionate increase in group profits.

Adds value

Sites such as Farnborough will be valued for their cash flows rather than as an alternative use play.

Valuation

Financial ratios

PE and EV valuations misleading

The key driver for self-storage operators is to lift the value of their business by opening more stores. As the sector is immature, there is scope for many more openings, but in the short term these are a cost rather than a profit driver for the business. Therefore EV and EPS-based valuations will usually be misleading, since even the overall EBITDA of the company merely reflects the degree to which it is reinvesting its profits.

Table 20: PE & EV/EBITDA ratings

	Y/end	2005	2006E	2007E	2008E
Lok'n Store (PE, x)	July	n/a	386.7	232.0	248.6
Lok'n Store (EV/EBITDA, x)	July	35.6	36.0	31.3	27.4
Big Yellow (PE, x)	March	n/a	46.8	41.8	32.5
Big Yellow (EV/EBITDA, x)	March	33.6	25.5	22.2	20.8

Source: IBES, Bridgewell Limited estimates

Valuing the properties

NAV

Published NBV falls far short

The full NAV of a self-storage company would reflect:

- Some degree of planning value of the freehold sites within the portfolio
- The future value of the properties as operating units.

Both the quoted UK self-storage companies appear to have significant valuation upside on these counts, with significant underlying value. In the case of Lok'n Store the published (July 2005) NAV for the freehold properties of £14.0m (alternative use) does not begin to reflect these potential upsides.

The company provided a supplementary approach to valuation at the beginning of last year by appointing Cushman & Wakefield Healey & Baker (C&WH&B) to provide a market/existing use value. The C&WH&B valuation of £31.84m at end-January 2005 is a starting point, although it needs to be updated as it excludes:

- Farnborough and Crayford
- Full value of the leased properties
- Uplift based on trading since January 2005
- Development value of Kingston and potentially Reading

Also omitted is other development value inherent in the geographical spread of the properties (South of England) and the length of time most of them have been in the portfolio (see below).

Adding back some of these values gives a more up-to-date and comprehensive idea of the potential valuation:

Table 21: Composite NAV valuation

Building blocks	£m	Comment
Cushman valuation	31.8	Excludes £1.7m Farnborough land at cost
Farnborough/Crayford invested capital	8.6	Farnborough and Crayford - invested capital only
Terminal value of leaseholds	4.5	Excluded from C&WH&B valuation**
Kingston less operational value	7.3	Kingston operational value £2.8m
Reading	6.4	
Uplift on previous C&WH&B	5.9	Estimated industrial property rental market rate
	====	
Total	64.4	
Debt	-12.5*	Estimated at end-July 2006
	====	
Total	51.9	
Number of shares in issue (m)	25.9	
	====	
Total (p)	201	

** Forecast net debt at 31st July '06. ** Average 11 years* — *Source: Lok'n Store, Bridgewell Limited*

This assumes Kingston is disposed of for £8-10m as flagged by the company, and slightly below this for Reading. However, it clearly undervalues the company in purely allowing for Crayford and Farnborough at invested capital levels. Between them these two sites have the potential to handle approaching 2,000 customers, suggesting the potential for a 20-30% sales uplift – enhanced further by higher prices.

Development profile of freehold sites

Looking at the profile of the freehold sites:

- A significant group is concentrated at the start of the company's history (when for a time most of the sites were freehold). Thus a large proportion of the sites have accrued significant development value over 5-10 years since acquisition;
- The three sites that were first leased then converted into freeholds were acquired relatively cheaply (albeit more recently).
- The Kingston site is being developed as two 6-8 storey apartment blocks containing 78 private flats (plus key worker and social units). Comparable properties locally are selling for £480/sq ft.
- The anticipated uplift on Kingston provides an illustration of the development uplift potential in a good site in the South of England.

Table 22: Freehold sites in the group for five years or more

Date	1995	1996	1997	1998	1999	2000
Site	Horsham	Woking	Basingstoke	n/a	Southampton	Ashford
		Kingston	Reading			Poole
Total	1	2	2		1	2
Sq ft ('000)	*38.1*	*50.9*	*72.3*		*83.8*	*108.2*

Source: Lok'n Store

Table 23: Development uplift over NBV in a major site

Site	Date of acquisition	Acquisition price (£m)	NBV (£m)*	Likely disposal price (£m)
Kingston	1996	0.905	1.175	8.0-10.0

** 31 July 2005* *Source: Company, Bridgewell Limited estimates*

Comparators

The only quoted comparators are Big Yellow and the US quoted self-storage operators; the two other former quoted companies in the sector, Mentmore and Safestore, have been acquired by Bridgepoint (venture capitalist). While the US market is extremely sizeable, and includes 197 quoted self-storage businesses, the differences between the US and UK property markets make comparative valuations problematic.

Comparison with Big Yellow

Big Yellow is significantly larger than Lok'n Store (nearly fifty stores, including 19 under development), has operated a self-build strategy from the start, and has invested significantly larger amounts than Lok'n Store in developing its portfolio, having called on the market several times for funding.

Big Yellow is valued by the market at a significant premium to Lok'n Store on a £/sq ft basis:

Table 24: £/sq ft premium of Big Yellow over Lok'n Store

	Price (p)	Mkt cap (£m)	EV (£m)	Space ('000sq ft)*	£/sq ft	Multiple
Big Yellow	513	527.1	668.5	2,220	303.9	4.9x
				3,570**	187.3**	3.1x
Lok'n Store	176	44.0	56.5	919	61.5	

** Lettable ** Inc. development properties within the portfolio.* *Source: I/B/E/S, Bridgewell Limited estimates*

The variations between the multiples reflect the impact of including Big Yellow's c1.4m sq ft development pipeline in the total area in addition to the available lettable sites. Big Yellow's sites available for development were valued in May 2006 by Cushman & Wakefield, Healey & Baker at £58m, and there was a further £6.3m of land held for resale.

Yield compression

We are not assuming any yield compression going forward to support the valuation. The assumption in the C&W, H&B valuation is of a 6% yield in the first year of the projected cash flow on each property. Going forward we anticipate that there will be a more visible pipeline of stores due to become operational later on.

Conclusion

Big Yellow's premium rating is supported by its relative size, maturity and the high proportion of freehold sites - 70% as against 55% for Lok. The lowest Big Yellow valuation above (including all of Big Yellow's development properties), at £187 per sq ft, is still around three times the Lok'n Store number, reflecting the scope for Lok to outperform as its strategy evolves. Adjusting the numbers to take account of the freehold/leasehold mix still implies significant potential upside for Lok as sector valuations begin to converge.

This is all the more true as many of Big Yellow's development sites are at a very early stage with only one-third of the development stores expected to open in FY2007. The EV/ft2 of Big Yellow compared with the Mentmore deal in 2004 (lowest multiple: 2.1x) also illustrates the strong outperformance generated by the new-build model.

Deals

There has been significant corporate activity in the sector in recent years, with the acquisitions of Mentmore and Safestore and several transactions involving the private players. At the smaller end, this reflects the pressure for consolidation on smaller, private business in a capital-intensive business. The ratio of price to area in two of the three major deals of recent years was well in excess of Lok'n Store's current valuation.

Table 25: Selected recent UK deals

Acquirer	Acquisition	Date	EV (£m)	Sales (£m)	Price/sales (x)	Price/area (x)
Bridgepoint/MBO	Mentmore	2004	209.0	82.1	2.5	88.9
Bridgepoint/MBO	Safestore	2003	37.5	7.4	5.1	74.1*
Mentmore Abbey	Aardvark	2002	30.0	3.0	10.0	71.4

** Based on built out area.* *Source: Bridgewell Limited*

Outside the UK, there have been significant deals in the US, with Public Storage ($10bn market cap) acquiring its nearest competitor Shurgard earlier this year at a price equivalent to over £70/sq ft ($120/sq ft) (with the previous major deal in the US sector the acquisition in 2005 by quoted group Extra Space, in a jv with Prudential, of Storage USA for $2.3bn, equivalent to over $70 ft2).

Supportive DCF

DCF1 – no new stores beyond the existing 21

The first DCF scenario outlined below assumes that Lok'n Store builds no new stores and simply continues to fill up the existing stores. Assuming occupancy of c87% in 2014, a fair value of **247p** is reached. Terminal value is not excluded as the stores continue to trade beyond the terminal date.

Price per sq ft is assumed to grow by 3% p.a. in the short/mid-term in both models, a conservative assumption considering that competitors of Lok'n Store that already operate the new-build strategy are charging well over £20/sq ft at a number of stores, a level our DCF only reaches in 2014.

Capex falls steeply once the existing sites are fitted out. Annual maintenance costs are no more than c£14,000 per fully fitted site. However we have assumed a higher number (5% of sales).

DCF2 – 15 new stores on Farnborough/new-build model

The second DCF scenario assumes fifteen new stores, taking Lok up to 36. The new stores are assumed to replicate Farnborough or Crayford, with a mix of new-build (Farnborough) and adapted buildings (Crayford – a halfway house between the new model and the old). The cost per new build is assumed at £4.5m, of the adapted building at £3-4m, giving a total cost for the 15 new stores of £60m spread over the period and an average capex of £4m.

A key assumption is that occupancy falls as the new build programme gets under way and does not start to rise until Year 6 (2011), at which point all the new stores are within the group. Given the weight of capital spend, the NPV is only just positive by the last development year, but the Terminal Value (with little capex – estimated at 7.5% of annual sales) is significant, generating a fair value of **295p**. We have limited terminal occupancy to 86%, a slightly lower terminal occupancy figure than for DCF1, reflecting the potential for the larger portfolio to require more churn.

Again, more aggressive assumptions on price could easily be justified and would clearly deliver a higher value.

Table 26: DCF1 (21 stores)

Y/end Jul, £m	2004A	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal year
Sites	18	21	21	21	21	21	21	21	21	21	21	
Area ('000sq ft)		920	920	920	920	920	920	920	920	920	920	
£/sq ft			15.50	15.97	16.44	16.94	17.45	17.97	18.51	19.06	19.63	
Occupancy (%)			60.0	66.0	72.5	77.6	81.5	83.9	86.4	89.0	89.0	
Revenues	6,612	7,775	8,435	9,694	10,968	12,088	13,073	13,869	14,714	15,610	16,078	16,494
EBITDA	683	1,360	1,818	2,036	2,742	3,626	4,576	6,657	7,357	8,742	9,004	9,237
EBITDA margin (%)	*10%*	*17%*	*22%*	*21%*	*25%*	*30%*	*35%*	*48%*	*50%*	*56%*	*56%*	*56%*
Change in WC	252	624	638	690	747	808	875	946	1,023	1,197	1,294	913
Capex	-5,430	-2,294	-6,500	-1,500	-550	-610	-660	-693	-736	-780	-804	-825
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-182.8	-210.9	-253.1	-300.4	-2,259
Free cash flow	-4,495	-310	-4,044	1,226	2,939	3,825	4,790	6,727	7,434	8,905	9,194	7,067
Present value of FCF		-285	-3,416	954	2,100	2,509	2,884	3,718	3,772	4,148	3,931	
Terminal value												120,925
Working capital	252	182	442	624	638	690	747	808	875	946	875	927.1
As % of sales	*3.8*	*2.3*	*5.2*	*6.4*	*5.8*	*5.7*	*5.7*	*5.8*	*5.9*	*6.1*	*5.4*	*5.6*
Capex	-5,430	-2,294	-6,500	-1,500	-550	-610	-660	-693	-736	-780	-804	-825
As % of sales	*-82.1%*	*-29.5%*	*-77.1%*	*-15.5%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*	*-5.0%*
Operating profit	122	607	898	1,046	1,643	2,440	3,294	5,273	5,793	6,990	7,042	7,059
Operating margin (%)	*2%*	*8%*	*11%*	*11%*	*15%*	*20%*	*25%*	*38%*	*39%*	*45%*	*44%*	*43%*
PV of FCFF	24,246											
PV of terminal value	47,501											
Cash	-7,725											
Value	64,022											
Share price (p)	247.2											

	2004A	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal year
Beta	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Cost of Equity	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
Cost of Debt	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Cost of Capital	9.02%	9.02%	9.04%	8.93%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
Cumulative WACC	1.00	1.0876	1.18	1.28	1.40	1.52	1.66	1.81	1.97	2.14	2.34	2.54
Risk free rate	5.00%											
Equity risk premium	3.75%											

Source: Bridgewell Limited estimates

Table 27: DCF2 (36 stores)

Y/end Jul, £m	2004A	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal Year
Sites	18	21	21	24	27	30	33	36	36	36	36	36	
Area ('000 sq ft)		920	920	1100	1280	1460	1640	1820	1820	1820	1820	1820	
£/sq ft			15.50	15.97	16.44	16.94	17.45	17.97	18.51	19.06	19.63	20.22	
Occupancy (%)		*57.0*	*59.2*	*57.4*	*56.3*	*56.3*	*56.3*	*58.3*	*63.2*	*70.1*	*77.8*	*86.4*	
Revenues	6,612	7,775	8,435	10,085	11,850	13,922	16,108	18,780	21,278	24,327	27,814	31,799	32,363
EBITDA	683	1,360	1,818	1,415	1,569	1,972	2,487	4,695	7,447	9,731	15,576	17,808	18,123
EBITDA margin (%)	*10%*	*17%*	*22%*	*14%*	*13%*	*14%*	*15%*	*25%*	*35%*	*40%*	*56%*	*56%*	*56%*
Change in WC	252	624	638	690	747	808	875	946	1,023	1,197	1,294	1,400	1,069
Capex	-5,430	-2,294	-6,500	-6,750	-6,750	-6,750	-6,750	-6,750	-5,750	-4,750	-3,750	-2750	-1,641
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-182.8	-210.9	-253.1	-300.4	-348.9	-5,029
Free cash flow	-4,495	-310	-4,044	-4,645	-4,434	-3,970	-3,388	-1,292	2,510	5,925	12,820	16,108	12,544
Present value of FCF		-285	-3,416	-3,616	-3,180	-2,613	-2,048	-716	1,278	2,770	5,501	6,345	
Terminal value													214,665
Working capital	252	182	442	624	638	690	747	808	875	946	875	946	1022
As % of sales	*3.8*	*2.3*	*5.2*	*6.1*	*5.3*	*4.9*	*4.6*	*4.2*	*4.1*	*3.8*	*3.1*	*2.9*	*3.1*
Capex	-5,430	-2,294	-5,500	-6,750	-6,750	-6,750	-6,750	-6,750	-6,750	-6,500	-6,250	-6,000	-1641
As % of sales	*-82.1*	*-29.5*	*-77.1*	*-66.9*	*-57.0*	*-48.5*	*-41.9*	*-35.9*	*-27.0*	*-19.5*	*-13.5*	*-8.6*	*-5.0*
Operating profit	122	607	898	405	450	785	1,205	3,131	5,883	7,979	13,613	15,630	15,716
Operating margin (%)	*2%*	*8%*	*11%*	*4%*	*4%*	*6%*	*7%*	*17%*	*28%*	*33%*	*48%*	*48%*	*48%*
PV of FCFF	6,364												
PV of terminal value	77,681												
Cash	-7,725*												
Value	76,320												
Share price (p)	294.7												
	2004A	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal Year
Tax rate (%)	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*-15.00%*	*-30.00%*	*-30.00%*	*-30.00%*	*-30.00%*	*-32.00%*
Debt as % of EV	*-14.59%*	*-15.96%*	*2.31%*	*-0.80%*	*-3.88%*	*-5.31%*	*-30.00%*	*-30.00%*	*-30.00%*	*-30.00%*	*-30.00%*	*-30.00%*	*-25.00%*
Beta	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Cost of Equity	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%
Cost of Debt	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Cost of Capital	8.65%	8.76%	8.76%	8.46%	8.53%	8.94%	8.94%	8.94%	8.94%	8.94%	8.94%	8.94%	8.84%
Cumulative WACC	1.00	1.0876	1.18	1.28	1.39	1.52	1.65	1.80	1.96	2.14	2.33	2.54	2.76
Risk free rate	5.00%												
Equity risk premium	3.75%												

** Historic net debt*

Source: Bridgewell Limited estimates

Positive newsflow

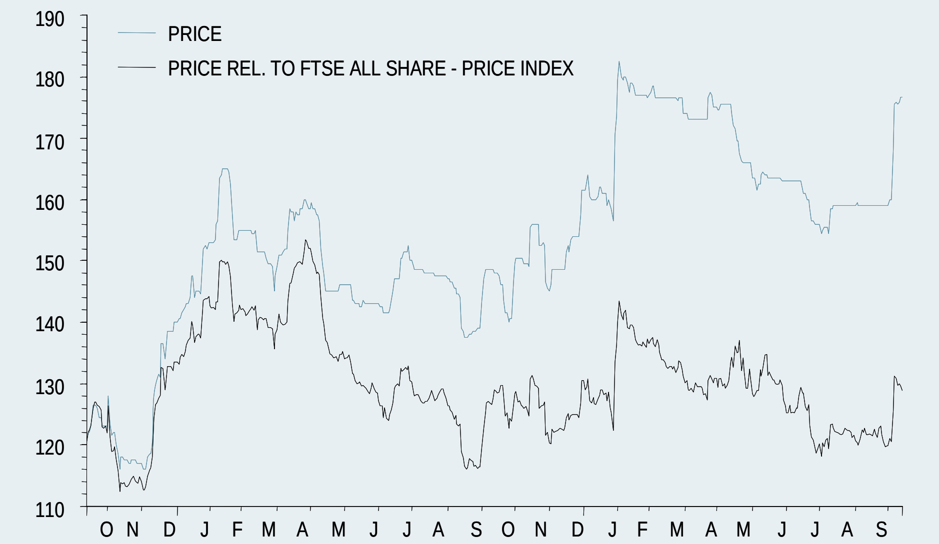
Latest newsflow

Good newsflow in past 18 months

Key newsflow in the past eighteen months includes:

- The successful launch of the first self-build site, Farnborough
- Continued good news on the trading front, with a positive update on 10th August suggesting that trading was ahead of expectations
- The recent announcement that the Sec. 106 hurdle has been passed on Kingston, suggesting that the sale is imminent and should be announced either with the results on 30th October or shortly afterwards.
- An announcement on 17th August that a new valuation is imminent. The last valuation (£32m) by Cushman & Wakefield Healey & Baker does not include the full value of the new stores nor the anticipated £8-10m for Kingston.

Chart 8: Share price starting to respond to good newsflow



Source: Datastream

Several drivers that should benefit the share price

Recently the share price has started to respond to the good newsflow over the past months. The forthcoming results, news about Kingston, the revaluation and a clear statement of the group's future strategy are all expected or potential events that we believe would deliver share price upside.

Further out, there is potential for the company to adopt REIT status – this could follow as the new-build approach becomes more established, but we do expect this imminently.

Forthcoming newsflow

Key next newsflow will be the results on 30th October, with either at the results or shortly afterwards an announcement about Kingston and an update on the pipeline.

History

2-3 new stores p.a. – a solid achievement

Lok'n Store was started in 1995 by the current Chief Executive (Andrew Jacobs) and Chairman (Simon Thomas) with one site at Horsham. By 2000 a further ten stores had been opened, and the twelfth store, Swindon Self-Storage, was acquired in June 2000. Admitted to Ofex in 1997, the company moved onto AiM in 2000. Subsequently a 29% stake held by the then parent of another UK self-storage business, Access Self-Storage, was unwound. In 2002 Lok raised £10m in a placing, since when it has increased its space by c37% (250,000 sq ft at five sites).

Key newsflow

17/08/06: C&WH&B to value the group's property as at 31st July 2006 (18 months on from previous valuation).

10/08/06: Trading ahead of expectations in the year to 31st July 2006.

24/04/06: Positive interim results; sales were up 12% and ahead of our forecast and store EBITDA rose 23% (group EBITDA +36%). Customer numbers rose 16% even before Crayford and Farnborough, with a 7% increase in core occupancy.

04/02/05: 28% of Big Yellow placed at 7% discount to the share price.

12/04/05: Second C&WH&B valuation, £33.4m overall (including £1.6m for Farnborough), £18.4m NAV increase/66% uplift.

13/12/04: Planning permission granted for 78 private apartments in two buildings on Kingston site. Book value £1.2m, likely disposal value c£10m.

03/11/04: New Farnborough store (for summer 2005 opening).

12/08/04: Successful IPO of $250m market cap Extra Space Storage on NYSE reflects continuing appetite for the sector in US.

03/08/04: Two new sites – Farnborough (freehold) and Tonbridge (leasehold).

28/04/04: Safestore (acquired by Bridgepoint in 2003) acquires Mentmore, the largest UK quoted self-storage business.

23/03/04: First property valuation by Cushman & Wakefield, Healey & Baker, £20.1m (£10.2m above book value) at 31st January 2004.

07/03/04: Acquisition of Poole headlease (cost of £2.5m) with option to buy freehold.

03/04: Buys back 3.4m shares at 112p per share.

12/03: Rejects bid at 115p.

01/02: £10m placing at 155p.

11/01: Placing of Access stake with institutions.

06/00: Lists on AiM.

02/95: Security Capital (Access) acquires 29% stake for £4.8m.

04/97: Shares listed on Ofex.

02/95: Starts first store (Horsham).

Financial overview

Table 28: Profit & loss account

Y/end Jul, £'000	2002A	2003A	2004A	2005A	2006E	2007E	2008E
Turnover:							
Group total	5,000	5,613	6,612	7,775	8,431	9,275	10,295
Sales growth (%)	*26.3%*	*12.2%*	*17.8%*	*17.6%*	*8.4%*	*10.0%*	*11.0%*
NOE	-4,998	-5,600	-6,490	-7,168	-7,537	-8,873	-9,849
EBITA	2.9	12.9	121.7	607.0	894.9	401.4	445.5
Operating margin (%)				*7.8%*	*10.6%*	*4.3%*	*4.3%*
Interest	-401.8	-39.4	-162.5	-492.6	-700.0	-221.0	-275.0
PTP	-398.9	-519.2	-193.4	90.1	174.9	160.4	150.5
Adjusted PTP	-398.9	-26.5	-40.8	114.4	194.9	180.4	170.5
Tax, adjusted	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax rate adjusted (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Attributable profit	-398.9	-519.2	-193.4	90.1	174.9	160.4	150.5
Attributable profit adjusted	-398.9	-26.5	-40.8	114.4	194.9	180.4	170.5
Adjusted EPS fully diluted (p)	-1.70	-0.09	-0.15	0.45	0.75	0.70	0.66
Dividend cost	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Int. cover (x)	0.0	0.3	0.7	1.2	2.9	1.8	1.6
Retained profit		-0.1	-0.2	0.5	0.8	0.7	0.7
NOSH (basic, m)	22.10	27.34	26.30	24.40	24.40	24.40	24.40
NOSH (Fully diluted, m)	23.43	28.51	26.90	25.90	25.90	25.90	25.90

Source: Company, Bridgewell Limited estimates

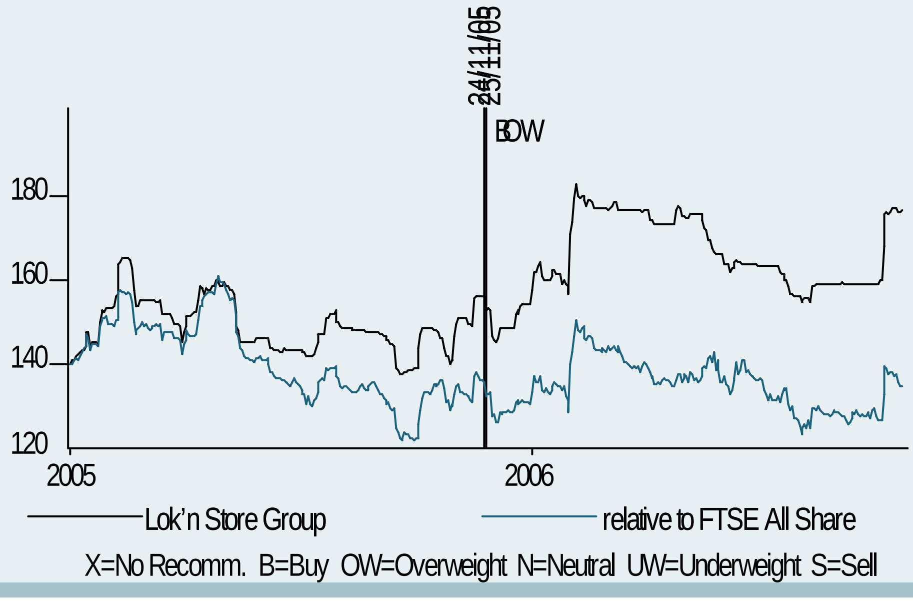
Table 29: Cash flow statement

Y/end Jul, £'000	2004	2005	2006E	2007E	2008E
Operating profit	121.7	607.0	894.9	401.4	445.6
Depreciation	664.2	728.5	900.0	990.0	1098.9
Amortisation	24.3	24.3	20.0	20.0	20.0
Loss (profit) on sale of fixed assets, bus.	0.0	0.0	0.0	0.0	0.0
Decrease in stocks	-2.1	15.2	-20.0	-20.0	-20.0
Decrease in debtors	-420.9	263.1	284.1	306.9	331.4
Decrease in creditors	675.2	345.8	373.4	403.3	435.6
Decrease in provisions	0.0	0.0	0.0	0.0	0.0
Other	-0.1	0.0	0.0	0.0	0.0
Net cash flow from operating activities	934.9	1,983.8	2,452.4	2,101.5	2,311.4
EBITDA	682.8	1,359.7	1,814.9	1,411.4	1,564.4
Movement in working capital	252.2	624.1	637.6	690.2	747.0
Other	-0.1				
Taxation	0.0	0.0	0.0	0.0	0.0
Operating cash flow	934.9	1,983.8	2,452.4	2,101.5	2,311.4
Interest	-122.2	-500.9	-700.0	-221.0	-375.0
Gross cash flow	812.7	1,482.9	1,752.4	1,880.5	1,936.4
Capex & financial investment	-5,429.6	-2,293.9	-6,500.0	-3,000.0	-3,000.0
Free cash flow	-4,616.9	-811.0	-4,747.6	-1,119.5	-1,063.6
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0		10,000.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Equity issue	-3,444.9	0.0	0.0	0.0	0.0
Exceptional/other	17.2	31.8	0.0	0.0	0.0
Net loans			0.0	0.0	0.0
Net cash flow	-8,044.6	-779.2	-4,747.6	8,880.5	-1,063.6
Net debt	-6,945.8	-7,725.0	-12,472.6	-3,092.0	-3,655.6
Gearing (%)	-65.9%	-72.2%	-112.6%	-23.2%	-26.8%
Balance sheet:					
Net assets	14,201.3	10,558.6	10,703.6	11,073.4	13,324.4
Capital and reserves					
Share capital	284.7	250.5	250.7	250.7	250.5
Share premium account	9,912.4	21.5	246.8	246.8	180.4
Capital redemption reserve	34.2	34.2	34.2	34.2	34.2
Merger reserve	6,295.3	6,295.3	6,295.3	6,295.3	6,295.3
Other distributable reserves	0.0	5,903.0	5,903.0	5,903.0	5,903.0
P&L	-1,267.2	-1,460.3	-1,322.0	-1,751.5	417.5
ESOP shares	-1,023.9	-509.6	-509.6	-509.6	-509.6
Equity shareholders' funds	14,201.3	10,558.6	10,703.6	11,073.4	13,324.4

Source: Company, Bridgewell Limited estimates

Appendix: Regulatory disclosures

Recommendation history: Lok'n Store



Source: DataStream, Bridgewell Securities

Recommendations

Bridgewell Limited has adopted the following scheme for stock recommendations.

- **Buy –** Outperformance of UK FTSE sector (or peer group) by 10% or more over six months.
- **Overweight** – Outperformance of UK FTSE sector (or peer group) by 5% to 10% over six months.
- **Neutral –** Outperformance or underperformance of UK FTSE sector (or peer group) by up to 5% over six months.
- **Underweight** – Underperformance of UK FTSE sector (or peer group) by 5% to 10% over six months
- **Sell –** Underperformance of UK FTSE sector (or peer group) by 10% or more over six months.

Where a recommendation is relative to a peer group rather than a FTSE sector, that peer group will be specified in the document. The period for the recommendation is indicative only. The expectation is that performance will occur in line with the recommendation during the period, but not necessarily over the period as a whole. Recommendations may be changed at any time during the specified period.

A description of Bridgewell's valuation methodology can be found at www.bridgewell.co.uk/RecommendationScheme.aspx

Equity Research Quarterly Ratings Distribution

Data current as of 30 September 2006

Buy (%)		Overweight (%)		Neutral (%)		Underweight (%)		Sell (%)	
All	Client	All	Client	All	Client	All	Client	All	Client
30	48	33	33	29	18	7	1	1	0

Includes AIM and Official List companies

General

Analysts' remuneration is not linked to specific corporate finance transactions, nor to recommendations contained in research, but is determined by the general profitability of Bridgewell Group plc and its subsidiaries.

Disclosure table of relationships and other material interests

As at 17 October 2006

Aberdeen Asset Management	1,4,5,6	Datong	1,3,4,5,6	Liontrust Asset Management	4
AcenciA Debt Strategies	1,2	Dee Valley	1,2,4,5	Lok'n Store	4
Adamind	1,3,4,5,7	Detica	4	London Scottish Bank	4
Advanced Medical Solutions Group	1,3,4,5	DIC Entertainment	1,3,4,5,6	Majedie Investments	1,2,4,5,10
Afren	1,3,4,5,6	DICOM Group	1,2,4,5	Management Consulting	4
Akers Biosciences	1,3,4,5	Empresaria	1,3,4,5,6	Marshalls	1,4
Allergy Therapeutics	1,3,4,5,6	Enterprise	4	McCarthy & Stone	4
Amlin	4	Entertainment Rights	4	Media Square	4
Andor	1,3,4,5	Evolutec	1,3,4,5	Metal Bulletin	4
Anite Group	4	F & C Asset Management Group	4,10	Michael Page	4
Ark Therapeutics	4	Fibernet	4	MITIE Group	4
Atkins (WS)	4	Flying Brands	1,2,4,5	Mobile Streams	1,3,4,5,6
Atlas Estates	4,5,6	Foseco	4	Morgan Crucible	4
Atrium Underwriting	1,4,5	Future	4	Mothercare	4
Augean	1,3,4,5	Games Workshop	1,2,4,5	Mouchel Parkman	4
Avingtrans	1,3,4,5	GCap Media	1,2,4,5	Nautical Petroleum	1,3,4,5,6
Babcock International Group	4	Global Energy Development	1,3,4,5	N Brown	4
Bateman Litwin	4,6	Glotel	1,2,4,5	New Star Asset Management	4
Bellway	1,4,5	Gyrus Group	4	Next Fifteen Communications	1,3,4,5,6
Berkeley Group Holdings	4	Halfords	4	Northgate Info	4
BioProgress	1,3,4,5,6	Halma	4	NXT	1,2,4,5,6
Blacks Leisure	4	Hardy Oil & Gas	4	office2office	4
Bloomsbury Publishing	4	Harvey Nash	4	OPD	4
Bovis Homes Group	4	Henderson Group	4	Optimistic Entertainment	1,3,4,5
Brewin Dolphin Holdings	1,2,4,5	Hiscox	4	Ovum	1,3,4,5,6
Brit Insurance	4	Hornby	1,2,4,5	Paragon Group of Companies	4
BTG	4	Huntleigh Technology	4	Penna Consulting	1,2,4,5
Care UK	4	Huntsworth	4,5	Pipex	4
Carillion	4	Huveaux	4	PlusNet	1,3,4,5
Catlin Group	4	Icap	4	Premier Oil	4
Cattles	4	IG Group	4,6	Prodesse Investment Ltd	1,4
Celsis International	1,2,4,5	Imagination Tech	4	Quantica	1,2,4,5
Centaur Media	4	Imprint	4	Rathbone Brothers	1,4,5
Charles Stanley Group	1,2,4,5	Incisive Media	4	Redrow	4
Charteris	1,3,4,5	Independent Media Distribution	1,2,4,5	Rensburg Sheppards	4
Chrysalis Group	4	Informa	4	Robert Walters	4
Clarity Commerce	1,3,4,5,6	Ingenious Media Active Capital	1,3,4,5,6	Rotork	4
Close Brothers Group	4	Inspicio	1,3,4,5,6	royalblue	4
CODA	1,3,4	Intec Telecom	4,5	RPC Group	4
Collins Stewart Tullett	4	Interserve	4	SciSys	1,3,4
Cookson Group	4	Intertek	4	Senior	4
Corin Group	4	iSOFT Group	1,4,5	Serco Group	4
Corporate Services	1,2,4,5	Isotron	4	Severfield-Rowen	4
Cosalt	1,4,5	ITE Group	4	Shanks Group	4
Crest Nicholson	4	John Laing	1,4,5,6	Shed Productions	1,3,4,5,6
CryptoLogic	1,2,4,5	Johnston Press	4	SHL Group	4
CSR	4	K3 Business Technology Group	1,3,4,5	Sinclair Pharma	1,4,5,6
CSS Stellar	1,3,4,5	Kier Group	1,4,5	SMG	4
Dana Petroleum	4	Laird Group	4	SOCO International	1,2,4,5

Spectris	4	Trafficmaster	1,4,5	Venture Production	4
Spice Holdings	4	Transense Technologies	1,3,4,5,6	Weir	4
Spirax Sarco	4	Travis Perkins	4	Wellington Underwriting	4
Spring Group	4	Tribal Group	4	Wilmington	4
Synairgen	1,3,4,5	TT electronics	1,4,5	Wilson Bowden	1,4,5
Synergy Health	4	Tullow Oil	4	Wogen	1,3,4,5,6
Taylor Nelson	4	UBC Media Group	4	Wolfson Micro	4
Ted Baker	4	Universal Salvage	4	Xaar	4
The Local Radio Company	1,3,4,5	Vectura Group	4	XKO Group	1,3,4,5
Thomson Intermedia	1,3,4,5	VEGA Group	1,2,4,5	Zetex	4
Topps Tiles	4				

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