

Our Strategy and Business Model (continued)

The self storage market

In the recently published 2017 Self Storage Association UK Survey, only 42% of those surveyed had a reasonable or good awareness of self storage, in line with findings from our own research. Furthermore, only 6% of the 2,075 adults surveyed were currently using self storage, or were thinking of using self storage, in the next year. This indicates a continued opportunity for growth and with increasing use of self storage, together with the ongoing marketing efforts of everyone in the industry, we anticipate awareness will grow.

Growth in new facilities across the industry has been largely in regional areas of the UK and in particular in smaller towns. In London in the last year, we believe there were eight new store openings.

The Self Storage Association ("SSA") estimates that the UK industry is made up of approximately 1,430 self storage facilities (of which 317 are purely container operations), providing 42.2 million sq ft of self storage space, equating to 0.6 sq ft per person in the UK. This compares to 9.1 sq ft per person in the US, 1.8 sq ft per person in Australia and 0.1 sq ft for mainland Europe, where the roll-out of self storage is a more recent phenomenon (source: FEDESSA European Self Storage Annual Survey 2016). 390 self storage facilities in the UK are held by large operators (defined as those managing 10 facilities or more), which represents 35% of the total number of self storage centres (excluding container operations), but the SSA estimate approximately 50% of total capacity. Given the dominance of the larger brands in the South East, we would expect the proportion of revenue earned by the top five operators to be in excess of 60% of the annual industry turnover of £500 million.

Big Yellow is well placed to benefit from the growing self storage market, given the strength of our brand, and our online platform which delivers 87% of our prospect enquiries. Our portfolio is strategically focussed on London, the South East and large metropolitan cities, where barriers to entry and economic activity are at their highest.

KPIs

The key performance indicators of our stores are occupancy and rental yield, which together drive the revenue of the business. These are three key measures which are focussed on by the Board, and are reported on a weekly basis. Over the course of the past five years, both occupancy and revenue have grown significantly. Rental yield grew by 6.1% in the year to 31 March 2014, but decreased by 3.5%, in 2015 principally reflecting the acquisition of the Big Yellow Limited Partnership stores, a regional portfolio, with a lower average net rent per sq ft. In 2016 net rent increased by 2.7%, and has increased by 0.5% in the current year. Our key focus is on continuing to grow occupancy, with rental yield growth following once the stores have reached higher occupancy levels.

Adjusted profit before tax, adjusted earnings per share and distributions to shareholders are also KPIs. The Group focuses on adjusted profits and earnings measures as they give a clearer underlying picture of the Group's trading performance without distortion from external factors such as property valuations and the fair value of derivatives. We have delivered compound adjusted eps growth of 16% over the past five years, and compound dividend growth of 26% over the same period. Compound adjusted eps growth since 2004/5 is 17%. We have illustrated the Group's performance in these measures over the past five years on page 1.

Our non-financial KPIs are the net promoter scores we receive from our customers and the carbon intensity of the Group's business. The Group's net promoter score received from its customers during the year was 77. This has increased by 27% over the past four years, when the Group started to use this measure of customer satisfaction. We believe this overall score compares very favourably with other consumer facing businesses.

The Group has reduced its carbon intensity (our carbon emissions divided by our average occupied space) by 52% over the past five years. This has been achieved through investment in renewable technology, roof mounted solar photo-voltaic systems, and LED lighting across the Group's portfolio.

Operational and Marketing Review

Overview

We now have a portfolio of 73 open and trading Big Yellow stores, with a further six development sites and two extension opportunities. The current maximum lettable area of the 73 stores is 4.6 million sq ft. When fully built out the portfolio will provide approximately 5.0 million sq ft of flexible storage space.

In addition we part-own and manage 19 Armadillo stores which are principally located in northern towns and cities, and operate from a platform of 0.8 million sq ft.

Access to capital and bank facilities has improved in the last few years, however this is mainly for larger well-capitalised groups. Growth in new store openings over the last six years has averaged 1% to 2% of total capacity per annum, down significantly from the previous decade. Additionally, in our core markets in London and the South East, very high land values driven by competing uses such as residential, is making the creation of new supply very difficult for all operators. We believe that we are in a relatively strong position given the strength of our balance sheet and our proven property development expertise, together with our ability to access funding to exploit the right opportunity.

**FOR UNPROMPTED BRAND
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Operations

The Big Yellow store model is well established. The “typical” store has 60,000 sq ft of net lettable storage area and takes some three to five years to achieve 80% plus occupancy. The average room size occupied in the portfolio is currently 68 sq ft, a slight increase from 67 sq ft last year. The store is open seven days a week and is initially run by three staff, with a part time member of staff added once the store occupancy justifies the need for the extra administrative and sales workload.

The drive to improve store operating standards and consistency across the portfolio remains a key focus for the Group. Excellent customer service is at the heart of our business objectives, as a satisfied customer is our best marketing tool. We measure customer service standards through a programme of mystery shopping and online customer reviews, which are externally managed. Over the year, we have achieved an average net promoter score of 77, which we believe compares favourably to other consumer facing businesses.

We have a team of nine area managers in place who have on average worked for Big Yellow for twelve years. They develop and support the stores to drive the growth of the business.

The store bonus structure rewards occupancy performance, sales growth and cost control through quarterly targets based on occupancy and store profitability, including the contribution from ancillary sales of insurance and packing materials. Information on bonus build up is circulated monthly and stores are consulted in preparing their own targets and budgets each quarter, leading to improved visibility, a better understanding of sales lines and control of operating costs.

We believe that as a consumer-facing branded business it is paramount to maintain the quality of our estate and customer offering. We therefore continue to invest in preventative maintenance, store cleaning and the repair and replacement of essential equipment, such as lifts and gates. The ongoing annual expenditure is approximately £35,000 per store, which is included within cost of sales. This excludes our rolling programme of store makeovers, which typically take place every five years, at a cost of approximately £20,000 per store. Over the last five years we have invested £11 million in the upkeep and maintenance of our stores, all of which has been expensed in the income statement.

Demand

Awareness of self storage and the market generally will continue to grow as people use the product for the first time and with continued marketing from all industry players. We are seeing improving levels of referral and repeat use.

Of our occupied space today, 15% is occupied by customers who are longer stay lifestyle users decluttering into small rooms as an extension to their accommodation; 50% are using it for less than 12 months as a result of an event in their life, which could be inheritance, moving, carrying out work; and the balance of 35% are businesses, typically SMEs.

Of the customers moving into our stores in the last year, surveys undertaken indicate approximately 43% are house move related, split broadly equally across those renting storage space whilst moving within the rental sector and those moving within the owner occupied sector. During the year 11% of our customers who moved in took storage space as a spare room for decluttering and approximately 34% of our customers used the product because some event has occurred in their lives generating the need for storage; they may be moving abroad for a job, have inherited possessions, are getting married or divorced, are students who need storage during the holidays, or homeowners developing into their lofts or basements. The balance of 12% of our move-ins during the year came from businesses.

Our business customers range across a number of industry types, such as retailers, e-tailers, professional service companies, hospitality companies and importers/exporters. These businesses store stock, documents, equipment, or promotional materials all requiring a convenient flexible solution to their storage, either to get started or to free up more expensive space.

There is a growing trend towards self-employment and smaller business start-ups in the UK, dynamics which are positive for self storage. Additionally, businesses in the UK are increasingly seeking more flexible lease arrangements for their office and storage space. The deindustrialisation of big cities also points to a structural growth in demand for storage for businesses.

Business customers typically stay longer than domestic customers, and also on average occupy larger rooms. Whilst only representing 12% of new customers during the year, businesses represent 20% of our overall customer numbers, occupying 35% of the space in our stores at 31 March 2017, domestic customers occupy 65%. The average room size occupied by business customers is 121 sq ft, compared to 54 sq ft for domestic customers. This compares with the 2017 SSA UK Annual Survey result for the industry as a whole which had 58% of space occupied by domestic customers and 42% of space by businesses. We would expect to have a higher proportion of domestic customers given our focus on London and other large metropolitan cities.

Our Strategy and Business Model (continued)

We have a dedicated national accounts team for business customers who wish to occupy space in multiple stores. These accounts are billed and managed centrally. We have four full time members of staff working on growing and managing our national account customers. The national accounts team can arrange storage at short notice at any location for our customers. In smaller towns where we do not have representation, we have negotiated sub-contract arrangements with other operators who meet certain operating standards.

Marketing and ecommerce

Our marketing strategy focuses on driving enquiries and customer satisfaction through our digital platforms.

For the last eleven years, we have commissioned a YouGov survey to help us monitor our brand awareness. In our most recent survey, conducted in April 2017, we used a statistically robust sample size of 1,043 respondents in London and 2,028 for the rest of the UK. The survey has shown our prompted awareness to be at 74% in London, two and half times higher than our nearest competitor and 41% for the rest of the UK, nearly three times higher than our nearest competitor.

For unprompted brand awareness, our recall in London is 47%, nearly six times higher than our nearest competitor and for the rest of the UK it is 21%, more than eight times higher than our nearest competitor. Across the UK as a whole it is seven times higher than our nearest competitor. These surveys continue to prove we are the UK's brand leader in self storage [source: YouGov, April 2017]. The UK Self Storage Association has also conducted a brand awareness survey with similar results.

Online

The Big Yellow website, whether accessed by desktop, tablet or smartphone, delivers the largest share of our prospects, accounting for 87% of all sales leads across the year ended 31 March 2017. Telephone is the first point of contact for 9% of our prospects and walk-in enquiries, where we have had no previous contact with a prospect, represent 4%.

We have the largest online market share of web visits to self storage company websites in the UK. Across the year ended 31 March 2017, our online market share of web visits ranged from 31% to 38%. Our nearest competitor ranged from 16% to 21% online market share for the same period [source: Connexity Hitwise 36 largest UK self storage operators].

We monitor and improve the website user journeys on an ongoing basis. We are committed to making the experience as easy, intuitive and informative as possible for our customers. Both the mobile specific website, which itself accounted for 42% of our web visits in the year and our desktop site are designed with helpful and time saving online tools such as check-in online, online FAQs, video store tours and online chat. These all help the customer to make an informed choice about their self storage requirements. We have also relaunched "Box Shop", our online store for boxes and packing materials which also now includes a Click and Collect service for customers to conveniently pick up their orders in store.

Online customer reviews

Consistent with our strategy of putting the customer at the heart of our business, our online customer reviews generate real-time feedback from customers as well as providing positive word of mouth referral to our web visitors. Through our 'Big Impressions' customer feedback programme, we ask our new customers to rate our product and service and with the users' permission, we then publish these independent reviews on the website. There are currently over 15,000 reviews published.

The Big Impressions programme also generates customer feedback on their experience when they move out of a Big Yellow store and also from those prospects who decided not to store with us. This programme reinforces best practice of customer service at our stores where customer reviews and mystery shop results are transparently accessible at all levels.

We also gain real-time insight from customers who submit reviews to Trustpilot, the well-known third party customer review site. These reviews are currently averaging 9.5 out of 10. We also regularly monitor Google reviews and mentions of Big Yellow within the social mediums of Twitter, online forums and blogs. We use this insight to continually improve our service offering.

Driving online traffic

Search engines are the most important acquisition tool for us, accounting for the majority of traffic to our website. We continue to invest in search engine optimisation ("SEO") techniques both on and off the site. This helps us to maintain our high positions for the most popular and most searched for terms such as "storage" and "self storage" in the organic listings on Google.

The sponsored search listings remain the largest source of paid for traffic and we ensure our prominence in these listings is balanced with effective landing pages to maximise site conversion.

***WE HAVE THE LARGEST
ONLINE MARKET SHARE
OF WEB VISITS TO SELF
STORAGE COMPANY
WEBSITES IN THE UK.***

Efficiencies in online spend are continuing into the year ending 31 March 2018, ensuring the return on investment is maximised from all of our different online traffic sources. Online marketing budgets will continue to remain fluid and be directed towards the media with the best return on investment.

Social media

Social media continues to be complementary to our existing marketing channels. Our activity is most focussed on Twitter, not only monitoring and answering queries regarding self storage, but also posting our own creative tweets, tips and advice. The Big Yellow YouTube channel is used to showcase our stores to web prospects through a video store tour. We use both domestic and business versions to help prospects experience the quality of the product without the need for them to visit the store in person. Our online blog is updated regularly with tips and advice for homeowners and businesses, as well as summaries of our charitable and CSR initiatives.

PR

We have been developing regional PR stories throughout the year to help raise the awareness of Big Yellow and the benefits of self storage across the UK. We have been highlighting newsworthy stories of charitable endeavours from Big Yellow staff or the support we provide to the local charities through offering free storage.

Budget

During the year the Group spent approximately £4.2 million on marketing (4% of total store revenue). We have increased the budget for the year ahead to £4.5 million with a focus on delivering more prospects to our stores from our digital channels.

Cyber security

The Group receives specialist advice and consultancy in respect of cyber security and we have dedicated in-house monitoring. We regularly review our security systems and we limit the retention of customer data to the minimum requirement.

During the year we have continued to invest in digital security. Some of the changes include more frequent penetration testing of internet facing systems, adding components such as anti-ransomware as well as the maintenance replacement of components (such as firewalls) to the latest technology and specification. Policies and procedures are under regular review and benchmarked against industry best practice by our consultants. These policies also include defend, detect and response policies. We have also instigated a new working group to ensure our compliance with the new EU General Data Protection Regulation ("GDPR") which comes into effect on 25 May 2018.