KerrisdaleCapital

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# AMERCO (UHAL)

We think that AMERCO ("UHAL" or the "Company") is undervalued. AMERCO is an underfollowed holding company that owns one of America's most ubiquitous businesses: U-Haul, the nation's dominant do-it-yourself ("DIY") moving company. For over 60 years, numerous well-financed competitors have tried, and failed, to encroach on U-Haul's ever-growing lead in the DIY moving equipment rental market. Today, U-Haul controls its market niche, with more than 9x as many hubs as its nearest competitor, and is growing revenue and profit at a steady clip while gaining market share.

Yet despite the fact that UHAL is very likely to grow its cash flow consistently and significantly over the next 5, 10 and 20 years, AMERCO trades at a 12x price-to-earnings ratio, a significant discount to the S&P 500's 16x price-to-earnings multiple. From an enterprise value perspective, the stock trades at 6x EV / EBITDA and 9x EV / EBIT. Given its considerable earnings power, stability and asset value, as well as its management team's demonstrated willingness to return cash to shareholders, AMERCO deserves to trade at a premium to the overall market, in the 18x to 22x price-to-earnings multiple range.

As a result, we think AMERCO should be worth between $270.00 and $330.00 per share, compared to $185.00 today, implying approximately 45% to 80% upside from today's trading levels.

In addition to its vehicle rental operations, AMERCO also owns substantial real estate across the United States in the form of self-storage facilities. AMERCO's real estate portfolio generates nearly 30% of the Company's EBIT and if converted to a REIT, it would be the 3rd largest storage REIT in the US. AMERCO also owns a small and profitable insurance book (largely underwriting truck rental insurance). On a sum-of-the-parts basis, AMERCO's assets offer a sizable floor value, particularly since its insurance and real estate assets can be sold to strategic buyers or spun out to shareholders at accretive valuations.

We believe this investment opportunity exists because AMERCO provides no earnings guidance, has a small float (the founding Shoen family retains 55% of the company), has little research coverage, and its amalgam of equipment rental, storage real estate and insurance businesses with no *regular* dividend leaves it an orphaned stock. However, now that AMERCO has resumed its share buybacks and special dividends ($1.00 in 2011, $5.00 in 2012, with the potential to launch a regular dividend soon), we believe the valuation disconnect will close as investors directly benefit from the steady and growing earnings power of AMERCO's component businesses.

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# I. Investment Highlights

Below are key investment highlights for why we are long UHAL.

- **U-Haul's Competitive Advantages are Unassailable**: U-Haul last faced a significant competitor 20 years ago, due to some managerial missteps, yet emerged in an even more dominant position. Today, on almost every metric of success in the DIY equipment rental business, U-Haul's competitive advantage is not only significant, but widening. U-Haul is one of the most recognized brands in the United States. It has 9x as many locations and 4x as many vehicles as its nearest competitor, resulting in enhanced convenience for customers while providing a better value proposition to prospective franchisees. It offers numerous ancillary products and services that differentiate its service from competitors. As a result, U-Haul's closest competitor, Budget Truck Rental, is retrenching, having reduced its truck count and announced restructuring measures over the past few years.

- **High Insider Ownership and Competent Management:** AMERCO has been run by the Shoen family for nearly 70 years and the family retains a 55% equity interest in the business. Current CEO Joe Shoen, son of founder Leonard Shoen, has run UHAL since 1986 and has managed operations with a long-term focus, continuously enhancing UHAL's competitive advantages and consistently increasing market share at the expense of competitors. Shoen can be credited with fighting off Ryder Truck Rental, the last major competitive threat U-Haul faced, when he became Chairman in 1986. U-Haul's numerous ancillary services demonstrate that management has proven adept at constantly adapting the company to take advantage of, and protect the business from, new trends, technologies and ways of doing business. Management wealth is primarily tied to the long-term value of the stock, not salary.

- **Shareholder Friendly Capital Allocation Policies**: Over the past few years, management has consistently adopted capital allocation policies that benefit shareholders. Since the recession, management has used Free Cash Flow to pay down debt and retire preferred stock, having reduced debt and preferreds by more than $300m since 2009. More recently, the company has returned cash to shareholders via special dividends, announcing a $1.00 special dividend in December 2011, followed by a $5.00 special dividend announced in December 2012. With its balance sheet now lush with liquidity, and annual earnings power in excess of $13.00 per share, AMERCO is in a very strong position to return significant capital to shareholders. Finally, management is focused on building out its core U-Haul business and although it regularly acquires small self-storage facilities and the occasional ancillary product provider, the company has refrained from any major acquisitions over the past five years.

- **AMERCO Generates Nearly 30% of its Cash Flow from Self-Storage Real Estate:** If converted to a REIT, AMERCO's real estate portfolio would, as a standalone entity, be the 3rd largest self-storage REIT in the United States. Self-storage real estate receives high valuation multiples in the market because it has low maintenance costs, generates substantial cash flow, and, like parking lots, represents significant option value if the land can be converted to alternate uses (commercial or residential). We believe the cash flow stream from the real estate portfolio alone could be worth over $130.00 per share.

- **Deeply Discounted Valuation**: Last, but not least, AMERCO's shares are very obviously cheap. Despite having a dominant market position in a predictable industry that will almost certainly be larger 20 years from now, AMERCO shares trade at only 12x EPS, 6x EV / EBITDA and 9x EV / EBIT. Given the company's leading and highly defensible market position, competent management, and intelligent capital allocation policies, we believe that the stock should be trading at a premium to the S&P 500's current 16x multiple. A trailing P/E multiple of 18x to 22x would yield a stock price between $270.00 and $330.00 per share, between 45% and 80% above today's trading levels.

## II. AMERCO Overview

AMERCO is a holding company which, through its primary subsidiary U-Haul, is the largest do-it-yourself moving and storage company in the United States.

### Business Segments

AMERCO operates three distinct businesses:

- **U-Haul Rental**: The largest DIY moving equipment rental and services company in the United States; rents trucks, vans, trailers, self-storage real estate, and sells associated tools and equipment to help people move. U-Haul also owns the largest network of propane refilling stations in the US and is the largest installer of trailer hitches in the US.

- **Self-Storage Real Estate**: Owns and rents the 3rd largest portfolio of self-storage real estate in the United States – ~38 million sq. ft. of rental space, much of which is U-Haul-branded and integrated into the U-Haul service offering. U-Haul also manages 3rd party self-storage real estate for a fee.

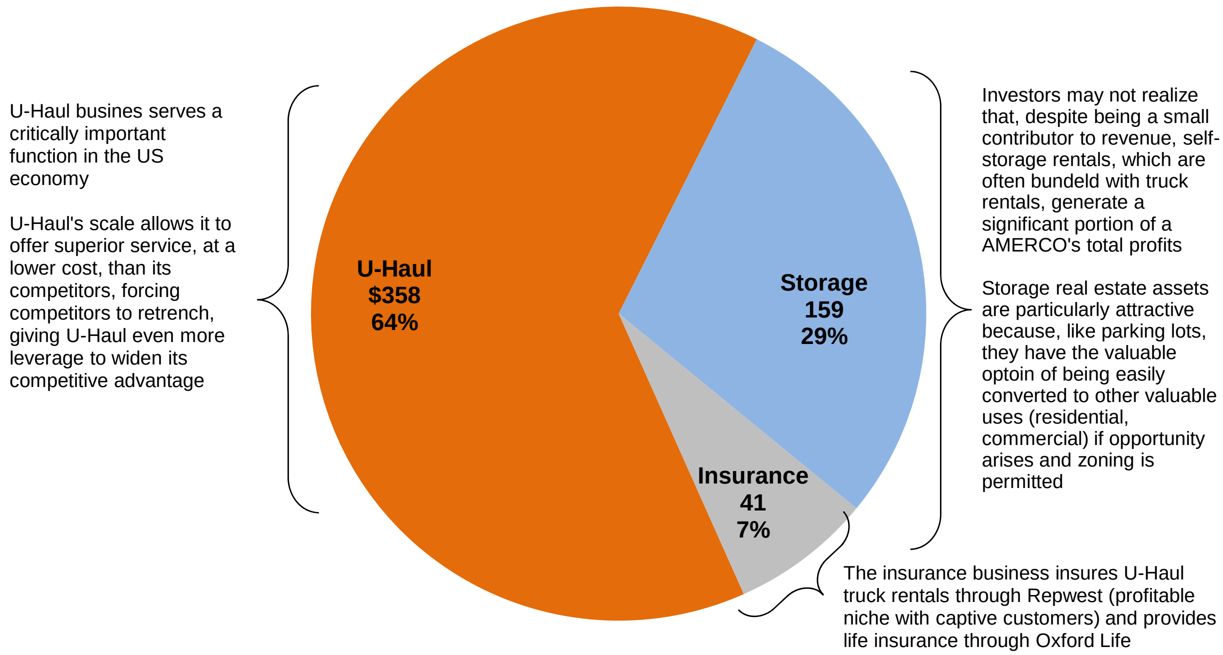
- **Insurance:** AMERCO operates two small insurance subsidiaries. The first is *Repwest*, which provides insurance to renters of U-Haul trucks and equipment. The second is *Oxford*, a small life insurance company.

### Financial Summary

AMERCO has experienced a significant improvement in earnings power through market share gains and increasing profits from high-margin business lines, including self-storage rentals and ancillary services like sales of packaging and moving supplies.

| | Fiscal Year Ending March 31, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | LTM |
| Revenue | | | | | | | | | | | *Q1: 6/30/13* |
| U-Haul | $1,614 | $1,644 | $1,727 | $1,687 | $1,669 | $1,622 | $1,619 | $1,753 | $1,892 | $1,989 | $2,047 |
| Storage | 248 | 126 | 143 | 148 | 145 | 134 | 132 | 143 | 158 | 177 | 185 |
| Insurance | 275 | 208 | 198 | 204 | 202 | 196 | 212 | 290 | 374 | 295 | 295 |
| Other | 39 | 30 | 38 | 30 | 33 | 40 | 40 | 56 | 79 | 98 | 111 |
| SAC | 219 | 43 | 46 | 47 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Revenue** | **$2,395** | **$2,051** | **$2,153** | **$2,116** | **$2,049** | **$1,992** | **$2,002** | **$2,241** | **$2,503** | **$2,559** | **$2,638** |
| | | | | | | | | | | | |
| EBIT | | | | | | | | | | | |
| U-Haul | $52 | $94 | $184 | $105 | $58 | ($7) | $69 | $242 | $306 | $320 | $358 |
| Storage | 102 | 100 | 105 | 115 | 127 | 108 | 105 | 116 | 130 | 151 | 159 |
| Insurance | (25) | (13) | 15 | 20 | 26 | 25 | 23 | 23 | 32 | 37 | 41 |
| Other | (38) | (18) | (13) | (12) | (6) | (5) | (4) | (2) | (3) | (8) | (7) |
| SAC | 65 | 10 | 14 | 14 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Adj. EBIT** | **$156** | **$174** | **$305** | **$241** | **$205** | **$121** | **$194** | **$378** | **$464** | **$499** | **$551** |
| Interest | (122) | (73) | (70) | (82) | (101) | (98) | (93) | (88) | (90) | (91) | (91) |
| Adj. EBT | $34 | $101 | $235 | $159 | $104 | $23 | $100 | $289 | $374 | $408 | $460 |
| Non-Recurring | (44) | 51 | (36) | (7) | 0 | 0 | 0 | 0 | (48) | 0 | 0 |
| EBT | ($10) | $152 | $200 | $152 | $104 | $23 | $100 | $289 | $326 | $408 | $460 |
| Tax | (8) | (56) | (79) | (55) | (35) | (9) | (35) | (106) | (120) | (144) | (163) |
| Income | ($18) | $96 | $121 | $96 | $69 | $13 | $66 | $184 | $205 | $265 | $297 |
| Preferred Dividend | (13) | (13) | (13) | (13) | (13) | (13) | (13) | (13) | (9) | 0 | 0 |
| Common Income | ($31) | $83 | $108 | $83 | $56 | $0 | $53 | $171 | $196 | $265 | $297 |
| Diluted Shares | 20.7 | 20.8 | 20.9 | 20.8 | 19.7 | 19.4 | 19.4 | 19.4 | 19.5 | 19.5 | 19.5 |
| **EPS** | **($1.48)** | **$4.01** | **$5.16** | **$4.00** | **$2.86** | **$0.02** | **$2.72** | **$8.78** | **$10.09** | **$13.56** | **$15.21** |
| **Adj. EPS *** | **$0.62** | **$2.07** | **$6.39** | **$3.96** | **$2.78** | **$0.02** | **$2.72** | **$8.78** | **$11.73** | **$13.56** | **$15.21** |

**EBIT Contribution (LTM June 2013)**




## Capitalization

AMERCO shares remain deeply discounted relative to the earnings power of the company and the value of its component businesses. Below is a summary capitalization table for the company.

| **Capitalization** | |
|---|---|
| *$mm; FY End March 31st* | *10/1/2013* |
| Share Price (US$) | $185.00 |
| Diluted Shares | 19.6 |
| **Market Capitalization** | **$3,627** |
| Add: Debt | 1,737 |
| Less: Cash | (553) |
| **Enterprise Value** | **$4,812** |

| **Trading Multiples** | LTM # | Multiple |
|---|---|---|
| P/EPS | $15.21 | 12.2x |
| TEV / EBITDA | $817 | 5.9x |
| TEV / EBIT | $551 | 8.7x |
| ROE | | 22.2% |

In the following sections, we will examine each of AMERCO's business segments and explain why the U-Haul moving and self-storage operations, which comprise more than 90% of AMERCO's operating income, are attractive businesses with durable competitive advantages that will continue to grow steadily for the foreseeable future. Additionally, management has demonstrated a readiness to repurchase shares, retire debt, pay dividends and otherwise utilize free cash flow for the benefit of shareholders.

As a result, AMERCO deserves to trade at a premium valuation to the overall market, rather than a discount. Given the current 16x trailing price-earnings ratio of the S&P 500, we believe that an appropriate valuation for AMERCO would be 18x to 22x P/E, which implies that UHAL is worth more than $270.00/share. Given the current share price of $170.00, that implies 45%+ upside from today's trading levels.

# III. U-Haul Business Overview

**Company History**

The Do-it-Yourself moving market is a category created by Leonard Shoen and his wife Anna Shoen in 1945 after Shoen, a 29-year old WWII veteran, planned to move his family from Los Angeles to Portland upon returning from the war, and realized that no company offered equipment rentals to allow families to move between cities.

Broadly speaking, there are two types of moving equipment rentals: (1) an “intra-city” rental, where equipment is picked up and dropped off at the same location, and (2) an “inter-city” or “one-way” rental, where equipment is picked up and dropped off at a different location.

Shoen found that although it was possible to rent moving equipment for intra-city rentals, there was no effective solution for “one-way” moves. Shoen immediately recognized that in order to fill the need for one-way moves, a competitor needed to develop a “network” across cities where individuals could pick up equipment and drop it off at a different location.

Starting in 1945 with the first U-Haul trailers painted in the now ubiquitous orange color, Shoen spent the next two decades traveling tirelessly across the United States to create the U-Haul network. Shoen signed up thousands of franchisees, often service stations that had excess parking, to join U-Haul’s network in exchange for collecting a fee for processing rentals and accepting dropped-off equipment. What makes a U-Haul franchise attractive is that franchisees can simply utilize unused land to earn additional income while U-Haul puts up the necessary capital, equipment and rental systems. Within two decades, Shoen had signed up thousands of franchisees and created a national one-way moving network with over 40,000 trailers in service.

U-Haul’s first-mover advantage created a franchise network that has not only endured, but expanded dramatically in the decades since. Today, U-Haul’s network consists of nearly 18,000 locations, 9x the size of its nearest competitors. As an interesting note, there are more U-Haul-accepting locations in the United States than there are Starbucks restaurants.

Comparison of Total Locations for U-Haul versus Starbucks


U-Haul: ~18,000 Locations in NA Network

Starbucks: ~13,000 Stores in NA

U-Haul’s fleet still utilizes its traditional trailers, of which it now has over 90,000 in service. However, today its most popular rental assets are its fleet of 110,000+ moving trucks, ranging from 10’ trucks suitable for a small apartment to 26’ trucks for larger homes. U-Haul’s trucks are customized to help individuals move, including offering lower decks for ease of entering / exiting, towing capability, ramps, and other adjustments.

In addition, U-Haul has augmented its moving vehicles and equipment with its growing and highly lucrative self-storage real estate rentals. Since many movers also need a storage solution, combining the two in a seamless rental platform allows U-Haul to further differentiate itself from competitors on both service quality and cost.

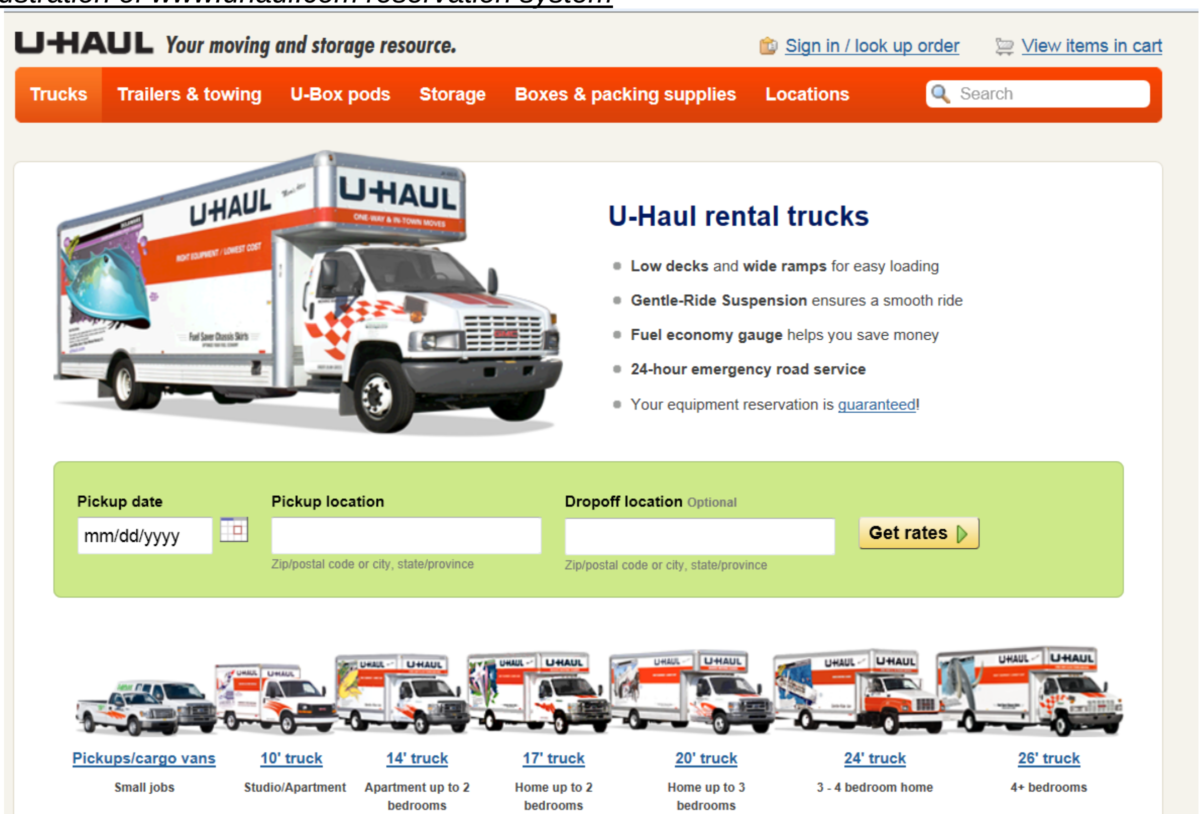
**How U-Haul Works**

Equipment rentals can be arranged through U-Haul's online reservation system at [www.uhaul.com](http://www.uhaul.com), which is similar to a typical car-rental platform.

One distinct difference between U-Haul and a car rental service is that U-Haul provides services in addition to equipment rentals. Customers can purchase or rent a variety of items and services to make their moves more convenient, including moving accessories such as boxes, packing supplies, gloves, moving pads, as well as booking services such as the U-Box program, hiring moving labor through the U-Haul referral system, or renting self-storage space. Before paying for equipment, customers are also offered insurance for their truck and belongings, underwritten by Repwest, a division of U-Haul's parent, AMERCO.

By cross-selling more services than its competitors, U-Haul is able to continually offer a better service and/or lower its prices, differentiating itself within a commoditized space and further widening its economic moat relative to its competitors.

*Illustration of www.uhaul.com reservation system*



**Ancillary Services: Additional Ways to Deepen Customer Relationships**

From its inception, U-Haul has consistently experimented with and introduced additional services that it feels can be valuable to customers. Examples include the transitions from intra-city to one-way rentals, trailers to trucks, phone to internet-based rental systems, and the current potential transition from traditional to "pod" moving.

With respect to pods, U-Haul has begun offering its own version of pod moving in response to emerging competitors like www.pods.com. U-Haul has also begun experimenting with car-share services through www.uhaulcarshare.com. Other ancillary services include www.movinghelp.com, where customers can hire movers to handle the physical work, or www.collegeboxes.com, which provides self-storage options for college students during summers.

# IV. Moving Equipment Rental Industry and U-Haul History

**Competition**

For over 60 years, numerous well-financed competitors have tried, and failed, to encroach upon U-Haul's ever-growing lead in the DIY moving equipment rental market. Today, the fragmented industry has been whittled down to three primary players: U-Haul, Budget Truck Rental (part of publicly traded Avis Budget Group) and Penske Truck Rental (part of a joint venture between GE and Penske Auto). It should be noted that neither of U-Haul's key competitors consider the retail DIY moving business to be their critical market: Budget is a small part of the Avis car rental empire and Penske is largely a commercial truck rental firm.

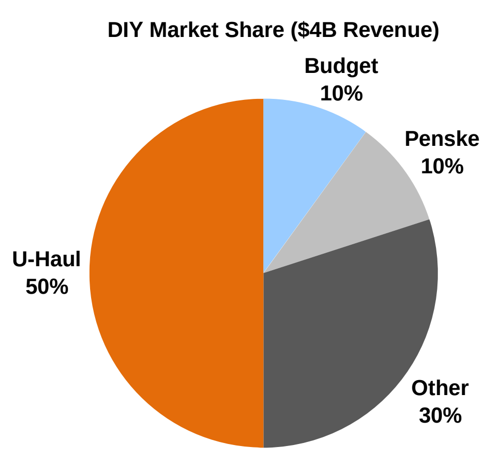
Ryder Truck Rental (which was acquired by Budget), was once a formidable competitor to U-Haul and even a threat to overtake U-Haul after strategic missteps by AMERCO in the 1970's. However, over the past two decades, Ryder/Budget has severely retrenched from the market, reducing its fleet to only 27,000 trucks, while U-Haul has picked up the share and continues to do so. Today, U-Haul has nearly 9x as many locations as Budget/Ryder in its network and has 4x the number of trucks in its fleet (not counting trailers). This gap is steadily growing.

According to AMERCO management, Enterprise Car Rental has recently indicated an intention to invest more heavily in the truck rental market. It should be noted that Hertz, the second largest car rental firm, has been offering truck rentals for years but has been largely unsuccessful in capturing any meaningful share.

**Market Share**

Based on discussions with AMERCO management, the US moving industry as a whole is a ~$10B market, of which 40% of customers are DIY movers and 60% still choose to hire professional movers.

Of the DIY market, U-Haul is believed to represent approximately half the market (based on revenue), with the remaining half largely split by the two remaining national players – Budget Truck Rental and Penske Truck Rental – and smaller regional players.




*Management estimates of DIY market share*

**U-Haul and Network Effects**

*Intra-city rental*
Intra-city equipment rental (ex. moving between apartments in Manhattan) is a relatively straight forward and commoditized service where price and equipment availability are the primary competitive factors. Intuitively, pricing power in the intra-city market is limited because new supply can easily be added (anyone can rent out a truck on craigslist), not to mention numerous substitutes to renting a truck including car-share services, borrowing a van from a friend, etc.

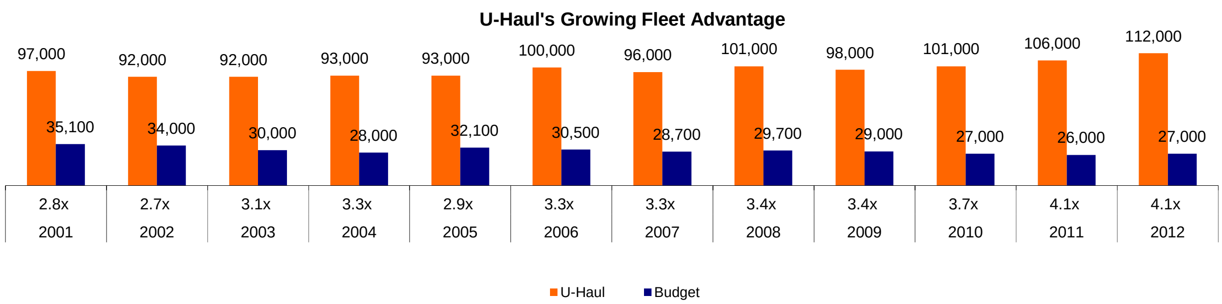
Depending on the region, the intra-city market includes many local and regional competitors. The national truck rental firms still dominate the intra-city rental market because they cross-sell their trucks to more than one market, making it very difficult for "pure-play" intra-city players to remain cost competitive. Since U-Haul not only rents trucks intra-city, but also has a sizable business renting inter-city, it is able to generate more volume per location, and higher asset utilization, than its competitors.

| Competitor | Fleet Size | Non Intra-city Markets or Other Form of "Cross-Sell" |
|---|---|---|
| U-Haul | 112,000 | - Has a sizable inter-city rental business |
| Budget | 27,000 | - Some commercial trucking, some inter-city |
| Penske | Undisclosed* | - Significant commercial trucking, some inter-city |
| Enterprise | 700,000+ cars ** | - Leverage existing Enterprise Rent-a-Car parking spaces |
| Hertz Truck | Undisclosed*** | - Leverage existing Hertz car parking spaces |

* AMERCO management estimates Penske has approximately similar market share to Budget
** Fleet is primarily automotive; has announced intention to expand truck fleet
*** Hertz has largely exited the truck rental business

Price is not the only consideration – having the lowest quoted rate is irrelevant if the equipment is not available. Since most moves occur on key holidays (ex. Labor Day), key dates (end of the month) and on weekends, availability of equipment is a critical factor in customers' rental decisions.

U-Haul is widening its lead in terms of availability. It now has 4x as many vehicles as its nearest competitor, and this comparative advantage is growing every year. In addition, the company also provides more convenient service because its network is so much larger than its competitors, offering customers more locations where they can pick up their equipment.




*U-Haul's fleet advantage continues to grow relative to competitors*

*Inter-city market*
Inter-city equipment rental (ie. moving between Manhattan and Boston) is a more complex service where in addition to price and equipment availability, location becomes a primary competitive factor as well. For example, U-Haul offers pickup and dropoff in almost every region in the United States and Canada, but not all competitors have the same coverage (or the competitors' locations are spread too thinly to be convenient).

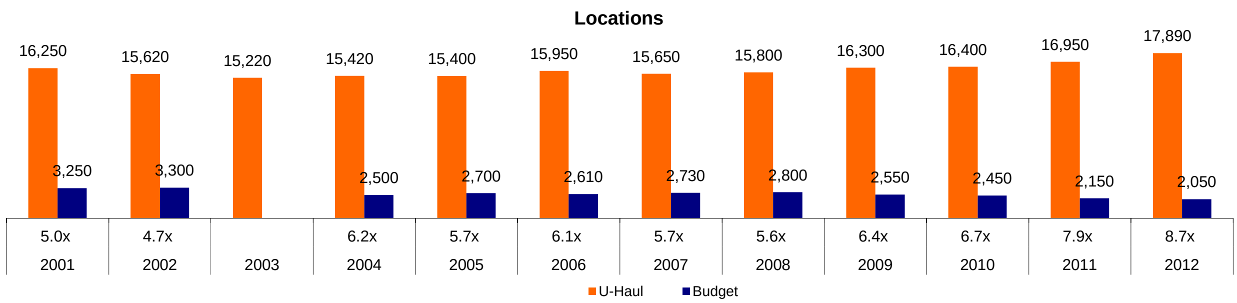
While the dynamics of the intra-city market will always remain quite competitive, U-Haul's dominance of the inter-city market appears to be unassailable. This is a critical point because **inter-city rentals are also significantly more profitable**.

U-Haul's relative pricing power in inter-city rentals is significantly higher than intra-city. There are fewer low-cost substitutes (like borrowing a friend's truck) in one-way rentals, supply is more difficult to put into the market because competitors have to manage complex logistics, and U-Haul's reputation and ability to invest in maintenance is more important on longer road trips.

Since U-Haul began as the first truly national inter-city moving company, its first-mover advantage has allowed it to benefit from an incredibly powerful virtuous cycle:

1. U-Haul was the first-mover in the one-way moving market, allowing it to build out the only national one-way moving network
2. Franchisees (which mostly depend on low volume one-way moves) choose to sign up for U-Haul as opposed to competitors because U-Haul generated the most revenue
3. U-Haul is either the only one-way rental provider, or the lowest cost and/or most convenient
4. U-Haul captures more share, allowing it to buy more trucks
5. More franchisees sign up for the U-Haul network

This virtuous cycle has enabled U-Haul to grow its network unabated for decades (even during the latest recession). U-Haul now has nearly 9x as many locations in its network as its nearest competitor, and it continues to widen its lead in terms of convenience and availability. On many routes, U-Haul remains either the only provider, the most convenient and/or lowest cost.




**Budget Truck Rental: U-Haul's Main Competitor is Retrenching**

A critical component of our investment thesis is the rapid decline and retrenchment of Budget Truck Rental (which also owns the Ryder Truck Rental brand). We believe Budget's retrenchment has dramatically and sustainably increased U-Haul's earnings power.

In the late 1970's and early 1980's, Ryder System, the logistics company, entered aggressively into the truck rental market with its new Ryder Truck Rental business. At the time, AMERCO had made a disastrous decision to enter non-core rental businesses at the expense of maintaining its truck fleet. Ryder Truck Rental, with the backing of its well-capitalized publicly traded parent company, quickly gathered share, even becoming a meaningful player in U-Haul's dominant and most profitable one-way market.

However, by the late-1980's, AMERCO once again re-focused its efforts on the truck rental business under the direction of Joe Shoen (who remains AMERCO's current CEO). By the 1990's, U-Haul had fended off the Ryder threat and was once again the dominant DIY truck rental company.

In 1998, Budget Group, another sizable DIY Truck rental firm, acquired Ryder's truck rental business to form Budget Truck Group. A few years later, in 2002, Budget Truck Group was acquired by Cendant (the former parent company of Avis). Avis was eventually spun off in 2006 as Avis Budget Group. The Budget Truck rental business represents only 6% of Avis Group's consolidated revenue.

For the past several years, Avis has been shrinking the Budget Truck business. Budget has continued to struggle and has shown declining volume while U-Haul has shown strong growth. Recent management commentary suggests that this trend is not going to reverse soon:

> *"We're facing a tough competitive environment in Truck Rental… we will be repositioning our Truck Rental business to rightsize it for the demand we anticipate..."* – Avis Budget Q3 CY2012 Conference Call
>
> *"…we are in the process of repositioning that [Truck rental] business to be a somewhat smaller, and hopefully, more profitable business over time. That process is going to take at least the first 6 or 9 months of 2013 and possibly close to the entire year..."* – Avis Budget Q4 CY2012 Conference Call

| Budget Truck Rental | *Fiscal Year Ending December 31* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| **Trucks** | | **35,100** | **34,000** | **30,000** | **28,000** | **32,100** | **30,500** | **28,700** | **29,700** | **29,000** | **27,000** | **26,000** | **27,000** |
| Locations | | 3,250 | 3,300 | | 2,500 | 2,700 | 2,610 | 2,730 | 2,800 | 2,550 | 2,450 | 2,150 | 2,050 |
| Rental Days (mm) | | | | 5.6 | 5.3 | 5.3 | 4.6 | 4.2 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 |
| Mileage Revenue / Day | $58.68 | $61.52 | | $79.88 | $85.48 | $88.04 | $86.28 | $79.17 | $73.66 | $73.08 | $73.06 | $71.15 | $71.64 |
| **Revenue** | **$713** | **$647** | | **$509** | **$515** | **$546** | **$472** | **$416** | **$382** | **$354** | **$367** | **$376** | **$374** |
| **Adj. EBITDA** | | | | | | **$90** | **$53** | **$17** | **($4)** | **$13** | **$34** | **$49** | **$33** |
| Asset Unit Growth | | | | | | | | | | | | | |
| Trucks | | | (3.1%) | (11.8%) | (6.7%) | 14.6% | (5.0%) | (5.9%) | 3.5% | (2.4%) | (6.9%) | (3.7%) | 3.8% |
| Locations (Total) | | | 1.5% | | | 8.0% | (3.3%) | 4.6% | 2.6% | (8.9%) | (3.9%) | (12.2%) | (4.7%) |
| Rental Days | | | | | (5.0%) | 0.5% | (14.0%) | (8.7%) | (3.0%) | (7.0%) | 5.0% | 7.0% | (2.0%) |
| Mileage Revenue / Day | | 4.8% | | | 7.0% | 3.0% | (2.0%) | (8.2%) | (7.0%) | (0.8%) | (0.0%) | (3.0%) | 1.0% |
| **Revenue** | | **(9.2%)** | | | **1.2%** | **6.1%** | **(13.6%)** | **(11.9%)** | **(8.2%)** | **(7.3%)** | **3.7%** | **2.5%** | **(0.5%)** |
| Adjusted EBITDA Growth | | | | | | | | (67.9%) | (123.5%) | (425.0%) | 161.5% | 44.1% | (32.7%) |
| **Adjusted EBITDA Margin** | | | | | | **16.5%** | **11.2%** | **4.1%** | **(1.0%)** | **3.7%** | **9.3%** | **13.0%** | **8.8%** |

Adjusted EBITDA = EBIT + non-vehicle D&A + non-vehicle interest

*Estimated financial drivers and metrics based on public disclosure*

Though Budget's profit margins have recovered strongly since calendar year 2008, this may be because Budget is retrenching to its most profitable remaining markets.

# V. U-Haul's Financial Performance

AMERCO's U-Haul segment is currently generating record profits, record margins and a significant amount of profit. One common investor commentary is the fear that U-Haul is "over-earning" because margins are higher than historical levels. We believe this fear is based on a misunderstanding of some of the changes in the equipment rental industry, as well as specific factors affecting AMERCO's financial statements.

| U-Haul International | Fiscal Year Ending March 31, | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | LTM Q1 2014 |
| Rental | $1,417 | $1,465 | $1,543 | $1,508 | $1,485 | $1,466 | $1,465 | $1,609 | $1,764 | $1,872 | $1,942 |
| Net Sales | 182 | 191 | 207 | 209 | 208 | 199 | 199 | 206 | 214 | 221 | 225 |
| Investment | 22 | 22 | 25 | 29 | 30 | 25 | 22 | 21 | 21 | 8 | 9 |
| InterCo (Real Estate) | | | | | | | | | | | 0 |
| InterCo (SAC Revenue) | (3) | (1) | (1) | (1) | | | | | | | 0 |
| InterCo (Investment Income) | (18) | 0 | (1) | (2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue | $1,599 | $1,678 | $1,773 | $1,743 | $1,723 | $1,691 | $1,686 | $1,835 | $1,998 | $2,101 | $2,176 |
| | | | | | | | | | | | |
| Opex | (1,063) | (1,101) | (1,086) | (1,086) | (1,095) | (1,080) | (1,051) | (1,051) | (1,122) | (1,200) | (1,232) |
| Commission | (176) | (181) | (190) | (186) | (174) | (171) | (169) | (191) | (212) | (228) | (236) |
| COGS | (87) | (99) | (106) | (110) | (115) | (114) | (104) | (106) | (117) | (107) | (111) |
| Lease | (160) | (152) | (143) | (150) | (135) | (154) | (158) | (152) | (132) | (117) | (112) |
| D&A | (125) | (114) | (132) | (181) | (221) | (255) | (215) | (177) | (195) | (224) | (226) |
| InterCo (Real Estate) | 61 | 62 | 67 | 73 | 75 | 77 | 80 | 84 | 86 | 95 | 98 |
| InterCo (SAC Costs) | 3 | 1 | 1 | 1 | | | | | | | |
| **EBIT** | **$52** | **$94** | **$184** | **$105** | **$58** | **($7)** | **$69** | **$242** | **$306** | **$320** | **$358** |
| ***EBIT Margin*** | ***3.2%*** | ***5.6%*** | ***10.4%*** | ***6.0%*** | ***3.4%*** | ***(0.4%)*** | ***4.1%*** | ***13.2%*** | ***15.3%*** | ***15.2%*** | ***16.4%*** |
| Interest | 9 | 16 | (14) | (114) | (136) | (151) | (156) | (130) | (133) | (124) | (120) |
| EBT | $60 | $109 | $170 | ($9) | ($78) | ($158) | ($86) | $112 | $173 | $195 | $238 |
| Tax | (53) | (59) | (88) | (18) | 9 | 39 | 16 | (60) | (88) | (96) | (114) |
| Net Income | $7 | $50 | $82 | ($27) | ($69) | ($120) | ($70) | $52 | $85 | $99 | $124 |
| | | | | | | | | | | | |
| **EBITDA** | **$177** | **$208** | **$316** | **$285** | **$279** | **$248** | **$284** | **$419** | **$502** | **$544** | **$584** |
| ***EBITDA Margin*** | ***11.1%*** | ***12.4%*** | ***17.8%*** | ***16.4%*** | ***16.2%*** | ***14.7%*** | ***16.8%*** | ***22.8%*** | ***25.1%*** | ***25.9%*** | ***26.8%*** |
| **EBITDAR** | **$337** | **$360** | **$459** | **$435** | **$414** | **$401** | **$442** | **$571** | **$634** | **$661** | **$695** |
| ***EBITDAR Margin*** | ***21.1%*** | ***21.4%*** | ***25.9%*** | ***25.0%*** | ***24.0%*** | ***23.7%*** | ***26.2%*** | ***31.1%*** | ***31.7%*** | ***31.5%*** | ***32.0%*** |

*Note: Kerrisdale Capital has made numerous adjustments and assumptions to separate the financial contribution of the real estate division from the U-Haul truck rental business.*

### Key Drivers

Over the past two decades, U-Haul has achieved a significant increase in its raw earnings power. This has come on the back of an improvement in all of U-Haul's economic drivers: improved pricing, a larger asset base and improved utilization rates.

The equipment rental business is a relatively commoditized and simple business. Competitors are price-takers, with pricing power largely a function of the difference between a customer's willingness to pay or the price of one's nearest competitor, and one's own cost base. Earnings power is largely a function of how much equipment a business can deploy into the market, the utilization rate, and pricing.

Given the sizable fixed costs in the industry, small changes in profit drivers, such as volume, pricing, or utilization, can have a sizable impact on profits. U-Haul has added further operating leverage by owning more of its locations (vs. franchising) and owning more of its trucks (vs. leasing).

**Pricing and Utilization**

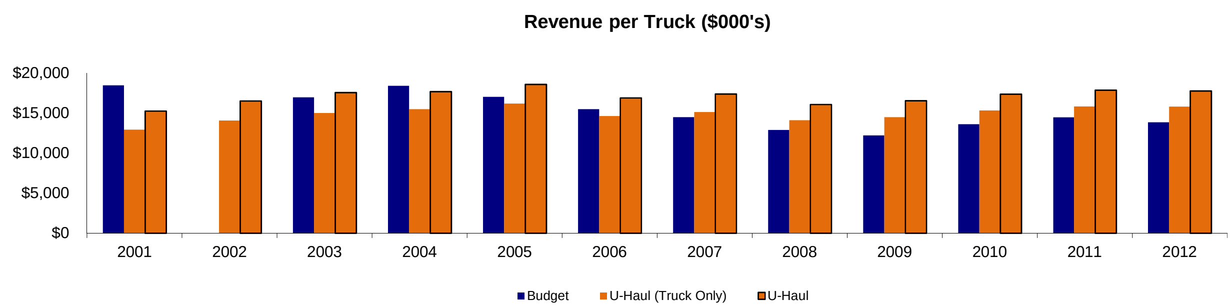
U-Haul's pricing and utilization has improved for three key reasons.

First, enhanced technology has allowed U-Haul to aggregate more data about its customers, routes, truck availability, and other factors of its business, which has enabled the company to better optimize its pricing and truck utilization.

U-Haul management has spent years looking inward to improve utilization and pricing to improve profits. For example, in its early years, U-Haul ended up with a glut of trailers in New York, Miami and other popular urban centers. The company learned to provide discounts to customers to move the equipment "back" to its origination point. Constant adaption, learning, and improvements to its logistics models have helped increase utilization over the years.

The transition from a phone-based reservation system to modern internet-based IT systems has accelerated U-Haul's fleet optimization, allowing the company to earn more profit per truck than in the past. Management has addressed this topic in numerous conference calls – the greater use of "big data" should continue to be acutely beneficial for U-Haul as it improves equipment flow prediction models.

U-Haul no longer explicitly discloses its utilization rate, but one can look at revenue per truck as a proxy. An investor may look at the revenue per truck rate and ask, "Why isn't it going up over time?" The reason is that U-Haul is buying and deploying more rental units. Intuitively, the new unit deployed in Maine is not going to have the same utilization as the hundreds of units deployed in central Manhattan. It is thus a challenge just to maintain utilization when the fleet is growing significantly.




A second factor is that U-Haul is more than a commoditized equipment rental business – it is a services company. Over the years, U-Haul has successfully increased its ancillary products and services revenue. The ancillary products and services generate healthy 35% to 45% gross margins. Note that changes in accounting for different segments make historical comparisons challenging, particularly prior to 2005.

It should also be noted that AMERCO has been buying real estate across the United States since the 1970's. As a result, U-Haul has key real estate locations in many urban markets. As traffic congestion in urban centers grows, U-Haul's greater number of pickup / drop-off centers and better locations provides customers significantly more convenience.

Third, and perhaps most importantly, the cost base of competitors is rising. Budget's reduced fleet leaves more routes for U-Haul to effectively monopolize. A reduced asset fleet also reduces the scalability of the fixed costs inherent in the truck rental business, such as the rental cost for Budget's Manhattan rental center. Budget's various problems will likely continue to put upward pressure on its break-even pricing, giving U-Haul even higher normalized margins, whether by matching Budget's rising prices or by undercutting Budget and taking market share.

**Increased Size of Fleet and Owned Stores**

U-Haul's earnings power and margins have been significantly enhanced by recent significant capital investments that have increased its truck count as well as the proportion of owned versus franchised stores in its network. By owning stores, U-Haul reduces the franchisee commission it would otherwise have to pay. By expanding its truck fleet, it is able to take advantage of market opportunities while competitors retrench.

| Asset and Networks | Fiscal Year Ending March 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Trucks | 92,000 | 93,000 | 93,000 | 100,000 | 96,000 | 101,000 | 98,000 | 101,000 | 106,000 | 112,000 |
| *Growth* | *0.0%* | *1.1%* | *0.0%* | *7.5%* | *(4.0%)* | *5.2%* | *(3.0%)* | *3.1%* | *5.0%* | *5.7%* |
| Trailers | 73,000 | 78,750 | 80,675 | 78,500 | 75,000 | 76,000 | 77,000 | 82,000 | 83,000 | 90,000 |
| Network | | | | | | | | | | |
| Company-Owned | 1,350 | 1,350 | 1,450 | 1,450 | 1,450 | 1,400 | 1,400 | 1,400 | 1,450 | 1,490 |
| Franchised | 13,870 | 14,070 | 13,950 | 14,500 | 14,200 | 14,400 | 14,900 | 15,000 | 15,500 | 16,400 |
| Total | 15,220 | 15,420 | 15,400 | 15,950 | 15,650 | 15,800 | 16,300 | 16,400 | 16,950 | 17,890 |
| Capex ($ mm) | | | | | | | | | | |
| Purchase of PP&E | ($198) | ($285) | ($344) | ($648) | ($570) | ($397) | ($259) | ($480) | ($590) | ($656) |
| Vehicle Disposals | 63 | 244 | 60 | 90 | 166 | 128 | 143 | 180 | 169 | 221 |
| Other | 6 | 16 | 36 | 7 | (2) | 5 | 4 | 2 | (7) | (0) |
| Net Capex | ($129) | ($25) | ($248) | ($552) | ($406) | ($263) | ($113) | ($298) | ($428) | ($436) |

U-Haul has made a sizable expansion in its rental fleet since fiscal 2008 (FYE March 31), increasing the truck fleet from 96,000 trucks to 112,000 trucks along with a significant increase in trailers. However, deploying more rental units by themselves does not necessarily improve economic profits; they have to be deployed at a sufficient utilization rate and gross profit to be economical. U-Haul's financial results show a strong revenue / truck trend and a high overall return on equity, which indicates that U-Haul is gaining market share at attractive utilization rates. Joe Shoen confirmed that utilization trends have been improving on a recent conference call.

| | *Fiscal Year Ending March 31* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | LTM *Q1 2014* |
| Net Income Reported | ($16) | $76 | $110 | $78 | $55 | $0 | $53 | $171 | $197 | $265 | $297 |
| Add: Non-Recurring | 44 | (51) | 36 | 7 | 0 | 0 | 0 | 0 | 48 | 0 | 0 |
| Tax 35.0% | (15) | 18 | (12) | (2) | 0 | 0 | 0 | 0 | (17) | 0 | 0 |
| Net Income Adjusted | $13 | $43 | $133 | $83 | $55 | $0 | $53 | $171 | $228 | $265 | $297 |
| **Adjusted EPS** | **$0.62** | **$2.07** | **$6.39** | **$3.96** | **$2.78** | **$0.02** | **$2.72** | **$8.78** | **$11.73** | **$13.56** | **$15.21** |
| PP&E | 1,452 | 1,354 | 1,535 | 1,897 | 2,011 | 2,014 | 1,948 | 2,095 | 2,372 | 2,755 | 2,938 |
| Book Value | 504 | 573 | 696 | 718 | 758 | 718 | 813 | 993 | 1,036 | 1,229 | 1,346 |
| ***ROE*** | ***3%*** | ***8%*** | ***21%*** | ***12%*** | ***7%*** | ***0%*** | ***7%*** | ***19%*** | ***23%*** | ***23%*** | ***23%*** |
| **Book Value / Share** | **$20.00** | **$25.91** | **$30.45** | **$33.91** | **$36.39** | **$37.76** | **$39.51** | **$46.52** | **$52.14** | **$58.09** | **$65.95** |
| ***Growth*** | ***18%*** | ***30%*** | ***18%*** | ***11%*** | ***7%*** | ***4%*** | ***5%*** | ***18%*** | ***12%*** | ***11%*** | |

**Capex**

U-Haul is a relatively capital intensive business. Though AMERCO does not disclose the figure explicitly, investors can determine that every year, approximately 13-16% of trucks are retired. Many of the traditional moving trucks are held for a longer time, while vans and pickup trucks are bought and sold more frequently (given an active and liquid second-hand market). Generally, years with a low retirement rate (ex. FY2010/2011) are followed by years with a slightly higher rate (FY2012 and FY2013).

**Asset Base is Flexible: Recent Recession was an Anomaly**

Coming into the 2009 recession, U-Haul was simply caught off guard by the speed with which pricing in the industry fell (on a recent conference call, management indicated that **demand for truck rentals proved surprisingly resilient during the recession)**.

The shortfall in 2009 was a temporary problem – U-Haul simply purchased fewer vehicles than it retired, right-sizing its fleet and bringing its capital base down. ROE quickly rebounded.

| | *Fiscal Year Ending March 31* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Trucks @ BOP | | | 93,000 | 93,000 | 100,000 | 96,000 | 101,000 | 98,000 | 101,000 | 106,000 |
| New Trucks | | | 15,500 | 22,500 | 21,000 | 21,000 | 10,400 | 16,400 | 22,600 | 20,800 |
| Implied Retired / Sold Trucks | | | (15,500) | (15,500) | (25,000) | (16,000) | (13,400) | (13,400) | (17,600) | (14,800) |
| **Trucks @ EOP** | **92,000** | **93,000** | **93,000** | **100,000** | **96,000** | **101,000** | **98,000** | **101,000** | **106,000** | **112,000** |

**Owned vs. Leased Trucks**

Another factor resulting in improved margins at U-Haul is a gradual increase in the proportion of trucks that are owned vs. leased. This increases EBITDA margins, and to a lesser extent, EBIT margins.

- Since 2001, truck fleet is nearly the same, but U-Haul EBITDA margins have increased from 9% to 30% (EBIT from 2% to 20%)
- Lease expense (above the line) has fallen from approximately $175m to $120m while depreciation (below the line) has increased from approximately $100m to $240m

**Summary**

U-Haul's strategy can be compared to that of Wells Fargo – it operates in a commoditized industry so it attempts to scale its costs as much as possible, and by cross-selling as many services as possible, it widens its value proposition relative to its competitors.

Generally, commoditized industries with high capital costs and low variable costs tend to earn poor shareholder returns over time (i.e. airlines, grocery stores, unregulated power plants, commodity manufacturing, etc.). That said, companies like U-Haul that can establish a sustainable cost advantage or can differentiate their service can achieve very attractive returns on equity. We believe investors are inaccurately concluding that AMERCO's past choppy ROEs are an indication of poor earnings consistency.

In the past twenty years, U-Haul has only reported an operating loss in one year, 2009. Otherwise, the U-Haul segment has been improving EBITDAR margins steadily for well over a decade, from bottoming at 18% in FY2002, to over 30% in FY2013. The main risk to U-Haul's margins is competitors adding capacity. Thus far, U-Haul's closest competitor, Budget Truck Rental (which has a fleet 1/4th the size of U-Haul) is announcing a further retrenchment in capacity.

Despite the historically choppy margins in the U-Haul segment, past performance has been distorted by accelerated depreciation on new trucks, competitive battles with Budget / Ryder, as well as changes in segmentation of the real estate business, allocation of G&A, etc.

We think U-Haul's EBIT contribution will be more steady going forward, as the company continues to add trucks while Budget pulls back. Its businesses compete in relatively mature markets but with superior economics relative to competitors and therefore the company should capture additional share over time.

# VI. AMERCO's Sizable Real Estate Business

### Amerco Generates a Sizable Portion of its Earnings from Self-Storage Real Estate

AMERCO generates approximately 30% of its profits from its self-storage real estate rental business. Since the storage business requires minimal capex and has little to no operating costs, its contribution to free cash flow is far higher than its revenue contribution.

| | *Fiscal Year Ending March 31,* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | LTM |
| **Real Estate** | | | | | | | | | | | *Q1 2014* |
| Revenue | $178 | $174 | $187 | $204 | $211 | $205 | $206 | $221 | $238 | $266 | $277 |
| Net Sales | 0 | | | | 0 | 0 | | | | | |
| Investment | 16 | 0 | 0 | | | | | | 1 | 5 | 5 |
| InterCo (U-Haul) | (61) | (62) | (67) | (73) | (75) | (77) | (80) | (84) | (86) | (95) | (98) |
| InterCo (SAC) | (16) | (0) | (0) | 0 | | | | | | | 0 |
| Revenue | $117 | $112 | $120 | $131 | $137 | $128 | $126 | $137 | $153 | $176 | $183 |
| | | | | | | | | | | | |
| Opex | (8) | (7) | (6) | (9) | (10) | (10) | (8) | (9) | (9) | (11) | (11) |
| COGS | (0) | | | | | | | | | | |
| Lease | (3) | (0) | (0) | (1) | (0) | (0) | (0) | (0) | (0) | (0) | (0) |
| D&A | (4) | (5) | (9) | (7) | 0 | (10) | (13) | (12) | (13) | (14) | (13) |
| **EBIT** | **$102** | **$100** | **$105** | **$115** | **$127** | **$108** | **$105** | **$116** | **$130** | **$151** | **$159** |
| Interest | (29) | (12) | (24) | (52) | (51) | (40) | (34) | (44) | (52) | (58) | (59) |
| EBT | $73 | $88 | $80 | $63 | $76 | $68 | $71 | $71 | $78 | $93 | $100 |
| Tax | (13) | (13) | (10) | 1 | (6) | (6) | (9) | (6) | (3) | (5) | (6) |
| Net Income | $60 | $75 | $70 | $64 | $70 | $62 | $62 | $66 | $74 | $89 | $94 |
| | | | | | | | | | | | |
| ***EBIT Margin*** | ***87.2%*** | ***89.4%*** | ***87.2%*** | ***87.5%*** | ***93.1%*** | ***84.1%*** | ***83.3%*** | ***84.2%*** | ***85.0%*** | ***86.1%*** | ***86.9%*** |
| **EBITDA** | **$106** | **$105** | **$114** | **$121** | **$127** | **$118** | **$118** | **$128** | **$143** | **$165** | **$172** |
| ***EBITDA Margin*** | ***90.8%*** | ***93.7%*** | ***94.8%*** | ***92.6%*** | ***92.8%*** | ***92.1%*** | ***93.6%*** | ***93.1%*** | ***93.8%*** | ***93.8%*** | ***94.0%*** |

*Note: Kerrisdale Capital has made numerous adjustments and assumptions to separate the financial contribution of the self-storage division from the U-Haul truck rental business.*

### Hidden Asset Value

AMERCO currently owns ~38 million square feet of self-storage real estate across the United States. On a standalone basis, this would be the 3rd largest self-storage real estate portfolio in the US. Comparable publicly traded real estate portfolios currently trade for approximately 20x EBITDA, which implies an approximate tax-adjusted multiple of 17x EBITDA.

Self-storage real estate is one of the most valuable forms of real estate for several reasons:

- The cash flow stream is stable, even during recessions
- Properties are cheap to maintain and require little maintenance capex
- Self-storage locations generally take up a large amount of land – this land represents an enormously valuable "call" option if conversion to residential or commercial real estate is economically optimal (if zoning permits)

| **Storage REIT Comparables** *(Source: CapitalIQ)* | | | | | EV / EBITDA | EV / EBIT | |
|---|---|---|---|---|---|---|---|
| REIT | Share | Mkt Cap | TEV | Sq. Ft. (mm) | FY 1 | LTM | FY 1 |
| Public Storage | $162.00 | $27,860 | **$31,160** | 168.0 | 22.9x | 32.8x | 32.1x |
| Extra Space Storage | $47.00 | $5,220 | **$6,780** | 59.0 | 21.9x | 37.7x | 33.1x |
| CubeSmart | $18.00 | $2,390 | **$3,420** | 25.0 | 20.1x | 97.7x | 68.4x |
| Sovran Self Storage | $77.00 | $2,310 | **$2,970** | 20.0 | 20.5x | 34.9x | 29.7x |
| | | | | | | | |
| **REIT Median** | | | | | **21.2x** | **36.3x** | **32.6x** |
| | | | | | | | |
| **U-Haul Storage - Implied Value** | **$133.88** | | **$2,625** | **40.0** | **15.0x** | **16.4x** | **16.4x** |

*Note: U-Haul pays corporate tax, so appropriate EBITDA multiple is lower than REITs*

If we value UHAL's real estate portfolio using multiples from publicly traded REITs (on a tax-adjusted basis), even at a discounted multiple, the real estate value per UHAL share comes out to $130.00 per share. Though management has stated that the real estate will not be spun out as a REIT (due to tax and operational complications), it is comforting to know that UHAL's cash flow is sourced from a highly valuable asset base that could be sold to numerous strategic buyers for significant value.

**U-Haul Self-Storage Service Offering**

According to AMERCO management, a significant percentage of DIY movers also need a short-term storage solution. For the past several years, AMERCO has been acquiring storage real estate across the US, and integrating the real estate storage into the U-Haul rental service, providing customers with yet another high-margin ancillary service.

By integrating the storage into the U-Haul rental system, AMERCO hopes to increase the Net Operating Income of storage sites after acquiring them, creating value for AMERCO shareholders.

# VII. AMERCO Insurance

**Two Distinct Insurance Businesses**

AMERCO has two independent insurance businesses:

- Repwest: Insures U-Haul rental equipment and drivers
- Oxford: Life insurance

The two insurance businesses generate a relatively small portion of AMERCO's free cash flow (approximately 7%). Their total book value is approximately $380 million.

**Legacy Positions Now**
The AMERCO insurance businesses are largely a legacy of Joe and Edward Shoen's diversification drive prior to Joe Shoen's takeover and new strategy.

**Past Issues Overcome**
In the mid 2000's, AMERCO's insurance division suffered significant losses due to poor underwriting. Over the years, AMERCO management has written off a large portion of the legacy insurance book, greatly reducing total book value. As recently as last year, the Repwest division lost ~$50 million due to poor underwriting in workplace health.

AMERCO management has committed to restricting its insurance businesses to their respective niches. The Oxford team has remained relatively disciplined and Joe Shoen has said in conference calls that the Oxford team will be given some more capital but kept on "a short leash" to prevent a repeat of past mistakes in the company's other insurance endeavors.

The Repwest business is now focused solely on underwriting U-Haul related assets / customers. Given its captive customer base, Repwest should be a small, but profitable contributor going forward.

| | *Fiscal Year Ending March 31,* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Insurance** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **LTM** |
| | | | | | | | | | | | *Q1 2014* |
| Premiums | $241 | $153 | $146 | $146 | $140 | $138 | $162 | $238 | $310 | $212 | $208 |
| Investment | 41 | 40 | 33 | 37 | 33 | 29 | 25 | 29 | 39 | 65 | 69 |
| Other | 11 | 8 | 6 | 5 | 5 | 5 | 3 | 2 | 2 | 3 | 3 |
| InterCo (U-Haul) | (10) | (7) | (6) | (4) | (3) | (3) | (4) | (5) | (5) | (3) | (5) |
| Revenue | $282 | $194 | $180 | $183 | $175 | $169 | $186 | $263 | $346 | $276 | $274 |
| Benefits | (213) | (131) | (108) | (110) | (99) | (98) | (121) | (190) | (263) | (181) | (175) |
| Amort. Of Policy Costs | (39) | (29) | (24) | (17) | (13) | (12) | (8) | (9) | (14) | (17) | (18) |
| Opex | (66) | (54) | (38) | (40) | (40) | (37) | (38) | (46) | (42) | (44) | (45) |
| InterCo (U-Haul) | 10 | 7 | 6 | 4 | 3 | 3 | 4 | 5 | 4 | 3 | 5 |
| **EBIT** | **($25)** | **($13)** | **$15** | **$20** | **$26** | **$25** | **$23** | **$23** | **$32** | **$37** | **$41** |
| Interest | | | | | | | | | | | |
| EBT | ($25) | ($13) | $15 | $20 | $26 | $25 | $23 | $23 | $32 | $37 | $41 |
| Tax | 8 | 4 | (6) | (11) | (7) | (9) | (8) | (8) | (11) | (13) | (14) |
| Net Income | ($17) | ($8) | $10 | $9 | $19 | $16 | $15 | $14 | $21 | $24 | $27 |
| Book Value | $290 | $270 | $265 | $279 | $299 | $305 | $325 | $343 | $340 | $380 | $384 |
| **ROE** | **(5.6%)** | **(3.0%)** | **3.6%** | **3.5%** | **6.7%** | **5.4%** | **4.7%** | **4.3%** | **6.0%** | **6.7%** | **7.0%** |

# VIII. Valuation

Having reviewed each of AMERCO's business units, we can now estimate an appropriate valuation range for the company.

Currently, the company trades at 12x P/E, 6x EV/EBITDA and 9x EV/EBIT, based on the company's trailing LTM financial figures. We use trailing numbers because the company does not provide forward guidance and analyst coverage for the company is minimal.

*No Direct Comparables*
There are no direct comparable companies for AMERCO, given that it is a holding company with three distinct businesses. Furthermore, though there are direct comparable companies for the insurance and real estate businesses, AMERCO's primary business unit, U-Haul, has no public comparable. Neither of U-Haul's two largest competitors, Budget Truck Rental and Penske Truck Rental, are independent public companies. Budget Truck Rental is a small segment of Avis Budget Group while Penske Truck Rental is a joint venture between GE and Penske Auto.

*Reasonable Illustrative Valuation*
We note that since AMERCO operates a superior business with durable competitive advantages, owns a sizable real estate portfolio, and has a shareholder friendly management team, we argue that the company should therefore trade at a premium to the overall market, rather than a discount. Given the current 16x trailing price-earnings ratio of the S&P 500, we believe that an appropriate valuation for AMERCO would be 18x to 22x P/E, which implies that UHAL is worth more than $270.00 per share.

We also compare AMERCO to a selected number of other publicly traded companies that operate a similar rental model or benefit from "network effects" where incremental hubs / customers allow the market leader to build an economies of scale cost advantage over rivals. While every industry is certainly different, we use the following comparable companies to illustrate how larger, better-known firms are valued in the market:

| Company | Description and Rationale for Inclusion in Comparable Companies Analysis |
|---|---|
| Waste Management (WM) | Largest US waste disposal firm; large truck fleet and regional economies of scale allow it to provide a low-cost waste disposal solution for municipalities and private businesses in the US. |
| Sysco (SYY) | Largest US food distributor; uses hub-and-spoke system to distribute food to thousands of restaurants across the US. |
| Hertz Global (HTZ) | Global car-rental company with a fleet of ~360,000 cars. Also has a small equipment and truck rental business. |
| Republic Services (RSG) | U.S. waste disposal firm; regional economies of scale allows it to provide a low-cost waste disposal solution for municipalities and private businesses in the US. |
| Avis Budget Group (CAR) | Global car rental company with a fleet of ~400,000 cars. Owns Budget and Ryder truck rental businesses with a fleet of 26,000 trucks. |
| Patterson (PDCO) | Distributor of dental, veterinary and medical products. Second largest US dental distribution firm. In addition to using scale to provide a low-cost solution, also provides value-add services to differentiate. |

| Distribution Comparables | | | | TEV / EBITDA | | TEV / EBIT | | Price / EPS | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company Name | Price (US$) | Mkt Cap | TEV | LTM | FY1 | LTM | FY1 | LTM | FY1 | EBIT % | ROE |
| Waste Management | $41.00 | $19,147 | $28,847 | 8.7x | 8.5x | 14.4x | 13.6x | 23.4x | 19.0x | 14.7% | 14.0% |
| Sysco Corp. | $32.00 | $19,008 | $21,508 | 8.6x | 9.2x | 10.4x | 11.9x | 18.6x | 17.8x | 4.7% | 22.5% |
| Hertz Global [1,2] | $22.00 | $8,800 | $24,450 | 6.7x | 5.1x | 19.5x | 12.1x | 32.1x | 11.6x | 13.7% | 13.6% |
| Avis Budget [1,2] | $29.00 | $3,132 | $13,332 | 5.2x | 5.2x | 12.2x | 14.3x | 13.1x | 12.0x | 13.0% | 24.7% |
| Republic Services | $33.00 | $11,946 | $18,846 | 8.2x | 7.9x | 13.7x | 12.8x | 22.0x | 17.4x | 17.0% | 7.4% |
| Patterson | $40.00 | $4,240 | $4,460 | 11.2x | 10.5x | 12.6x | 12.1x | 19.7x | 18.3x | 9.7% | 15.1% |
| **Median** | | **$10,373** | **$20,177** | **8.4x** | **8.2x** | **13.1x** | **12.5x** | **20.9x** | **17.6x** | **13.4%** | **14.6%** |
| **AMERCO** | **$185.00** | **$3,627** | **$4,812** | **5.9x** | **na** | **8.7x** | **na** | **12.2x** | **na** | **19.5%** | **22.2%** |

1. EBITDA figures add back vehicle-related D&A to make comparable to reporting of AMERCO and other comparable companies
2. LTM figures not adjusted for recent acquisitions (Hertz acquired Dollar Thrifty, Avis acquired Zipcar)

It is immediately evident that AMERCO is significantly undervalued when considering that it generates a higher EBIT margin than most of these companies, is arguably in a more dominant competitive position, and has a large real estate business. As it pertains to U-Haul, we think the two waste management businesses and Sysco are valuable comparisons in that they are high fixed-cost businesses that operate in commoditized industries, operate across the US, and are expected to grow roughly in line with inflation. These businesses reasonably trade at ~8-9x EBITDA, 12x-14x EBIT and 18x-20x EPS.

Though we do not ascribe a sum-of-the-parts valuation to AMERCO (the business will not be split up), we illustrate how our price target can be implied while using very reasonable assumptions for AMERCO's component businesses. At a 12.0x EBIT multiple for U-Haul and 14.0x EBIT multiple for the storage assets (both metrics being conservative on a comparable basis), investors can easily justify a valuation of $300 per share.

| Division | EBIT | Multiple | TEV |
|---|---|---|---|
| U-Haul | $360 | **12.0x** | $4,320 |
| Real Estate | $160 | **14.0x** | $2,240 |
| Corporate | ($10) | **13.0x** | ($130) |
| **Asset Value** | $510 | 12.6x | **$6,430** |
| Add: Insurance (1.0x BV) | | | **$380** |
| Add: SAC Notes Receivable | | | **$180** |
| Add: Cash | | | $553 |
| Less: Non-Insurance Debt | | | (1,737) |
| **Sum-of-the-Parts Equity Value** | | | **$5,805** |
| **Sum-of-the-Parts Equity Value / Share** | | | **$296.00** |

*Illustrative DCF*

Another approach is to look at AMERCO using simple discounted cash flow assumptions. AMERCO's accounting is complex but over time its net income does roughly approximate its cash flow generation. Management has noted that AMERCO has considerable lending capacity and liquidity, and we think there is significant room for greater leverage in AMERCO's capital structure which could further reduce its weighted average cost of capital.

Using reasonable estimates for AMERCO's cost of equity, debt and economic sensitivity, a weighted average cost of capital analysis implies an appropriate multiple range for AMERCO's shares (given current leverage levels of 30% of TEV) of between 15x and 19x EPS, which implies a share price between $230 and $290 per share. However, it should be noted that these multiples do not take into consideration AMERCO's now-sizable excess cash position. AMERCO's balance sheet is sitting on over $550 million in cash, which represents nearly $28.00 per share in cash. Including this cash balance increases the implied value to between $260.00 and $320.00 per share.

**P/E Multiple Sensitivty (ex-Cash)**

| Debt/TEV | Unlevered Beta | | | | |
|---|---|---|---|---|---|
| | **0.7x** | **0.6x** | **0.5x** | **0.4x** | **0.3x** |
| **20%** | 14.5x | 16.0x | 17.8x | 20.0x | 22.9x |
| **25%** | 14.0x | 15.4x | 17.1x | 19.4x | 22.2x |
| **30%** | 13.3x | 14.7x | 16.5x | 18.7x | 21.5x |
| **35%** | 12.7x | 14.1x | 15.8x | 17.9x | 20.8x |
| **40%** | 12.0x | 13.3x | 15.0x | 17.1x | 20.0x |

**Implied P/E Multiple (ex-Cash)**

| | |
|---|---|
| Levered Cost of Equity | 7.6% |
| Long-term Growth Rate | 1.5% |
| Cost of Equity - Growth | 6.1% |
| **Implied P/E (ex-Cash)** | **16.5x** |

**Implied Equity Value for AMERCO - WACC Method**

| | | | |
|---|---|---|---|
| LTM EBIT | | | $551 |
| Tax Rate | | | 35% |
| Unlevered Income | | | $358 |
| Implied TEV | *WACC - Growth:* | *4.9%* | $7,346 |
| Less: Debt | | | (1,737) |
| Add: Cash | | | 553 |
| Implied Equity Value | | | $6,161 |
| Shares | | | 19.6 |
| **~Implied Share Price** | | | **$314.00** |
| Implied Equity Value per Share (ex-Cash) | | | $286.05 |
| ***~Implied PE Multiple (ex-Cash)*** | | *$15.21* | ***18.8x*** |

**WACC**

| | |
|---|---|
| RFR | 4.0% |
| MRP | 5.0% |
| Unlevered Beta | 0.5x |
| Debt / TEV | 30% |
| Tax | 35% |
| Cost of Debt | 5.5% |
| **Implied Lev. Beta** | **0.7x** |
| **Levered Cost of Equity** | **7.6%** |
| | |
| **WACC** | **6.4%** |
| Growth | 1.5% |
| **WACC - Growth** | **4.9%** |

*Our Estimate of Intrinsic Value: $270.00 to $330.00 Per Share*

We think long-term investors will realize that AMERCO deserves a valuation multiple in the 18x to 22x PE range, versus only 12x today, implying that AMERCO is worth $270.00 to $330.00 per share. It is important to note that AMERCO now has a fortress balance sheet with over $28.00 per share of cash, well in excess of the business' liquidity needs.

# IX. A Brief History of AMERCO and Why it's Important

AMERCO's success over the past few decades is partly due to the adept stewardship of Joe and Mark Shoen, sons of founder Leonard Shoen. To understand why we are confident in Joe Shoen's competency as an operator and his ability to create shareholder value, we believe it is important to understand how the Shoen sons came to control AMERCO, their single-minded focus on protecting U-Haul's competitive advantage, and important aspects of AMERCO's culture that will endure for the foreseeable future. Since U-Haul essentially created the moving equipment rental industry, its history defines the industry.

**AMERCO History**

*Founding: 1945 to 1950's*

U-Haul was created in 1945 as the first inter-city equipment rental company. Within a few years, Leonard Shoen had created a nationwide network of franchisees that allowed movers to rent equipment for one-way moves between most cities across the US.

In the 1950's, Shoen anticipated a shift in the market from trailers to renting full moving trucks. Truck rentals were a far more difficult business line for competitors to match because of the large capital investment, maintenance complexity and liability risks. U-Haul's move into truck rentals cemented its lead in the industry, and the company grew to dominate the segment it created.

*Shoen's Culture of Modesty*

The influence of Leonard Shoen on the culture and vision of U-Haul has endured since he founded the business in 1945. Shoen and his wife embraced a culture of modesty, honesty and hard work. For years, Shoen personally traveled across the United States signing up franchisees to the U-Haul network, often repairing trailers on the side of the road himself. Shoen mandated that his executives stay at discount hotels, eat fast-food, and avoided lavish expenditures. Shoen even personally answered the company telephone. As a lesson to his employees, Shoen once threw $1,000 out the window to illustrate that it was as wasteful as excessive spending.

The culture of modesty has endured at U-Haul to this day. AMERCO's total parent level costs (including audit, listing fees, executive pay, etc.) are less than $10 million per year. AMERCO's CEO (Joe Shoen) pays himself a modest ~$800k of annual compensation and the president of U-Haul, John Taylor, receives ~$500k. Both are modest salaries for a $3bn company. The Shoen family retains approximately 55% ownership in the firm.

*AMERCO*

In 1969, Shoen established the parent company of U-Haul as American Family Corporation (AMERCO), headquartered in Nevada. Shoen started a family with his second wife, Carol. In all, LS would go on to be married 5 times and have 13 children.

In the early 1970's, several of Shoen's eldest sons (from his first marriage with Anna) joined the family business. His eldest son, Sam, a Harvard MBA and doctor, was positioned to be Schoen's successor. Another Harvard MBA, Joe (AMERCO's current Chairman and CEO) was appointed president of U-Haul International. Two other brothers, Mike and Mark, had allegiances to Sam and Joe, respectively. The acrimonious business relationship between Leonard Schoen's sons would define AMERCO for the next two decades.

*1970's: Family Turmoil and Entry of Ryder Truck Rental*

Strategic missteps, combined with one of the most intriguing shareholder battles in modern American corporate history, led to the rise of Ryder Truck Rental in the 1970's and 1980's. Ryder would be the last company to legitimately challenge U-Haul in the DIY-rental market.

The 1973 oil embargo represented a turning point in the U.S. DIY truck-rental market. The oil embargo both reduced household mobility (moving became expensive) and forced many of U-Haul's franchisees, which were often small service stations, out of business. Of the 14,000 service stations in its network, nearly 6,000 were pushed out of business. Losing its key competitive advantage, AMERCO was forced to invest considerable capital into maintaining its network advantage over competitors.

At the time, eldest son Sam, along with his father, suggested utilizing their new store network to diversify into other rental products, including movie cassettes, skis, canoes, garden equipment, recreational vehicles, and other assets that fit a rental model. The capital investment required to both build out a store network, and stock inventory of non-core rental products, began to crowd out investment in the core truck-rental fleet, which was allowed to age and deteriorate.

While AMERCO was expending enormous capital into non-core rental businesses, which was also hampering network growth, Ryder Systems, the publicly traded, well capitalized logistics company, entered into the DIY truck rental business in full force. While U-Haul's fleet aged to the point that the average truck was 13 years old, Ryder introduced trucks that were less than two years old, and had modern amenities such as air conditioning, good radios and automatic transmissions. Using its parent-company's logistics expertise, Ryder Truck Rental rapidly captured market share in both the intra-city and inter-city markets.

AMERCO's diversification drive met great resistance from Joe and Mark Shoen, who openly questioned the competence of their eldest brother and their father. Rather than diversify, Joe and Mark suggested a massive investment in upgrading the fleet in order to fight off the threat from Ryder. In 1979, Leonard Shoen sided with his eldest son Sam as his successor, leading Joe and Mark to abruptly resign.

*1980's: Joe Shoen is Forced to Buy Out His Own Father*

In the middle of the decade, Leonard Shoen transferred his ownership in U-Haul to his children. Almost immediately, allegiances were formed between one camp backing sons Joe and Mark, who wanted a new direction for the company, and one camp backing their father and eldest brother, Leonard and Sam.

By the middle of the decade, Ryder Truck Rental had managed to catch up to U-Haul in the DIY truck rental space. In 1986, with AMERCO's profits in free-fall, Joe and Mark successfully won a boardroom coup, removing their own father from the Chairman role. Joe named himself Chairman, and within a year, essentially ousted Sam as well. Joe took on the role of both CEO and Chairman, a title he has held ever since.

In 1989, Leonard Shoen attempted to regain control of the Company but was defeated by Joe through a questionable share issuance to insiders aligned with Joe. Numerous lawsuits followed, with Leonard and Sam Shoen suing Joe Shoen and the AMERCO board. The AGM actually witnessed a fist-fight between brothers Mark and Mike Shoen.

A few years later, Sam Shoen's wife was mysteriously murdered in her own home. Leonard accused his sons of hiring a killer, and the family's relationships disintegrated. The killer was subsequently arrested, having no connection to the Shoen family.

With AMERCO firmly in his control, Joe moved forward with his plan of refocusing AMERCO on its core U-Haul business. He cut thousands of jobs, including people close to Leonard, ended the diversification-oriented business strategy, and invested significant capital in upgrading the truck fleet. AMERCO reversed its profit decline and by the 1990's U-Haul had emerged from its battle with Ryder as the clear victor. Ryder subsequently sold its truck rental operations to Budget in 1998.

In 1994, Leonard and Sam won their lawsuit against AMERCO for the questionable share issuances during the infamous 1989 shareholder vote. AMERCO was forced to pay over $400 million to buy out Leonard Shoen, Sam Shoen and certain other shareholders.

**2003 Bankruptcy**

AMERCO filed for bankruptcy in 2003, but this was due to an accounting restatement that created a near-term liquidity shortfall, rather than due to operating problems with the underlying business. AMERCO's creditors were repaid in full and the equity was left in tact.

The accounting issues were caused by Mark Shoen's ownership of a self-storage real estate portfolio through a holding company called SAC Holdings. For years, AMERCO provided financing to SAC Holdings through loans, and also managed some of SAC's properties in exchange for a property management fee. AMERCO had no economic interest in SAC other than a loan receivable.

Following the Enron scandal, new accounting rules were established which forced AMERCO to consolidate SAC onto its GAAP financial statements, despite having no economic interest in the business. Unfortunately, as a consequence of consolidating SAC's debt onto its balance sheet, AMERCO tripped certain covenants on its debt making it immediately due.

| | *Fiscal Year Ending March 31* | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| **SAC** | | | | | | | |
| Rental | $92 | $113 | $168 | $168 | $28 | $28 | $29 |
| Net Sales | 18 | 24 | 49 | 51 | 15 | 18 | 17 |
| InterCo (U-Haul) | | | | | | | |
| Revenue | $110 | $137 | $217 | $219 | $43 | $46 | $47 |
| Opex | (49) | (68) | (105) | (108) | (23) | (23) | (23) |
| COGS | (10) | (12) | (21) | (24) | (6) | (7) | (7) |
| D&A | (12) | (15) | (21) | (21) | (3) | (2) | (3) |
| **EBIT** | **$39** | **$42** | **$69** | **$65** | **$10** | **$14** | **$14** |
| Interest | (53) | (61) | (81) | (81) | (14) | (13) | (13) |
| EBT | ($15) | ($19) | ($12) | ($16) | ($4) | $1 | $1 |
| Tax | 5 | 5 | 4 | 5 | 1 | (0) | (0) |
| Net Income | ($9) | ($14) | ($9) | ($11) | ($2) | $0 | $1 |
| ***EBIT Margin*** | ***35.2%*** | ***30.4%*** | ***31.7%*** | ***29.6%*** | ***24.2%*** | ***29.4%*** | ***29.7%*** |
| **EBITDA** | **$51** | **$57** | **$90** | **$86** | **$13** | **$16** | **$17** |
| ***EBITDA Margin*** | ***46.4%*** | ***41.4%*** | ***41.6%*** | ***39.3%*** | ***30.7%*** | ***34.7%*** | ***35.5%*** |

Given tight credit markets at the time, AMERCO was forced to file for protection from its creditors in 2003. However, the Company emerged from bankruptcy relatively quickly once it was able to secure new financing to roll over its debt.

Recognizing shareholder concerns about conflicts of interest, Mark Shoen has since rapidly paid down his loans from AMERCO. In FY 2008, SAC was no longer consolidated on AMERCO's financial statements and as of the latest quarter, AMERCO only has approximately $175 million in receivables outstanding to related parties (largely SAC).

**Implications for AMERCO Investors**

Joe Shoen and his brother Mark have been deeply involved in the family business since they were young men. Joe, a Harvard-educated MBA, has been CEO of U-Haul for over 25 years, but is still relatively young at 63 years old. Despite running an enormously profitable $3B+ business, Joe pays himself a relatively modest CEO salary; his wealth is overwhelmingly tied to the dividends and growth from AMERCO's common shares.

In the decades since Joe and Mark took over the company, U-Haul has faced numerous recessions, a contentious shareholder lawsuit, new competitive entrants, and even a covenant-triggered bankruptcy. However, the management team has remained focused on ensuring U-Haul's competitive moat is not encroached: year after year, U-Haul widens its lead in terms of network and fleet size, continually adds more services to its platform to differentiate its offering, and preemptively evaluates disruptive technologies and systems to ensure U-Haul remains the preeminent company in the DIY moving space.

Additionally, AMERCO does not make large, unwarranted acquisitions that dissipate shareholder value. The Company has a history of share buybacks and dividends, as well as debt retirement. AMERCO has paid a special dividend in each of the past two years.

We are confident that UHAL benefits from an excellent management team, and expect that the Shoen family, now entering its 3rd generation, will continue to be sound stewards of shareholder capital.

# X. Risks

**Competition, including Entrance of Enterprise:** As with any industry where capacity can be added / removed relatively easily, the truck rental industry has gone through periods of excess supply due to aggressive competitors entering the market. Given AMERCO's starting advantages in fleet size and network size, we think their position in intra-city moves is relatively strong. However, pricing is always a concern. For now, Budget is retrenching. Penske's results are not public but we have not received indication that they are expanding significantly.

Management has recently mentioned that Enterprise, the nation's largest car rental company, is planning to enter the DIY truck rental market. It's unclear how much of a threat Enterprise would turn out to be if it attempted to aggressively enter U-Haul's market niche. Unlike when Ryder competed with U-Haul in the 1980's-1990's, at one point matching U-Haul's fleet size, U-Haul's incumbent fleet size today is many multiples of its nearest competitor.

Enterprise is a well financed company with a ready-built IT and tracking system, a long-term investment horizon, and convenient real estate holdings. As stated earlier, in one-way / inter-city moves, U-Haul has all but captured the market. Its network and fleet size is simply too large to compete with. We also note that Enterprise does not have convenient truck rental locations (and in some cases are completely absent) in Manhattan, Philadelphia, Boston, San Francisco, nor Chicago. U-Haul, on the other hand, has been acquiring land since the 1970's, and has locations in major city cores; a quick tour of their Chelsea Manhattan hub will show why competing in U-Haul's entrenched markets is a losing proposition.

We think it is more likely Enterprise will focus efforts on intra-city moves, which is the lowest-margin business, and do so primarily in key suburban markets where they have existing car rental real estate.

**Management Buyout**: Given its substantial, predictable cash flow, AMERCO is an ideal candidate for a leveraged buyout, whether through management or a private equity firm. We see no signs that management is interested in selling the business, so a management buyout is the likelier outcome. As a result, there is a risk that management enacts measures that drive down the stock price, so that it can take the company private at a cheaper valuation. For instance, one interpretation of why management doesn't provide forward guidance or actively engage the analyst community is that the Shoen family would like to keep the stock price low in anticipation of a potential take-private.

**Fuel Mileage Standards**: AMERCO has a sizable truck fleet which could be subject to changing fuel mileage standards. Federal rules could impose expensive upgrades to existing vehicles (not likely) or significantly raise the cost of new vehicles (more likely). Though vehicle costs would rise for all players in the industry (and thus, presumably be passed through), as mentioned in this report, pricing power for the industry is somewhat limited so increased fleet costs could put some pressure on margins.

## XI. Conclusion

In today's market environment, it's difficult to find a business as attractive and easy to understand as U-Hual trading at so low a valuation.

AMERCO's core U-Haul "Do-It-Yourself" equipment rental operation is an excellent business that should continue to grow nicely over the foreseeable future. A confluence of factors, including technological advances, retrenchment by competitors and expansion into ancillary services, has allowed the Company to steadily increase margins since the 2008 recession. We think that the company's higher margins are sustainable and the product of more than a decade of strong stewardship by a competent operational management team.

The company's self-storage real estate portfolio provides a floor to the company's valuation. If spun out as a REIT, the self-storage assets could theoretically be worth more than the current share price of the entire company. Operationally, the synergistic nature of the company's self-storage and equipment rental operations allows U-Haul to generate better returns on acquired real estate than competitors.

AMERCO has been run by the Shoen family for nearly 70 years and the family retains a 55% equity interest in the business. Given the large insider ownership, management doesn't cater to equity analysts or quarterly earnings expectations, but instead manages operations with a long-term focus, continuously enhancing UHAL's competitive advantages and consistently increasing market share at the expense of competitors. U-Haul's numerous ancillary services demonstrate that management is adept at constantly adapting the company to take advantage of, and protect the business from, new trends, technologies or ways of doing business. Management wealth is primarily tied to the long-term value of the stock, not salary.

Management employs a shareholder friendly capital allocation policy, and has spent the past few years retiring debt and paying special dividends. The company avoids large acquisitions, instead re-investing capital into its high ROE core business.

Finally, and most importantly, AMERCO's shares are very obviously cheap. Despite having a dominant market position in a predictable industry that will almost certainly be larger 20 years from now than it is today, AMERCO shares trade at only 12x EPS, 6x EV / EBITDA and 9x EV / EBIT. Given the company's leading and highly defensible market position, competent management, and intelligent capital allocation policies, we believe that the stock should be trading at a premium to the S&P 500's current 16x multiple. A trailing P/E multiple of 18x to 22x would yield a stock price between $270.00 and $330.00 per share, between 45% and 80% above today's trading levels.

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