

Prologis Reports Third Quarter 2017 Earnings Results

SAN FRANCISCO, Oct. 17, 2017 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, today reported results for the third quarter of 2017.

Net earnings per diluted share was \$1.63 compared with \$0.52 for the same period in 2016. This year-over-year increase was driven primarily by higher gains on dispositions of real estate, as well as by improved operating conditions.

Core funds from operations* per diluted share was \$0.67 compared with \$0.73 (\$0.59 before promote income) for the same period in 2016. No promote was recognized this quarter. Improved operating conditions primarily drove the \$0.08 year-over-year increase on a promote-neutral basis.

"Our third quarter results reflect strong market conditions and our customers' intensifying need for well-located logistics facilities," said Hamid R. Moghadam, chairman and CEO, Prologis. "Taken together, the lack of available labor and land scarcity are becoming additional governors on new construction. These favorable conditions have elevated our mark-to-market. Our in-place rents are now below market by 14 percent globally and 18 percent in the U.S., extending our organic growth into the foreseeable future."

SUPERIOR PORTFOLIO LOCATION DRIVES OUTPERFORMANCE

Owned & Managed	3Q17	3Q16	Notes
Period End Occupancy	96.3%	96.6%	The U.S. increased 40 bps year-over-year
Leases Signed	41MSF	46MSF	

Prologis Share	3Q17	3Q16	Notes
Net Effective Rent Change	22.7%	15.0%	Led by the U.S. with record 31.9%
Cash Rent Change	10.6%	5.7%	
Net Effective Same Store NOI*	4.1%	5.6%	Driven exclusively by releasing spreads and led by the U.S. at 6.0%
Cash Same Store NOI*	6.1%	6.6%	Led by the U.S. at 8.0%

GLOBAL INVESTMENT STRATEGY PROPELS PROFITABLE DEPLOYMENT

Prologis Share	3Q17
Building Acquisitions	\$20M
Weighted avg stabilized cap rate	5.3%
Development Stabilizations	\$548M
Estimated weighted avg yield	6.4%
Estimated weighted avg margin	38.8%
Estimated value creation	\$212M
Development Starts	\$432M
Estimated weighted avg margin	15.1%
Estimated value creation	\$65M
% Build-to-suit	57.5%
Dispositions and Contributions	\$779M
Weighted avg stabilized cap rate (excluding land and other real estate)	4.8%

COMPLETES SIMPLIFICATION INITIATIVE AND CREATES SECTOR-LEADING FUND IN EUROPE

During the quarter, the company closed on the acquisition of its partner's interest in its Brazil platform and contributed the former North American Industrial Fund (NAIF) to U.S. Logistics Fund (USLF), generating a one-time gain in earnings of approximately \$560 million.

Subsequent to quarter end, the company closed the combination of Prologis Targeted Europe Logistics Fund (PTETF) and Prologis European Properties Fund II (PEPF II) to create Prologis European Logistics Fund (PELF), an €8.2 billion sector-leading open-ended fund. These two highly complementary portfolios span 106 million square feet across 12 countries. In conjunction with its formation, S&P has rated the vehicle's credit at A-.

"This rating acknowledges the strength of PELF's balance sheet as well as its high-quality portfolio and management structure," said Thomas S. Olinger, chief financial officer, Prologis.

Under the terms of the transaction and subsequent to quarter end, assets of PTETF will be contributed to PELF in exchange for units. The exchange will be based on the fair market value of each fund as of September 30, 2017. The transaction was not a liquidity event for Prologis, as it will retain its current ownership and hold 26 percent of the combined entity.

BALANCE SHEET CONTINUES TO STRENGTHEN

During the third quarter, leverage decreased to 23.9 percent on a market capitalization basis and debt-to-adjusted EBITDA* improved to 4.3x. The company ended the quarter with 92 percent USD net equity exposure and more than \$4.0 billion of liquidity.

NARROWS 2017 EARNINGS GUIDANCE RANGES

The guidance range for net earnings per diluted share increased and narrowed to \$3.01 to \$3.06 and the range for Core FFO* per diluted share narrowed to \$2.79 to \$2.81.

"To capitalize on the robust demand in our current environment, we are increasing our development starts, as well as dispositions and contributions," added Olinger. "In addition to \$4.0 billion of liquidity, we have \$3.4 billion of embedded sources, providing several years' capacity to self-fund our growth. At the same time, our credit metrics are the strongest they've been in our history."

2017 GUIDANCE (UPDATES TO PRIOR GUIDANCE ONLY)

Earnings (per diluted share)	Previous	Revised
Net Earnings	\$2.76 to \$2.84	\$3.01 to \$3.06
Core FFO*	\$2.78 to \$2.82	\$2.79 to \$2.81

Other Assumptions (in millions)	Previous	Revised
Strategic capital revenue, excl. promote revenue	\$225 to \$235	\$240 to \$245
General & administrative expenses	\$222 to \$228	\$228 to \$232
Realized development gains	\$250 to \$300	\$300 to \$325

Capital Deployment (Prologis Share, in millions)	Previous	Revised
Development stabilizations	\$1,600 to \$2,000	\$1,800 to \$2,000
Development starts	\$1,800 to \$2,100	\$2,300 to \$2,500
Building acquisitions	\$100 to \$150	\$175 to \$250
Building and land dispositions	\$1,000 to \$1,250	\$1,300 to \$1,500
Building contributions	\$950 to \$1,200	\$1,200 to \$1,400

The earnings guidance described above includes potential future gains (losses) recognized from real estate transactions but excludes any future foreign currency or derivative gains or losses as these items are difficult to predict. In reconciling from net earnings to Core FFO*, Prologis makes certain adjustments, including but not limited to real estate depreciation and amortization expense, gains (losses) recognized from real estate transactions and early extinguishment of debt, impairment charges, deferred taxes and unrealized gains or losses on foreign currency or derivative activity. The difference between the company's Core FFO* and net earnings guidance for 2017 relates predominantly to these items. Please refer to our third quarter Supplemental Information, which is available on our Investor Relations website at www.ir.prologis.com and on the SEC's website at www.sec.gov for a definition of Core FFO* and other non-GAAP measures used by Prologis, along with reconciliations of these items to the closest GAAP measure for our results and guidance.

WEBCAST & CONFERENCE CALL INFORMATION

Prologis will host a live webcast and conference call to discuss quarterly results, current market conditions and future outlook. Here are the event details:

- Tuesday, October 17, 2017, at 12 p.m. U.S. Eastern Time.
- Live webcast at <http://ir.prologis.com> by clicking Investors>Investor Events and Presentations.
- Dial in: +1 800-708-4540 or +1 847-619-6397 and enter Passcode 45746935.

A telephonic replay will be available October 17-24 at +1 888-843-7419 (from the United States and Canada) or +1 630-652-3042 (from all other countries) using conference code 45746935. The webcast replay will be posted when available in the Investor Relations "Events & Presentations" section.

ABOUT PROLOGIS

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of September 30, 2017, the company owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 687 million square feet (64 million square meters) in 19 countries. Prologis leases modern distribution facilities to a diverse base of approximately 5,200 customers across two major categories: business-to-business and retail/online fulfillment.

FORWARD-LOOKING STATEMENTS

The statements in this document that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on current expectations, estimates and projections about the industry and markets in which we operate as well as management's beliefs and assumptions. Such statements involve uncertainties that could significantly impact our financial results. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future — including statements relating to rent and occupancy growth, development activity and changes in sales or contribution volume of properties, disposition activity, general conditions in the geographic areas where we operate, our debt, capital structure and financial position, our ability to form new co-investment ventures and the availability of capital in existing or new co-investment ventures — are forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Although we believe the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained and therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Some of the factors that may affect outcomes and results include, but are not limited to: (i) national, international, regional and local economic climates, (ii) changes in financial markets, interest rates and foreign currency exchange rates, (iii) increased or unanticipated competition for our properties, (iv) risks associated with acquisitions, dispositions and development of properties, (v) maintenance of real estate investment trust status, tax structuring and income tax rates (vi) availability of financing and capital, the levels of debt that we maintain and our credit ratings, (vii) risks related to our investments in our co-investment ventures, including our ability to establish new co-investment ventures and funds, (viii) risks of doing business internationally, including currency risks, (ix) environmental uncertainties, including risks of natural disasters, and (x) those additional factors discussed in reports filed

with the Securities and Exchange Commission by us under the heading "Risk Factors." We undertake no duty to update any forward-looking statements appearing in this document.

*This is a non-GAAP financial measure. See the Notes and Definitions in our supplemental information for further explanation and a reconciliation to the most directly comparable GAAP measure.

dollars in millions, except per share/unit data	Three Months ended September 30,		Nine Months ended September 30,	
	2017	2016	2017	2016
Rental and other revenues	\$ 535	\$ 562	\$ 1,692	\$ 1,666
Strategic capital revenues	68	143	306	247
Total revenues	603	705	1,998	1,913
Net earnings attributable to common stockholders	876	279	1,346	763
Core FFO*	370	402	1,178	1,056
AFFO*	460	368	1,212	974
Adjusted EBITDA*	665	573	1,814	1,582
Estimated value creation from development starts - Prologis share	65	76	312	198
Common stock dividends and common limited partnership unit distributions	244	231	730	692
Per common share - diluted:				
Net earnings attributable to common stockholders	\$1.63	\$0.52	\$ 2.51	\$1.44
Core FFO*	0.67	0.73	2.14	1.94
Business line reporting:				
Real estate operations*	0.62	0.55	1.79	1.65
Strategic capital*	0.05	0.18	0.35	0.29
Core FFO*	0.67	0.73	2.14	1.94
Realized development gains, net of taxes	0.28	0.09	0.41	0.27
Dividends and distributions per common share/unit	0.44	0.42	1.32	1.26

* This is a non-GAAP financial measure, please see below for further explanation.

in thousands	September 30, 2017	June 30, 2017	December 31, 2016
Assets:			
Investments in real estate properties:			
Operating properties	\$ 22,656,273	\$ 24,412,416	\$ 23,943,457
Development portfolio	1,500,999	1,489,293	1,432,082
Land	1,313,268	1,081,897	1,218,904
Other real estate investments	506,617	517,678	524,887
	25,977,157	27,501,284	27,119,330
Less accumulated depreciation	3,977,667	4,026,369	3,758,372
Net investments in real estate properties	21,999,490	23,474,915	23,360,958
Investments in and advances to unconsolidated entities	5,371,758	4,617,724	4,230,429
Assets held for sale	321,905	350,987	322,139
Notes receivable backed by real estate	-	19,536	32,100
Net investments in real estate	27,693,153	28,463,162	27,945,626
Cash and cash equivalents	568,726	271,354	807,316
Other assets	1,392,271	1,415,879	1,496,990
Total assets	\$ 29,654,150	\$ 30,150,395	\$ 30,249,932
Liabilities and Equity:			
Liabilities:			
Debt	\$ 9,721,065	\$ 11,081,922	\$ 10,608,294
Accounts payable, accrued expenses and other liabilities	1,373,829	1,208,235	1,183,498
Total liabilities	11,094,894	12,290,157	11,791,792
Equity:			
Stockholders' equity	15,543,751	14,847,296	14,991,081
Noncontrolling interests	2,591,544	2,607,352	3,072,469
Noncontrolling interests - limited partnership unitholders	423,961	405,590	394,590
Total equity	18,559,256	17,860,238	18,458,140
Total liabilities and equity	\$ 29,654,150	\$ 30,150,395	\$ 30,249,932

in thousands, except per share amounts	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Rental	\$ 531,182	\$ 560,277	\$ 1,674,492	\$ 1,660,524
Strategic capital	68,042	142,581	305,741	247,119
Development management and other	3,650	1,707	17,979	5,377

Total revenues	602,874	704,565	1,998,212	1,913,020
Expenses:				
Rental	128,735	140,514	429,185	427,820
Strategic capital	35,996	44,624	119,781	97,783
General and administrative	57,656	58,157	171,350	165,634
Depreciation and amortization	201,903	224,867	656,639	705,249
Other	3,093	3,779	8,608	12,364
Total expenses	427,383	471,941	1,385,563	1,408,850
Operating income	175,491	232,624	612,649	504,170
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	53,775	44,547	160,400	132,673
Earnings from other unconsolidated ventures, net	1,291	1,310	11,867	12,949
Interest expense	(64,190)	(75,310)	(212,456)	(232,577)
Gains on dispositions of development properties and land, net	168,214	53,717	235,734	160,001
Gains on dispositions of real estate, net (excluding development properties and land)	610,839	63,579	723,650	301,962
Foreign currency and derivative (losses) and interest and other income, net	(14,056)	1,202	(36,834)	(19,226)
Gains (losses) on early extinguishment of debt, net	-	1,492	(30,596)	2,484
Total other income	755,873	90,537	851,765	358,266
Earnings before income taxes	931,364	323,161	1,464,414	862,436
Current income tax expense	(20,412)	(13,054)	(42,525)	(38,335)
Deferred income tax benefit (expense)	2,465	(2,865)	197	1,737
Consolidated net earnings	913,417	307,242	1,422,086	825,838
Net earnings attributable to noncontrolling interests	(11,411)	(18,629)	(33,534)	(35,865)
Net earnings attributable to noncontrolling interests - limited partnership units	(24,113)	(7,687)	(37,113)	(22,238)
Net earnings attributable to controlling interests	877,893	280,926	1,351,439	767,735
Preferred stock dividends	(1,675)	(1,671)	(5,023)	(5,056)
Net earnings attributable to common stockholders	\$ 876,218	\$ 279,255	\$ 1,346,416	\$ 762,679
Weighted average common shares outstanding - Diluted	554,163	547,200	551,618	545,228
Net earnings per share attributable to common stockholders - Diluted	\$ 1.63	\$ 0.52	\$ 2.51	\$ 1.44

in thousands

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net earnings attributable to common stockholders	\$ 876,218	\$ 279,255	\$ 1,346,416	\$ 762,679
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	194,023	217,041	633,224	681,866
Gains on dispositions of real estate, net (excluding development properties and land)	(610,839)	(63,579)	(723,650)	(301,962)
Reconciling items related to noncontrolling interests	1,074	(23,028)	(40,633)	(87,318)
Our share of reconciling items related to unconsolidated co-investment ventures	46,588	36,794	102,636	116,821
Our share of reconciling items related to other unconsolidated ventures	1,731	1,420	5,031	436
Subtotal-NAREIT defined FFO*	\$ 508,795	\$ 447,903	\$ 1,323,024	\$ 1,172,522
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	20,294	(1,915)	55,800	21,864
Deferred income tax expense (benefit)	(2,465)	2,865	(197)	(1,737)
Current income tax expense on dispositions related to acquired tax assets	757	-	90	-
Reconciling items related to noncontrolling interests	(22)	(1,247)	(9)	39
Our share of reconciling items related to unconsolidated co-investment ventures	(612)	830	(2,441)	1,170
FFO, as modified by Prologis*	\$ 526,747	\$ 448,436	\$ 1,376,267	\$ 1,193,858
Gains on dispositions of development properties and land, net	(168,214)	(53,717)	(235,734)	(160,001)
Current income tax expense on dispositions	11,662	4,701	12,573	14,820
Acquisition expenses	-	304	-	2,532
Losses (gains) on early extinguishment of debt, net	-	(1,492)	30,596	(2,484)
Reconciling items related to noncontrolling interests	(8)	3,242	(687)	4,298
Our share of reconciling items related to unconsolidated co-investment ventures	(386)	1,364	(191)	4,683
Our share of reconciling items related to other unconsolidated ventures	(71)	(685)	(4,938)	(1,995)
Core FFO*	\$ 369,730	\$ 402,153	\$ 1,177,886	\$ 1,055,711

Adjustments to arrive at Adjusted FFO ("AFFO")*, including our share of unconsolidated ventures less noncontrolling interests:

Gains on dispositions of development properties and land, net	168,214	53,717	235,734	160,001
Current income tax expense on dispositions	(11,662)	(4,701)	(12,573)	(14,820)
Straight-lined rents and amortization of lease intangibles	(17,314)	(31,551)	(66,233)	(85,942)
Property improvements	(22,365)	(22,337)	(50,030)	(50,294)
Turnover costs	(37,100)	(36,382)	(115,442)	(125,101)
Amortization of debt discount (premium), financing costs and management contracts, net	3,740	(2,486)	992	(10,248)
Stock compensation expense	20,487	14,446	58,091	43,658

Reconciling items related to noncontrolling interests	5,685	(11,781)	(26,257)	(43,809)
Our share of reconciling items related to unconsolidated ventures	(18,930)	(16,142)	(42,932)	(42,332)
AFFO*	\$ 460,465	\$ 368,498	\$ 1,211,750	\$ 974,442

* This is a non-GAAP financial measure, please see below for further explanation.

in thousands	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net earnings attributable to common stockholders	\$ 876,218	\$ 279,255	\$ 1,346,416	\$ 762,679
Gains on dispositions of real estate, net (excluding development properties and land)	(610,839)	(63,579)	(723,650)	(301,962)
Depreciation and amortization	201,903	224,867	656,639	705,249
Interest expense	64,190	75,310	212,456	232,577
Losses (gains) on early extinguishment of debt, net	-	(1,492)	30,596	(2,484)
Current and deferred income tax expense, net	17,947	15,919	42,328	36,598
Net earnings attributable to noncontrolling interests - limited partnership unitholders	24,113	7,687	37,113	22,238
Pro forma adjustments	3,519	(1,862)	14,605	(8,866)
Preferred stock dividends	1,675	1,671	5,023	5,056
Unrealized foreign currency and derivative losses (gains), net	20,294	(1,915)	55,800	21,864
Stock compensation expense	20,487	14,446	58,091	43,658
Acquisition expenses	-	304	-	2,532
Adjusted EBITDA, consolidated*	\$ 619,507	\$ 550,611	\$ 1,735,417	\$ 1,519,139
Reconciling items related to noncontrolling interests	(24,420)	(37,410)	(84,108)	(117,942)
Our share of reconciling items related to unconsolidated co-investment ventures	69,690	59,799	162,532	180,385
Adjusted EBITDA*	\$ 664,777	\$ 573,000	\$ 1,813,841	\$ 1,581,582

* This is a non-GAAP financial measure, please see below for further explanation.

Adjusted EBITDA. We use Adjusted EBITDA, a non-Generally Accepted Accounting Principles ("GAAP") financial measure, as a measure of our operating performance. The most directly comparable GAAP measure to Adjusted EBITDA is net earnings.

We calculate Adjusted EBITDA beginning with consolidated net earnings attributable to common stockholders and removing the effect of: interest expense, income taxes, depreciation and amortization, impairment charges, third party acquisition expenses related to the acquisition of real estate, gains or losses from the disposition of investments in real estate (excluding development properties and land), gains from the revaluation of equity investments upon acquisition of a controlling interest, gains or losses on early extinguishment of debt and derivative contracts (including cash charges), similar adjustments we make to our FFO measures (see definition below), and other items, such as, stock based compensation and unrealized gains or losses on foreign currency and derivatives. We also include a pro forma adjustment to reflect a full period of NOI on the operating properties we acquire or stabilize during the quarter and remove NOI on properties we dispose of during the quarter, to assume all transactions occurred at the beginning of the quarter. The pro forma adjustment also includes economic ownership changes in our ventures to reflect the full quarter at the new ownership percentage.

We believe Adjusted EBITDA provides investors relevant and useful information because it permits investors to view our operating performance, analyze our ability to meet interest payment obligations and make quarterly preferred stock dividends on an unleveraged basis before the effects of income tax, non-cash depreciation and amortization expense, gains and losses on the disposition of non-development properties and other items (outlined above), that affect comparability. While all items are not infrequent or unusual in nature, these items may result from market fluctuations that can have inconsistent effects on our results of operations. The economics underlying these items reflect market and financing conditions in the short-term but can obscure our performance and the value of our long-term investment decisions and strategies.

While we believe Adjusted EBITDA is an important measure, it should not be used alone because it excludes significant components of net earnings, such as our historical cash expenditures or future cash requirements for working capital, capital expenditures, distribution requirements, contractual commitments or interest and principal payments on our outstanding debt and is therefore limited as an analytical tool.

Our computation of Adjusted EBITDA may not be comparable to EBITDA reported by other companies in both the real estate industry and other industries. We compensate for the limitations of Adjusted EBITDA by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of Adjusted EBITDA and a reconciliation to Adjusted EBITDA from consolidated net earnings attributable to common stockholders.

Business Line Reporting is a non-GAAP financial measure. Core FFO and development gains are generated by our three lines of business: (i) real estate operations; (ii) strategic capital; and (iii) development. The real estate operations line of business represents total Prologis Core FFO, less the amount allocated to the Strategic Capital line of business. The amount of Core FFO allocated to the Strategic Capital line of business represents the Asset Management Fees we earn from our consolidated and unconsolidated Co-Investment Ventures less costs directly associated to our strategic capital group, plus development management income. Realized development gains include our share of gains on dispositions of development properties and land, net of taxes. To calculate the per share amount, the amount generated by each line of business is divided by the weighted average diluted common shares outstanding used in our Core FFO per share calculation. Management believes evaluating our results by line of business is a useful supplemental measure of our operating performance because it helps the investing public compare the operating performance of Prologis' respective businesses to other companies' comparable businesses. Prologis' computation of FFO by line of business may not be comparable to that reported by other real estate investment trusts as they may use different methodologies in computing such measures.

Calculation of Per Share Amounts

in thousands, except per share amount	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2017	2016	2017	2016
Net earnings				
Net earnings	\$ 876,218	\$ 279,255	\$ 1,346,416	\$ 762,679
Noncontrolling interest attributable to exchangeable limited partnership units	24,362	7,713	38,127	24,479
Adjusted net earnings - Diluted	\$ 900,580	\$ 286,968	\$ 1,384,543	\$ 787,158
Weighted average common shares outstanding - Basic	531,288	527,288	530,036	525,462
Incremental weighted average effect on exchange of limited partnership units	15,641	14,568	16,150	17,156
Incremental weighted average effect of equity awards	7,234	5,344	5,432	2,610
Weighted average common shares outstanding - Diluted	554,163	547,200	551,618	545,228
Net earnings per share - Basic	\$ 1.65	\$ 0.53	\$ 2.54	\$ 1.45
Net earnings per share - Diluted	\$ 1.63	\$ 0.52	\$ 2.51	\$ 1.44
Core FFO				
Core FFO	\$ 369,730	\$ 402,153	\$ 1,177,886	\$ 1,055,711
Noncontrolling interest attributable to exchangeable limited partnership units	572	1,088	2,488	3,282
Core FFO - Diluted	\$ 370,302	\$ 403,241	\$ 1,180,374	\$ 1,058,993
Weighted average common shares outstanding - Basic	531,288	527,288	530,036	525,462
Incremental weighted average effect on exchange of limited partnership units	15,641	16,233	16,150	17,156
Incremental weighted average effect of equity awards	7,234	5,344	5,432	2,610
Weighted average common shares outstanding - Diluted	554,163	548,865	551,618	545,228
Core FFO per share - Diluted	\$ 0.67	\$ 0.73	\$ 2.14	\$ 1.94

Estimated Value Creation represents the value that we expect to create through our development and leasing activities. We calculate Value Creation by estimating the Stabilized NOI that the property will generate and applying a stabilized capitalization rate applicable to that property. Estimated Value Creation is calculated as the amount by which the value exceeds our total expected investment and does not include any fees or promotes we may earn. Estimated Value Creation for our Value-Added Properties that are sold includes the realized economic gain.

Estimated Weighted Average Margin is calculated on development properties as Estimated Value Creation, less estimated closing costs and taxes on properties expected to be sold or contributed, divided by TEI.

FFO, as modified by Prologis attributable to common stockholders/unitholders ("FFO, as modified by Prologis"); Core FFO attributable to common stockholders/unitholders ("Core FFO"); AFFO; (collectively referred to as "FFO"). FFO is a non-GAAP financial measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings.

The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as earnings computed under GAAP to exclude historical cost depreciation and gains and losses from the sales, along with impairment charges, of previously depreciated properties. We also exclude the gains on revaluation of equity investments upon acquisition of a controlling interest and the gain recognized from a partial sale of our investment, as these are similar to gains from the sales of previously depreciated properties. We exclude similar adjustments from our unconsolidated entities and the third parties' share of our consolidated co-investment ventures.

Our FFO Measures

Our FFO measures begin with NAREIT's definition and we make certain adjustments to reflect our business and the way that management plans and executes our business strategy. While not infrequent or unusual, the additional items we adjust for in calculating *FFO, as modified by Prologis*, *Core FFO* and *AFFO*, as defined below, are subject to significant fluctuations from period to period. Although these items may have a material impact on our operations and are reflected in our financial statements, the removal of the effects of these items allows us to better understand the core operating performance of our properties over the long term. These items have both positive and negative short-term effects on our results of operations in inconsistent and unpredictable directions that are not relevant to our long-term outlook.

We calculate our FFO measures, as defined below, based on our proportionate ownership share of both our unconsolidated and consolidated ventures. We reflect our share of our FFO measures for unconsolidated ventures by applying our average ownership percentage for the period to the applicable reconciling items on an entity by entity basis. We reflect our share for consolidated ventures in which we do not own 100% of the equity by adjusting our FFO measures to remove the noncontrolling interests share of the applicable reconciling items based on our average ownership percentage for the applicable periods.

These FFO measures are used by management as supplemental financial measures of operating performance and we believe that it is important that stockholders, potential investors and financial analysts understand the measures management uses. We do not use our FFO measures as, nor should they be considered to be, alternatives to net earnings computed under GAAP, as indicators of our operating performance, as alternatives to cash from operating activities computed under GAAP or as indicators of our ability to fund our cash needs.

We analyze our operating performance primarily by the rental revenues of our real estate and the revenues from our strategic capital business, net of operating, administrative and financing expenses. This income stream is not directly impacted by fluctuations in the market value of our investments in real estate or debt securities.

FFO, as modified by Prologis

To arrive at *FFO, as modified by Prologis*, we adjust the NAREIT defined FFO measure to exclude the impact of foreign currency related items and deferred tax, specifically:

- (i) deferred income tax benefits and deferred income tax expenses recognized by our subsidiaries;
- (ii) current income tax expense related to acquired tax liabilities that were recorded as deferred tax liabilities in an acquisition, to the extent the

- expense is offset with a deferred income tax benefit in earnings that is excluded from our defined FFO measure;
- (iii) unhedged foreign currency exchange gains and losses resulting from debt transactions between us and our foreign consolidated subsidiaries and our foreign unconsolidated entities;
- (iv) foreign currency exchange gains and losses from the remeasurement (based on current foreign currency exchange rates) of certain third party debt of our foreign consolidated and unconsolidated entities; and
- (v) mark-to-market adjustments associated with derivative financial instruments.

We use FFO, as modified by Prologis, so that management, analysts and investors are able to evaluate our performance against other REITs that do not have similar operations or operations in jurisdictions outside the U.S.

Core FFO

In addition to FFO, as modified by Prologis, we also use Core FFO. To arrive at Core FFO, we adjust FFO, as modified by Prologis, to exclude the following recurring and nonrecurring items that we recognized directly in FFO, as modified by Prologis:

- (i) gains or losses from the disposition of land and development properties that were developed with the intent to contribute or sell;
- (ii) income tax expense related to the sale of investments in real estate and third-party acquisition costs related to the acquisition of real estate;
- (iii) impairment charges recognized related to our investments in real estate generally as a result of our change in intent to contribute or sell these properties;
- (iv) gains or losses from the early extinguishment of debt and redemption and repurchase of preferred stock; and
- (v) expenses related to natural disasters.

We use Core FFO, including by segment and region, to: (i) assess our operating performance as compared to other real estate companies, (ii) evaluate our performance and the performance of our properties in comparison with expected results and results of previous periods; (iii) evaluate the performance of our management; (iv) budget and forecast future results to assist in the allocation of resources; (v) provide guidance to the financial markets to understand our expected operating performance; and (v) evaluate how a specific potential investment will impact our future results.

AFFO

To arrive at AFFO, we adjust Core FFO to include realized gains from the disposition of land and development properties and recurring capital expenditures and exclude the following items that we recognize directly in Core FFO:

- (i) straight-line rents;
- (ii) amortization of above- and below-market lease intangibles;
- (iii) amortization of management contracts;
- (iv) amortization of debt premiums and discounts and financing costs, net of amounts capitalized, and;
- (v) stock compensation expense.

We use AFFO to (i) assess our operating performance as compared to other real estate companies, (ii) evaluate our performance and the performance of our properties in comparison with expected results and results of previous periods, (iii) evaluate the performance of our management, (iv) budget and forecast future results to assist in the allocation of resources, and (v) evaluate how a specific potential investment will impact our future results.

Limitations on the use of our FFO measures

While we believe our modified FFO measures are important supplemental measures, neither NAREIT's nor our measures of FFO should be used alone because they exclude significant economic components of net earnings computed under GAAP and are, therefore, limited as an analytical tool. Accordingly, these are only a few of the many measures we use when analyzing our business. Some of the limitations are:

- The current income tax expenses and acquisition costs that are excluded from our modified FFO measures represent the taxes and transaction costs that are payable.
- Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. FFO is limited, as it does not reflect the cash requirements that may be necessary for future replacements of the real estate assets. Furthermore, the amortization of capital expenditures and leasing costs necessary to maintain the operating performance of logistics facilities are not reflected in FFO.
- Gains or losses from non-development property and dispositions or impairment charges related to expected dispositions represent changes in value of the properties. By excluding these gains and losses, FFO does not capture realized changes in the value of disposed properties arising from changes in market conditions.
- The deferred income tax benefits and expenses that are excluded from our modified FFO measures result from the creation of a deferred income tax asset or liability that may have to be settled at some future point. Our modified FFO measures do not currently reflect any income or expense that may result from such settlement.
- The foreign currency exchange gains and losses that are excluded from our modified FFO measures are generally recognized based on movements in foreign currency exchange rates through a specific point in time. The ultimate settlement of our foreign currency-denominated net assets is indefinite as to timing and amount. Our FFO measures are limited in that they do not reflect the current period changes in these net assets that result from periodic foreign currency exchange rate movements.
- The gains and losses on extinguishment of debt that we exclude from our Core FFO, may provide a benefit or cost to us as we may be settling our debt at less or more than our future obligation.
- The natural disaster expenses that we exclude from Core FFO are costs that we have incurred.

We compensate for these limitations by using our FFO measures only in conjunction with net earnings computed under GAAP when making our decisions. This information should be read with our complete Consolidated Financial Statements prepared under GAAP. To assist investors in compensating for these limitations, we reconcile our modified FFO measures to our net earnings computed under GAAP.

Guidance. The following is a reconciliation of our annual guided Net Earnings per share to our guided Core FFO per share:

	Low	High
Net Earnings	\$ 3.01	\$ 3.06
Our share of:		
Depreciation and amortization	1.68	1.70
Net gains on real estate transactions, net of taxes		

(a)		(2.05)	(2.10)
Unrealized foreign currency losses and other, net		0.15	0.15
Core FFO		\$ 2.79	\$ 2.81

(a) This amount includes \$1.02 related to non-FFO gains on the NAIF sale to USLF and the acquisition of a controlling interest in certain Brazil ventures.

Prologis Share represents our proportionate economic ownership of each entity included in our total owned and managed portfolio whether consolidated or unconsolidated.

Rent Change (Cash) represents the change in starting rental rates per the lease agreement, on new and renewed leases, signed during the periods as compared with the previous ending rental rates in that same space. This measure excludes any free rent periods and teaser rates defined as 50% or less of the stabilized rate.

Rent Change (Net Effective) represents the change in net effective rental rates (average rate over the lease term), on new and renewed leases, signed during the period as compared with the previous effective rental rates in that same space.

Same Store. We evaluate the operating performance of the operating properties we own and manage using a "same store" analysis because the population of properties in this analysis is consistent from period to period, which eliminates the effects of changes in the composition of the portfolio. We have defined the same store portfolio, for the three months ended September 30, 2017, as those owned and managed properties that were in operation at January 1, 2016 and have been in operation throughout the same three-month periods in both 2016 and 2017 (including development properties that have been completed and available for lease). We have removed all properties that were disposed of to a third party or were classified as held for sale to a third party from the population for both periods. We believe the factors that affect rental revenues, rental expenses and NOI in the same store portfolio are generally the same as for the total operating portfolio. To derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the recent period end exchange rate to translate from local currency into the U.S. dollar, for both periods.

Same store is a commonly used measure in the real estate industry. Our same store measures are non-GAAP financial measures that are calculated beginning with rental revenues, rental recoveries and rental expenses from the financial statements prepared in accordance with GAAP. It is also common in the real estate industry and expected from the analyst and investor community that these numbers be further adjusted to remove certain non-cash items included in the financial statements prepared in accordance with GAAP to reflect a cash same store number. In order to clearly label these metrics, we call one Same Store NOI and one Same Store NOI – Cash. As our same store measures are non-GAAP financial measures, they have certain limitations as analytical tools and may vary among real estate companies. As a result, we provide a reconciliation from our financial statements prepared in accordance with GAAP to same store property NOI with explanations of how these metrics are calculated.

The following is a reconciliation of our consolidated rental revenues, rental recoveries, rental expenses and property NOI, as included in the Consolidated Statements of Operations, to the respective amounts in our same store portfolio analysis:

dollars in thousands	Three Months Ended			
	2017	2016	Change	(%)
Rental Revenue:				
Rental Revenue	\$ 416,427	\$ 435,868		
Rental Recoveries	114,755	124,409		
Per the Consolidated Statements of Operations	531,182	560,277		
Properties not included and other adjustments (a)	(64,615)	(56,807)		
Unconsolidated Co-Investment Ventures	525,253	455,930		
Same Store - Rental Revenue	\$ 991,820	\$ 959,400		3.4 %
Rental Expense:				
Per the Consolidated Statements of Operations	\$ 128,735	\$ 140,514		
Properties not included and other adjustments (b)	(4,634)	(3,946)		
Unconsolidated Co-Investment Ventures	116,070	92,530		
Same Store - Rental Expense	\$ 240,171	\$ 229,098		4.8 %
NOI:				
Consolidated NOI	\$ 402,447	\$ 419,763		
Properties not included and other adjustments	(59,981)	(52,861)		
Unconsolidated Co-Investment Ventures	409,183	363,400		
Same Store - NOI	\$ 751,649	\$ 730,302		2.9 %
Same Store - NOI - Prologis Share (c)	\$ 429,503	\$ 412,473		4.1 %
NOI- Cash:				
Same store- NOI	\$ 751,649	\$ 730,302		
Straight-line rent adjustments (d)	(11,360)	(22,485)		
Fair value lease adjustments (d)	590	(952)		
Same Store - NOI- Cash	\$ 740,879	\$ 706,865		4.8 %
Same Store - NOI- Prologis Share (c)	\$ 423,467	\$ 399,234		6.1 %

- (a) To calculate Same Store rental income, we exclude net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental income without regard to one-time items that are not indicative of the property's recurring operating performance.
- (b) To calculate Same Store rental expense, we include an allocation of the property management expenses for our consolidated properties based on the property management fee that is provided for in the individual management agreements under which our wholly owned management companies provide property management services (generally the fee is based on a percentage of revenue). On consolidation, the management fee income and expenses are eliminated and the actual cost of providing property management services is recognized.
- (c) Prologis share of Same Store is calculated using the underlying building information from the Same Store NOI and NOI - Cash calculations and applying our ownership percentage as of September 30, 2017 to the NOI of each building for both periods.
- (d) In order to derive Same Store- NOI - Cash, we adjust Same Store- NOI to exclude non-cash items included in our rental income in our financial

statements, including straight line rent adjustments and adjustments related to purchase accounting to reflect leases at fair value at the time of acquisition.

Weighted Average Stabilized Capitalization ("Cap") Rate is calculated as Stabilized NOI divided by the Acquisition Cost.

SOURCE Prologis, Inc.



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<http://prologis.mediaroom.com/2017-10-17-Prologis-Reports-Third-Quarter-2017-Earnings-Results>