

Prologis Reports Fourth Quarter and Full Year 2019 Earnings Results

SAN FRANCISCO, Jan. 22, 2020 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, reported results for the fourth quarter of 2019.

Net earnings per diluted share was \$0.61 for the quarter and \$2.46 for the year compared with \$0.94 and \$2.87 for the same periods in 2018.

Core funds from operations (Core FFO)* per diluted share was \$0.84 for the quarter, including \$0.02 of net promote income, compared with \$0.80 for the same period in 2018, which included \$0.05 of net promote income. For the full year 2019, Core FFO was \$3.31 compared with \$3.03 for the same period in 2018. Further, Core FFO for full-year periods 2019 and 2018 included net promote income of \$0.18 and \$0.14, respectively.

"Our fourth quarter results represent the culmination of Vision 2019, our three-year strategic plan, and our cumulative earnings growth surpassed our expectations materially. We set several new high-water marks for performance and this success is a testament to the strength of our team and global portfolio," said Hamid R. Moghadam, chairman and CEO, Prologis. "We delivered double-digit rent change and record value creation from development, as well as record promotes from our co-investment ventures. Additionally in 2019, we raised \$6.5 billion in our Strategic Capital business, our largest third-party capital raise ever."

Moghadam continued, "The integration of the IPT acquisition is effectively complete and we are making great progress towards closing Liberty. We have built an enterprise that enables us to execute on major transactions while delivering sector-leading results."

OPERATING PERFORMANCE

Owned & Managed	4Q19	4Q18	Notes
Period End Occupancy	96.5%	97.5%	<i>Prioritizing rent over occupancy</i>
Leases Commenced	38MSF	35MSF	

Prologis Share	4Q19	4Q18	Notes
Net Effective Rent Change	29.5%	25.6%	<i>U.S. 34.1%, Europe 20.1%</i>
Cash Rent Change	15.0%	10.8%	<i>U.S. 20.0%</i>
Cash Same Store NOI* Change	4.6%	4.5%	<i>U.S. 5.0%</i>

DEPLOYMENT ACTIVITY

Prologis Share	4Q19	FY2019
Building Acquisitions	\$175M	\$759M
Weighted avg stabilized cap rate	4.9%	4.5%
Development Stabilizations	\$627M	\$2,469M
Estimated weighted avg yield	6.2%	6.3%
Estimated weighted avg margin	37.7%	36.9%
Estimated value creation	\$236M	\$911M
Development Starts	\$1,714M	\$2,854M
Estimated weighted avg margin	19.6%	20.1%
Estimated value creation	\$336M	\$575M
% Build-to-suit	39.2%	42.9%
Total Dispositions and Contributions	\$734M	\$1,996M
Weighted avg stabilized cap rate (<i>excluding land and other real estate</i>)	4.4%	4.6%

BALANCE SHEET STRENGTH

During the year, Prologis and its co-investment ventures issued \$10.5 billion of debt at a weighted average interest rate of 1.7% and a weighted average term of approximately 8 years. The company ended the fourth quarter with leverage of 18.3% on a market capitalization basis, debt-to-adjusted EBITDA* of 4.0x and \$4.8 billion of liquidity.

"We had another strong year with annual growth in Core FFO of approximately 10%, excluding promotes," said Thomas S. Olinger, chief financial officer, Prologis. "I feel even better about our outlook given the acceleration in operating metrics from our substantial embedded rent upside. Furthermore, our well-located land bank, significant balance sheet capacity and the initiatives we have put into place to create value beyond our real

estate—customer experience, innovation and data analytics—underpin our core portfolio and bring an even greater degree of durability to our long-term growth profile."

2020 GUIDANCE¹

Earnings (per diluted share)

Net Earnings	\$1.98 to \$2.13
Core FFO*	\$3.67 to \$3.75

Operations

Year-end occupancy	96.0% to 97.0%
Cash Same Store NOI* Growth - Prologis share	4.25% to 5.25%

Other Assumptions (in millions)

Strategic capital revenue, excl. promote revenue	\$350 to \$360
Net promote income, incl. in Core FFO* range	\$115
General & administrative expenses	\$275 to \$285
Realized development gains	\$300 to \$400

Capital Deployment (in millions)

	Prologis Share	Owned and Managed
Development stabilizations	\$2,200 to \$2,500	\$2,600 to \$2,900
Development starts	\$2,000 to \$2,400	\$2,500 to \$2,900
Building acquisitions	\$500 to \$700	\$900 to \$1,200
Building and land dispositions	\$1,300 to \$1,500	\$2,100 to \$2,400
Building contributions	\$600 to \$900	\$900 to \$1,200
Net Uses	\$600 to \$700	\$400 to \$500

Portfolio Acquisitions	\$14,200	\$16,600
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* 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.

- Includes the \$4.0 billion acquisition of IPT which closed on January 8, 2020, and \$12.6 billion acquisition of LPT, which is projected to close February 4, 2020.

The earnings guidance described above includes potential gains recognized from real estate transactions but excludes any foreign currency or derivative gains or losses as our guidance assumes constant foreign currency rates. 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 2020 relates predominantly to these items. Please refer to our fourth quarter Supplemental Information, which is available on our Investor Relations website at <http://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, recent transaction activity and its outlook. Here are the event details:

- Wednesday, January 22, 2020, at 12 p.m. U.S. Eastern time.
- Live webcast at <http://ir.prologis.com> by clicking Events and Presentations.
- Dial in: +1 (877) 209-4258 (toll-free from the United States and Canada) or +1 (647) 689-5198 (from all other countries) and enter Passcode 3198613.

A telephonic replay will be available January 22-29 at +1 (800) 585-8367 (from the United States and Canada) or +1 (416) 621-4642 (from all other countries) using conference code 3198613. 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 December 31, 2019, 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 814 million square feet (76 million square meters) in 19 countries. Prologis leases modern logistics facilities to a diverse base of approximately 5,000 customers principally across two major categories: business-to-business and retail/online

fulfillment.

ADDITIONAL INFORMATION

In connection with the proposed transaction, Prologis has filed with the Securities and Exchange Commission ("SEC") an amended registration statement on Form S-4 (File No. 333-235260), declared effective by the SEC on December 20, 2019, which includes a document that serves as a prospectus of Prologis and a proxy statement of Liberty Property Trust ("LPT") (the "proxy statement/prospectus"), and each party will file other documents regarding the proposed transaction with the SEC. INVESTORS AND SECURITY HOLDERS ARE URGED TO READ THE PROXY STATEMENT/PROSPECTUS AND OTHER RELEVANT DOCUMENTS FILED WITH THE SEC, WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. A definitive proxy statement/prospectus was sent to LPT's shareholders. Investors and security holders are able to obtain the registration statement and the proxy statement/prospectus free of charge from the SEC's website or from Prologis or LPT. The documents filed by Prologis with the SEC may be obtained free of charge at Prologis' website at the Investor Relations section of www.ir.prologis.com or at the SEC's website at www.sec.gov. These documents may also be obtained free of charge from Prologis by requesting them from Investor Relations by mail at Pier 1, Bay 1, San Francisco, CA 94111 or by telephone at 415-394-9000. The documents filed by LPT with the SEC may be obtained free of charge at LPT's website at the Investor Relations section of <http://ir.libertyproperty.com/sec-filings> or at the SEC's website at www.sec.gov. These documents may also be obtained free of charge from LPT by requesting them from Investor Relations by mail at 650 East Swedesford Road, Suite 400, Wayne, PA 19087, or by telephone at 610-648-1704.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the U.S. Securities Act of 1933, as amended.

PARTICIPANTS IN THE SOLICITATION

Prologis and LPT and their respective directors, trustees and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information about Prologis' directors and executive officers is available in Prologis' Annual Report on Form 10-K for the fiscal year ended December 31, 2018, and in its proxy statement dated March 22, 2019, for its 2019 Annual Meeting of Shareholders. Information about LPT's trustees and executive officers is available in LPT's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, and in its proxy statement dated April 26, 2019, for its 2019 Annual Meeting of Shareholders. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, is contained in the proxy statement/prospectus and will be contained in other relevant materials to be filed with the SEC regarding the transaction when they become available. Investors should read the proxy statement/prospectus carefully before making any voting or investment decisions. You may obtain free copies of these documents from Prologis or LPT as indicated above.

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," and "estimates," including 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, contribution and 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 and political climates; (ii) changes in global 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 changes in income tax laws and 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; (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 except as may be required by law.

dollars in millions, except per share/unit data	Three Months ended December 31,		Twelve Months ended December 31,	
	2019	2018	2019	2018 (A)
Rental and other revenues	\$ 728	\$ 681	\$2,839	\$ 2,398
Strategic capital revenues ^(B)	98	126	492	406
Total revenues	826	807	3,331	2,804
Net earnings attributable to common stockholders	385	597	1,567	1,643
Core FFO attributable to common stockholders/unitholders*	551	526	2,164	1,788
AFFO attributable to common stockholders/unitholders*	599	568	2,276	1,992
Adjusted EBITDA attributable to common stockholders/unitholders*	854	793	3,153	2,798
Estimated value creation from development stabilizations - Prologis Share	236	185	911	661
Common stock dividends and common limited partnership unit distributions	348	314	1,390	1,163
Per common share - diluted:				
Net earnings attributable to common stockholders	\$0.61	\$0.94	\$ 2.46	\$2.87
Core FFO attributable to common stockholders/unitholders*	0.84	0.80	3.31	3.03
Business line reporting:				
Real estate operations*	0.75	0.68	2.87	2.65
Strategic capital*	0.09	0.12	0.44	0.38
Core FFO attributable to common stockholders/unitholders*	0.84	0.80	3.31	3.03
Realized development gains, net of taxes*	0.25	0.21	0.69	0.77
Dividends and distributions per common share/unit	0.53	0.48	2.12	1.92

* This is a non-GAAP financial measure. Please see our Notes and Definitions for further explanation.

A. In the third quarter 2018, Prologis completed the acquisition of DCT Industrial Trust (DCT). Therefore, 2018 includes results related to DCT from August 22, 2018.

B. We recognized promote revenue of \$26 million and \$181 million for the three and twelve months ended December 31, 2019, respectively, and \$51 million and \$119 million for the three and twelve months ended December 31, 2018, respectively.

in thousands	December 31, 2019	September 30, 2019	December 31, 2018
Assets:			
Investments in real estate properties:			
Operating properties	\$ 31,287,833	\$ 31,023,668	\$ 30,632,155
Development portfolio	1,869,267	1,794,981	2,142,801
Land	1,101,646	1,204,110	1,192,220
Other real estate investments	965,668	888,891	619,811
	35,224,414	34,911,650	34,586,987
Less accumulated depreciation	5,437,662	5,287,640	4,656,680
Net investments in real estate properties	29,786,752	29,624,010	29,930,307
Investments in and advances to unconsolidated entities	6,237,371	5,886,820	5,745,294
Assets held for sale or contribution	720,685	799,017	622,288
Net investments in real			

estate	36,744,808	36,309,847	36,297,889
Cash and cash equivalents	1,088,855	1,024,994	343,856
Other assets ^(A)	2,198,187	2,113,344	1,775,919
Total assets	\$ 40,031,850	\$ 39,448,185	\$ 38,417,664

Liabilities and Equity:

Liabilities:			
Debt	\$ 11,905,877	\$ 11,459,223	\$ 11,089,815
Accounts payable, accrued expenses and other liabilities ^(A)	2,054,189	2,053,385	1,526,961
Total liabilities	13,960,066	13,512,608	12,616,776

Equity:			
Stockholders' equity	22,653,127	22,517,210	22,298,093
Noncontrolling interests	2,775,394	2,777,024	2,836,469
Noncontrolling interests - limited partnership unitholders	643,263	641,343	666,326
Total equity	26,071,784	25,935,577	25,800,888

Total liabilities and equity	\$ 40,031,850	\$ 39,448,185	\$ 38,417,664
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A. In connection with the adoption of the new lease accounting standard, we recognized right of use assets of \$393 million and lease liabilities of \$400 million as of January 1, 2019.

in thousands, except per share amounts	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Revenues:				
Rental	\$723,857	\$679,195	\$2,831,818	\$2,388,791
Strategic capital	98,470	126,500	491,886	406,300
Development management and other	3,689	1,390	6,917	9,358
Total revenues	826,016	807,085	3,330,621	2,804,449
Expenses:				
Rental	184,196	177,194	734,266	600,648
Strategic capital	45,993	42,940	184,661	157,040
General and administrative	65,542	56,698	266,718	238,985
Depreciation and amortization	289,240	286,758	1,139,879	947,214
Other	3,506	2,415	13,149	13,560
Total expenses	588,477	566,005	2,338,673	1,957,447
Operating income before gains on real estate transactions, net	237,539	241,080	991,948	847,002
Gains on dispositions of development properties and land, net	164,260	140,531	467,577	469,817
Gains on other dispositions of investments in real estate, net (excluding development properties and land)	157,841	217,035	390,241	371,179
Operating income	559,640	598,646	1,849,766	1,687,998
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	39,626	114,187	181,911	279,170
Earnings from other unconsolidated ventures, net	9,028	2,234	18,267	19,090
Interest expense	(60,080)	(62,380)	(239,953)	(229,141)
Foreign currency and derivative gains (losses) and interest and other income, net	(100,645)	56,450	(17,502)	131,759
Gains (losses) on early extinguishment of debt,				

net	(40)	71	(16,126)	(2,586)
Total other income (expense)	(112,111)	110,562	(73,403)	198,292
Earnings before income taxes	447,529	709,208	1,776,363	1,886,290
Current income tax expense	(18,835)	(16,191)	(62,296)	(61,882)
Deferred income tax expense	(2,452)	(2,527)	(12,221)	(1,448)
Consolidated net earnings	426,242	690,490	1,701,846	1,822,960
Net earnings attributable to noncontrolling interests	(28,204)	(74,508)	(82,222)	(124,712)
Net earnings attributable to noncontrolling interests - limited partnership units	(11,047)	(17,922)	(46,665)	(48,887)
Net earnings attributable to controlling interests	386,991	598,060	1,572,959	1,649,361
Preferred stock dividends	(1,511)	(1,492)	(6,009)	(5,935)
Net earnings attributable to common stockholders (A)	\$385,480	\$596,568	\$1,566,950	\$1,643,426
Weighted average common shares outstanding - Diluted	655,408	654,579	654,903	590,239
Net earnings per share attributable to common stockholders - Diluted	\$ 0.61	\$ 0.94	\$ 2.46	\$ 2.87

A. In connection with the adoption of the new lease accounting standard, beginning in 2019, we expense internal leasing costs that were previously capitalized. Had we adopted in 2018, we would have expensed an additional \$5 million and \$21 million of such costs in the three and twelve months ended December 31, 2018.

in thousands	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Net earnings attributable to common stockholders	\$385,480	\$596,568	1,566,950	1,643,426
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	279,449	277,977	1,102,065	912,781
Gains on other dispositions of investments in real estate, net (excluding development properties and land)	(157,841)	(217,035)	(390,241)	(371,179)
Reconciling items related to noncontrolling interests	16,908	56,213	(8,190)	23,081
Our share of reconciling items related to unconsolidated co-investment ventures	61,749	(19,088)	235,043	133,128
Our share of reconciling items related to other unconsolidated ventures	2,714	3,293	11,035	8,623
NAREIT defined FFO attributable to common stockholders/unitholders*	\$588,459	\$697,928	\$2,516,662	\$2,349,860
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	121,749	(47,121)	68,971	(120,397)
Deferred income tax expense	2,452	2,527	12,221	1,448
Current income tax expense on dispositions related to acquired tax liabilities	-	297	-	1,175
Reconciling items related to noncontrolling interests	443	(309)	413	(191)
Our share of reconciling items related to unconsolidated co-investment ventures	(5,355)	(3,242)	(7,529)	(263)
FFO, as modified by Prologis attributable to common stockholders/unitholders*	\$707,748	\$650,080	\$2,590,738	\$2,231,632
Adjustments to arrive at Core FFO attributable to common stockholders/unitholders*:				
Gains on dispositions of development properties and land, net	(164,260)	(140,531)	(467,577)	(469,817)
Current income tax expense on dispositions	2,159	3,504	15,069	17,085
Losses (gains) on early extinguishment of debt,				

net	40	(71)	16,126	2,586
Reconciling items related to noncontrolling interests	36	916	186	6,183
Our share of reconciling items related to unconsolidated co-investment ventures	10,614	12,723	14,613	13,946
Our share of reconciling items related to other unconsolidated ventures	(5,145)	(301)	(5,138)	(13,467)
Core FFO attributable to common stockholders/unitholders*	\$551,192	\$526,321	\$2,164,017	\$1,788,149
Adjustments to arrive at Adjusted FFO ("AFFO") attributable to common stockholders/unitholders*, including our share of unconsolidated ventures less noncontrolling interest:				
Gains on dispositions of development properties and land, net	164,260	140,531	467,577	469,817
Current income tax expense on dispositions	(2,159)	(3,504)	(15,069)	(17,085)
Straight-lined rents and amortization of lease intangibles	(23,036)	(21,566)	(105,097)	(66,938)
Property improvements	(53,897)	(30,483)	(135,346)	(90,345)
Turnover costs	(50,861)	(43,674)	(179,274)	(134,868)
Amortization of debt discount, financing costs and management contracts, net	4,682	4,428	18,279	14,112
Stock compensation expense	25,090	18,064	97,557	76,093
Reconciling items related to noncontrolling interests	11,096	6,747	32,467	21,225
Our share of reconciling items related to unconsolidated ventures	(27,285)	(28,670)	(69,269)	(67,906)
AFFO attributable to common stockholders/unitholders*	\$599,082	\$568,192	\$2,275,842	\$1,992,252

* This is a non-GAAP financial measure. Please see our Notes and Definitions for further explanation.

in thousands	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Net earnings attributable to common stockholders	\$ 385,480	\$596,568	\$ 1,566,950	\$1,643,426
Gains on other dispositions of investments in real estate, net (excluding development properties and land)	(157,841)	(217,035)	(390,241)	(371,179)
Depreciation and amortization expenses	289,240	286,758	1,139,879	947,214
Interest expense	60,080	62,380	239,953	229,141
Losses (gains) on early extinguishment of debt, net	40	(71)	16,126	2,586
Current and deferred income tax expense, net	21,287	18,718	74,517	63,330
Net earnings attributable to noncontrolling interests - limited partnership unitholders	11,047	17,922	46,665	48,887
Pro forma adjustments	(2,461)	464	(272)	59,124
Preferred stock dividends	1,511	1,492	6,009	5,935
Unrealized foreign currency and derivative losses (gains), net	121,749	(47,121)	68,971	(120,397)
Stock compensation expense	25,090	18,064	97,557	76,093
Adjusted EBITDA, consolidated*	\$755,222	\$738,139	\$2,866,114	\$2,584,160
Reconciling items related to noncontrolling interests	6,049	38,993	(55,113)	(27,216)
Our share of reconciling items related to unconsolidated ventures	92,864	15,498	341,896	240,730
Adjusted EBITDA attributable to common stockholders/unitholders*	\$854,135	\$792,630	\$3,152,897	\$2,797,674

* *This is a non-GAAP financial measure. Please see our Notes and Definitions for further explanation.*

Adjusted EBITDA. We use Adjusted EBITDA attributable to common stockholders/unitholders ("Adjusted EBITDA"), a non-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, 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 to remove NOI on properties we dispose of during the quarter, assuming 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, 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.

We calculate our Adjusted EBITDA, based on our proportionate ownership share of both our unconsolidated and consolidated ventures. We reflect our share of our Adjusted EBITDA 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 Adjusted EBITDA measures to remove the noncontrolling interests share of the applicable reconciling items based on our average ownership percentage for the applicable periods.

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 third party share of asset management fees, Net Promotes and transactional fees that we earn from our consolidated and unconsolidated co-investment ventures less costs directly associated to our strategic capital group. 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

**Three Months Ended
Dec. 31,**

**Twelve Months Ended
Dec. 31,**

in thousands, except per share amount	2019	2018	2019	2018
Net earnings				
Net earnings attributable to common stockholders	\$ 385,480	\$ 596,568	\$ 1,566,950	\$ 1,643,426
Noncontrolling interest attributable to exchangeable limited partnership units	11,148	18,241	46,986	49,743
Adjusted net earnings attributable to common stockholders - Diluted	\$ 396,628	\$ 614,809	\$ 1,613,936	\$ 1,693,169
Weighted average common shares outstanding - Basic	631,246	628,956	630,580	567,367
Incremental weighted average effect on exchange of limited partnership units	18,412	19,759	19,154	17,768
Incremental weighted average effect of equity awards	5,750	5,864	5,169	5,104
Weighted average common shares outstanding - Diluted	655,408	654,579	654,903	590,239
Net earnings per share - Basic	\$ 0.61	\$ 0.95	\$ 2.48	\$ 2.90
Net earnings per share - Diluted	\$ 0.61	\$ 0.94	\$ 2.46	\$ 2.87
Core FFO				
Core FFO attributable to common stockholders/unitholders	\$ 551,192	\$ 526,321	\$ 2,164,017	\$ 1,788,149
Noncontrolling interest attributable to exchangeable limited partnership units	163	353	646	1,531
Core FFO attributable to common stockholders/unitholders - Diluted	\$ 551,355	\$ 526,674	\$ 2,164,663	\$ 1,789,680
Weighted average common shares outstanding - Basic	631,246	628,956	630,580	567,367
Incremental weighted average effect on exchange of limited partnership units	18,412	19,759	19,154	17,768
Incremental weighted average effect of equity awards	5,750	5,864	5,169	5,104
Weighted average common shares outstanding - Diluted	655,408	654,579	654,903	590,239
Core FFO per share - Diluted	\$ 0.84	\$ 0.80	\$ 3.31	\$ 3.03

Estimated Value Creation represents the value that we expect to create through our development and leasing activities. We calculate Estimated 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 TEI 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, if any, on properties expected to be sold or contributed, divided by TEI.

Estimated Weighted Average Stabilized Yield is calculated on development properties as Stabilized NOI 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 attributable to common stockholders/unitholders ("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 principally 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) foreign currency exchange gains and losses resulting from (a) debt transactions between us and our foreign entities, (b) third-party debt that is used to hedge our investment in foreign entities, (c) derivative financial instruments related to any such debt transactions, and (d) mark-to-market adjustments associated with other 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;
- (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 (vi) 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 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 dispositions and 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 or preferred stock that we exclude from our Core FFO, may provide a benefit or cost to us as we may be settling our obligation 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 (a)	\$1.98	\$2.13
Our share of:		
Depreciation and amortization	2.14	2.17
Net gains on real estate transactions, net of taxes	(0.45)	(0.55)
Unrealized foreign currency gains and other, net	0.00	0.00
Core FFO	\$3.67	\$3.75

(a) *Earnings guidance includes potential future gains recognized from real estate transactions, but excludes future foreign currency or derivative gains or losses as these items are difficult to predict.*

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 percentage change in starting rental rates per the lease agreement, on new and renewed leases, commenced during the period compared with the previous ending rental rates in that same space. This measure excludes any short-term leases of less than one-year, holdover payments, free rent periods and introductory (teaser rates) defined as 50% or less of the stabilized rate.

Rent Change (Net Effective) represents the percentage change in net effective rental rates (average rate over the lease term), on new and renewed leases, commenced during the period compared with the previous net effective rental rates in that same space. This measure excludes any short-term leases of less than one year and holdover payments.

Same Store. Our same store metrics are non-GAAP financial measures, which are commonly used in the real estate industry and expected from the financial community, on both a net effective and cash basis. We evaluate the 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 allows us and investors to analyze our ongoing business operations. We determine our same store metrics on property NOI, which is calculated as rental revenue less rental expense for the applicable properties in the same store population for both consolidated and unconsolidated properties based on our ownership interest, as further defined below.

We define our same store population for the three months ended December 31, 2019 as the properties in our Owned and Managed operating portfolio, including the property NOI for both consolidated properties and properties owned by the unconsolidated co-investment ventures at January 1, 2018 and owned throughout the same three-month period in both 2018 and 2019. We believe the drivers of property NOI for the consolidated portfolio are generally the same for the properties owned by the ventures in which we invest and therefore we evaluate the same store metrics of the Owned and Managed portfolio based on Prologis' ownership in the properties ("Prologis Share"). The same store population excludes properties held for sale to third parties, along with development properties that were not stabilized at the beginning of the period (January 1, 2018) and properties acquired or disposed of to third parties during the period. To derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the reported period-end exchange rate to translate from local currency into the U.S. dollar, for both periods.

As non-GAAP financial measures, the same store metrics have certain limitations as an analytical tool and may vary among real estate companies. As a result, we provide a reconciliation of Rental Revenues less Rental Expenses ("Property NOI") (from our Consolidated Financial Statements prepared in accordance with U.S. GAAP) to our Same Store Property NOI measures, as follows:

dollars in thousands	Three Months Ended		
	2019	Dec. 31, 2018	Change (%)
Reconciliation of Consolidated Property NOI to Same Store Property NOI measures:			
Rental revenues	\$ 723,857	\$ 679,195	
Rental expenses	(184,196)	(177,194)	
Consolidated Property NOI	\$ 539,661	\$ 502,001	
<i>Adjustments to derive same store results:</i>			
Property NOI from consolidated properties not included in same store portfolio and other adjustments (a)	(157,242)	(128,849)	
Property NOI from unconsolidated co-investment ventures included in same store portfolio (a)(b)	451,604	433,894	
Third parties' share of Property NOI from properties			

included in same store portfolio (a)(b)	(364,375)	(355,386)	
Prologis Share of Same Store Property NOI - Net Effective (b)	\$ 469,648	\$ 451,660	4.0 %
Consolidated properties straight-line rent and fair value lease adjustments included in the same store portfolio (c)	(2,605)	(5,468)	
Unconsolidated co-investment ventures straight-line rent and fair value lease adjustments included in the same store portfolio (c)	(5,072)	(4,588)	
Third parties' share of straight-line rent and fair value lease adjustments included in the same store portfolio (b)(c)	4,204	4,201	
Prologis Share of Same Store Property NOI - Cash (b)(c)	\$ 466,175	\$ 445,805	4.6 %

- (a) *We exclude properties held for sale to third parties, along with development properties that were not stabilized at the beginning of the period and properties acquired or disposed of to third parties during the period. We also exclude net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental revenues without regard to one-time items that are not indicative of the property's recurring operating performance. Net termination and renegotiation fees represent the gross fee negotiated to allow a customer to terminate or renegotiate their lease, offset by the write-off of the asset recorded due to the adjustment to straight-line rents over the lease term. Same Store Property NOI is adjusted to include an allocation of property management expenses for our consolidated properties based on the property management services provided to each property (generally, based on a percentage of revenues). On consolidation, these amounts are eliminated and the actual costs of providing property management services are recognized as part of our consolidated rental expense.*
- (b) *We include the Property NOI for the same store portfolio for both consolidated properties and properties owned by the co-investment ventures based on our investment in the underlying properties. In order to calculate our share of Same Store Property NOI from the co-investment ventures in which we own less than 100%, we use the co-investment ventures' underlying Property NOI for the same store portfolio and apply our ownership percentage at December 31, 2019 to the Property NOI for both periods, including the properties contributed during the period. We adjust the total Property NOI from the same store portfolio of the co-investment ventures by subtracting the third parties' share of both consolidated and unconsolidated co-investment ventures. During the periods presented, certain wholly owned properties were contributed to a co-investment venture and are included in the same store portfolio. Neither our consolidated results nor those of the co-investment ventures, when viewed individually, would be comparable on a same store basis because of the changes in composition of the respective portfolios from period to period (e.g. the results of a contributed property are included in our consolidated results through the contribution date and in the results of the venture subsequent to the contribution date based on our ownership interest at the end of the period). As a result, only line items labeled "Prologis Share of Same Store Property NOI" are comparable period over period.*
- (c) *We further remove certain noncash items (straight-line rent and amortization of fair value lease adjustments) included in the financial statements prepared in accordance with U.S. GAAP to reflect a Same Store Property NOI - Cash measure. We manage our business and compensate our executives based on the same store results of our Owned and Managed portfolio at 100% as we manage our portfolio on an ownership blind basis. We calculate those results by including 100% of the properties included in our same store portfolio.*

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

SOURCE Prologis, Inc.



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<http://prologis.mediaroom.com/2020-01-22-Prologis-Reports-Fourth-Quarter-and-Full-Year-2019-Earnings-Results>