

Prologis Reports First Quarter 2016 Earnings Results

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SAN FRANCISCO, April 19, 2016 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, today reported results for the first quarter of 2016.

HIGHLIGHTS

- Core funds from operations per diluted share was \$0.61, up 24 percent year-over-year
- Prologis' share of GAAP same store NOI increased 7.4 percent
- Prologis' share of GAAP rent change on rollovers was +20.1 percent
- Short-term financing associated with the acquisition of the KTR real estate portfolio was fully repaid, ahead of plan

"We are off to an excellent start this year," said Hamid Moghadam, chairman and CEO, Prologis. "Operating conditions remain extremely healthy in the majority of our markets, above our expectations. Consumption and e-commerce are the key drivers of our growth and both continue to grow faster than underlying economies would suggest. These factors, combined with our focused investment strategy, have resulted in strong operational and financial results in the first quarter."

HIGH-QUALITY PORTFOLIO DRIVES RECORD OPERATING RESULTS

Owned & Managed	1Q16	1Q15	Notes
Period End Occupancy	96.1%	95.9%	
Leases Signed	46MSF	39MSF	<i>Record leasing volume</i>
Customer Retention	84.4%	86.3%	

Prologis Share	1Q16	1Q15	Notes
Rent Change (GAAP)	20.1%	11.5%	<i>Record led by the U.S. at 27.3%</i>
Rent Change (Cash)	8.6%	4.7%	
Same store NOI (GAAP)	7.4%	3.7%	<i>Record led by the U.S. at 9.6%</i>
Same store NOI (Cash)	6.0%	4.2%	

PRUDENT CAPITAL DEPLOYMENT

Prologis Share	1Q16	Notes
Building Acquisitions	\$46M	
Weighted avg stabilized cap rate	6.6%	
Development Stabilizations	\$468M	<i>63% outside the U.S.</i>
Estimated weighted avg yield	6.8%	
Estimated weighted avg margin	26.8%	
Estimated value creation	\$126M	
Development Starts	\$193M	
Estimated weighted avg margin	20.3%	
Estimated value creation	\$39M	
% Build-to-suit	41.5%	
Total Dispositions (Buildings and Land) and Contributions	\$617M	<i>Excludes \$198M of cash received from the installment sale related to Facebook</i>
Weighted avg stabilized cap rate	5.7%	<i>Excludes land and other real estate</i>

CONTINUED STRENGTHENING OF FINANCIAL POSITION

During the first quarter, Prologis completed \$1.2 billion of refinancings and fully retired the \$400 million short-term financing associated with the acquisition of the KTR real estate portfolio. Subsequent to quarter-end, the company recast its Global Line of Credit which now matures in 2021; the new facility was increased by \$640 million to \$3.0 billion and pricing decreased by 10 basis points to 90 basis points over LIBOR as of the closing of the line.

"With the recast of our credit facility last week and our existing yen facility, we've increased our total line capacity to \$3.4 billion at attractive pricing as well as enhanced our already significant liquidity position," said Thomas S. Olinger, chief financial officer, Prologis. "During the quarter, we received positive outlook revisions to our Baa1/BBB+ credit ratings from Moody's and S&P, which support the continued upward trajectory of our balance sheet."

GAAP NET EARNINGS

Net earnings per diluted share was \$0.39 for the first quarter compared with \$0.65 for the same period in 2015.

GUIDANCE UPDATED FOR 2016

Per diluted share	
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GAAP Net Earnings	\$0.87 to \$0.95
Core FFO	\$2.50 to \$2.60
AFFO	\$2.40 to \$2.50

Operations

Year-end occupancy	96.0% to 97.0%
GAAP Same store NOI – Prologis share	4.0% to 4.5%

Other Assumptions (in millions)

Strategic capital revenue	\$180 to \$190
Net promote income	\$90 to \$100
General & administrative expense*	\$218 to \$228
Realized development gains	\$150 to \$200
Annualized first quarter 2016 dividend	\$1.68

*Reduction from original 2016 guidance due to a reclassification of \$17 million to strategic capital expenses

Capital Deployment (in millions)

Development stabilizations (80% Prologis share)	\$2,000 to \$2,200
Development starts (80% Prologis share)	\$1,800 to \$2,300
Building acquisitions (40% Prologis share)	\$400 to \$700
Building and land dispositions (75% Prologis share)	\$1,700 to \$2,200
Building contributions (75% Prologis share, net of retained ownership)	\$900 to \$1,200

The Core FFO and earnings guidance described above excludes any potential future gains (losses) recognized from real estate transactions. 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, acquisition costs, 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 2016 relates predominantly to these items.

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, April 19, 2016 at 12 p.m. U.S. Eastern Time.
- Live webcast at <http://ir.prologis.com> by clicking Investors>Investor Events and Presentations
- Dial in: +1 877-256-7020 or +1 973-409-9692 and enter Passcode 74787274.

A telephonic replay will be available April 19-26 at +1 (855) 859-2056 (from the United States and Canada) or +1 (404) 537-3406 (from all other countries) using conference code 74787274. 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 March 31, 2016, 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 667 million square feet (62 million square meters) in 20 countries. Prologis lease 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.

dollars in millions, except per share/unit data

Three Months ended March 31,

	2016	2015
Revenues	\$ 606	\$ 463
Revenues - Prologis share	677	579

Net earnings attributable to common stockholders	208	345
Core FFO	330	254
AFFO	346	211
Adjusted EBITDA	549	367
Estimated value creation from development starts - Prologis share	39	46
Common stock dividends and common limited partnership unit distributions	230	189

Per common share - diluted:

Net earnings attributable to common stockholders	\$0.39	\$0.65
Core FFO	0.61	0.49
AFFO	0.64	0.41
Business line reporting:		
Real estate operations	0.57	0.45
Strategic capital	0.04	0.04
Core FFO	0.61	0.49
Realized development gains, net of taxes	0.16	0.01
Dividends and distributions per common share/unit	0.42	0.36

in thousands March 31, 2016 December 31, 2015

Assets:

Investments in real estate properties:		
Operating properties	\$ 23,788,600	\$ 23,735,745
Development portfolio	1,923,362	1,872,903
Land	1,341,600	1,359,794
Other real estate investments	575,118	552,926
	<u>27,628,680</u>	<u>27,521,368</u>
Less accumulated depreciation	3,424,143	3,274,284
Net investments in real estate properties	24,204,537	24,247,084
Investments in and advances to unconsolidated entities	4,866,664	4,755,620
Assets held for sale	431,332	378,423
Notes receivable backed by real estate	37,550	235,050
Net investments in real estate	<u>29,540,083</u>	<u>29,616,177</u>
Cash and cash equivalents	369,737	264,080
Other assets	1,465,928	1,514,510
Total assets	\$ 31,375,748	\$ 31,394,767

Liabilities and Equity:

Liabilities:		
Debt	\$ 11,687,171	\$ 11,626,831
Accounts payable, accrued expenses and other liabilities	1,347,953	1,347,100
Total liabilities	<u>13,035,124</u>	<u>12,973,931</u>
Equity:		
Stockholders' equity:		
Preferred stock	78,235	78,235
Common stock	5,251	5,245
Additional paid-in capital	19,311,795	19,302,367
Accumulated other comprehensive loss	(813,900)	(791,429)
Distributions in excess of net earnings	(3,948,720)	(3,926,483)
Total stockholders' equity	<u>14,632,661</u>	<u>14,667,935</u>
Noncontrolling interests	3,264,088	3,320,227
Noncontrolling interests - limited partnership unitholders	443,875	432,674
Total equity	<u>18,340,624</u>	<u>18,420,836</u>
Total liabilities and equity	\$ 31,375,748	\$ 31,394,767

in thousands, except per share amounts Three Months Ended
March 31,
2016 2015

Revenues:

Rental	\$ 554,116	\$ 418,802
Strategic capital	49,666	42,025
Development management and other	2,518	2,020
Total revenues	<u>606,300</u>	<u>462,847</u>

Expenses:

Rental	146,581	127,095
Strategic capital	25,293	25,182
General and administrative	50,543	51,306
Depreciation and amortization	250,000	169,808
Other	4,685	5,575
Total expenses	<u>477,102</u>	<u>378,966</u>

Operating income	129,198	83,881
Other income (expense):		
Earnings from unconsolidated entities, net	58,311	31,042
Interest expense	(80,812)	(68,761)
Gains on dispositions of development properties and land, net	93,985	831
Gains on dispositions of real estate, net (excluding development properties and land)	50,332	276,884
Foreign currency and derivative gains (losses) and interest and other income (expense), net	(11,620)	45,615
Losses on early extinguishment of debt, net	(1,052)	(16,289)
Total other income	109,144	269,322
Earnings before income taxes	238,342	353,203
Current income tax expense	(16,156)	(839)
Deferred income tax benefit (expense)	619	(1,052)
Consolidated net earnings	222,805	351,312
Net earnings attributable to noncontrolling interests	(13,075)	(4,436)
Net earnings attributable to controlling interests	209,730	346,876
Preferred stock dividends	(1,689)	(1,670)
Net earnings attributable to common stockholders	\$ 208,041	\$ 345,206
Weighted average common shares outstanding - Diluted	543,562	529,022
Net earnings per share attributable to common stockholders - Diluted	\$ 0.39	\$ 0.65

in thousands

	Three Months Ended	
	March 31,	
	2016	2015
Net earnings attributable to common stockholders	\$ 208,041	\$ 345,206
Add (deduct) NAREIT defined adjustments:		
Real estate related depreciation and amortization	243,592	164,251
Gains on dispositions of real estate, net (excluding development properties and land)	(50,332)	(276,884)
Reconciling items related to noncontrolling interests	(40,275)	(11,512)
Our share of reconciling items related to unconsolidated co-investment ventures	40,000	47,372
Our share of reconciling items related to other unconsolidated ventures	(2,506)	1,721
Subtotal-NAREIT defined FFO	\$ 398,520	\$ 270,154
Add (deduct) our defined adjustments:		
Unrealized foreign currency and derivative losses (gains), net	15,328	(32,860)
Deferred income tax benefit (expense)	(619)	1,052
Reconciling items related to noncontrolling interests	483	(1,568)
Our share of reconciling items related to unconsolidated co-investment ventures	(1,974)	1,949
FFO, as defined by Prologis	\$ 411,738	\$ 238,727
Adjustments to arrive at Core FFO:		
Net gain on dispositions of development properties and land, net of taxes	(85,662)	(3,234)
Acquisition expenses	1,261	1,304
Losses on early extinguishment of debt, net	1,052	16,289
Reconciling items related to noncontrolling interests	90	(2,029)
Our share of reconciling items related to unconsolidated entities	1,154	3,322
Core FFO	\$ 329,633	\$ 254,379
Adjustments to arrive at Adjusted FFO ("AFFO"), including our share of unconsolidated co-investment ventures less third party share of consolidated entities:		
Net gains on dispositions of development properties and land, net of taxes	85,662	3,234
Straight-lined rents and amortization of lease intangibles	(31,561)	(4,832)
Property improvements	(7,257)	(11,470)
Tenant improvements	(20,289)	(18,334)
Leasing commissions	(21,280)	(12,426)
Amortization of management contracts	916	944
Amortization of debt premiums and financing costs, net	(5,391)	(6,419)
Stock compensation expense	12,465	13,234
Reconciling items related to noncontrolling interests	17,441	7,782
Our share of reconciling items related to unconsolidated co-investment ventures	(14,664)	(14,768)
AFFO	\$ 345,675	\$ 211,324
Common stock dividends and common limited partnership unit distributions	\$ 230,279	\$ 188,915
Payout ratio - AFFO	67%	89%
Payout ratio - AFFO, excluding development gains	89%	91%

in thousands

	Three Months Ended	
	March 31,	
	2016	2015
Net earnings attributable to common stockholders	\$ 208,041	\$ 345,206
Gains on dispositions of real estate, net (excluding development properties and land)	(50,332)	(276,884)
Depreciation and amortization expenses	250,000	169,808
Interest expense	80,812	68,761

Losses on early extinguishment of debt, net	1,052	16,289
Current and deferred income tax expense, net	15,537	1,891
Reconciling items related to noncontrolling interest- limited partnership unitholders	6,234	1,282
Pro forma adjustments	(5,935)	740
Preferred stock dividends	1,689	1,670
Unrealized foreign currency and derivative losses (gains), net	15,328	(32,860)
Stock compensation expense	12,465	13,234
Acquisition expenses	1,261	1,304
Adjusted EBITDA, consolidated	\$ 536,152	\$ 310,441

Our share of reconciling items from unconsolidated entities less third party share of consolidated entities:

Gains on dispositions of real estate, net (excluding development properties and land)	(11,339)	5
Depreciation and amortization expenses	5,216	38,181
Interest expense	10,158	13,773
Losses on early extinguishment of debt, net	1,544	342
Current income tax expense	5,577	2,189
Unrealized foreign currency and derivative losses (gains) and deferred income tax expense, net	1,491	381
Acquisition expenses	425	1,966
Adjusted EBITDA	\$ 549,224	\$ 367,278

Adjusted EBITDA. We use Adjusted EBITDA to measure our operating performance. We calculate Adjusted EBITDA beginning with consolidated net earnings (loss) attributable to common stockholders and removing the effect of interest, income taxes, depreciation and amortization, impairment charges, third party acquisition expenses related to the acquisition of real estate, gains or losses from the acquisition or disposition of investments in real estate (other than from land and development properties), 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 non-cash charges or gains (such as stock based compensation and unrealized gains or losses on foreign currency and derivative activity). We make adjustments to reflect our economic ownership in each entity in which we invest, whether consolidated or unconsolidated.

We consider Adjusted EBITDA to provide investors relevant and useful information because it permits investors to view our operating performance 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), items that affect comparability, and other significant non-cash items. We also include a pro forma adjustment in Adjusted EBITDA to reflect a full period of NOI on the operating properties we acquire and stabilize and to remove NOI on properties we dispose of during the quarter assuming the transaction occurred at the beginning of the quarter. By excluding interest expense, Adjusted EBITDA allows investors to measure our operating performance independent of our capital structure and indebtedness and, therefore, allows for a more meaningful comparison of our operating performance to that of other companies, both in the real estate industry and in other industries. Gains and losses on the early extinguishment of debt generally include the costs of repurchasing debt securities. While not infrequent or unusual in nature, these items 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 believe that Adjusted EBITDA helps investors to analyze our ability to meet interest payment obligations and to make quarterly preferred share dividends. We believe that investors should consider Adjusted EBITDA in conjunction with net earnings and the other required Generally Accepted Accounting Principles ("GAAP") measures of our performance to improve their understanding of our operating results, and to make more meaningful comparisons of our performance against other companies. By using Adjusted EBITDA, an investor is assessing the earnings generated by our operations but not taking into account the eliminated expenses or gains incurred in connection with such operations. As a result, Adjusted EBITDA has limitations as an analytical tool and should be used in conjunction with our GAAP presentations. Adjusted EBITDA does not reflect 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.

While EBITDA is a relevant and widely used measure of operating performance, it does not represent net income as defined by GAAP and it should not be considered as an alternative to those indicators in evaluating operating performance or liquidity. Further, our computation of Adjusted EBITDA may not be comparable to EBITDA reported by other companies. 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 of Adjusted EBITDA to consolidated net earnings (loss), a GAAP measurement.

Business Line Reporting. Core FFO and development gains are generated by our three lines of business: (i) real estate operations; (ii) strategic capital; and (iii) development. Real estate operations 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 the asset management related fees we earn from our co-investment ventures (both consolidated and unconsolidated) less costs directly associated to our strategic capital group, plus development management income. 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 calculation of per share amounts. 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

March 31,

2016

2015

Net earnings

Net earnings	\$ 208,041	\$ 345,206
Noncontrolling interest attributable to exchangeable limited partnership units	6,609	1,650
Gains, net of expenses, associated with exchangeable debt assumed exchanged	-	(1,614)
Adjusted net earnings - Diluted	\$ 214,650	\$ 345,242
Weighted average common shares outstanding - Basic	524,205	514,022
Incremental weighted average effect on exchange of limited partnership units	17,543	3,794
Incremental weighted average effect of stock awards	1,814	2,394
Incremental weighted average effect on exchangeable debt assumed exchanged (a)	-	8,812
Weighted average common shares outstanding - Diluted	543,562	529,022
Net earnings per share - Basic	\$ 0.40	\$ 0.67
Net earnings per share - Diluted	\$ 0.39	\$ 0.65
Core FFO		
Core FFO	\$ 329,633	\$ 254,379
Noncontrolling interest attributable to exchangeable limited partnership units	46	881
Interest expense on exchangeable debt assumed exchanged	-	3,506
Core FFO - Diluted	\$ 329,679	\$ 258,766
Weighted average common shares outstanding - Basic	524,205	514,022
Incremental weighted average effect on exchange of limited partnership units	15,877	3,794
Incremental weighted average effect of stock awards	1,814	2,394
Incremental weighted average effect on exchangeable debt assumed exchanged (a)	-	8,812
Weighted average common shares outstanding - Diluted	541,896	529,022
Core FFO per share - Diluted	\$ 0.61	\$ 0.49
AFFO	\$ 345,675	\$ 211,324
Noncontrolling interest attributable to exchangeable limited partnership units	1,067	60
Interest expense on exchangeable debt assumed exchanged	-	3,113
AFFO - Diluted	\$ 346,742	\$ 214,497
Weighted average common shares outstanding - Basic	524,205	514,022
Incremental weighted average effect on exchange of limited partnership units	17,543	2,103
Incremental weighted average effect of stock awards	1,814	2,394
Incremental weighted average effect on exchangeable debt assumed exchanged (a)	-	8,812
Weighted average common shares outstanding - Diluted	543,562	527,331
AFFO per share - Diluted	\$ 0.64	\$ 0.41

(a) In March 2015, the exchangeable debt was settled primarily through the issuance of common stock. The adjustment in 2015 assumes the exchange occurred on January 1, 2015.

FFO, as defined by Prologis attributable to common stockholders/unitholders ("FFO, as defined by Prologis"); Core FFO attributable to common stockholders/unitholders ("Core FFO"); AFFO (collectively referred to as "FFO"). FFO is a financial measure that is not determined in accordance with GAAP, but is a measure that is commonly used in the real estate industry. The most directly comparable GAAP measure to FFO is net earnings. Although the National Association of Real Estate Investment Trusts ("NAREIT") has published a definition of FFO, modifications to the NAREIT calculation of FFO are common among REITs, as companies seek to provide financial measures that meaningfully reflect their business.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor do we intend it to present, a complete picture of our financial condition and operating performance. We believe that FFO is only meaningful when it is used in conjunction with net earnings computed under GAAP. Furthermore, we believe our consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of our financial condition.

NAREIT's FFO measure adjusts net 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 agree that these NAREIT adjustments are useful to investors for the following reasons:

- (i) historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on FFO "since real estate asset values have historically risen or fallen with market conditions, many industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves." Consequently, NAREIT's definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities. We exclude depreciation from our unconsolidated entities and the third parties' share of our consolidated ventures.
- (ii) REITs were created in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. The exclusion, in NAREIT's definition of FFO, of gains and losses from the sales, along with impairment charges, of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT's activity and assists in comparing those operating results between periods. We include the gains and losses (including impairment charges) from dispositions of land and development properties, as well as our proportionate share of the gains and losses (including impairment charges) from dispositions of development properties recognized by our unconsolidated and consolidated entities, in our definition of FFO. We exclude the gain on revaluation of equity investments upon acquisition of a controlling interest from our definition of FFO.

Our FFO Measures

At the same time that NAREIT created and defined its FFO measure for the REIT industry, it also recognized that "management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community." We believe stockholders, potential investors and financial analysts who review our operating results are best served by a defined FFO measure that includes other adjustments to net earnings computed under GAAP in addition to those included in the NAREIT defined measure of FFO. Our FFO measures are used by management in analyzing our business and the performance of our properties and we believe that it is important that stockholders, potential investors and financial analysts understand the measures management uses.

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 third party ownership share of the applicable

reconciling items based on average ownership percentage for applicable periods.

We use these FFO measures, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison with expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) assess our performance as compared with similar real estate companies and the industry in general; and (v) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of short-term items that we do not expect to affect the underlying long-term performance of the properties. The long-term performance of our properties is principally driven by rental revenue. While not infrequent or unusual, these additional items we exclude in calculating *FFO, as defined by Prologis*, defined below, are subject to significant fluctuations from period to period that cause 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 use our FFO measures as supplemental financial measures of operating performance. 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.

FFO, as defined by Prologis

To arrive at *FFO, as defined by Prologis*, we adjust the NAREIT defined FFO measure to exclude:

- (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 GAAP 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 subsidiaries and our foreign unconsolidated entities; and
- (v) mark-to-market adjustments associated with derivative financial instruments.

We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

Core FFO

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

- (i) gains or losses from contribution or sale of land or development properties;
- (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.

AFFO

To arrive at *AFFO*, we adjust *Core FFO* to include realized gains from the disposition of land and development properties and our share of recurring capital expenditures and exclude our share of the impact of: (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 believe it is appropriate to further adjust our *FFO, as defined by Prologis* for certain recurring items as they were driven by transactional activity and factors relating to the financial and real estate markets, rather than factors specific to the on-going operating performance of our properties or investments. The impairment charges we have recognized were primarily based on valuations of real estate, which had declined due to market conditions, that we no longer expected to hold for long-term investment. Over the last few years, we made it a priority to strengthen our financial position by reducing our debt, our investment in certain low yielding assets and our exposure to foreign currency exchange fluctuations. As a result, we changed our intent to sell or contribute certain of our real estate properties and recorded impairment charges when we did not expect to recover the costs of our investment. Also, we purchased portions of our debt securities when we believed it was advantageous to do so, which was based on market conditions, and in an effort to lower our borrowing costs and extend our debt maturities. As a result, we have recognized net gains or losses on the early extinguishment of certain debt due to the financial market conditions at that time.

We analyze our operating performance primarily by the rental revenue of our real estate and the revenue driven by 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. Although these items discussed above have had 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.

We use *Core FFO* and *AFFO*, including by segment and region, to: (i) evaluate our performance and the performance of our properties in comparison to expected results and results of previous periods, relative to resource allocation decisions; (ii) evaluate the performance of our management; (iii) budget and forecast future results to assist in the allocation of resources; (iv) provide guidance to the financial markets to understand our expected operating performance; (v) assess our operating performance as compared to similar real estate companies and the industry in general; and (vi) evaluate how a specific potential investment will impact our future results. Because we make decisions with regard to our performance with a long-term outlook, we believe it is appropriate to remove the effects of items that we do not expect to affect the underlying long-term performance of the properties we own. As noted above, we believe the long-term performance of our properties is principally driven by rental revenue. We believe investors are best served if the information that is made available to them allows them to align their analysis and evaluation of our operating results along the same lines that our management uses in planning and executing our business strategy.

As discussed above, we believe AFFO is a supplemental measure of operating performance, although we also believe AFFO provides a meaningful indicator of our ability to fund our distributions to our stockholders.

Limitations on the use of our FFO measures

While we believe our defined 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 these limitations are:

- The current income tax expenses and acquisition costs that are excluded from our defined FFO measures represent the taxes and transaction costs that we have or may pay.
- Depreciation and amortization of real estate assets are economic costs that are excluded from FFO. Certain of our FFO measures are limited, as not all 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 industrial properties are not reflected in FFO.
- Gains or losses from property acquisitions 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 acquired or disposed properties arising from changes in market conditions.
- The deferred income tax benefits and expenses that are excluded from our defined 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 defined 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 defined 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 defined FFO measures to our net earnings computed under GAAP.

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

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, thereby eliminating the effects of changes in the composition of the portfolio on performance measures. We include the properties included in our owned and managed portfolio that were in operation (including development properties that have been completed and available for lease) at January 1, 2015 and throughout the full periods in both 2015 and 2016. We have removed all properties that were disposed of to a third party from the population for both periods. We believe the factors that impact rental income, rental expenses and NOI in the Same Store portfolio are generally the same as for the total operating portfolio. In order to derive an appropriate measure of period-to-period operating performance, we remove the effects of foreign currency exchange rate movements by using the current exchange rate to translate from local currency into U.S. dollars, for both periods.

Our same store measures are non-GAAP measures that are commonly used in the real estate industry and are calculated beginning with rental income 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- GAAP and one Same Store NOI-Adjusted Cash. As these are non-GAAP measures they have certain limitations as an analytical tool 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 NOI-GAAP and then to Same Store NOI-Adjusted Cash with explanations of how these metrics are calculated and adjusted.

The following is a reconciliation of our consolidated rental income, rental expenses and 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			
	March 31,		Change	(%)
	2016	2015		
Rental Revenue:				
Rental Revenue	\$ 437,104	\$ 324,547		
Rental Recoveries	117,012	94,255		
Rental Revenue per the Consolidated Statements of Operations	554,116	418,802		
Properties not included and other adjustments (a)	(160,038)	(40,293)		
Unconsolidated Co-Investment Ventures	441,104	427,657		
Same Store - Rental Income	\$ 835,182	\$ 806,166		3.6 %
Rental Expense:				
Per the Consolidated Statements of Operations	\$ 146,581	\$ 126,934		
Properties not included and other adjustments (b)	(30,270)	(6,418)		
Unconsolidated Co-Investment Ventures	101,059	100,625		
Same Store - Rental Expense	\$ 217,370	\$ 221,141		-1.7 %

Per the Consolidated Statements of Operations	\$ 407,535	\$ 291,868	
Properties not included and other adjustments	(129,768)	(33,875)	
Unconsolidated Co-Investment Ventures	340,045	327,032	
Same Store - NOI - GAAP	\$ 617,812	\$ 585,025	5.6 %
Same Store - NOI - GAAP - Prologis Share (c)	\$ 363,527	\$ 338,396	7.4 %

NOI-Adjusted Cash:

Same store- NOI - GAAP	\$ 617,812	\$ 585,025	
Straight-line rent adjustments (d)	\$ (16,628)	\$ (17,635)	
Fair value lease adjustments (d)	(1,075)	4,781	
Same Store - NOI- Adjusted Cash	\$ 600,109	\$ 572,171	4.9 %
Same Store - NOI- Adjusted Cash - Prologis Share (c)	\$ 353,027	\$ 333,036	6.0 %

- (a) *To calculate Same Store rental income, we exclude the net termination and renegotiation fees to allow us to evaluate the growth or decline in each property's rental income without regard to 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 GAAP and Adjusted Cash calculations and applying our ownership percentage as of March 31, 2016 to the NOI of each building for both periods.*
- (d) *In order to derive Same Store- NOI - Adjusted Cash, we adjust Same Store- NOI- GAAP to exclude non-cash items included in our rental income in our GAAP financial statements, including straight line rent adjustments and adjustments related to purchase accounting to reflect leases at fair value at the time of acquisition.*

Value Creation represents the value that we will 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. The 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. Value Creation for our value-added conversion properties includes the realized economic gain.

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