

Prologis Reports Second Quarter 2020 Earnings Results

7/21/2020

SAN FRANCISCO, July 21, 2020 /PRNewswire/ -- Prologis, Inc. (NYSE: PLD), the global leader in logistics real estate, reported results for the second quarter of 2020.

Net earnings per diluted share was \$0.54 for the quarter compared with \$0.60 for the second quarter of 2019. Core funds from operations* per diluted share was \$1.11 compared with \$0.77 for the same period in 2019. The second quarter of 2020 included \$0.23 of net promote income, while the same period in 2019 had no net promote income.

"Our results for the quarter were excellent, driven by strong operating performance and record promote income. I'm proud of our team who has worked tirelessly to navigate the current environment," said Hamid R. Moghadam, chairman and CEO, Prologis. "While e-commerce is clearly a tailwind, demand is broad-based across a variety of categories—a trend we saw accelerate in June."

OPERATING PERFORMANCE

	2Q20	Notes
Owned & Managed		
Period End Occupancy	95.7%	
Leases Commenced	42MSF	39MSF operating portfolio and ~3MSF development portfolio
Retention	80.9%	Up 540bps from 1Q 2020
Prologis Share		
Net Effective Rent Change	22.0%	Led by U.S. at 27.7%
Cash Rent Change	9.6%	
Cash Same Store NOI*	2.9%	Impacted by 42bps of bad debt

DEPLOYMENT ACTIVITY

Prologis Share	
Building Acquisitions	\$8M
Weighted avg stabilized cap rate	7.6%
Development Stabilizations	\$333M
Estimated weighted avg yield	6.7%
Estimated weighted avg margin	33.2%
Estimated value creation	\$111M
Development Starts	\$66M
Estimated weighted avg margin	48.0%
Estimated value creation	\$32M
% Build-to-suit	100%
Total Dispositions and Contributions	\$304M
Weighted avg stabilized cap rate (excluding land and other real estate)	6.0%

BALANCE SHEET & LIQUIDITY

Prologis ended the quarter with \$4.6 billion in liquidity, while debt as a percentage of total market capitalization was 20 percent. At June 30, the company's unconsolidated co-investment ventures had liquidity of approximately \$3.3 billion and a loan-to-value ratio of approximately 18 percent. The combined investment capacity of Prologis and its open-ended vehicles, at levels in line with their current credit ratings, is over \$13 billion.

During the quarter, Prologis and its co-investment ventures completed \$1.6 billion of debt activity at a weighted average rate of 1.8 percent and a weighted average term of almost 13 years. This activity excludes the previously announced €313 million principal amount of 2022 and 2024 notes tendered.

"While the credit markets were turbulent through much of the quarter, we again demonstrated our ability to raise very attractive debt across our co-investment ventures and global markets," said Tim Arndt, treasurer, Prologis. "We issued over ¥40 billion of unsecured bonds in Japan for Prologis, raised \$525 million of new private placement notes for USLF and completed a new €500 million green bond issuance in PELF. Our platform allows us to be agile and strategic when sourcing capital, even when there is significant dislocation."

At quarter end, the company's weighted average rate on its share of total debt was 2.3 percent with a weighted average remaining term of 9.1 years.

COMMUNITIES

Racial Justice: Prologis stands in solidarity with the Black community to end racial injustice, hatred and violence. To date, the Prologis Foundation has committed \$1 million toward organizations engaged in the fight against systemic racism, with donations made to the Equal

Justice Initiative, the NAACP Legal Defense and Educational Fund, the National Urban League, the Center for Policing Equity, Year Up and the Dream Corps.

COVID-19 Relief: In addition to the Prologis Foundation's \$5 million global relief fund to provide financial support to nonprofits and community-based organizations, the company has offered buildings and yard space to agencies and relief organizations through its Space for Good program. Year-to-date, Prologis has donated an additional \$5.5 million of in-kind rent in 13 markets globally.

2020 GUIDANCE

"While the economic impact of COVID-19 remains unknown, the combination of what we see in our proprietary data, the pace of rent collections, and dialogue with our customers gives us a more positive outlook for the back half of the year," said Thomas S. Olinger, chief financial officer, Prologis. "Year-over-year Core FFO growth at the midpoint, excluding promotes, is extremely strong, at over 12.5%, with leverage flat. Additionally, we continue to have significant dividend coverage of 1.6x and expect to generate free cash flow after dividends of \$1 billion in 2020."

2020 GUIDANCE	January 2020	April 2020	Current
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Earnings (per diluted share)

Net Earnings	\$1.98 to \$2.13	\$1.81 to \$1.88	\$2.06 to \$2.18
Core FFO*	\$3.67 to \$3.75	\$3.55 to \$3.65	\$3.70 to \$3.75

Operations

Year-end occupancy	96.0% to 97.0%	94.5% to 96.0%	95.0% to 96.0%
Cash Same Store NOI* - Prologis share	4.25% to 5.25%	1.75% to 3.25% ¹	2.5% to 3.5% ¹

Capital Deployment – Prologis Share (in millions)

Development stabilizations	\$2,200 to \$2,500	\$1,900 to \$2,200	\$1,900 to \$2,200
Development starts	\$2,000 to \$2,400	\$500 to \$800	\$800 to \$1,200
Building acquisitions	\$500 to \$700	\$450	\$500 to \$600
Building contributions	\$600 to \$900	\$650	\$700 to \$900
Building and land dispositions	\$1,300 to \$1,500	\$250	\$500 to \$800
Realized Development gains	\$300 to \$400	\$280	\$300 to \$400
Net Proceeds (Uses)	(\$600) to (\$700)	(\$50) to (\$350)	(\$100)

Strategic Capital (in millions)

Strategic capital revenue, excl promote revenue	\$350 to \$360	\$345 to \$355	\$360 to \$370
Net promote income, incl in Core FFO* range	\$115	\$115	\$150

G&A (in millions)

General & administrative expenses	\$275 to \$285	\$270 to \$280	\$265 to \$275
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1 At the midpoint, this includes an estimated 75 basis point decline in average occupancy and a total of 75 basis points of bad debt expense.

* 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.

The earnings guidance described above includes potential gains recognized from real estate transactions but excludes any future or potential 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 second 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.

July 21, 2020, CALL DETAILS

The call will take place on Tuesday, July 21, 2020, at 9:00 a.m. PT/12:00 p.m. ET. To access a live broadcast of the call, please dial +1 (833) 968-2252 (toll-free from the United States and Canada) or +1 (778) 560-2807 (from all other countries) and enter conference code 6049156. A live webcast can be accessed from the Investor Relations section of www.prologis.com.

ABOUT PROLOGIS

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of June 30, 2020, 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 963 million square feet (89 million square meters) in 19 countries. Prologis leases modern logistics facilities to a diverse base of approximately 5,500 customers principally 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," 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; (x) risk related to the current coronavirus pandemic, and (xi) 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 June 30,		Six Months ended June 30,	
	2020	2019	2020	2019
Rental and other revenues	\$945	\$701	\$1,827	\$1,399
Strategic capital revenues	321	89	417	163
Total revenues	1,266	790	2,244	1,562
Net earnings attributable to common stockholders	405	384	894	731
Core FFO attributable to common stockholders/unitholders*	853	506	1,453	980
AFFO attributable to common stockholders/unitholders*	822	620	1,555	1,087
Adjusted EBITDA attributable to common stockholders/unitholders*	1,111	823	2,123	1,478
Estimated value creation from development stabilizations - Prologis Share	111	223	381	432

Common stock dividends and common limited partnership unit distributions	444	347	888	695
Per common share - diluted:				
Net earnings attributable to common stockholders	\$0.54	\$0.60	\$1.23	\$1.15
Core FFO attributable to common stockholders/unitholders*	1.11	0.77	1.95	1.50
Business line reporting:				
Real estate operations*	0.82	0.70	1.58	1.38
Strategic capital*	0.29	0.07	0.37	0.12
Core FFO attributable to common stockholders/unitholders*	1.11	0.77	1.95	1.50
Realized development gains, net of taxes*	0.08	0.29	0.30	0.35
Dividends and distributions per common share/unit	0.58	0.53	1.16	1.06

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

in thousands	June 30, 2020	March 31, 2020	December 31, 2019
Assets:			
Investments in real estate properties:			
Operating properties	\$42,184,980	\$42,429,391	\$31,287,833
Development portfolio	2,060,821	1,836,794	1,869,267
Land	1,692,512	1,463,982	1,101,646
Other real estate investments	2,640,499	2,382,132	965,668
	<u>48,578,812</u>	<u>48,112,299</u>	<u>35,224,414</u>
Less accumulated depreciation	5,931,378	5,662,351	5,437,662
Net investments in real estate properties	<u>42,647,434</u>	<u>42,449,948</u>	<u>29,786,752</u>
Investments in and advances to unconsolidated entities	7,201,006	6,834,758	6,237,371
Assets held for sale or contribution	1,948,508	1,975,524	720,685
Net investments in real estate	<u>51,796,948</u>	<u>51,260,230</u>	<u>36,744,808</u>
Cash and cash equivalents	549,129	807,871	1,088,855

Other assets	2,875,780	2,939,146	2,198,187
Total assets	\$55,221,857	\$55,007,247	\$40,031,850
Liabilities and Equity:			
Liabilities:			
Debt	\$15,666,872	\$15,676,592	\$11,905,877
Accounts payable, accrued expenses and other liabilities	2,808,776	2,554,785	2,054,189
Total liabilities	18,475,648	18,231,377	13,960,066
Equity:			
Stockholders' equity	32,242,928	32,259,442	22,653,127
Noncontrolling interests	3,589,800	3,591,986	2,775,394
Noncontrolling interests - limited partnership unitholders	913,481	924,442	643,263
Total equity	36,746,209	36,775,870	26,071,784
Total liabilities and equity	\$55,221,857	\$55,007,247	\$40,031,850

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
in thousands, except per share amounts	2020	2019	2020	2019
Revenues:				
Rental	\$944,366	\$700,689	\$1,823,173	\$1,397,496
Strategic capital	320,658	89,144	417,249	162,949
Development management and other	1,100	539	3,943	1,979
Total revenues	1,266,124	790,372	2,244,365	1,562,424
Expenses:				
Rental	232,109	181,138	459,727	369,206
Strategic capital	81,545	37,206	128,119	75,264
General and administrative	64,664	66,276	134,353	135,977
Depreciation and amortization	398,195	284,376	744,165	568,385
Other	7,979	3,515	22,553	7,349
Total expenses	784,492	572,511	1,488,917	1,156,181
Operating income before gains on real estate transactions, net	481,632	217,861	755,448	406,243

Gains on dispositions of development properties and land, net	86,416	196,941	249,166	239,382
Gains on other dispositions of investments in real estate, net (excluding development properties and land)	43,939	27,254	75,430	173,021
Operating income	611,987	442,056	1,080,044	818,646
Other income (expense):				
Earnings from unconsolidated co-investment ventures, net	47,443	45,876	94,558	98,963
Earnings from other unconsolidated ventures, net	6,699	2,680	48,314	6,259
Interest expense	(81,298)	(59,122)	(156,940)	(119,629)
Foreign currency and derivative gains (losses) and interest and other income, net	(59,809)	6,353	53,890	22,997
Gains (losses) on early extinguishment of debt, net	(23,573)	(385)	(66,340)	(2,501)
Total other income (expense)	(110,538)	(4,598)	(26,518)	6,089
Earnings before income taxes	501,449	437,458	1,053,526	824,735
Current income tax expense	(48,673)	(18,190)	(76,593)	(30,909)
Deferred income tax expense	2,162	(8,442)	(831)	(9,235)
Consolidated net earnings	454,938	410,826	976,102	784,591
Net earnings attributable to noncontrolling interests	(37,115)	(13,864)	(53,256)	(28,509)
Net earnings attributable to noncontrolling interests - limited partnership units	(11,650)	(11,686)	(25,620)	(22,260)
Net earnings attributable to controlling interests	406,173	385,276	897,226	733,822
Preferred stock dividends	(1,634)	(1,492)	(3,269)	(2,991)
Net earnings attributable to common stockholders	\$404,539	\$383,784	\$893,957	\$730,831
Weighted average common shares outstanding - Diluted	765,830	655,447	746,027	654,766
Net earnings per share attributable to common stockholders - Diluted	\$0.54	\$0.60	\$1.23	\$1.15

in thousands	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net earnings attributable to common stockholders	\$404,539	\$383,784	893,957	730,831
Add (deduct) NAREIT defined adjustments:				
Real estate related depreciation and amortization	389,072	275,743	725,004	550,630
Gains on other dispositions of investments in real estate, net (excluding development properties and land)	(43,939)	(27,254)	(75,430)	(173,021)
Reconciling items related to noncontrolling interests	602	(11,920)	(14,791)	(25,390)

Our share of reconciling items related to unconsolidated co-investment ventures	65,613	58,354	130,977	112,054
Our share of reconciling items related to other unconsolidated ventures	8,061	2,581	10,846	5,593
NAREIT defined FFO attributable to common stockholders/unitholders*	\$823,948	\$681,288	\$1,670,563	\$1,200,697
Add (deduct) our defined adjustments:				
Unrealized foreign currency and derivative losses (gains), net	66,791	3,451	(42,756)	(4,037)
Deferred income tax expense (benefit)	(2,162)	8,442	831	9,235
Reconciling items related to noncontrolling interests	(234)	15	(419)	35
Our share of reconciling items related to unconsolidated co-investment ventures	2,037	(1,745)	3,315	(2,889)
FFO, as modified by Prologis attributable to common stockholders/unitholders*	\$890,380	\$691,451	\$1,631,534	\$1,203,041
Adjustments to arrive at Core FFO attributable to common stockholders/unitholders*:				
Gains on dispositions of development properties and land, net	(86,416)	(196,941)	(249,166)	(239,382)
Current income tax expense on dispositions	22,993	7,645	29,718	10,044
Losses on early extinguishment of debt and other, net	26,573	385	74,340	2,501
Reconciling items related to noncontrolling interests	(52)	(2)	(2,597)	(2)
Our share of reconciling items related to unconsolidated co-investment ventures	(30)	3,654	2,671	4,238
Our share of reconciling items related to other unconsolidated ventures	3	4	(33,830)	7
Core FFO attributable to common stockholders/unitholders*	\$853,451	\$506,196	\$1,452,670	\$ 980,447
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	86,416	196,941	249,166	239,382
Current income tax expense on dispositions	(22,993)	(7,645)	(29,718)	(10,044)
Straight-lined rents and amortization of lease intangibles	(31,229)	(25,402)	(56,732)	(54,951)
Property improvements	(37,817)	(25,634)	(51,456)	(34,332)
Turnover costs	(45,488)	(40,631)	(84,884)	(80,969)
Amortization of debt premium, financing costs and management contracts, net	2,701	4,575	4,194	9,055
Stock compensation expense	27,998	20,186	59,806	51,944
Reconciling items related to noncontrolling interests	9,302	5,604	14,349	10,968
Our share of reconciling items related to unconsolidated ventures	(20,216)	(14,032)	(2,134)	(24,508)
AFFO attributable to common stockholders/unitholders*	\$822,125	\$620,158	\$1,555,261	\$1,086,992

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

in thousands	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Net earnings attributable to common stockholders	\$ 404,539	\$383,784	\$ 893,957	\$ 730,831
Gains on other dispositions of investments in real estate, net (excluding development properties and land)	(43,939)	(27,254)	(75,430)	(173,021)
Depreciation and amortization expenses	398,195	284,376	744,165	568,385
Interest expense	81,298	59,122	156,940	119,629
Current and deferred income tax expense, net	46,511	26,632	77,424	40,144
Net earnings attributable to noncontrolling interests - limited partnership unitholders	11,650	11,686	25,620	22,260
Pro forma adjustments	2,394	(240)	53,602	2,307
Preferred stock dividends	1,634	1,492	3,269	2,991
Unrealized foreign currency and derivative losses (gains), net	66,791	3,451	(42,756)	(4,037)
Stock compensation expense	27,998	20,186	59,806	51,944
Losses on early extinguishment of debt and other, net	26,573	385	74,340	2,501
Adjusted EBITDA, consolidated*	\$1,023,644	\$763,620	\$1,970,937	\$1,363,934
Reconciling items related to noncontrolling interests	(11,635)	(24,005)	(44,003)	(48,176)
Our share of reconciling items related to unconsolidated ventures	98,657	83,814	196,475	162,081
Adjusted EBITDA attributable to common stockholders/unitholders*	\$1,110,666	\$823,429	\$2,123,409	\$1,477,839

* 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		Six Months Ended	
	Jun. 30,		Jun. 30,	
in thousands, except per share amount	2020	2019	2020	2019
Net earnings				
Net earnings attributable to common stockholders	\$ 404,539	\$ 383,784	\$ 893,957	\$ 730,831
Noncontrolling interest attributable to exchangeable limited partnership units	11,763	11,759	25,812	22,416
Adjusted net earnings attributable to common stockholders - Diluted	\$ 416,302	\$ 395,543	\$ 919,769	\$ 753,247
Weighted average common shares outstanding - Basic	737,992	630,271	718,278	629,990
Incremental weighted average effect on exchange of limited partnership units	21,539	19,556	20,884	19,637
Incremental weighted average effect of equity awards	6,299	5,620	6,865	5,139
Weighted average common shares outstanding - Diluted	765,830	655,447	746,027	654,766
Net earnings per share - Basic	\$ 0.55	\$ 0.61	\$ 1.24	\$ 1.16
Net earnings per share - Diluted	\$ 0.54	\$ 0.60	\$ 1.23	\$ 1.15
Core FFO				
Core FFO attributable to common stockholders/unitholders	\$ 853,451	\$ 506,196	\$ 1,452,670	\$ 980,447
Noncontrolling interest attributable to exchangeable limited partnership units	187	159	330	353
Core FFO attributable to common stockholders/unitholders - Diluted	\$ 853,638	\$ 506,355	\$ 1,453,000	\$ 980,800
Weighted average common shares outstanding - Basic	737,992	630,271	718,278	629,990
Incremental weighted average effect on exchange of limited partnership units	21,539	19,556	20,884	19,637

Incremental weighted average effect of equity awards	6,299	5,620	6,865	5,139
Weighted average common shares outstanding - Diluted	<u>765,830</u>	<u>655,447</u>	<u>746,027</u>	<u>654,766</u>
Core FFO per share - Diluted	<u>\$ 1.11</u>	<u>\$ 0.77</u>	<u>\$ 1.95</u>	<u>\$ 1.50</u>

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 the active properties in the Development Portfolio as Stabilized NOI divided by TEI. The yields on a Prologis Share basis were as follows:

	Pre-Stabilized Developments	2020 Expected Completion	2021 and Thereafter Expected Completion	Total Development Portfolio
U.S.	6.1 %	6.3 %	5.4 %	6.2 %
Other Americas	8.7 %	6.8 %	8.8 %	7.2 %
Europe	5.8 %	5.4 %	5.5 %	5.5 %
Asia	6.2 %	5.5 %	5.5 %	5.5 %
Total	6.1 %	6.0 %	5.5 %	5.8 %

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:

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- (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 CoreFFO, 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:

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- (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:

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- (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)	\$ 2.06	\$ 2.18
Our share of:		
Depreciation and amortization	2.20	2.23
Net gains on real estate transactions, net of taxes	(0.60)	(0.70)
Unrealized foreign currency gains and other, net	0.04	0.04
Core FFO	\$ 3.70	\$ 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.

Retention is the square footage of all leases commenced during the period that are rented by existing tenants divided by the square footage of all expiring and in-place leases during the reporting period. The square footage of tenants that default or buy-out prior to expiration of their lease and short-term leases of less than one year, are not included in the calculation.

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 June 30, 2020 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, 2019 and owned throughout the same three-month period in both 2019 and 2020. 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, 2019) 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		
	Jun. 30,		
	2020	2019	Change (%)
Reconciliation of Consolidated Property NOI to Same Store Property NOI measures:			
Rental revenues	\$ 944,366	\$ 700,689	
Rental expenses	(232,109)	(181,138)	
Consolidated Property NOI	<u>\$ 712,257</u>	<u>\$ 519,551</u>	
Adjustments to derive same store results:			
Property NOI from consolidated properties not included in same store portfolio and other adjustments (a)	(232,199)	(50,693)	
Property NOI from unconsolidated co-investment ventures included in same store portfolio (a)(b)	484,296	473,863	

Third parties' share of Property NOI from properties included in			
same store portfolio (a)(b)	(395,378)	(388,017)	
Prologis Share of Same Store Property NOI – Net Effective (b)	\$ 568,976	\$ 554,704	2.6 %
Consolidated properties straight-line rent and fair value lease			
adjustments included in the same store portfolio (c)	(9,407)	(11,972)	
Unconsolidated co-investment ventures straight-line rent and fair			
value lease adjustments included in the same store portfolio (c)	(10,082)	(5,970)	
Third parties' share of straight-line rent and fair value lease			
adjustments included in the same store portfolio (b)(c)	8,421	5,645	
Prologis Share of Same Store Property NOI – Cash (b)(c)	\$ 557,908	\$ 542,407	2.9 %

(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 June 30, 2020 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 Interest Rate is based on the effective rate, which includes the amortization of related premiums and discounts and finance costs.

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

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