

Digital Realty reports third quarter 2018 results

October 25, 2018

SAN FRANCISCO, Oct. 25, 2018 /PRNewswire/ -- **Digital Realty** (NYSE: DLR), a leading global provider of data center, colocation and interconnection solutions, announced today financial results for the third quarter of 2018. All per-share results are presented on a fully-diluted share and unit basis.

Highlights

- Reported net income available to common stockholders of \$0.33 per share in 3Q18, compared to (\$0.02) in 3Q17
- Reported FFO per share of \$1.57 in 3Q18, compared to \$1.23 in 3Q17
- Reported core FFO per share of \$1.63 in 3Q18, compared to \$1.51 in 3Q17
- Signed total bookings during 3Q18 expected to generate \$69 million of annualized GAAP rental revenue, including an \$8 million contribution from interconnection
- Reiterated 2018 core FFO per share outlook of \$6.55 - \$6.65

Financial Results

Digital Realty reported revenues for the third quarter of 2018 of \$769 million, a 2% increase from the previous quarter and a 26% increase from the same quarter last year.

The company delivered third quarter of 2018 net income of \$90 million, and net income available to common stockholders of \$67 million, or \$0.33 per diluted share, compared to \$0.32 per diluted share in the previous quarter and (\$0.02) per diluted share in the same quarter last year.

Digital Realty generated third quarter of 2018 adjusted EBITDA of \$453 million, a 1% decrease from the previous quarter and a 29% increase over the same quarter last year.

The company reported third quarter of 2018 funds from operations of \$338 million, or \$1.57 per share, compared to \$1.64 per share in the previous quarter and \$1.23 per share in the same quarter last year.

Excluding certain items that do not represent core expenses or revenue streams, Digital Realty delivered third quarter of 2018 core FFO of \$1.63 per share, a 2% decrease from \$1.66 per share in the previous quarter, and an 8% increase from \$1.51 per share in the same quarter last year.

Leasing Activity

"In the third quarter, we signed total bookings expected to generate \$69 million of annualized GAAP rental revenue, including an \$8 million contribution from interconnection," said Chief Executive Officer A. William Stein. "This represents the second-highest bookings in the company's history, close on the heels of our record in the prior quarter. We also announced our entry into the rapidly growing Brazilian market, and we took proactive steps to secure our supply chain and further strengthen our balance sheet. We look forward to building on this momentum in the months ahead, setting the stage for sustainable growth into 2019 and beyond."

The weighted-average lag between leases signed during the third quarter of 2018 and the contractual commencement date was five months.

In addition to new leases signed, Digital Realty also signed renewal leases representing \$61 million of annualized GAAP rental revenue during the quarter. Rental rates on renewal leases signed during the third quarter of 2018 rolled up 0.2% on a cash basis and up 1.6% on a GAAP basis.

New leases signed during the third quarter of 2018 by region and product type are summarized as follows:

	Annualized GAAP				
	Base Rent (in thousands)	Square Feet	GAAP Base Rent per Square Foot	Megawatts	GAAP Base Rent per Kilowatt
North America					
Turn-Key Flex	\$40,958	330,137	\$124	33.3	\$103
Colocation	8,527	45,081	189	2.4	294

Non-Technical	978	53,916	18	—	—
Total	\$50,463	429,134	\$118	35.7	\$116
Europe (1)					
Turn-Key Flex	\$5,076	32,431	\$157	3.3	\$130
Colocation	1,800	1,869	963	0.4	353
Non-Technical	51	1,715	30	—	—
Total	\$6,927	36,015	\$192	3.7	\$155
Asia Pacific (1)					
Turn-Key Flex	\$4,163	23,300	\$179	2.4	\$146
Total	\$4,163	23,300	\$179	2.4	\$146
Interconnection	\$7,610	N/A	N/A	N/A	N/A
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Grand Total	\$69,163	488,449	\$126	41.7	\$121

Note: Totals may not foot due to rounding differences.

(1)Based on quarterly average exchange rates during the three months ended September 30, 2018.

Investment Activity

During the third quarter of 2018, Digital Realty closed on the sale of 360 Spear Street, a 155,000 square foot data center in San Francisco, California, for \$92 million. The facility was 39% leased and was expected to generate cash net operating income of approximately \$2 million in 2018, representing a nominal exit cap rate of 1.9%. The sale generated net proceeds of \$91 million, and Digital Realty recognized a gain on the sale of approximately \$27 million in the third quarter of 2018.

Likewise during the third quarter of 2018, Digital Realty acquired three separate sites in Manassas, Virginia, Sterling, Virginia and Sydney, Australia, totaling 51.5 acres for a combined investment of \$40 million, or approximately \$773,000 per acre. The three sites are expected to support the development of approximately 138 megawatts of critical power. Digital Realty also entered into an agreement to acquire 424 acres of undeveloped land in Loudoun County, Virginia for a purchase price of \$236.5 million, or approximately \$558,000 per acre. The site is adjacent to Washington Dulles International Airport and located near bulk transmission lines as well as a major fiber path. The site is also located less than four miles from Digital Realty's existing data center campuses in Ashburn, Virginia. Commencement of development on these various land parcels will be subject to market demand, and delivery will be phased to meet future growth requirements upon build-out and lease-up of the company's existing campuses in Northern Virginia and Sydney, Australia.

Likewise during the third quarter of 2018, Digital Realty entered into a definitive agreement to acquire Ascenty, the leading data center provider in Brazil, from private equity firm Great Hill Partners in a transaction valued at approximately \$1.8 billion. Digital Realty separately entered into an independent bilateral equity commitment letter with Brookfield Infrastructure, an affiliate of Brookfield Asset Management, one of the largest owners and operators of infrastructure assets globally, under which Brookfield has committed to fund half of the required initial equity investment, currently estimated to be approximately \$613 million, excluding Brookfield's share of the transaction costs, in exchange for 49% of the total equity interests in a joint venture entity expected to ultimately own Ascenty. The transaction is subject to customary closing conditions and is expected to close in the fourth quarter of 2018.

Balance Sheet

Digital Realty had approximately \$9.2 billion of total debt outstanding as of September 30, 2018, comprised of \$9.1 billion of unsecured debt and approximately \$0.1 billion of secured debt. At the end of the third quarter of 2018, net debt-to-adjusted

EBITDA was 5.2x, debt-plus-preferred-to-total enterprise value was 30.2% and fixed charge coverage was 4.1x.

During the third quarter, Digital Realty executed an offering of 9,775,000 shares of common stock (including 1,275,000 shares from the exercise in full of the underwriters' over-allotment option) at a price of \$113.00 per share, subject to forward sale agreements. The company expects to receive net proceeds of approximately \$1.1 billion (net of fees and estimated expenses) upon full physical settlement of the forward sale agreements, expected to be no later than September 27, 2019.

Subsequent to quarter-end, Digital Realty closed a £400 million pound sterling-denominated bond offering of 12-year senior unsecured notes at 3.750% per annum.

Likewise subsequent to quarter-end, Digital Realty completed the refinancing of its global credit facilities. The combined facilities total \$3.3 billion, comprised of a \$2.35 billion global revolving credit facility and approximately \$916 million of multi-currency term loans. The company also completed a five-year, ¥33.3 billion (approximately \$300 million) Japanese yen-denominated revolving credit facility. In conjunction with the refinancing, pricing for the global revolving credit facility was tightened by 10 basis points at the company's BBB / Baa2 senior unsecured debt rating, the maturity date was extended by three years and total availability was expanded by \$350 million. The refinancing provides funds for acquisitions, development, debt repayment, working capital and general corporate purposes.

2018 Outlook

Digital Realty reiterated its 2018 core FFO per share outlook of \$6.55 - \$6.65. The assumptions underlying this guidance are summarized in the following table.

Top-Line and Cost Structure	As of January 8, 2018	As of February 15, 2018	As of April 26, 2018	As of July 26, 2018	As of October 25, 2018
2018 total revenue	\$3.0 - \$3.2 billion	\$3.0 - \$3.2 billion	\$3.0 - \$3.2 billion	\$3.0 - \$3.2 billion	\$3.0 - \$3.2 billion
2018 net non-cash rent adjustments (1)	(\$5 - \$15 million)	(\$5 - \$15 million)	(\$5 - \$15 million)	(\$5 - \$15 million)	(\$5 - \$15 million)
2018 Adjusted EBITDA margin	58.0% - 60.0%	58.0% - 60.0%	58.0% - 60.0%	58.0% - 60.0%	58.0% - 60.0%
2018 G&A margin	5.5% - 6.5%	5.5% - 6.5%	5.5% - 6.5%	5.5% - 6.5%	5.5% - 6.5%

Internal Growth

Rental rates on renewal leases					
Cash basis	Slightly negative	Slightly negative	Slightly negative	Slightly negative	Slightly negative
GAAP basis	Up mid-single-digits	Up mid-single-digits	Up mid-single-digits	Up mid-single-digits	Up mid-single-digits
Year-end portfolio occupancy	+/- 50 bps	+/- 50 bps	+/- 50 bps	+/- 50 bps	+/- 50 bps
"Same-capital" cash NOI growth (2)	0% - 3.0%	0% - 3.0%	1.0% - 3.0%	1.0% - 3.0%	1.0% - 3.0%
Foreign Exchange Rates					
U.S. Dollar / Pound Sterling	\$1.28 - \$1.32	\$1.28 - \$1.32	\$1.35 - \$1.40	\$1.30 - \$1.35	\$1.30 - \$1.35
U.S. Dollar / Euro	\$1.10 - \$1.20	\$1.10 - \$1.20	\$1.18 - \$1.22	\$1.15 - \$1.20	\$1.15 - \$1.20

External Growth

Dispositions					
Dollar volume	\$0 - \$200 million	\$88 - \$200 million	\$187 - \$300 million	\$199 - \$300 million	\$292 million
Cap rate	0.0% - 10.0%	0.0% - 10.0%	0.0% - 10.0%	0.0% - 10.0%	0.0% - 10.0%
Development					
CapEx	\$0.9 - \$1.1 billion	\$0.9 - \$1.1 billion	\$0.9 - \$1.1 billion	\$1.0 - \$1.2 billion	\$1.2 - \$1.4 billion
Average stabilized yields	10.0% - 12.0%	10.0% - 12.0%	10.0% - 12.0%	10.0% - 12.0%	10.0% - 12.0%
Enhancements and other non-recurring CapEx (3)	\$25 - \$30 million	\$25 - \$30 million	\$25 - \$30 million	\$25 - \$30 million	\$25 - \$30 million
Recurring CapEx + capitalized leasing costs (4)	\$160 - \$170 million	\$160 - \$170 million	\$160 - \$170 million	\$160 - \$170 million	\$160 - \$170 million

Balance Sheet

Long-term debt issuance				\$650 million - \$1 billion	\$1.2 - \$1.8 billion
Dollar amount	\$0 - \$500 million	\$0 - \$500 million	\$0 - \$500 million		
Pricing	3.25% - 4.25%	3.25% - 4.25%	3.25% - 4.25%	3.25% - 4.50%	3.25% - 4.50%
Timing	Mid-to-late 2018	Mid-to-late 2018	Mid-to-late 2018	Mid-to-late 2018	Mid-to-late 2018

Net income per diluted share	\$1.50 - \$1.55	\$1.50 - \$1.55	\$1.55 - \$1.55	\$1.55 - \$1.60	\$1.55 - \$1.60
Real estate depreciation and (gain)/loss on sale	\$4.90 - \$4.95	\$4.90 - \$4.95	\$4.90 - \$4.95	\$4.95 - \$4.95	\$4.95 - \$4.95
Funds From Operations / share (NAREIT-Defined)	\$6.40 - \$6.50	\$6.40 - \$6.50	\$6.45 - \$6.50	\$6.50 - \$6.55	\$6.50 - \$6.55
Non-core expenses and revenue streams	\$0.05 - \$0.10	\$0.05 - \$0.10	\$0.05 - \$0.10	\$0.05 - \$0.10	\$0.05 - \$0.10
Core Funds From Operations / share	\$6.45 - \$6.60	\$6.45 - \$6.60	\$6.50 - \$6.60	\$6.55 - \$6.65	\$6.55 - \$6.65

- (1) Net non-cash rent adjustments represent the sum of straight-line rental revenue, straight-line rent expense as well as the amortization of above- and below-market leases (i.e., FAS 141 adjustments).
- (2) The "same-capital" pool includes buildings owned as of December 31, 2016 with less than 5% of the total rentable square feet under development. It also excludes buildings that were undergoing, or were expected to undergo, development activities in 2017-2018, buildings classified as held for sale, and buildings sold or contributed to joint ventures for all periods presented.
- (3) Other non-recurring CapEx represents costs incurred to enhance the capacity or marketability of operating data centers, such as network fiber initiatives and software development costs.
- (4) Recurring CapEx represents non-incremental improvements required to maintain current revenues, including second-generation tenant improvements and leasing commissions. Capitalized leasing costs include capitalized leasing compensation as well as capitalized internal leasing commissions.

Non-GAAP Financial Measures

This press release contains non-GAAP financial measures, including FFO, core FFO, and Adjusted EBITDA. A reconciliation from U.S. GAAP net income available to common stockholders to FFO, a reconciliation from FFO to core FFO, and definitions of FFO, and core FFO are included as an attachment to this document. A reconciliation from U.S. GAAP net income available to common stockholders to Adjusted EBITDA, a definition of Adjusted EBITDA and definitions of net debt-to-Adjusted EBITDA, debt-plus-preferred-to-total enterprise value, cash NOI, and fixed charge coverage ratio are included as an attachment to this document.

Investor Conference Call

Prior to Digital Realty's investor conference call at 5:30 p.m. EDT / 2:30 p.m. PDT on October 25, 2018, a presentation will be posted to the Investors section of the company's website at <http://investor.digitalrealty.com>. The presentation is designed to accompany the discussion of the company's third quarter 2018 financial results and operating performance. The conference call will feature Chief Executive Officer A. William Stein and Chief Financial Officer Andrew P. Power.

To participate in the live call, investors are invited to dial (888) 317-6003 (for domestic callers) or (412) 317-6061 (for international callers) and reference the conference ID# 0813657 at least five minutes prior to start time. A live webcast of the call will be available via the Investors section of Digital Realty's website at <http://investor.digitalrealty.com>.

Telephone and webcast replays will be available after the call until November 27, 2018. The telephone replay can be accessed by dialing (877) 344-7529 (for domestic callers) or (412) 317-0088 (for international callers) and providing the conference ID# 10124567. The webcast replay can be accessed on Digital Realty's website.

About Digital Realty

Digital Realty supports the data center, colocation and interconnection strategies of more than 2,300 firms across its secure, network-rich portfolio of data centers located throughout North America, Europe, Asia and Australia. Digital Realty's clients include domestic and international companies of all sizes, ranging from cloud and information technology services, communications and social networking to financial services, manufacturing, energy, healthcare, and consumer products.

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Consolidated Quarterly Statements of Operations
Unaudited and in Thousands, Except Share and Per Share Data

	Three Months Ended					Nine Months Ended	
	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Sep-18	30-Sep-17
Rental revenues	\$541,073	\$534,556	\$530,925	\$517,356	\$440,591	\$1,606,554	\$1,257,293
Tenant reimbursements - Utilities	105,822	100,084	98,576	97,657	78,134	304,482	209,939
Tenant reimbursements - Other	57,282	55,639	51,503	54,324	29,479	164,424	78,304
Interconnection & other	62,760	61,770	61,373	60,275	59,851	185,903	175,377
Fee income	1,469	2,343	1,133	1,386	1,662	4,945	4,986
Other	518	527	858	447	208	1,903	584
Total Operating Revenues	\$768,924	\$754,919	\$744,368	\$731,445	\$609,925	\$2,268,211	\$1,726,483
Utilities	\$127,239	\$115,470	\$112,230	\$112,055	\$95,619	\$354,939	\$255,556
Rental property operating	118,732	114,852	113,410	113,445	94,442	346,994	278,560
Property taxes	34,871	27,284	35,263	36,348	32,586	97,418	87,666
Insurance	2,653	2,606	3,731	3,223	2,590	8,990	7,758
Depreciation & amortization	293,957	298,788	294,789	287,973	199,914	887,534	554,491
General & administration	40,997	44,277	36,289	44,311	41,477	121,563	112,399
Severance, equity acceleration, and legal expenses	645	1,822	234	1,209	2,288	2,701	3,522
Transaction and integration expenses	9,626	5,606	4,178	15,681	42,809	19,410	60,367
Impairment of investments in real estate	—	—	—	—	28,992	—	28,992
Other expenses	1,139	152	431	2	3,051	1,722	3,075
Total Operating Expenses	\$629,859	\$610,857	\$600,555	\$614,247	\$543,768	\$1,841,271	\$1,392,386
Operating Income	\$139,065	\$144,062	\$143,813	\$117,198	\$66,157	\$426,940	\$334,097
Equity in earnings of unconsolidated joint venture	\$8,886	\$7,438	\$7,410	\$5,924	\$5,880	\$23,734	\$19,592
Gain on real estate transactions	26,577	14,192	39,273	30,746	9,751	80,042	9,609
Interest and other income	(981)	3,398	(42)	324	2,813	2,375	3,331

Interest (expense)	(80,851)	(78,810)	(76,985)	(73,989)	(71,621)	(236,646)	(184,653)
Tax (expense)	(2,432)	(2,121)	(3,374)	(545)	(2,494)	(7,927)	(7,356)
Gain from early extinguishment of debt	—	—	—	—	1,990	—	1,990
Net Income	\$90,264	\$88,159	\$110,095	\$79,658	\$12,476	\$288,518	\$176,610
Net (income) attributable to noncontrolling interests	(2,667)	(2,696)	(3,468)	(6,023)	(40)	(8,831)	(1,985)
Net Income Attributable to Digital Realty Trust, Inc.	\$87,597	\$85,463	\$106,627	\$73,635	\$12,436	\$279,687	\$174,625
Preferred stock dividends, including undeclared dividends	(20,329)	(20,329)	(20,329)	(20,329)	(16,575)	(60,987)	(48,473)
Issuance costs associated with redeemed preferred stock	—	—	—	—	—	—	(6,309)
Net Income (Loss) Available to Common Stockholders	\$67,268	\$65,134	\$86,298	\$53,306	(\$4,139)	\$218,700	\$119,843
Weighted-average shares outstanding - basic	206,118,472	205,956,005	205,714,173	205,448,689	170,194,254	205,931,031	163,481,306
Weighted-average shares outstanding - diluted	206,766,256	206,563,079	206,507,476	206,185,084	170,194,254	206,555,627	164,371,096
Weighted-average fully diluted shares and units	214,937,168	214,895,273	214,802,763	214,424,363	174,169,511	214,824,010	166,937,862
Net income (loss) per share - basic	\$0.33	\$0.32	\$0.42	\$0.26	(\$0.02)	\$1.06	\$0.73
Net income (loss) per share - diluted	\$0.33	\$0.32	\$0.42	\$0.26	(\$0.02)	\$1.06	\$0.73

**Funds From Operations and Core Funds From Operations
Unaudited and in Thousands, Except Per Share Data**

Reconciliation of Net Income to Funds From Operations (FFO)	Three Months Ended					Nine Months Ended	
	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Sep-18	30-Sep-17
Net Income (Loss) Available to Common Stockholders	\$67,268	\$65,134	\$86,298	\$53,306	(\$4,139)	\$218,700	\$119,843
Adjustments:							
Non-controlling interests in operating partnership	2,700	2,700	3,480	2,138	(79)	8,880	1,632
Real estate related depreciation & amortization (1)	290,757	295,750	291,686	284,924	196,871	878,193	545,328
Unconsolidated JV real estate related depreciation & amortization	3,775	3,722	3,476	3,323	2,732	10,973	8,243
(Gain) on real estate transactions	(26,577)	(14,192)	(39,273)	(30,746)	(9,751)	(80,042)	(9,609)
Non-controlling interests share of gain on sale of property	—	—	—	3,900	—	—	—

Impairment of investments in real estate	—	—	—	—	28,992	—	28,992
Funds From Operations	\$337,923	\$353,114	\$345,667	\$316,845	\$214,626	\$1,036,704	\$694,429
Funds From Operations - diluted	\$337,923	\$353,114	\$345,667	\$316,845	\$214,626	\$1,036,704	\$694,429
Weighted-average shares and units outstanding - basic	214,289	214,288	214,009	213,688	173,461	214,199	166,048
Weighted-average shares and units outstanding - diluted (2)	214,937	214,895	214,803	214,424	174,170	214,824	166,938
Funds From Operations per share - basic	\$1.58	\$1.65	\$1.62	\$1.48	\$1.24	\$4.84	\$4.18
Funds From Operations per share - diluted (2)	\$1.57	\$1.64	\$1.61	\$1.48	\$1.23	\$4.83	\$4.16
	Three Months Ended					Nine Months Ended	
Reconciliation of FFO to Core FFO	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Sep-18	30-Sep-17
Funds From Operations - diluted	\$337,923	\$353,114	\$345,667	\$316,845	\$214,626	\$1,036,704	\$694,429
Adjustments:							
Termination fees and other non-core revenues (3)	(518)	(3,663)	(858)	(447)	(208)	(5,039)	(584)
Transaction and integration expenses	9,626	5,606	4,178	15,681	42,809	19,410	60,367
Gain from early extinguishment of debt	—	—	—	—	(1,990)	—	(1,990)
Issuance costs associated with redeemed preferred stock	—	—	—	—	—	—	6,309
Equity in earnings adjustment for non-core items	—	—	—	—	—	—	(3,285)
Severance, equity acceleration, and legal expenses (4)	645	1,822	234	1,209	2,288	2,701	3,522
Bridge facility fees (5)	—	—	—	—	3,182	—	3,182
Other non-core expense adjustments	2,269	152	431	2	3,051	2,852	3,075
Core Funds From Operations - diluted	\$349,945	\$357,031	\$349,652	\$333,290	\$263,758	\$1,056,628	\$765,025
Weighted-average shares and units outstanding - diluted (2)	214,937	214,895	214,803	214,424	174,170	214,824	166,938
Core Funds From Operations per share - diluted (2)	\$1.63	\$1.66	\$1.63	\$1.55	\$1.51	\$4.92	\$4.58

(1) Real Estate Related Depreciation & Amortization:	Three Months Ended					Nine Months Ended	
	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Sep-18	30-Sep-17
Depreciation & amortization per income statement	\$293,957	\$298,788	\$294,789	\$287,973	\$199,914	\$887,534	\$554,491
Non-real estate depreciation	(3,200)	(3,038)	(3,103)	(3,049)	(3,043)	(9,341)	(9,163)
Real Estate Related Depreciation & Amortization	\$290,757	\$295,750	\$291,686	\$284,924	\$196,871	\$878,193	\$545,328

(2) For all periods presented, we have excluded the effect of dilutive series C, series F, series G, series H, series I and series J preferred stock, as applicable, that may be converted into common stock upon the occurrence of specified change in control transactions as described in the articles supplementary governing the series C, series F, series G, series H, series I, and series J preferred stock, as applicable, which we consider highly improbable. See above for calculations of diluted FFO available to common stockholders and unitholders and the share count detail section of the reconciliation of core FFO to AFFO for calculations of weighted average common stock and units outstanding.

(3) Includes lease termination fees and certain other adjustments that are not core to our business.

(4) Relates to severance and other charges related to the departure of company executives and integration-related severance.

(5) Bridge facility fees are included in interest expense.

Adjusted Funds From Operations (AFFO)
Unaudited and in Thousands, Except Per Share Data

Reconciliation of Core FFO to AFFO	Three Months Ended					Nine Months Ended	
	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Sep-18	30-Sep-17
Core FFO available to common stockholders and unitholders	\$349,945	\$357,031	\$349,652	\$333,290	\$263,758	\$1,056,628	\$765,025
Adjustments:							
Non-real estate depreciation	3,200	3,038	3,103	3,049	3,043	9,341	9,163
Amortization of deferred financing costs	3,066	2,953	3,060	3,092	2,611	9,079	7,572
Amortization of debt discount/premium	902	882	875	858	816	2,659	2,226
Non-cash stock-based compensation expense	5,823	8,419	5,497	3,923	4,636	19,741	13,977
Straight-line rental revenue	(10,511)	(8,489)	(10,266)	(8,705)	(1,692)	(29,266)	(7,860)
Straight-line rental expense	2,482	2,669	2,547	(635)	4,212	7,698	12,742
Above- and below-market rent amortization	6,552	6,794	6,666	6,562	(873)	20,012	(4,792)
Deferred non-cash tax expense	(1,783)	(1,137)	(216)	(1,100)	284	(3,135)	(1,812)
Capitalized leasing compensation (1)	(2,606)	(2,825)	(2,998)	(3,567)	(2,945)	(8,429)	(8,319)

Recurring capital expenditures (2)	(22,500)	(34,447)	(27,328)	(45,298)	(34,664)	(84,275)	(90,992)
Capitalized internal leasing commissions (1)	(2,547)	(2,822)	(2,049)	(1,217)	(1,225)	(7,418)	(4,073)
AFFO available to common stockholders and unitholders (3)	\$332,023	\$332,066	\$328,543	\$290,252	\$237,961	\$992,635	\$692,857
Weighted-average shares and units outstanding - basic	214,289	214,288	214,009	213,688	173,461	214,199	166,048
Weighted-average shares and units outstanding - diluted (4)	214,937	214,895	214,803	214,424	174,170	214,824	166,938
AFFO per share - diluted (4)	\$1.54	\$1.55	\$1.53	\$1.35	\$1.37	\$4.62	\$4.15
Dividends per share and common unit	\$1.01	\$1.01	\$1.01	\$0.93	\$0.93	\$3.03	\$2.79
Diluted AFFO Payout Ratio	65.4 %	65.4 %	66.0 %	68.7 %	68.1 %	65.6 %	67.2 %

Share Count Detail	Three Months Ended					Nine Months Ended	
	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17	30-Sep-18	30-Sep-17
Weighted Average Common Stock and Units Outstanding	214,289	214,288	214,009	213,688	173,461	214,199	166,048
Add: Effect of dilutive securities (excludes 5.50% debentures)	648	607	794	736	709	625	890
Weighted Avg. Common Stock and Units Outstanding - diluted	214,937	214,895	214,803	214,424	174,170	214,824	166,938

(1) Includes only second-generation leasing costs.

(2) Recurring capital expenditures represent non-incremental building improvements required to maintain current revenues, including second-generation tenant improvements and external leasing commissions. Recurring capital expenditures do not include acquisition costs contemplated when underwriting the purchase of a building, costs which are incurred to bring a building up to Digital Realty's operating standards, or internal leasing commissions.

(3) For a definition and discussion of AFFO, see the definitions section. For a reconciliation of net income available to common stockholders to FFO and core FFO, see above.

(4) For all periods presented, we have excluded the effect of dilutive series C, series F, series G, series H, series I and series J preferred stock, as applicable, that may be converted into common stock upon the occurrence of specified change in control transactions as described in the articles supplementary governing the series C, series F, series G, series H, series I, and series J preferred stock, as applicable, which we consider highly improbable. See above for calculations of diluted FFO available to common stockholders and unitholders and for calculations of weighted average common stock and units outstanding.

Consolidated Balance Sheets
Unaudited and in Thousands, Except Share and Per Share Data

	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
Assets					
Investments in real estate:					
Real estate	\$16,062,402	\$15,969,938	\$15,654,932	\$15,163,846	\$14,693,479
Construction in progress	1,464,010	1,323,998	1,470,065	1,399,684	1,405,740
Land held for future development	284,962	261,368	236,415	352,406	330,101
Investments in real estate	\$17,811,374	\$17,555,304	\$17,361,412	\$16,915,936	\$16,429,320
Accumulated depreciation and amortization	(3,755,596)	(3,588,124)	(3,439,050)	(3,238,227)	(3,075,294)
Net Investments in Properties	\$14,055,778	\$13,967,180	\$13,922,362	\$13,677,709	\$13,354,026
Investment in unconsolidated joint ventures	169,919	167,306	167,564	163,477	106,374
Net Investments in Real Estate	\$14,225,697	\$14,134,486	\$14,089,926	\$13,841,186	\$13,460,400
Cash and cash equivalents	\$46,242	\$17,589	\$22,370	\$51	\$192,578
Accounts and other receivables (1)	308,709	282,287	309,328	276,347	258,490
Deferred rent	454,412	445,766	442,887	430,026	420,348
Acquired in-place lease value, deferred leasing costs and other real estate intangibles, net	2,734,158	2,823,275	2,928,566	2,998,806	3,052,277
Acquired above-market leases, net	135,127	150,084	165,568	184,375	178,190
Goodwill	3,373,342	3,378,325	3,405,110	3,389,595	3,384,394
Restricted cash	8,068	9,443	7,330	13,130	17,753
Assets associated with real estate held for sale	—	—	41,707	139,538	132,818
Other assets	176,355	170,168	169,125	131,291	135,250
Total Assets	\$21,462,110	\$21,411,423	\$21,581,917	\$21,404,345	\$21,232,498
Liabilities and Equity					
Global unsecured revolving credit facility	\$590,289	\$466,971	\$952,121	\$550,946	\$138,477
Unsecured term loans	1,352,969	1,376,784	1,428,498	1,420,333	1,432,659
Unsecured senior notes, net of discount	7,130,541	7,156,084	6,660,727	6,570,757	6,806,333
Mortgage loans, net of premiums	106,072	106,245	106,366	106,582	106,775
Accounts payable and other accrued liabilities	1,059,355	1,031,794	1,012,490	980,218	1,024,394
Accrued dividends and distributions	—	—	—	199,761	—

Acquired below-market leases	208,202	216,520	225,674	249,465	257,732
Security deposits and prepaid rent	233,667	207,292	207,859	217,898	223,536
Liabilities associated with assets held for sale	—	—	1,767	5,033	4,660
Total Liabilities	\$10,681,095	\$10,561,690	\$10,595,502	\$10,300,993	\$9,994,566
Redeemable non-controlling interests - operating partnership	17,553	52,805	49,871	53,902	64,509
Equity					
Preferred Stock: \$0.01 par value per share, 110,000,000 shares authorized:					
Series C Cumulative Redeemable Preferred Stock (2)	\$219,250	\$219,250	\$219,250	\$219,250	\$219,250
Series G Cumulative Redeemable Preferred Stock (3)	241,468	241,468	241,468	241,468	241,468
Series H Cumulative Redeemable Preferred Stock (4)	353,290	353,290	353,290	353,290	353,290
Series I Cumulative Redeemable Preferred Stock (5)	242,012	242,012	242,012	242,012	242,012
Series J Cumulative Redeemable Preferred Stock (6)	193,540	193,540	193,540	193,540	193,667
Common Stock: \$0.01 par value per share, 315,000,000 shares authorized (7)	2,049	2,047	2,045	2,044	2,043
Additional paid-in capital	11,333,035	11,310,132	11,285,611	11,261,462	11,250,322
Dividends in excess of earnings	(2,455,189)	(2,314,291)	(2,177,269)	(2,055,552)	(1,917,791)
Accumulated other comprehensive (loss), net	(103,201)	(107,070)	(106,096)	(108,432)	(116,732)
Total Stockholders' Equity	\$10,026,254	\$10,140,378	\$10,253,851	\$10,349,082	\$10,467,529
Noncontrolling Interests					
Noncontrolling interest in operating partnership	\$671,269	\$654,261	\$680,400	\$698,125	\$699,308
Noncontrolling interest in consolidated joint ventures	65,939	2,289	2,293	2,243	6,586
Total Noncontrolling Interests	\$737,208	\$656,550	\$682,693	\$700,368	\$705,894
Total Equity	\$10,763,462	\$10,796,928	\$10,936,544	\$11,049,450	\$11,173,423
Total Liabilities and Equity	\$21,462,110	\$21,411,423	\$21,581,917	\$21,404,345	\$21,232,498

(1) Net of allowance for doubtful accounts of \$9,060 and \$6,737, as of September 30, 2018 and December 31, 2017, respectively.

- (2) Series C Cumulative Redeemable Perpetual Preferred Stock, 6.625%, \$201,250 and \$201,250 liquidation preference, respectively (\$25.00 per share), 8,050,000 and 8,050,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.
- (3) Series G Cumulative Redeemable Preferred Stock, 5.875%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per share), 10,000,000 and 10,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.
- (4) Series H Cumulative Redeemable Preferred Stock, 7.375%, \$365,000 and \$365,000 liquidation preference, respectively (\$25.00 per share), 14,600,000 and 14,600,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.
- (5) Series I Cumulative Redeemable Preferred Stock, 6.350%, \$250,000 and \$250,000 liquidation preference, respectively (\$25.00 per share), 10,000,000 and 10,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.
- (6) Series J Cumulative Redeemable Preferred Stock, 5.250%, \$200,000 and \$200,000 liquidation preference, respectively (\$25.00 per share), 8,000,000 and 8,000,000 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.
- (7) Common Stock: 206,267,055 and 205,470,300 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.

Reconciliation of Earnings Before Interest, Taxes, Depreciation & Amortization and Financial Ratios
Unaudited and in Thousands

Reconciliation of Earnings Before Interest, Taxes,

Depreciation & Amortization (EBITDA) (1)

Three Months Ended

30-Sep-18 30-Jun-18 31-Mar-18 31-Dec-17 30-Sep-17

Net Income (Loss) Available to Common Stockholders	\$67,268	\$65,134	\$86,298	\$53,306	(\$4,139)
Interest	80,851	78,810	76,985	73,989	71,621
(Gain) from early extinguishment of debt	—	—	—	—	(1,990)
Tax expense	2,432	2,121	3,374	545	2,494
Depreciation & amortization	293,957	298,788	294,789	287,973	199,914
Impairment of investments in real estate	—	—	—	—	28,992
EBITDA	\$444,508	\$444,853	\$461,446	\$415,813	\$296,892
Severance, equity acceleration, and legal expenses	645	1,822	234	1,209	2,288
Transaction and integration expenses	9,626	5,606	4,178	15,681	42,809
(Gain) on real estate transactions	(26,577)	(14,192)	(39,273)	(30,746)	(9,751)
Other non-core adjustments, net	2,269	(2,984)	431	2	3,051
Non-controlling interests	2,667	2,696	3,468	6,023	40

Preferred stock dividends, including undeclared dividends	20,329	20,329	20,329	20,329	16,575
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Adjusted EBITDA	\$453,467	\$458,130	\$450,813	\$428,311	\$351,904
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(1)For definitions and discussion of EBITDA and Adjusted EBITDA, see the definitions section.

Definitions

Funds From Operations (FFO) :

We calculate funds from operations, or FFO, in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from real estate transactions, non-controlling interests share of gain on sale of property, impairment of investment in real estate, real estate related depreciation and amortization (excluding amortization of deferred financing costs), unconsolidated JV real estate related depreciation & amortization, non-controlling interests in operating partnership and after adjustments for unconsolidated partnerships and joint ventures. Management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions and after adjustments for unconsolidated partnerships and joint ventures, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our data centers that result from use or market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our data centers, all of which have real economic effect and could materially impact our financial condition and results from operations, the utility of FFO as a measure of our performance is limited. Other REITs may not calculate FFO in accordance with the NAREIT definition and, accordingly, our FFO may not be comparable to other REITs' FFO. FFO should be considered only as a supplement to net income computed in accordance with GAAP as a measure of our performance.

Core Funds from Operations (Core FFO) :

We present core funds from operations, or core FFO, as a supplemental operating measure because, in excluding certain items that do not reflect core revenue or expense streams, it provides a performance measure that, when compared year over year, captures trends in our core business operating performance. We calculate core FFO by adding to or subtracting from FFO (i) termination fees and other non-core revenues, (ii) transaction and integration expenses, (iii) gain from early extinguishment of debt, (iv) issuance costs associated with redeemed preferred stock, (v) equity in earnings adjustment for non-core items, (vi) severance, equity acceleration, and legal expenses, (vii) bridge facility fees and (viii) other non-core expense adjustments. Because certain of these adjustments have a real economic impact on our financial condition and results from operations, the utility of core FFO as a measure of our performance is limited. Other REITs may calculate core FFO differently than we do and accordingly, our core FFO may not be comparable to other REITs' core FFO. Core FFO should be considered only as a supplement to net income computed in accordance with GAAP as a measure of our performance.

Adjusted Funds from Operations (AFFO) :

We present adjusted funds from operations, or AFFO, as a supplemental operating measure because, when compared year over year, it assesses our ability to fund dividend and distribution requirements from our operating activities. We also believe that, as a widely recognized measure of the operations of REITs, AFFO will be used by investors as a basis to assess our ability to fund dividend payments in comparison to other REITs, including on a per share and unit basis. We calculate AFFO by adding to or subtracting from core FFO (i) non-real estate depreciation, (ii) amortization of deferred financing costs, (iii) amortization of debt discount/premium, (iv) non-cash stock-based compensation expense, (v) straight-line rental revenue, (vi) straight-line rental expense, (vii) above- and below-market rent amortization, (viii) deferred non-cash tax expense, (ix) capitalized leasing compensation, (x) recurring capital expenditures and (xi) capitalized internal leasing commissions. Other REITs may calculate AFFO differently than we do and accordingly, our AFFO may not be comparable to other REITs' AFFO. AFFO should be considered only as a supplement to net income computed in accordance with GAAP as a measure of our performance.

EBITDA and Adjusted EBITDA :

We believe that earnings before interest, loss from early extinguishment of debt, income taxes, depreciation and amortization, and impairment of investments in real estate, or EBITDA, and Adjusted EBITDA (as defined below), are useful supplemental performance measures because they allow investors to view our performance without the impact of non-cash depreciation and amortization or the cost of debt and, with respect to Adjusted EBITDA, severance, equity acceleration, and legal expenses, transaction and integration expenses, (gain) loss on real estate transactions, equity in earnings adjustment for non-core items, other non-core adjustments, net, noncontrolling interests, preferred stock dividends, including undeclared dividends, and issuance costs associated with redeemed preferred stock. Adjusted EBITDA is EBITDA excluding severance, equity acceleration, and legal expenses, transaction and integration expenses, (gain) on real estate transactions, other non-core adjustments, net, non-controlling interests, and preferred stock dividends, including undeclared dividends. In addition, we believe EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors and other interested parties in the evaluation of REITs.

Because EBITDA and Adjusted EBITDA are calculated before recurring cash charges including interest expense and income taxes, exclude capitalized costs, such as leasing commissions, and are not adjusted for capital expenditures or other recurring cash requirements of our business, their utility as a measure of our performance is limited. Other REITs may calculate EBITDA and Adjusted EBITDA differently than we do and accordingly, our EBITDA and Adjusted EBITDA may not be comparable to other REITs' EBITDA and Adjusted EBITDA. Accordingly, EBITDA and Adjusted EBITDA should be considered only as supplements to net income computed in accordance with GAAP as a measure of our financial performance.

Net Operating Income (NOI) and Cash NOI :

Net operating income, or NOI, represents rental revenue, tenant reimbursement revenue and interconnection revenue less utilities expense, rental property operating expenses, property taxes and insurance expenses (as reflected in the statement of operations). NOI is commonly used by stockholders, company management and industry analysts as a measurement of operating performance of the company's rental portfolio. Cash NOI is NOI less straight-line rents and above- and below-market rent amortization. Cash NOI is commonly used by stockholders, company management and industry analysts as a measure of property operating performance on a cash basis. However, because NOI and cash NOI exclude depreciation and amortization and capture neither the changes in the value of our data centers that result from use or market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our data centers, all of which have real economic effect and could materially impact our results from operations, the utility of NOI and cash NOI as measures of our performance is limited. Other REITs may calculate NOI and cash NOI differently than we do and, accordingly, our NOI and cash NOI may not be comparable to other REITs' NOI and cash NOI. NOI and cash NOI should be considered only as supplements to net income computed in accordance with GAAP as measures of our performance.

Additional Definitions

Net debt-to-Adjusted EBITDA ratio is calculated using total debt at balance sheet carrying value, plus capital lease obligations, plus our share of JV debt, less unrestricted cash and cash equivalents divided by the product of Adjusted EBITDA (inclusive of our share of JV EBITDA) multiplied by four.

Debt-plus-preferred-to-total enterprise value is mortgage debt and other loans plus preferred stock divided by mortgage debt and other loans plus the liquidation value of preferred stock and the market value of outstanding Digital Realty Trust, Inc. common stock and Digital Realty Trust, L.P. units, assuming the redemption of Digital Realty Trust, L.P. units for shares of Digital Realty Trust, Inc. common stock.

Fixed charge coverage ratio is Adjusted EBITDA divided by the sum of GAAP interest expense, capitalized interest, scheduled debt principal payments and preferred dividends. For the quarter ended September 30, 2018, GAAP interest expense was \$81 million, capitalized interest was \$10 million and scheduled debt principal payments and preferred dividends was \$20 million.

	Three Months Ended			Nine Months Ended	
	30-Sep-18	30-Jun-18	30-Sep-17	30-Sep-18	30-Sep-17
Reconciliation of Net Operating Income (NOI) (in thousands)					
Operating income	\$139,065	\$144,062	\$66,157	\$426,940	\$334,097
Fee income	(1,469)	(2,343)	(1,662)	(4,945)	(4,986)
Other income	(518)	(527)	(208)	(1,903)	(584)
Depreciation and amortization	293,957	298,788	199,914	887,534	554,491
General and administrative	40,997	44,277	41,477	121,563	112,399
Severance, equity acceleration, and legal expenses	645	1,822	2,288	2,701	3,522
Transaction expenses	9,626	5,606	42,809	19,410	60,367
Impairment in investments in real estate	—	—	28,992	—	28,992
Other expenses	1,139	152	3,051	1,722	3,075
Net Operating Income	\$483,442	\$491,837	\$382,818	\$1,453,022	\$1,091,373

Cash Net Operating Income (Cash NOI)

Net Operating Income	\$483,442	\$491,837	\$382,818	\$1,453,022	\$1,091,373
Straight-line rental revenue	(10,511)	(8,489)	(1,692)	(29,266)	(7,859)
Straight-line rental expense	2,479	2,691	4,128	7,770	12,701
Above- and below-market rent amortization	6,552	6,794	(873)	20,012	(4,792)
Cash Net Operating Income	\$481,962	\$492,833	\$384,381	\$1,451,538	\$1,091,423

Forward-Looking Statements

This document contains forward-looking statements within the meaning of the federal securities laws, which are based on current expectations, forecasts and assumptions that involve risks and uncertainties that could cause actual outcomes and results to differ materially. Such forward-looking statements include statements relating to: the Ascenty acquisition and related financings, the proposed joint venture with Brookfield, expected physical settlement of the forward sale agreements and use of proceeds from any such settlement, our expected investment and expansion activity, supply and demand for data center and colocation space, our acquisition and disposition activity, pricing and net effective leasing economics, market dynamics and data center fundamentals, our strategic priorities, rent from leases that have been signed but have not yet commenced and other contracted rent to be received in future periods, rental rates on future leases, lag between signing and commencement, cap rates and yields, investment activity, the company's FFO, core FFO and net income 2018 outlook and underlying assumptions, information related to trends, our strategy and plans, leasing expectations, weighted average lease terms, the exercise of lease extensions, lease expirations, debt maturities, annualized rent at expiration of leases, the effect new leases and increases in rental rates will have on our rental revenue, our credit ratings, construction and development activity and plans, projected construction costs, estimated yields on investment, expected occupancy, expected square footage and IT load capacity upon completion of development projects, 2018 backlog NOI, NAV components, and other forward-looking financial data. Such statements are based on management's beliefs and assumptions made based on information currently available to management. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance and may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- reduced demand for data centers or decreases in information technology spending;
- decreased rental rates, increased operating costs or increased vacancy rates;
- increased competition or available supply of data center space;
- the suitability of our data centers and data center infrastructure, delays or disruptions in connectivity or availability of power, or failures or breaches of our physical and information security infrastructure or services;
- our dependence upon significant customers, bankruptcy or insolvency of a major customer or a significant number of smaller customers, or defaults on or non-renewal of leases by customers;
- breaches of our obligations or restrictions under our contracts with our customers;
- our inability to successfully develop and lease new properties and development space, and delays or unexpected costs in development of properties;
- the impact of current global and local economic, credit and market conditions;
- our inability to retain data center space that we lease or sublease from third parties;
- difficulty acquiring or operating properties in foreign jurisdictions;
- our failure to realize the intended benefits from, or disruptions to our plans and operations or unknown or contingent liabilities related to, our recent acquisitions;
- our failure to successfully integrate and operate acquired or developed properties or businesses, including Ascenty;
- difficulties in identifying properties to acquire and completing acquisitions;
- risks related to joint venture investments (including the proposed joint venture with Brookfield), including as a result of our lack of control of such investments;
- risks associated with using debt to fund our business activities, including re-financing and interest rate risks, our failure to repay debt when due, adverse changes in our credit ratings or our breach of covenants or other terms contained in our loan facilities and agreements;
- our failure to obtain necessary debt and equity financing, and our dependence on external sources of capital;

- financial market fluctuations and changes in foreign currency exchange rates;
- adverse economic or real estate developments in our industry or the industry sectors that we sell to, including risks relating to decreasing real estate valuations and impairment charges and goodwill and other intangible asset impairment charges;
- our inability to manage our growth effectively;
- losses in excess of our insurance coverage;
- environmental liabilities and risks related to natural disasters;
- our inability to comply with rules and regulations applicable to our company;
- Digital Realty Trust, Inc.'s failure to maintain its status as a REIT for federal income tax purposes;
- Digital Realty Trust, L.P.'s failure to qualify as a partnership for federal income tax purposes;
- restrictions on our ability to engage in certain business activities; and
- changes in local, state, federal and international laws and regulations, including related to taxation, real estate and zoning laws, and increases in real property tax rates.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance. We discussed a number of additional material risks in our annual report on Form 10-K for the year ended December 31, 2017, our current report on Form 8-K filed on September 24, 2018 and other filings with the Securities and Exchange Commission. Those risks continue to be relevant to our performance and financial condition. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise. Digital Realty, Digital Realty Trust, the Digital Realty logo, Turn-Key Flex and Powered Base Building are registered trademarks and service marks of Digital Realty Trust, Inc. in the United States and/or other countries.

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