

Digital Realty Reports Second Quarter 2019 Results

July 30, 2019

SAN FRANCISCO, July 30, 2019 /PRNewswire/ -- **Digital Realty** (NYSE: DLR), a leading global provider of data center, colocation and interconnection solutions, announced today financial results for the second quarter of 2019. All per-share results are presented on a fully-diluted share and unit basis.

Highlights

- Reported net income available to common stockholders of \$0.15 per share in 2Q19, compared to \$0.32 in 2Q18
- Reported FFO per share of \$1.53 in 2Q19, compared to \$1.64 in 2Q18
- Reported core FFO per share of \$1.64 in 2Q19, compared to \$1.66 in 2Q18
- Signed total bookings during 2Q19 expected to generate \$62 million of annualized GAAP rental revenue, including a \$9 million contribution from interconnection
- Reiterated 2019 core FFO per share outlook of \$6.60 - \$6.70

Financial Results

Digital Realty reported revenues for the second quarter of 2019 of \$801 million, a 2% decrease from the previous quarter and a 6% increase from the same quarter last year.

The company delivered second quarter of 2019 net income of \$61 million, and net income available to common stockholders of \$32 million, or \$0.15 per diluted share, compared to \$0.46 per diluted share in the previous quarter and \$0.32 per diluted share in the same quarter last year.

Digital Realty generated second quarter of 2019 adjusted EBITDA of \$468 million, a 3% decrease from the previous quarter and a 1% increase over the same quarter last year (reflecting the January 1, 2019 adoption of FASB Accounting Standard Codification Topic 842, Leases).

The company reported second quarter of 2019 funds from operations of \$334 million, or \$1.53 per share, compared to \$1.92 per share in the previous quarter and \$1.64 per share in the same quarter last year.

Excluding certain items that do not represent core expenses or revenue streams, Digital Realty delivered second quarter of 2019 core FFO per share of \$1.64, a 5% decrease from \$1.73 per share in the previous quarter, and a 1% decrease from \$1.66 per share in the same quarter last year.

Leasing Activity

"In the second quarter, we signed total bookings expected to generate \$62 million of annualized GAAP rental revenue, including a \$9 million contribution from interconnection," said Chief Executive Officer A. William Stein. "This positive momentum is a direct reflection of the durability of our diversified global platform and customer base, with strong demand across regions and verticals. Looking ahead, we remain confident in the resiliency of our business, and we will continue to prudently invest in the expansion of our global platform to support our customers' growth."

The weighted-average lag between leases signed during the second quarter of 2019 and the contractual commencement date was eight months.

In addition to new leases signed, Digital Realty also signed renewal leases representing \$125 million of annualized GAAP rental revenue during the quarter. Rental rates on renewal leases signed during the second quarter of 2019 rolled down 5.8% on a cash basis and down 3.7% on a GAAP basis.

New leases signed during the second quarter of 2019 are summarized by region and product type as follows:

	Annualized GAAP				
	Base Rent (in thousands)	Square Feet	GAAP Base Rent per Square Foot	Megawatts	GAAP Base Rent per Kilowatt
The Americas					
Turn-Key Flex	\$16,133	86,943	\$186	9.7	\$139
Powered Base Building	4,036	116,998	34	—	—

Colocation	6,540	23,365	280	1.9	289
Non-Technical	257	12,239	21	—	—
Total	\$26,966	239,545	\$113	11.6	\$163
Europe (1)					
Turn-Key Flex	\$19,987	187,907	\$106	16.8	\$99
Colocation	1,142	2,256	506	0.2	387
Non-Technical	146	4,497	33	—	—
Total	\$21,275	194,660	\$109	17.0	\$103
Asia Pacific (1)					
Turn-Key Flex	\$4,351	18,686	\$233	2.1	\$172
Colocation	164	60	2,737	—	547
Non-Technical	73	1,249	58	—	—
Total	\$4,588	19,995	\$229	2.1	\$177
Interconnection	\$8,937	N/A	N/A	N/A	N/A
Grand Total	\$61,766	454,200	\$116	30.7	\$131

Note: Totals may not foot due to rounding differences.

(1)Based on quarterly average exchange rates during the three months ended June 30, 2019.

Investment Activity

During the second quarter of 2019, Digital Realty closed on the acquisition of 22.5 acres of land in the Tokyo, Paris and Northern Virginia metro areas for approximately \$49 million. Commencement of development on these parcels will be subject to market demand, and delivery will be phased to meet future customer growth requirements.

Balance Sheet

Digital Realty had approximately \$10.8 billion of total debt outstanding as of June 30, 2019, comprised of \$10.7 billion of unsecured debt and approximately \$0.1 billion of secured debt. At the end of the second quarter of 2019, net debt-to-adjusted EBITDA was 6.1x, debt-plus-preferred-to-total enterprise value was 31.8% and fixed charge coverage was 4.2x. Pro forma for settlement of the \$1.1 billion forward equity offering, net debt-to-adjusted EBITDA was 5.5x and fixed charge coverage was 4.4x.

Early in the second quarter of 2019, Digital Realty also completed the previously announced redemption of all 14.6 million shares of its 7.375% Series H Cumulative Redeemable Preferred Stock.

During the second quarter of 2019, Digital Realty closed a \$900 million bond offering of 10-year senior unsecured notes at 3.600% and concurrently commenced an any-and-all cash tender offer for its outstanding 3.400% Notes due 2020 and 5.25% Notes due 2021. Approximately 81% of the Notes were validly tendered and purchased through the tender offer during the second quarter. Subsequent to quarter-end, Digital Realty settled the redemption of the remaining balance, in accordance with the terms of the indentures governing the Notes.

2019 Outlook

Digital Realty reiterated its 2019 core FFO per share outlook of \$6.60 - \$6.70. The assumptions underlying this guidance are summarized in the following table.

Top-Line and Cost Structure	As of January 8, 2019	As of February 5, 2019	As of April 25, 2019	As of July 30, 2019
Total revenue	\$3.2 - \$3.3 billion	\$3.2 - \$3.3 billion	\$3.2 - \$3.3 billion	\$3.2 - \$3.3 billion
Net non-cash rent adjustments (1)	(\$5 - \$15 million)	(\$5 - \$15 million)	(\$5 - \$15 million)	(\$5 - \$15 million)
Adjusted EBITDA margin	57.0% - 59.0%	57.0% - 59.0%	57.0% - 59.0%	57.0% - 59.0%
G&A margin	6.0% - 7.0%	6.0% - 7.0%	6.0% - 7.0%	6.0% - 7.0%

Internal Growth

Rental rates on renewal leases				
Cash basis	Down high-single-digits	Down high-single-digits	Down high-single-digits	Down mid-single-digits
GAAP basis	Slightly positive	Slightly positive	Slightly positive	Slightly positive
Year-end portfolio occupancy	+/- 50 bps	+/- 50 bps	+/- 50 bps	+/- 50 bps
"Same-capital" cash NOI growth (2)	+/- 2.0%	+/- 2.0%	-2.0% to -4.0%	-2.0% to -4.0%
Foreign Exchange Rates				
U.S. Dollar / Pound Sterling	\$1.20 - \$1.30	\$1.20 - \$1.30	\$1.20 - \$1.30	\$1.20 - \$1.30
U.S. Dollar / Euro	\$1.10 - \$1.20	\$1.10 - \$1.20	\$1.10 - \$1.20	\$1.10 - \$1.20

External Growth

Development				
CapEx	\$1.2 - \$1.4 billion	\$1.2 - \$1.4 billion	\$1.2 - \$1.4 billion	\$1.2 - \$1.4 billion
Average stabilized yields	9.0% - 12.0%	9.0% - 12.0%	9.0% - 12.0%	9.0% - 12.0%
Enhancements and other non-recurring				
CapEx (3)	\$30 - \$40 million	\$30 - \$40 million	\$30 - \$40 million	\$30 - \$40 million
Recurring CapEx + capitalized leasing costs (4)	\$145 - \$155 million	\$145 - \$155 million	\$145 - \$155 million	\$160 - \$170 million

Balance Sheet

Long-term debt issuance				
Dollar amount	\$0.5 - \$1.0 billion	\$1.0 - \$1.5 billion	\$1.5 - \$2.0 billion	\$2.3 billion
Pricing	3.50% - 5.00%	2.50% - 5.00%	2.75% - 3.75%	3.03%
Timing	Early-to-mid 2019	Early-to-mid 2019	Early-to-mid 2019	Early-to-mid 2019

Net income per diluted share	\$1.40 - \$1.45	\$1.40 - \$1.45	\$1.65 - \$1.70	\$1.50 - \$1.55
Real estate depreciation and (gain) / loss on sale	\$5.15 - \$5.15	\$5.15 - \$5.15	\$5.00 - \$5.10	\$5.10 - \$5.10
Funds From Operations / share (NAREIT-Defined)	\$6.55 - \$6.60	\$6.55 - \$6.60	\$6.65 - \$6.80	\$6.60 - \$6.65
Non-core expenses and revenue streams	\$0.05 - \$0.10	\$0.05 - \$0.10	(\$0.05 - \$0.10)	\$0.00 - \$0.05
Core Funds From Operations / share	\$6.60 - \$6.70	\$6.60 - \$6.70	\$6.60 - \$6.70	\$6.60 - \$6.70
Foreign currency translation adjustments	\$0.05 - \$0.15	\$0.05 - \$0.15	\$0.05 - \$0.15	\$0.05 - \$0.15
Constant-Currency Core FFO / share	\$6.65 - \$6.85	\$6.65 - \$6.85	\$6.65 - \$6.85	\$6.65 - \$6.85

(1) Net non-cash rent adjustments represent the sum of straight-line rental revenue and 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 properties owned as of December 31, 2017 with less than 5% of total rentable square feet under development. It also excludes properties that were undergoing, or were expected to undergo, development activities in 2018-2019, properties classified as held for sale, and properties 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 properties, 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.

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 July 30, 2019, 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 second quarter 2019 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# 7733535 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 August 30, 2019. 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# 10132534. 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 2,000 firms across its secure, network-rich portfolio of data centers located throughout North America, Europe, Latin America, 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					Six Months Ended	
	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	30-Jun-19	30-Jun-18
Rental revenues	\$565,925	\$585,425	\$555,816	\$541,073	\$534,556	\$1,151,349	\$1,065,481
Tenant reimbursements - Utilities	106,409	102,569	102,641	105,822	100,084	208,978	198,660
Tenant reimbursements - Other	62,820	55,868	53,090	57,282	55,639	118,688	107,142
Interconnection & other	64,232	68,168	63,803	62,760	61,770	132,400	123,143

Fee income	925	1,921	2,896	1,469	2,343	2,845	3,476
Other	486	564	21	518	527	1,051	1,385
Total Operating Revenues	\$800,797	\$814,515	\$778,267	\$768,924	\$754,919	\$1,615,311	\$1,499,287
Utilities	\$123,398	\$124,334	\$122,108	\$127,239	\$115,470	\$247,732	\$227,700
Rental property operating	128,634	130,620	133,024	118,732	114,852	259,254	228,262
Property taxes	41,482	37,315	32,098	34,871	27,284	78,797	62,547
Insurance	3,441	2,991	2,412	2,653	2,606	6,432	6,337
Depreciation & amortization	290,562	311,486	299,362	293,957	298,788	602,048	593,577
General & administration	52,318	51,976	38,801	40,997	44,277	104,294	80,566
Severance, equity acceleration, and legal expenses	665	1,483	602	645	1,822	2,148	2,056
Transaction and integration expenses	4,210	2,494	25,917	9,626	5,606	6,704	9,784
Impairment of investments in real estate	—	5,351	—	—	—	5,351	—
Other expenses	7,115	4,922	1,096	1,139	152	12,037	583
Total Operating Expenses	\$651,825	\$672,972	\$655,420	\$629,859	\$610,857	\$1,324,797	\$1,211,412
Operating Income	\$148,972	\$141,543	\$122,847	\$139,065	\$144,062	\$290,514	\$287,875
Equity in earnings of unconsolidated joint ventures	\$6,962	\$9,217	\$9,245	\$8,886	\$7,438	\$16,180	\$14,848
Gain on sale / deconsolidation	—	67,497	7	26,577	14,192	67,497	53,465
Interest and other income	16,980	21,444	1,106	(981)	3,398	38,424	3,356
Interest (expense)	(86,051)	(101,552)	(84,883)	(80,851)	(78,810)	(187,603)	(155,795)
Tax benefit (expense)	(4,634)	(4,266)	5,843	(2,432)	(2,121)	(8,900)	(5,495)
Loss from early extinguishment of debt	(20,905)	(12,886)	(1,568)	—	—	(33,791)	—
Net Income	\$61,324	\$120,997	\$52,597	\$90,264	\$88,159	\$182,321	\$198,254
Net income attributable to noncontrolling interests	(1,156)	(4,185)	(1,038)	(2,667)	(2,696)	(5,341)	(6,164)
Net Income Attributable to Digital Realty Trust, Inc.	\$60,168	\$116,812	\$51,559	\$87,597	\$85,463	\$176,980	\$192,090
Preferred stock dividends, including undeclared dividends	(16,670)	(20,943)	(20,329)	(20,329)	(20,329)	(37,613)	(40,658)
Issuance costs associated with redeemed preferred stock	(11,760)	—	—	—	—	(11,760)	—
Net Income Available to Common Stockholders	\$31,738	\$95,869	\$31,230	\$67,268	\$65,134	\$127,607	\$151,432

Reconciliation of FFO to Core FFO	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	30-Jun-19	30-Jun-18
Funds From Operations - diluted	\$333,676	\$417,235	\$331,862	\$337,923	\$353,114	\$750,911	\$698,781
Adjustments:							
Termination fees and other non-core revenues (3)	(16,826)	(14,445)	(21)	(518)	(3,663)	(31,271)	(4,521)
Transaction and integration expenses	4,210	2,494	25,917	9,626	5,606	6,704	9,784
Loss from early extinguishment of debt	20,905	12,886	1,568	—	—	33,791	—
Issuance costs associated with redeemed preferred stock	11,760	—	—	—	—	11,760	—
Severance, equity acceleration, and legal expenses (4)	665	1,483	602	645	1,822	2,148	2,056
(Gain) / Loss on FX revaluation	(4,251)	9,604	—	—	—	5,353	—
(Gain) on contribution to unconsolidated joint venture, net of related tax	—	(58,497)	—	—	—	(58,497)	—
Other non-core expense adjustments	7,115	4,922	1,471	2,269	152	12,037	583
Core Funds From Operations - diluted	\$357,254	\$375,682	\$361,399	\$349,945	\$357,031	\$732,936	\$706,683
Weighted-average shares and units outstanding - diluted (2)	218,497	217,756	215,417	214,937	214,895	218,040	214,774
Core Funds From Operations per share - diluted (2)	\$1.64	\$1.73	\$1.68	\$1.63	\$1.66	\$3.36	\$3.29

(1) Real Estate Related Depreciation & Amortization:	Three Months Ended					Six Months Ended	
	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	30-Jun-19	30-Jun-18
	Depreciation & amortization per income statement	\$290,562	\$311,486	\$299,362	\$293,957	\$298,788	\$602,048
Non-real estate depreciation	(3,647)	(3,622)	(3,638)	(3,200)	(3,038)	(7,269)	(6,141)
Real Estate Related Depreciation & Amortization	\$286,915	\$307,864	\$295,724	\$290,757	\$295,750	\$594,779	\$587,436

(2) For all periods presented, we have excluded the effect of dilutive series C, series G, series H, series I, series J, and series K 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 G, series H, series I, series J, and series K 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.

Adjusted Funds From Operations (AFFO)

Weighted Average Common Stock and Units Outstanding	217,346	217,039	214,649	214,289	214,288	217,194	214,149
Add: Effect of dilutive securities	1,151	717	768	648	607	846	625
Weighted Avg. Common Stock and Units Outstanding - diluted	218,497	217,756	215,417	214,937	214,895	218,040	214,774

(1)The company adopted ASC 842 in the first quarter of 2019.

(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 G, series H, series I, series J, and series K 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 G, series H, series I, series J, and series K 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

Assets	30-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18
Investments in real estate:					
Real estate	\$17,324,416	\$16,988,322	\$17,055,017	\$16,062,402	\$15,969,938
Construction in progress	1,685,056	1,584,327	1,621,927	1,464,010	1,323,998
Land held for future development	152,368	163,081	162,941	284,962	261,368
Investments in real estate	\$19,161,840	\$18,735,730	\$18,839,885	\$17,811,374	\$17,555,304
Accumulated depreciation and amortization	(4,312,357)	(4,124,002)	(3,935,267)	(3,755,596)	(3,588,124)
Net Investments in Properties	\$14,849,483	\$14,611,728	\$14,904,618	\$14,055,778	\$13,967,180
Investment in unconsolidated joint ventures	979,350	930,326	175,108	169,919	167,306
Net Investments in Real Estate	\$15,828,833	\$15,542,054	\$15,079,726	\$14,225,697	\$14,134,486
Cash and cash equivalents	\$33,536	\$123,879	\$126,700	\$46,242	\$17,589
Accounts and other receivables (1)	320,938	328,009	299,621	308,709	282,287
Deferred rent	491,486	479,640	463,248	454,412	445,766
Acquired in-place lease value, deferred leasing costs and other real estate intangibles, net	2,499,564	2,580,624	3,144,395	2,734,158	2,823,275
Acquired above-market leases, net	94,474	106,044	119,759	135,127	150,084
Goodwill	3,353,538	3,358,463	4,348,007	3,373,342	3,378,325
Operating lease right-of-use assets (2)	648,952	660,586	—	—	—
Other assets	158,770	162,768	185,239	184,423	179,611

Total Assets	\$23,430,091	\$23,342,067	\$23,766,695	\$21,462,110	\$21,411,423
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Liabilities and Equity

Global unsecured revolving credit facility	\$1,417,675	\$842,975	\$1,647,735	\$590,289	\$466,971
Unsecured term loans	807,922	807,726	1,178,904	1,352,969	1,376,784
Unsecured senior notes, net of discount	8,511,656	8,523,462	7,589,126	7,130,541	7,156,084
Secured debt, net of premiums	105,325	105,493	685,714	106,072	106,245
Operating lease liabilities (2)	714,256	725,470	—	—	—
Accounts payable and other accrued liabilities	984,812	922,571	1,164,509	1,059,355	1,031,794
Accrued dividends and distributions	—	—	217,241	—	—
Acquired below-market leases	183,832	192,667	200,113	208,202	216,520
Security deposits and prepaid rent	213,549	221,526	209,311	233,667	207,292
Total Liabilities	\$12,939,027	\$12,341,890	\$12,892,653	\$10,681,095	\$10,561,690

Redeemable non-controlling interests - operating partnership	17,344	17,678	15,832	17,553	52,805
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Equity

Preferred Stock: \$0.01 par value per share, 110,000,000 shares authorized:

Series C Cumulative Redeemable Perpetual Preferred Stock (3)	\$219,250	\$219,250	\$219,250	\$219,250	\$219,250
Series G Cumulative Redeemable Preferred Stock (4)	241,468	241,468	241,468	241,468	241,468
Series H Cumulative Redeemable Preferred Stock (5)	—	353,290	353,290	353,290	353,290
Series I Cumulative Redeemable Preferred Stock (6)	242,012	242,012	242,012	242,012	242,012
Series J Cumulative Redeemable Preferred Stock (7)	193,540	193,540	193,540	193,540	193,540
Series K Cumulative Redeemable Preferred Stock (8)	203,264	203,423	—	—	—
Common Stock: \$0.01 par value per share, 315,000,000 shares authorized (9)	2,067	2,066	2,051	2,049	2,047
Additional paid-in capital	11,511,519	11,492,766	11,355,751	11,333,035	11,310,132
Dividends in excess of earnings	(2,961,307)	(2,767,708)	(2,633,071)	(2,455,189)	(2,314,291)
Accumulated other comprehensive (loss), net	(89,588)	(91,699)	(115,647)	(103,201)	(107,070)
Total Stockholders' Equity	\$9,562,225	\$10,088,408	\$9,858,644	\$10,026,254	\$10,140,378

Noncontrolling Interests

Noncontrolling interest in operating partnership	\$756,050	\$772,931	\$906,510	\$671,269	\$654,261
Noncontrolling interest in consolidated joint ventures	155,445	121,160	93,056	65,939	2,289

Total Noncontrolling Interests	\$911,495	\$894,091	\$999,566	\$737,208	\$656,550
Total Equity	\$10,473,720	\$10,982,499	\$10,858,210	\$10,763,462	\$10,796,928
Total Liabilities and Equity	\$23,430,091	\$23,342,067	\$23,766,695	\$21,462,110	\$21,411,423

- (1) Net of allowance for doubtful accounts of \$16,500 and \$11,554, as of June 30, 2019 and December 31, 2018, respectively.
- (2) Adoption of the new lease accounting standard required that we adjust the consolidated balance sheet to include the recognition of additional right-of-use assets and lease liabilities for operating leases. See our quarterly report on Form 10-Q filed on May 10, 2019 for additional information.
- (3) 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 June 30, 2019 and December 31, 2018, respectively.
- (4) 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 June 30, 2019 and December 31, 2018, respectively.
- (5) Series H Cumulative Redeemable Preferred Stock, 7.375%, \$0 and \$365,000 liquidation preference, respectively (\$25.00 per share), 0 and 14,600,000 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively. Redeemed on April 1, 2019.
- (6) 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 June 30, 2019 and December 31, 2018, respectively.
- (7) 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 June 30, 2019 and December 31, 2018, respectively.
- (8) Series K Cumulative Redeemable Preferred Stock, 5.850%, \$210,000 and \$0 liquidation preference, respectively (\$25.00 per share), 8,400,000 and 0 shares issued and outstanding as of June 30, 2019 and December 31, 2018, respectively.
- (9) Common Stock: 208,324,538 and 206,425,656 shares issued and outstanding as of June 30, 2019 and December 31, 2018, 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-Jun-19	31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18
Net Income Available to Common Stockholders	\$31,738	\$95,869	\$31,230	\$67,268	\$65,134
Interest	86,051	101,552	84,883	80,851	78,810
Loss from early extinguishment of debt	20,905	12,886	1,568	—	—
Tax (benefit) expense	4,634	4,266	(5,843)	2,432	2,121
Depreciation & amortization	290,562	311,486	299,362	293,957	298,788
EBITDA	\$433,890	\$526,059	\$411,200	\$444,508	\$444,853
Unconsolidated JV real estate related depreciation & amortization	13,623	3,851	3,615	3,775	3,722

Severance, equity acceleration, and legal expenses	665	1,483	602	645	1,822
Transaction and integration expenses	4,210	2,494	25,917	9,626	5,606
(Gain) on sale / deconsolidation	—	(67,497)	(7)	(26,577)	(14,192)
Impairment of investments in real estate	—	5,351	—	—	—
Other non-core adjustments, net	(13,476)	(13,806)	1,471	2,269	(2,984)
Non-controlling interests	1,156	4,185	1,038	2,667	2,696
Preferred stock dividends, including undeclared dividends	16,670	20,943	20,329	20,329	20,329
Issuance costs associated with redeemed preferred stock	11,760	—	—	—	—
Adjusted EBITDA	\$468,498	\$483,063	\$464,165	\$457,242	\$461,852

(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, in the Nareit Funds From Operations White Paper - 2018 Restatement. FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from real estate transactions, 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) loss from early extinguishment of debt, (iv) issuance costs associated with redeemed preferred stock, (v) severance, equity acceleration, and legal expenses, (vi) gain/loss on FX revaluation, (vii) gain on contribution to unconsolidated joint venture, net of related tax, 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 tax expense, (ix) leasing compensation and internal lease commissions, and (x) recurring capital expenditures. 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, and depreciation and amortization, 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 unconsolidated joint venture real estate related depreciation & amortization, severance, equity acceleration, and legal expenses, transaction and integration expenses, gain on sale / deconsolidation, impairment of investments in real estate, other non-core adjustments, net, non-controlling interests, preferred stock dividends, including undeclared dividends, and issuance costs associated with redeemed preferred stock. 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 June 30, 2019, GAAP interest expense was \$86 million, capitalized interest was \$9 million and scheduled debt principal payments and preferred dividends was \$17 million.

	Three Months Ended			Six Months Ended	
	30-Jun-19	31-Mar-19	30-Jun-18	30-Jun-19	30-Jun-18
Reconciliation of Net Operating Income (NOI) (in thousands)					
Operating income	\$148,972	\$141,543	\$144,062	\$290,514	\$287,875
Fee income	(925)	(1,921)	(2,343)	(2,845)	(3,476)
Other income	(486)	(564)	(527)	(1,051)	(1,385)
Depreciation and amortization	290,562	311,486	298,788	602,048	593,577

General and administrative	52,318	51,976	44,277	104,294	80,566
Severance, equity acceleration, and legal expenses	665	1,483	1,822	2,148	2,056
Transaction expenses	4,210	2,494	5,606	6,704	9,784
Impairment in investments in real estate	—	5,351	—	5,351	—
Other expenses	7,115	4,922	152	12,037	583
Net Operating Income	\$502,431	\$516,770	\$491,837	\$1,019,200	\$969,580

Cash Net Operating Income (Cash NOI)

Net Operating Income	\$502,431	\$516,770	\$491,837	\$1,019,200	\$969,580
Straight-line rental revenue	(13,033)	(15,979)	(8,489)	(29,013)	(18,755)
Straight-line rental expense	397	1,176	2,692	1,573	5,291
Above- and below-market rent amortization	3,954	6,210	6,794	10,163	13,460
Cash Net Operating Income	\$493,749	\$508,177	\$492,834	\$1,001,923	\$969,576

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: 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, 2019 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, 2019 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;
- the competitive environment in which we operate;
- 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 managing an international business and acquiring or operating properties in foreign jurisdictions and unfamiliar metropolitan areas;
- 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;
- difficulties in identifying properties to acquire and completing acquisitions;
- risks related to joint venture investments, 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;
- our ability to attract and retain qualified personnel and to attract and retain customers; and
- the impact of any financial, accounting, legal or regulatory issues or litigation that may affect us.

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, 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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