
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

November 5, 2018

Date of Report (Date of earliest event reported)

Essential Properties Realty Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation)

001-38530

(Commission File Number)

82-4005693

(IRS Employer Identification No.)

47 Hulfish Street, Suite 210

Princeton, New Jersey

(Address of principal executive offices)

08542

(Zip Code)

Registrant's telephone number, including area code: **(609) 436-0610**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Item 2.02 — Results of Operations and Financial Condition.

On November 5, 2018, Essential Properties Realty Trust, Inc. (the “Company”) issued a press release announcing the Company’s financial results for the three and nine months ended September 30, 2018. The press release is furnished hereto as Exhibit 99.1 and incorporated herein by reference.

Item 7.01— Regulation FD Disclosure.

On November 5, 2018, the Company issued its Supplemental Operating & Financial Data—Third Quarter Ended September 30, 2018. The Supplemental Operating & Financial Data is furnished hereto as Exhibit 99.2 and incorporated herein by reference.

The foregoing information is furnished pursuant to Item 2.02, “Results of Operations and Financial Condition,” and Item 7.01, “Regulation FD Disclosure.” The information in Items 2.02 and 7.01 of this Current Report on Form 8-K and the exhibits furnished therewith shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, and shall not be or be deemed to be incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, regardless of any general incorporation language in such filing.

Item 9.01 — Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	<u>Earnings Press Release dated November 5, 2018 for the quarter ended September 30, 2018</u>
99.2	<u>Supplemental Operating & Financial Data—Third Quarter Ended September 30, 2018</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ESSENTIAL PROPERTIES REALTY TRUST, INC.

Date: November 5, 2018

By: /s/ Hillary P. Hai
Hillary P. Hai
Chief Financial Officer



Essential Properties Announces Third Quarter 2018 Results

- Closed Quarterly Investments of \$133.1 Million at a 7.7% Wtd. Avg. Cash Cap Rate -
- Introduces 2019 AFFO per Share Guidance Range -
- Same-Store Contractual Cash NOI Grew 2.0% in the Third Quarter -

November 5, 2018

PRINCETON, N.J.--(BUSINESS WIRE)--Essential Properties Realty Trust, Inc. (NYSE: EPRT; “Essential Properties” or the “Company”), today announced operating results for the three and nine months ended September 30, 2018.

Third Quarter 2018 Financial and Operating Highlights

- Invested \$133.1 million in 62 properties at a 7.7% weighted average cash cap rate
- Increased total revenues to \$25.7 million
- Net income increased to \$7.7 million, or \$0.12 per share on a fully diluted basis
- Increased Funds from Operations (“FFO”) to \$15.8 million, or \$0.25 per share on a fully diluted basis
- Increased Adjusted Funds from Operations (“AFFO”) to \$15.6 million, or \$0.25 per share on a fully diluted basis

Year-to-Date 2018 Financial and Operating Highlights

- Invested \$411.7 million in 176 properties at a 7.7% weighted average cash cap rate
- Increased total revenue to \$67.6 million
- Net income increased to \$12.3 million
- Increased FFO to \$33.6 million
- Increased AFFO to \$31.5 million

CEO Comments

Commenting on the third quarter results, Essential Properties’ President and Chief Executive Officer, Pete Mavoides, said, “We are thrilled to report our third quarter results, which is our first full quarter as a public company. Our newer vintage portfolio of granular net lease properties is performing at a high level with same-store contractual cash NOI growing 2.0% in the quarter, occupancy increasing 50 bps to 99.8%, and our sector leading weighted average lease term remaining flat at 14.3 years. By leveraging our long-standing tenant and industry relationships, we invested \$133 million into 62 single-tenant properties at 7.7% initial cap rate during the quarter. Looking ahead to next year, we are well positioned from a capital perspective with ~\$74 million of cash on hand at quarter-end and low leverage at 4.7x Net Debt to Annualized Adjusted EBITDA *re* . While we maintain a growing and active investment pipeline, we remain highly selective towards future growth opportunities in today’s environment.”

Financial Results

Total Revenue

Total revenue for the quarter ended September 30, 2018 increased to \$25.7 million, as compared to \$13.6 million for the same quarter in 2017.

Total revenue for the nine months ended September 30, 2018 increased to \$67.6 million, as compared to \$37.0 million for the same period in 2017.

Net Income

Net income for the quarter ended September 30, 2018 increased to \$7.7 million, as compared to \$0.5 million for the same quarter in 2017.

Net income for the nine months ended September 30, 2018 increased to \$12.3 million, as compared to \$3.2 million for the same period in 2017.

Funds from Operations

FFO for the quarter ended September 30, 2018 increased to \$15.8 million, as compared to \$4.6 million for the same quarter in 2017.

FFO for the nine months ended September 30, 2018 increased to \$33.6 million, as compared to \$14.1 million for the same period in 2017.

Adjusted Funds from Operations

AFFO for the quarter ended September 30, 2018 increased to \$15.6 million, as compared to \$4.7 million for the same quarter in 2017.

AFFO for the nine months ended September 30, 2018 increased to \$31.5 million, as compared to \$13.6 million for the same period in 2017.

Dividend Information

As previously announced, Essential Properties declared a cash dividend of \$0.224 per share of common stock on September 5, 2018. The dividend was comprised of \$0.21 per share for the third quarter ended September 30, 2018 and \$0.014 for the six days of the second quarter ended June 30, 2018 following the closing of the Company's initial public offering ("IPO"). The dividend was paid on October 12, 2018 to stockholders of record as of the close of business on September 28, 2018 .

Net Investment Activity

Acquisitions

During the quarter ended September 30, 2018, Essential Properties invested \$133.1 million in 62 properties in 34 separate transactions at a weighted average cash and GAAP cap rate of 7.7% and 8.6%, respectively. These properties are 100% leased with a weighted average lease term of approximately 16.1 years. As a percentage of cash ABR, 76.7% of the Company's acquisitions for the three months ended September 30, 2018 came from sale-leaseback transactions, 58.1% were subject to a master lease and 100% are required to provide the Company with financial reporting.

During the nine months ended September 30, 2018, Essential Properties invested \$411.7 million in 176 properties in 73 separate transactions at a weighted average cash and GAAP cap rate of 7.7% and 8.6%, respectively. These properties are 100% leased with a weighted average lease term of approximately 16.4 years. As a percentage of cash ABR, 83.8% of the Company's acquisitions for the nine months ended September 30, 2018 came from sale-leaseback transactions, 67.3% were subject to a master lease and 98.1% are required to provide the Company with financial reporting.

Dispositions

During the three months ended September 30, 2018, Essential Properties sold 21 properties for \$19.4 million, with a net gain on sales of \$1.5 million. The disposition weighted average cash cap rate on the 16 leased properties sold in the three months ended September 30, 2018 was 6.8%, which excludes the sale of one leasehold property.

During the nine months ended September 30, 2018, Essential Properties sold 37 properties for \$40.9 million, with a net gain on sales of \$5.1 million. Excluding one property sold pursuant to a tenant purchase option and the sale of one leasehold property, the disposition weighted average cash cap rate on the 28 leased properties sold in the nine months ended September 30, 2018 was 6.9%.

Portfolio Update

Portfolio Highlights

As of September 30, 2018, Essential Properties' portfolio consisted of 645 freestanding net lease properties, which included 11 properties that secure mortgage notes receivable, with a weighted average lease term of 14.3 years and a weighted average rent coverage ratio of 2.8x. As of the same date, the portfolio was 99.8% occupied by 153 tenants operating 162 different concepts across 42 states in 15 distinct industries. At third quarter end, 90.6% of the Company's cash ABR was generated from tenants that operate service-oriented or experience-based businesses, and 67.2% of its cash ABR was derived from properties subject to a master lease.

Leasing Activity

During the nine months ended September 30, 2018, Essential Properties renewed nine leases at a 96.2% recovery rate vs. prior cash rents and signed three new leases without vacancy at a 102.2% recovery rate. In total, the Company recovered 99.3% of prior cash rents from leasing efforts during the first three quarters of 2018, which amounted to 1.9% of its cash ABR as of September 30, 2018.

Capital Markets, Leverage and Balance Sheet and Liquidity

Capital Markets Activity

On July 24, 2018, the Company issued 2,772,191 shares of common stock to the underwriters of its IPO, pursuant to the underwriter's option to purchase additional shares in the IPO. The Company received approximately \$35.8 million in net proceeds from the issuance of these shares, after deducting underwriting discounts and other related expenses.

Leverage

As of September 30, 2018, the Company's Net Debt to Annualized Adjusted EBITDA *re* was 4.7x.

Balance Sheet and Liquidity

Essential Properties has a \$300 million unsecured credit facility with no amounts outstanding as of November 2, 2018. The credit facility includes an accordion feature to increase, subject to certain conditions, the maximum availability of the facility by up to \$200 million. In addition, the Company had \$74.1 million of cash and cash equivalents and restricted cash as of September 30, 2018.

2019 Guidance

The Company currently expects 2019 AFFO per share to be within a range of \$1.11 to \$1.15. This AFFO per share guidance equates to anticipated net income, excluding gains or losses on sales of property, of \$0.50 to \$0.54 per share, plus \$0.63 to \$0.64 per share of expected real estate depreciation and amortization, minus \$0.02 to \$0.03 per share related to non-cash items.

Conference Call Information

In conjunction with the release of Essential Properties' operating results, the Company will host a conference call on November 5, 2018 at 1:00 p.m. EST to discuss the results. To access the conference, dial 877-407-0782. A live webcast will also be available in listen-only mode by clicking on the webcast link in the Investor Relations section at www.essentialproperties.com.

A telephone replay of the conference call can also be accessed by calling (877)-481-4010 and entering the access code: 38544. The telephone replay will be available through November 19, 2018.

A replay of the conference call webcast will be available approximately two hours after the conclusion of the live broadcast. The webcast replay will be available for 90 days. No access code is required for this replay.

Supplemental Materials

The Company's Supplemental Operating & Financial Data—Third Quarter Ended September 30, 2018 are available on Essential Properties' website at investors.essentialproperties.com.

About Essential Properties Realty Trust, Inc.

Essential Properties Realty Trust, Inc. is an internally managed real estate company that acquires, owns and manages primarily single-tenant properties that are net leased on a long-term basis to companies operating service-oriented or experience-based businesses. As of September 30, 2018, the Company's portfolio consisted of 645 freestanding net lease properties with a weighted average lease term of 14.3 years and a weighted average rent coverage ratio of 2.8x. As of the same date, the Company's portfolio was 99.8% leased to 153 tenants operating 162 different concepts in 15 distinct industries across 42 states.

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the federal securities laws. When used in this press release, the words "estimate," "anticipate," "expect," "believe," "intend," "may," "will," "should," "seek," "approximately" or "plan," or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters are intended to identify forward-looking statements. You can also identify forward-looking statements by discussions of strategy, plans or intentions of management. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods that may be incorrect or imprecise and the Company may not be able to realize them. The Company does not guarantee that the transactions and events described will happen as described (or that they will happen at all). You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this press release. While forward-looking statements reflect the Company's good faith beliefs, they are not guarantees of future performance. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date of this press release or to reflect the occurrence of unanticipated events, except as required by law. In light of these risks and uncertainties, the forward-looking events discussed in this press release might not occur as described, or at all.

Additional information concerning factors that could cause actual results to differ materially from these forward-looking statements is contained from time to time in the company's Securities and Exchange Commission (the "Commission") filings, including, but not limited to, the Company's Quarterly Reports on Form 10-Q. Copies of each filing may be obtained from the

Company or the Commission. Such forward-looking statements should be regarded solely as reflections of the company's current operating plans and estimates. Actual operating results may differ materially from what is expressed or forecast in this press release.

The results reported in this press release are preliminary and not final. There can be no assurance that these results will not vary from the final results reported in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 that it will file with the Commission.

Non-GAAP Financial Measures and Certain Definitions

FFO and AFFO

In addition to net income computed in accordance with U.S. generally accepted accounting principles ("GAAP"), the Company also discloses funds from operations ("FFO") and adjusted funds from operations ("AFFO"), both of which are non-GAAP financial measures. The Company believes these two non-GAAP financial measures are useful to investors because they are widely accepted industry measures used by analysts and investors to compare the operating performance of REITs.

FFO and AFFO do not include all items of revenue and expense included in net income, nor do they represent cash generated from operating activities and are not necessarily indicative of cash available to fund cash requirements; accordingly, they should not be considered alternatives to net income as a performance measure or cash flows from operations as a liquidity measure and should be considered in addition to, and not in lieu of, GAAP financial measures.

The Company computes FFO in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as GAAP net income or loss adjusted to exclude extraordinary items (as defined by GAAP), net gain or loss from sales of depreciable real estate assets, impairment write-downs associated with depreciable real estate assets and real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO is used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among the Company's peers primarily because it excludes the effect of real estate depreciation and amortization and net gains on sales (which are dependent on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions).

To derive AFFO, the Company modifies the NAREIT computation of FFO to include other adjustments to GAAP net income related to non-cash and certain other revenues and expenses such as straight-line rental revenue, non-cash interest expense, non-cash compensation expense, amortization of market lease-related intangibles, amortization of capitalized lease incentives, capitalized interest expense and transaction costs. Such items may cause short-term fluctuations in net income but have no impact on operating cash flows or long-term operating performance. The Company believes that AFFO is an additional useful supplemental measure for investors to

consider, because it will help them to better assess the Company's operating performance without the distortions created by non-cash and certain other revenues or expenses.

FFO and AFFO may not be comparable to similarly titled measures employed by other companies.

EBITDA and EBITDAre

The Company calculates earnings before interest, income taxes and depreciation and amortization ("EBITDA") as earnings (GAAP net income) before interest, taxes and depreciation and amortization. In 2017, NAREIT issued a white paper recommending that companies that report EBITDA also report EBITDA further adjusted to exclude gains (or losses) on sales of depreciable property and real estate impairment losses ("EBITDA *re*"). The Company computes EBITDA *re* in accordance with the definition adopted by NAREIT. NAREIT defines EBITDA *re* as EBITDA (as defined above) excluding gains (or losses) from the sales of depreciable property and real estate impairment losses. The Company presents EBITDA and EBITDA *re* as they are measures commonly used in its industry, and the Company believes that these measures are useful to investors and analysts because they provide important supplemental information concerning its operating performance exclusive of certain non-cash items and other costs.

EBITDA and EBITDA *re* are not measurements of financial performance under GAAP, and the Company's EBITDA and EBITDA *re* may not be comparable to similarly titled measures of other companies. You should not consider EBITDA and EBITDA *re* as alternatives to net income or cash flows from operating activities determined in accordance with GAAP.

Net Debt

Net debt represents the Company's gross debt (defined as total debt plus deferred financing costs, net) less cash and cash equivalents and restricted cash deposits held for the benefit of lenders. The Company believes excluding cash and cash equivalents and restricted cash deposits held for the benefit of lenders from gross debt, both of which could be used to repay debt, provides an estimate of the net contractual amount of borrowed capital to be repaid, which it believes is a beneficial disclosure to investors and analysts.

NOI and Cash NOI

Net operating income ("NOI") and cash NOI ("Cash NOI") are non-GAAP financial measures used by the Company to evaluate the operating performance of its real estate. NOI is equal to total revenues less property expenses. NOI excludes all other items of expense and income included in the financial statements in calculating net income or loss. Cash NOI further excludes non-cash items included in total revenues and property expenses, such as straight-line rental revenue and amortization of capitalized lease incentives and above- and below-market lease-related intangibles. The Company believes NOI and Cash NOI provide useful and relevant information because they reflect only those income and expense items that are incurred at the property level and present such items on an unlevered basis.

NOI and Cash NOI are not measurements of financial performance under GAAP, and the Company's NOI and Cash NOI may not be comparable to similarly titled measures of other companies. You should not consider the Company's NOI and Cash NOI as alternatives to net income or cash flows from operating activities determined in accordance with GAAP.

Adjusted EBITDAre / Adjusted NOI / Adjusted Cash NOI

The Company reports Adjusted EBITDA *re* , Adjusted NOI and Adjusted Cash NOI as if all acquisition and disposition activity that took place during the relevant quarter had occurred on the first day of the quarter. The Company then annualizes these estimates for the relevant quarter by multiplying them by four, which it believes provides a meaningful estimate of the Company's current run rate for all properties owned as of the end of the relevant quarter. You should not unduly rely on these metrics as they are based on assumptions and estimates that may prove to be inaccurate. The Company's actual reported EBITDA *re* , NOI and Cash NOI for future periods may be significantly less than these estimates of current run rates for a variety of reasons.

Cash ABR

Cash ABR means annualized contractually specified cash base rent in effect as of the end of the relevant quarter for all of the Company's leases (including those accounted for as direct financing leases) commenced as of that date, as well as interest on its mortgage loans receivable.

Cash Cap Rate

Cash Cap Rate means annualized contractually specified cash base rent for the first full month after acquisition or disposition divided by the purchase or sale price, as applicable, for the property.

GAAP Cap Rate

GAAP Cap Rate means annualized rental income computed in accordance with GAAP for the first full month after acquisition divided by the purchase price, as applicable, for the property.

Rent Coverage Ratio

Rent coverage ratio means the ratio of tenant-reported or, when unavailable, management's estimate based on tenant-reported financial information, annual EBITDA and cash rent attributable to the leased property (or properties, in the case of a master lease) to the annualized base rental obligation as of a specified date.

Essential Properties Realty Trust, Inc.
Consolidated Statements of Operations

(unaudited, in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental revenue ¹	\$ 25,496	\$ 13,427	\$ 67,119	\$ 36,105
Interest income on loans and direct financing leases	220	65	379	230
Other revenue	26	88	75	648
Total revenues	25,742	13,580	67,573	36,983
Expenses:				
Interest	6,563	6,317	23,474	15,192
General and administrative	3,529	2,336	9,872	6,612
Property expenses	494	389	1,221	1,077
Depreciation and amortization	8,763	5,154	22,842	13,241
Provision for impairment of real estate	770	857	3,526	1,436
Total expenses	20,119	15,053	60,935	37,558
Other operating income:				
Gain on dispositions of real estate, net	1,455	1,974	5,100	3,736
Income from operations	7,078	501	11,738	3,161
Other income:				
Interest	655	12	719	23
Income before income tax expense (benefit)	7,733	513	12,457	3,184
Income tax expense (benefit)	26	(9)	143	33
Net income	7,707	522	12,314	3,151
Net income attributable to non-controlling interests	(2,383)	—	(2,482)	—
Net income attributable to stockholders and members	\$ 5,324	\$ 522	\$ 9,832	\$ 3,151
Basic weighted-average shares outstanding				
	42,364,754			
Basic net income per share				
	\$ 0.12			
Diluted weighted-average shares outstanding				
	61,472,675			
Diluted net income per share				
	\$ 0.12			
Dividends declared per share				
	\$ 0.22			

1. Includes \$0.2 million, \$0.2 million, \$0.9 million and \$0.9 million of contingent rent (based on a percentage of the tenant's gross sales at the leased property) during the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, respectively.

Essential Properties Realty Trust, Inc.
Consolidated Balance Sheets

(in thousands, except share, per share, unit and per unit amounts)	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Investments:		
Real estate investments, at cost:		
Land and improvements	\$ 392,831	\$ 278,985
Building and improvements	828,944	584,385
Lease incentive	2,544	2,275
Construction in progress	3,932	4,076
Intangible lease assets	64,542	62,453
Total real estate investments, at cost	1,292,793	932,174
Less: accumulated depreciation and amortization	(43,630)	(24,825)
Total real estate investments, net	1,249,163	907,349
Loans and direct financing lease receivables, net	13,049	2,725
Real estate investments held for sale, net	1,407	4,173
Net investments	1,263,619	914,247
Cash and cash equivalents	73,271	7,250
Restricted cash	809	12,180
Straight-line rent receivable, net	11,213	5,498
Prepaid expenses and other assets, net	6,048	3,045
Total assets	\$ 1,354,960	\$ 942,220
LIABILITIES AND EQUITY		
Secured borrowings, net of deferred financing costs	\$ 507,481	\$ 511,646
Notes payable to related party	—	230,000
Intangible lease liabilities, net	11,885	12,321
Intangible lease liabilities held for sale, net	—	129
Dividend payable	14,068	—
Accrued liabilities and other payables	6,634	6,722
Total liabilities	540,068	760,818
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.01 par value; 150,000,000 authorized; none issued and outstanding as of September 30, 2018	—	—
Common stock, \$0.01 par value; 500,000,000 authorized; 43,749,092 issued and outstanding as of September 30, 2018	431	—
Additional paid-in capital	568,369	—
Distributions in excess of cumulative earnings	(4,253)	—
Members' equity:		
Class A units, \$1,000 per unit, 83,700 issued and outstanding as of December 31, 2017	—	86,668
Class B units, 8,550 issued, 1,610 vested and outstanding as of December 31, 2017	—	574
Class C units, \$1,000 per unit, 91,450 issued and outstanding as of December 31, 2017	—	94,064
Class D Units, 3,000 issued, 600 vested and outstanding as of December 31, 2017	—	96
Total stockholders' / members' equity	564,547	181,402
Non-controlling interests	250,345	—
Total equity	814,892	181,402
Total liabilities and equity	\$ 1,354,960	\$ 942,220

Essential Properties Realty Trust, Inc.
Reconciliation of Non-GAAP Financial Measures

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 7,707	\$ 522	\$ 12,314	\$ 3,151
Depreciation and amortization of real estate	8,762	5,153	22,839	13,239
Provision for impairment of real estate	770	857	3,526	1,436
Gain on dispositions of real estate	(1,455)	(1,974)	(5,100)	(3,736)
Funds from Operations	15,784	4,558	33,579	14,090
Adjustments:				
Straight-line rental revenue, net	(2,198)	(1,116)	(5,715)	(3,076)
Non-cash interest expense	817	552	1,982	1,310
Non-cash compensation expense	1,051	182	1,398	581
Amortization of market lease-related intangibles	154	584	284	727
Amortization of capitalized lease incentives	39	34	116	101
Capitalized interest expense	(78)	(74)	(214)	(149)
Transaction costs	32	—	58	—
Adjusted Funds from Operations	<u>\$ 15,601</u>	<u>\$ 4,720</u>	<u>\$ 31,488</u>	<u>\$ 13,584</u>
Net income per share:				
Basic	<u>\$ 0.12</u>			
Diluted	<u>\$ 0.12</u>			
FFO per share:				
Basic	<u>\$ 0.25</u>			
Diluted	<u>\$ 0.25</u>			
AFFO per share:				
Basic	<u>\$ 0.25</u>			
Diluted	<u>\$ 0.25</u>			

Essential Properties Realty Trust, Inc.
Reconciliation of Non-GAAP Financial Measures

(in thousands)	Three Months Ended September 30, 2018
Net income	\$ 7,707
Depreciation and amortization	8,763
Interest expense	6,563
Interest income	(655)
Income tax expense	26
EBITDA	22,404
Provision for impairment of real estate	770
Gain on dispositions of real estate	(1,455)
EBITDA re	21,719
Adjustment for current quarter acquisition and disposition activity ¹	1,650
Adjusted EBITDAre - Current Estimated Run Rate	23,369
General and administrative	3,529
Adjusted net operating income ("NOI")	26,898
Straight-line rental revenue, net ¹	(2,156)
Amortization of market lease-related intangibles	154
Amortization of capitalized lease incentives	39
Adjusted Cash NOI	\$ 24,935
Annualized EBITDA re	\$ 86,876
Annualized Adjusted EBITDA re	\$ 93,476
Annualized Adjusted NOI	\$ 107,592
Annualized Adjusted Cash NOI	\$ 99,740

1. These adjustments are made to reflect EBITDAre, NOI and Cash NOI as if all acquisitions and dispositions of real estate investments made during the three months ended September 30, 2018 had occurred on July 1, 2018.

Essential Properties Realty Trust, Inc.
Reconciliation of Non-GAAP Financial Measures

(in thousands, except share and per share amounts)	September 30, 2018
Secured debt:	
Series 2016-1, Class A	\$ 256,124
Series 2016-1, Class B	17,243
Series 2017-1, Class A	228,024
Series 2016-1, Class B	15,669
Total secured debt	517,060
Unsecured debt:	
Revolving credit facility ¹	—
Total unsecured debt	—
Gross debt	517,060
Less: cash & cash equivalents	(73,271)
Less: restricted cash deposits held for the benefit of lenders	(808)
Net debt	442,981
Equity:	
Preferred stock	—
Common stock & OP units (62,805,644 shares @ \$14.19/share as of 9/30/18) ²	891,212
Total equity	891,212
Total enterprise value ("TEV")	\$ 1,334,193
Net Debt / TEV	33.2%
Net Debt / Annualized EBITDA <i>re</i>	5.1x
Net Debt / Annualized Adjusted EBITDA <i>re</i>	4.7x

1. The Company's revolving credit facility provides a maximum aggregate initial original principal amount of up to \$300 million and includes an accordion feature to increase, subject to certain conditions, the maximum availability of the facility by up to \$200 million.

2. Common equity & units as of September 30, 2018, based on 43,749,092 common shares outstanding (including unvested restricted share awards) and 19,056,552 OP units held by non-controlling interests.

Investor/Media:

Essential Properties Realty Trust, Inc.
Daniel Donlan
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Source: Essential Properties Realty Trust, Inc.

ESSENTIAL PROPERTIES



Supplemental Operating & Financial Data

Third Quarter Ended September 30, 2018

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Financial Summary

Consolidated Statements of Operations

(unaudited, in thousands except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Rental revenue ¹	\$ 25,496	\$ 13,427	\$ 67,119	\$ 36,105
Interest income on loans and direct financing leases	220	65	379	230
Other revenue	26	88	75	648
Total revenues	25,742	13,580	67,573	36,983
Expenses:				
Interest	6,563	6,317	23,474	15,192
General and administrative	3,529	2,336	9,872	6,612
Property expenses	494	389	1,221	1,077
Depreciation and amortization	8,763	5,154	22,842	13,241
Provision for impairment of real estate	770	857	3,526	1,436
Total expenses	20,119	15,053	60,935	37,558
Other operating income:				
Gain on dispositions of real estate, net	1,455	1,974	5,100	3,736
Income from operations	7,078	501	11,738	3,161
Other income:				
Interest	655	12	719	23
Income before income tax expense (benefit)	7,733	513	12,457	3,184
Income tax expense (benefit)	26	(9)	143	33
Net income	7,707	522	12,314	3,151
Net income attributable to non-controlling interests	(2,383)	—	(2,482)	—
Net income attributable to stockholders and members	\$ 5,324	\$ 522	\$ 9,832	\$ 3,151
Basic weighted-average shares outstanding	42,364,754			
Basic net income per share	\$ 0.12			
Diluted weighted-average shares outstanding	61,472,675			
Diluted net income per share	\$ 0.12			
Dividends declared per share	\$ 0.22			

1. Includes \$0.2 million, \$0.5 million, \$0.9 million and \$0.9 million of contingent rent (based on a percentage of the tenant's gross sales at the leased property) during the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, respectively.

Financial Summary

Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO)

(unaudited, in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$ 7,707	\$ 522	\$ 12,314	\$ 3,151
Depreciation and amortization of real estate	8,762	5,153	22,839	13,239
Provision for impairment of real estate	770	857	3,526	1,436
Gain on dispositions of real estate	(1,455)	(1,974)	(5,100)	(3,736)
Funds from Operations	15,784	4,558	33,579	14,090
Adjustments:				
Straight-line rental revenue, net	(2,198)	(1,116)	(5,715)	(3,076)
Non-cash interest expense	817	552	1,982	1,310
Non-cash compensation expense	1,051	182	1,398	581
Amortization of market lease-related intangibles	154	584	284	727
Amortization of capitalized lease incentives	39	34	116	101
Capitalized interest expense	(78)	(74)	(214)	(149)
Transaction costs	32	—	58	—
Adjusted Funds from Operations	\$ 15,601	\$ 4,720	\$ 31,488	\$ 13,564
Net income per share:				
Basic	\$ 0.12			
Diluted	\$ 0.12			
FFO per share:				
Basic	\$ 0.25			
Diluted	\$ 0.25			
AFFO per share:				
Basic	\$ 0.25			
Diluted	\$ 0.25			

Financial Summary

Consolidated Balance Sheets

(in thousands, except share, per share, unit and per unit amounts)	September 30, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS		
Investments:		
Real estate investments, at cost:		
Land and improvements	\$ 392,831	\$ 278,985
Building and improvements	828,944	584,385
Lease incentive	2,544	2,275
Construction in progress	3,932	4,076
Intangible lease assets	64,542	62,453
Total real estate investments, at cost	1,292,793	932,174
Less: accumulated depreciation and amortization	(43,630)	(24,825)
Total real estate investments, net	1,249,163	907,349
Loans and direct financing lease receivables, net	13,049	2,725
Real estate investments held for sale, net	1,407	4,173
Net investments	1,263,619	914,247
Cash and cash equivalents	73,271	7,250
Restricted cash	809	12,180
Straight-line rent receivable, net	11,213	5,498
Prepaid expenses and other assets, net	6,048	3,045
Total assets	\$ 1,354,960	\$ 942,220
LIABILITIES AND EQUITY		
Secured borrowings, net of deferred financing costs	\$ 507,481	\$ 511,646
Notes payable to related party	—	230,000
Intangible lease liabilities, net	11,885	12,321
Intangible lease liabilities held for sale, net	—	129
Dividend payable	14,068	—
Accrued liabilities and other payables	6,634	6,722
Total liabilities	540,068	760,818
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.01 par value; 150,000,000 authorized; none issued and outstanding as of September 30, 2018	—	—
Common stock, \$0.01 par value; 500,000,000 authorized; 43,749,092 issued and outstanding as of September 30, 2018	431	—
Additional paid-in capital	568,369	—
Distributions in excess of cumulative earnings	(4,253)	—
Members' equity:		
Class A units, \$1,000 per unit, 83,700 issued and outstanding as of December 31, 2017	—	86,668
Class B units, 8,550 issued, 1,610 vested and outstanding as of December 31, 2017	—	574
Class C units, \$1,000 per unit, 91,450 issued and outstanding as of December 31, 2017	—	94,064
Class D Units, 3,000 issued, 600 vested and outstanding as of December 31, 2017	—	96
Total stockholders' / members' equity	564,547	181,402
Non-controlling interests	250,345	—
Total equity	814,892	181,402
Total liabilities and equity	\$ 1,354,960	\$ 942,220

Financial Summary

GAAP Reconciliations to EBITDAre, GAAP NOI, Cash NOI and Estimated Run Rate Metrics

	Three Months Ended September 30, 2018
(unaudited, in thousands)	
Net income	\$ 7,707
Depreciation and amortization	8,763
Interest expense	6,563
Interest income	(655)
Income tax expense	26
EBITDA	22,404
Provision for impairment of real estate	770
Gain on dispositions of real estate	(1,455)
EBITDAre	21,719
Adjustment for current quarter acquisition and disposition activity ¹	1,650
Adjusted EBITDAre - Current Estimated Run Rate	23,369
General and administrative	3,529
Adjusted net operating income ("NOI")	26,898
Straight-line rental revenue, net ¹	(2,156)
Amortization of market lease-related intangibles	154
Amortization of capitalized lease incentives	39
Adjusted Cash NOI	\$ 24,935
Annualized EBITDAre	\$ 86,876
Annualized Adjusted EBITDAre	\$ 93,476
Annualized Adjusted NOI	\$ 107,592
Annualized Adjusted Cash NOI	\$ 99,740

1. These adjustments are made to reflect EBITDAre, NOI and Cash NOI as if all acquisitions and dispositions of real estate investments made during the three months ended September 30, 2018 had occurred on July 1, 2018.

Financial Summary

Market Capitalization, Debt Summary and Leverage Metrics

	September 30, 2018	Rate	Maturity ¹
Secured debt:			
Series 2016-1, Class A	\$ 256,124	4.45%	3.2 years
Series 2016-1, Class B	17,243	5.43%	3.2 years
Series 2017-1, Class A	228,024	4.10%	5.8 years
Series 2016-1, Class B	15,669	5.11%	5.8 years
Total secured debt	517,060	4.35%	4.4 years
Unsecured debt:			
Revolving credit facility ²	—	LIBOR plus 1.45% to 2.15%	3.7 years
Total unsecured debt	—		
Gross debt	517,060	4.35%	4.4 years
Less: cash & cash equivalents	(73,271)		
Less: restricted cash deposits held for the benefit of lenders	(808)		
Net debt	442,981		
Equity:			
Preferred stock	—		
Common stock & OP units (62,805,644 shares @ \$14.19/share) ³	891,212		
Total equity	891,212		
Total enterprise value ("TEV")	\$ 1,334,193		
Net Debt / TEV	33.2%		
Net Debt / Annualized EBITDAre	5.1x		
Net Debt / Annualized Adjusted EBITDAre	4.7x		

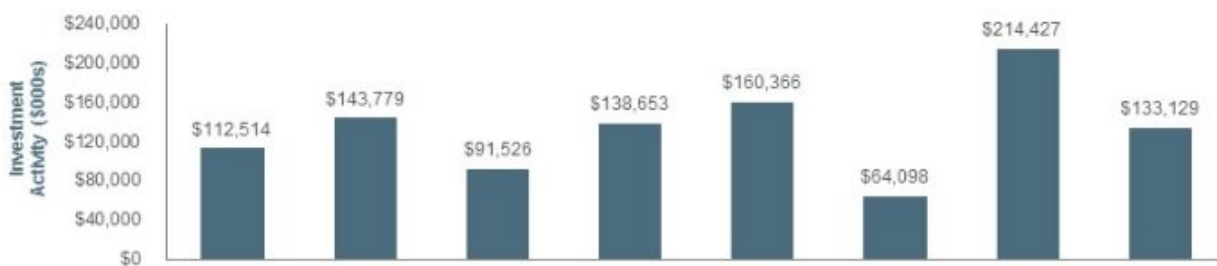
1. Maturity figures for our secured debt are based off of our anticipated repayment schedule. The Series 2016-1 notes mature in November 2046 but have an anticipated repayment date of November 2021. The Series 2017-1 notes mature in June 2047 but have an anticipated repayment date of June 2024. The Series 2016-1 notes can be prepaid without penalty starting on November 26, 2019. The Series 2017-1 notes can be prepaid without penalty starting on November 26, 2021.

2. Our revolving credit facility provides a maximum aggregate initial original principal amount of up to \$300 million and includes an accordion feature to increase, subject to certain conditions, the maximum availability of the facility by up to \$200 million.

3. Common equity & units as of September 30, 2018, based on 43,749,092 common shares outstanding (including unvested restricted share awards) and 19,056,552 OP units held by non-controlling interests, and share price as of the close of trading on September 28, 2018.

Net Investment Activity

Investment Summary



Investments	4Q 2016	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018 ⁵
Number of Transactions	11	12	11	18	21	16	23	34
Property Count	62	35	37	50	90	28	86	62
Avg. Investment per Unit (in 000s)	\$1,815	\$4,108	\$2,474	\$2,728	\$1,742	\$2,195	\$2,493	\$2,032
Cash Cap Rates ¹	7.3%	7.5%	7.6%	7.6%	7.7%	7.8%	7.6%	7.7%
GAAP Cap Rates ²	8.3%	8.7%	8.9%	8.9%	8.7%	8.3%	8.7%	8.6%
Master Lease % ³	47%	83%	71%	73%	65%	33%	85%	58%
Sale-Leaseback % ³	66%	86%	76%	94%	75%	68%	90%	77%
% of Financial Reporting ³	100%	100%	100%	98%	100%	100%	97% ⁴	100%
Rent Coverage Ratio	2.8x	3.1x	4.0x	2.8x	3.1x	2.3x	2.4x	2.7x
Lease Term Years	17.3	17.0	17.3	18.0	15.5	14.1	17.2	16.1

Note: Exclusive of GE Seed Portfolio and nine additional properties that were acquired from GE Capital for \$5.7 million.

1. Annualized contractually specified cash base rent for the first full month after the investment divided by the purchase price for the property.

2. GAAP rent for the first twelve months after the investment divided by the purchase price for the property.

3. As a percentage of cash annualized base rent as of September 30, 2018.

4. The Company purchased four properties with no unit-level reporting per the lease; however, the Company was able to receive financials due to an existing relationship with the tenant.

5. Includes a \$5.7M mortgage loan that automatically converts to a 20 year master lease in 2019.

Net Investment Activity

Disposition Summary



1. Net of transaction costs.

2. Gains/(losses) based on our aggregate allocated purchase price.

3. Excludes one property sold pursuant to an existing tenant purchase option.

4. Annualized contractually specified cash base rent at time of sale divided by gross sale price (excluding transaction costs) for the property.

5. Property count excludes dispositions in which only a portion of the owned parcel is sold.

6. Excludes the sale of one leasehold property.

Portfolio Summary

Portfolio Highlights

As of September 30, 2018

Investment Properties (#) ¹	645
Square Footage (MM)	5.5
Tenants (#)	153
Concepts (#)	162
Industries (#)	15
States (#)	42
Weighted Average Remaining Lease Term (Years) ³	14.3
Triple-Net Leases (% of Cash ABR)	92.4%
Master Leases (% of Cash ABR)	67.2%
Sale-Leaseback (% of Cash ABR) ²	82.2%
Unit-Level Rent Coverage	2.8x
Unit-Level Financial Reporting (% of Cash ABR)	97.6%
Occupancy (%)	99.8%
Top 10 Tenants (% of Cash ABR)	35.0%
Average Investment Per Property (\$MM)	\$2.0
Average Transaction Size (\$MM) ²	\$7.5
Total Cash ABR (\$MM)	\$99.8



1. Includes one land parcel and 11 properties that secured mortgage note receivables.

2. Exclusive of GE Seed Portfolio.

3. Includes a \$5.7M mortgage loan that automatically converts to a 20 year master lease in 2019.

Portfolio Summary

Tenant and Industry Diversification

Top 10 Tenant Exposure

Top 10 Tenants	Properties	% of Cash ABR ¹
	77	5.3%
	5	4.4%
	13	4.2%
	15	3.8%
	5	3.6%
	13	3.1%
	26	2.9%
	3	2.7%
	19	2.6%
	13	2.4%
Top 10 Tenants	189	35.0%
Total	645	100.0%

Diversification by Industry

Tenant Industry	Type of Business	Cash ABR ¹ (\$'000s)	% of Cash ABR	# of Properties ²	Building Sqft ('000s)	Rent Per Sqft ³
Quick Service	Service	\$ 15,127	15.2%	194	523,594	\$ 29.28
Car Washes	Service	11,274	11.3%	43	173,666	64.92
Early Childhood Education	Service	10,308	10.3%	44	509,349	20.24
Convenience Stores	Service	9,180	9.2%	76	303,737	30.22
Medical / Dental	Service	9,077	9.1%	75	405,082	22.41
Casual Dining	Service	7,609	7.6%	56	326,846	23.71
Automotive Service	Service	6,588	6.6%	52	368,055	18.17
Family Dining	Service	3,893	3.9%	25	147,198	26.44
Other Services	Service	3,868	3.9%	22	203,268	19.03
Service Subtotal		\$ 76,923	77.1%	587	2,960,794	\$ 26.14
Health and Fitness	Experience	7,987	8.0%	17	731,020	10.93
Movie Theatres	Experience	4,213	4.2%	6	293,206	14.37
Entertainment	Experience	1,273	1.3%	3	93,532	13.61
Experience Subtotal		\$ 13,472	13.5%	26	1,117,758	\$ 12.05
Home Furnishings	Retail	6,457	6.5%	9	466,777	13.83
Grocery	Retail	316	0.3%	2	50,416	6.27
Retail Subtotal		\$ 6,773	6.8%	11	517,193	\$ 13.10
Building Materials	Other	2,643	2.6%	19	896,956	2.95
Total		\$ 99,812	100.0%	643	5,492,701	\$ 18.23

1. Represents annualized contractually specified cash base rent in effect on September 30, 2018 for all of our leases (including those accounted for as direct financing leases) commenced as of that date. Includes rental income from five sites under construction.
2. Excludes one vacant site and one land parcel.
3. Calculation excludes properties with no annualized base rent.

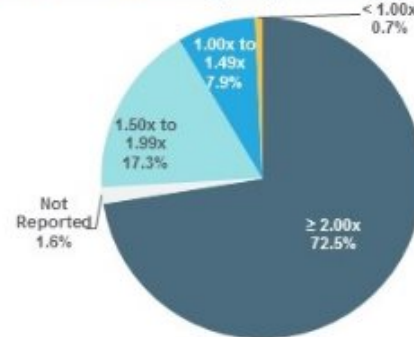
Portfolio Summary

Portfolio Health

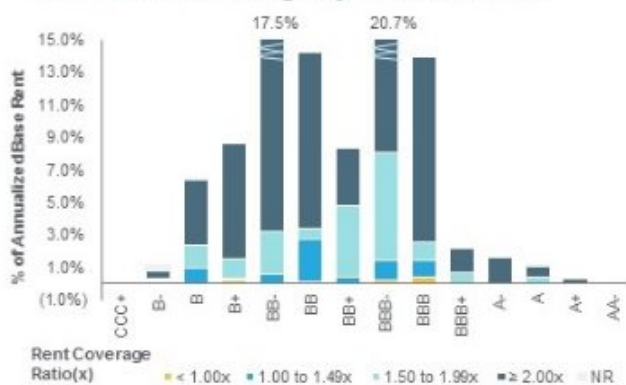
Tenant Financial Reporting

Tenant Financial Reporting Requirements	% of Cash ABR
Unit-Level Financial Information	97.4%
Corporate-Level Financial Reporting	98.8%
Both Unit-Level and Corporate-Level Financial Information	96.8%
No Financial Information	0.7%

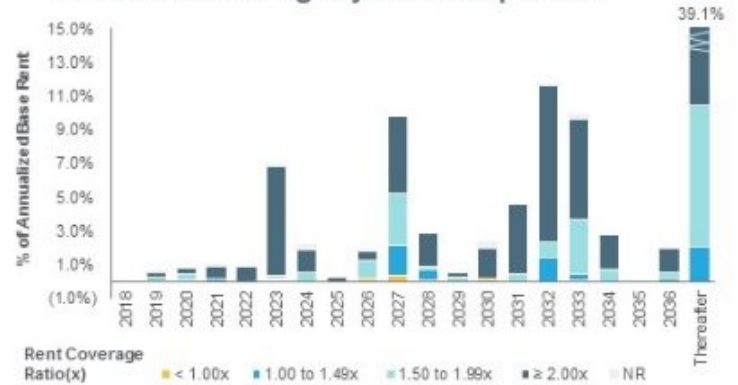
Unit-Level Coverage by Rent Tranche¹



Unit-Level Coverage by Tenant Credit²



Unit-Level Coverage by Lease Expiration



Note: 'NR' means not reported.

1. Certain tenants, whose leases do not require unit-level financial reporting, provide the Company with unit-level financial information. The data shown includes unit-level coverage for these leases.

2. The chart illustrates the portions of annualized base rent as of September 30, 2018 attributable to leases with tenants having specified implied credit ratings based on their Moody's RiskCalc scores. Moody's equates the EDF scores generated using RiskCalc with a corresponding credit rating.

Leasing Summary

Leasing Expiration Schedule, Leasing Activity and Statistics

Annual Lease Expiration by Cash ABR

Year ¹	Cash ABR ²	% of Cash ABR	# of Properties ³	Wgt. Avg. Coverage ⁴
2018	\$ -	0.0%	0	-
2019	599	0.6%	10	2.7x
2020	801	0.8%	9	2.7x
2021	900	0.9%	13	3.4x
2022	901	0.9%	7	3.4x
2023	6,982	7.0%	80	3.3x
2024	2,157	2.2%	18	2.8x
2025	293	0.3%	5	4.2x
2026	1,806	1.8%	10	2.2x
2027	9,775	9.8%	54	2.5x
2028	2,875	2.9%	18	3.0x
2029	495	0.5%	4	5.2x
2030	2,297	2.3%	30	3.9x
2031	4,590	4.6%	24	3.6x
2032	11,697	11.7%	77	2.8x
2033	9,884	9.9%	45	2.3x
2034	2,773	2.8%	22	2.3x
2035	-	0.0%	0	0.0x
2036	2,009	2.0%	20	2.2x
2037	23,266	23.3%	105	3.0x
2038	14,095	14.1%	77	2.2x
2039	1,000	1.0%	11	2.9x
2040	617	0.6%	3	3.1x
Total	\$ 99,812	100.0%	642	2.8x

Leasing Activity – YTD 2018

\$(000)s	Renewed Per Terms of Lease	Re-Leased to New Tenant Without Vacancy	After Vacancy	Total Leasing
Prior Cash ABR	\$ 896	975	-	\$ 1,872
New Cash ABR	862	997	-	1,859
Recovery Rate	96.2%	102.2%	-	99.3%
Number of Leases	9	3	-	12
Average Months Vacant	-	-	-	-
% of Total Cash ABR ⁵	-	-	-	1.9%

Leasing Statistics

Vacant Properties at June 30, 2018	4
Expiration Activity	+ 2
Leasing Activity	- 2
Vacant Property Sales	- 3
Vacant Properties at September 30, 2018	1

1. Expiration year of contracts in place as of September 30, 2018 and excludes any tenant option renewal periods that have not been exercised.

2. Represents annualized contractually specified cash base rent in effect on September 30, 2018 for all of our leases (including those accounted for as direct financing leases) commenced as of that date. Includes rental income from five sites under construction.

3. Excludes one vacant property, one vacant land parcel and one site with an executed lease that has not commenced as of September 30, 2018.

4. Weighted by Cash ABR as of September 30, 2018.

5. New Cash ABR divided by Total Cash ABR as of September 30, 2018.

Leasing Summary

Same-Store Analysis

Defined Terms

Same-Store Portfolio:

All properties owned, excluding new sites under construction, for the entire same-store measurement period, which is June 30, 2017, through September 30, 2018. The same-store portfolio for Q3 2018 was comprised of **338 properties** and represented **45.5%** of our current portfolio as measured by contractual cash rent divided by our cash ABR at September 30, 2018.

Contractual Cash Rent:

The amount of cash rent our tenants are contractually obligated to pay per the in-place lease as of September 30, 2018; excludes percentage rent that is subject to sales breakpoints per the lease.

Same-Store Portfolio Performance

Type of Business	Contractual Cash Rent (\$000s)		% Change
	Q3 2018	Q3 2017	
Experience	\$ 673	\$ 669	0.6%
Retail	1,640	1,615	1.6%
Service	8,445	8,274	2.1%
Industrial	661	648	2.0%
Vacant	-	11	0.0%
Total Same-Store Rent	\$ 11,419	\$ 11,218	1.8%
- Property Operating Expense	170	189	-9.9%
Total Same-Store NOI	\$ 11,249	\$ 11,029	2.0%



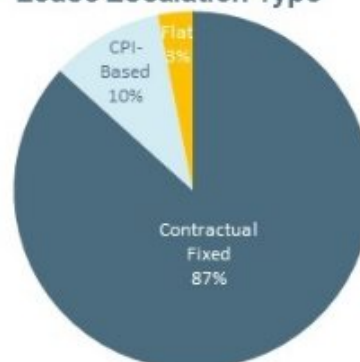
Leasing Summary

Lease Escalations

Lease Escalation Frequency

Lease Escalation Frequency	% of Cash ABR	Weighted Average Annual Escalation Rate ¹
Annually ³	77.7%	1.7%
Every 2 years	0.9	1.0
Every 3 years	0.2	1.3
Every 4 years	0.8	0.8
Every 5 years	14.6	1.1
Other escalation frequencies	2.6	1.1
Flat	3.2	NA
Total / Weighted Average	100.0%	1.5%

Lease Escalation Type



- Leases contributing 96.9% of cash ABR² provided for base rent escalation, generally ranging from 1.0% to 4.0% annually, with a weighted average annual escalation rate of 1.5%, which assumes 0% change in annual CPI.
- 10.2% of contractual rent escalations by cash ABR are CPI-based, while 86.7% are based on fixed percentage or scheduled increases
- 76.5% of cash ABR derived from flat leases is attributable to leases that provide for contingent rent based on a percentage of the tenant's gross sales at the leased property

1. Based on cash ABR as of September 30, 2018.

2. Represents the weighted average annual escalation rate of the entire portfolio as if all escalations occur annually. For leases in which rent escalates by the greater of a stated fixed percentage or CPI, we have assumed an escalation equal to the stated fixed percentage in the lease. As any future increase in CPI is unknowable at this time, we have not included an increase in the rent pursuant to these leases in the weighted average annual escalation rate presented.

3. Includes a \$5.7M mortgage loan that automatically converts to a 20 year master lease with 1.35% annual escalations in 2019.

Glossary

Supplemental Reporting Measures

FFO and AFFO

Our reported results are presented in accordance with U.S. generally accepted accounting principles ("GAAP"). We also disclose funds from operations ("FFO") and adjusted funds from operations ("AFFO"), both of which are non-GAAP financial measures. We believe these two non-GAAP financial measures are useful to investors because they are widely accepted industry measures used by analysts and investors to compare the operating performance of REITs.

FFO and AFFO do not represent cash generated from operating activities and are not necessarily indicative of cash available to fund cash requirements; accordingly, they should not be considered alternatives to net income as a performance measure or cash flows from operations as reported on our statement of cash flows as a liquidity measure and should be considered in addition to, and not in lieu of, GAAP financial measures.

We compute FFO in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as GAAP net income or loss adjusted to exclude extraordinary items (as defined by GAAP), net gain or loss from sales of depreciable real estate assets, impairment writedowns associated with depreciable real estate assets and real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), including the pro rata share of such adjustments of unconsolidated subsidiaries.

To derive AFFO, we modify the NAREIT computation of FFO to include other adjustments to GAAP net income related to non-cash revenues and expenses such as straight-line rental revenue, amortization of deferred financing costs, amortization of capitalized lease incentives and above- and below-market lease related intangibles, capitalized interest expense and non-cash compensation. Such items may cause short-term fluctuations in net income but have no impact on operating cash flows or long-term operating performance. We use AFFO as one measure of our performance when we formulate corporate goals.

FFO is used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers primarily because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. We believe that AFFO is an additional useful supplemental measure for investors to consider because it will help them to better assess our operating performance without the distortions created by other non-cash revenues or expenses. FFO and AFFO may not be comparable to similarly titled measures employed by other companies.

Glossary

Supplemental Reporting Measures

We also present our earnings before interest, taxes and depreciation and amortization for real estate ("EBITDA"). EBITDA further adjusted to exclude gains (or losses) on sales of depreciable property and real estate impairment losses ("EBITDAre"), net debt, net operating income ("NOI") and cash NOI ("Cash NOI"), all of which are non-GAAP financial measures. We believe these measures are useful to investors in assessing our operating performance and borrowing levels.

EBITDA and EBITDAre

We calculate EBITDA as earnings (GAAP net income) before interest, income taxes, and depreciation and amortization. In 2017, NAREIT issued a white paper recommending that companies that report EBITDA also report EBITDAre in all financial reports for periods beginning after December 31, 2017. We compute EBITDAre in accordance with the definition adopted by NAREIT. NAREIT defines EBITDAre as EBITDA (as defined above) excluding gains (or losses) from the sales of depreciable property and real estate impairment losses. We present EBITDA and EBITDAre as they are measures commonly used in our industry and we believe that these measures are useful to investors and analysts because they provide important supplemental information concerning our operating performance exclusive of certain non-cash and other costs.

EBITDA and EBITDAre are not measurements of financial performance under GAAP, and our EBITDA and EBITDAre may not be comparable to similarly titled measures of other companies. You should not consider our EBITDA and EBITDAre as alternatives to net income or cash flows from operating activities determined in accordance with GAAP.

Net Debt

Net debt represents our gross debt (defined as total debt plus deferred financing costs, net) less cash and cash equivalents and restricted cash deposits held for the benefit of lenders. We believe excluding cash and cash equivalents and restricted cash deposits held for the benefit of lenders from gross debt, both of which could be used to repay debt,

provides an estimate of the net contractual amount of borrowed capital to be repaid, which we believe is a beneficial disclosure to investors and analysts.

NOI and Cash NOI

NOI and Cash NOI are non-GAAP financial measures used by us to evaluate the operating performance of our real estate. NOI is equal to total revenues less property expenses. NOI excludes all other items of expense and income included in the financial statements in calculating net income or loss. Cash NOI further excludes non-cash items included in total revenues and property expenses, such as straight-line rental revenue and amortization of capitalized lease incentives and above- and below-market lease-related intangibles. We believe NOI and Cash NOI provide useful and relevant information because they reflect only those income and expense items that are incurred at the property level and present such items on an unlevered basis.

NOI and Cash NOI are not measurements of financial performance under GAAP, and our NOI and Cash NOI may not be comparable to similarly titled measures of other companies. You should not consider our NOI and Cash NOI as alternatives to net income or cash flows from operating activities determined in accordance with GAAP.

Adjusted EBITDAre / Adjusted NOI / Adjusted Cash NOI

We adjust EBITDAre, NOI and Cash NOI based on an estimate calculated as if all acquisition and disposition activity that took place during the current quarter had been made on the first day of the quarter. We then annualize these estimates for the current quarter by multiplying them by four, which we believe provides a meaningful estimate of our current run rate for all properties owned as of the end of the current quarter. You should not unduly rely on these metrics as they are based on assumptions and estimates that may prove to be inaccurate. Our actual reported EBITDAre, NOI and Cash NOI for future periods may be significantly less than these estimates of current run rates for a variety of reasons.

Glossary of Supplemental Reporting Measures

Other Terms

Cash ABR

Cash ABR means annualized contractually specified cash base rent in effect as of the end of the current quarter for all of our leases (including those accounted for as direct financing leases) commenced as of that date, as well as interest on our mortgage loans receivable.

Rent Coverage Ratio

Rent coverage ratio means the ratio of tenant-reported or, when unavailable, management's estimate based on tenant-reported financial information, annual EBITDA and cash rent attributable to the leased property (or properties, in the case of a master lease) to the annualized base rental obligation as of a specified date.

GE Seed Portfolio

GE seed portfolio means our acquisition of a portfolio of 262 net leased properties on June 16, 2016, consisting primarily of restaurants, that were being sold as part of the liquidation of General Electric Capital Corporation for an aggregate purchase price of \$279.8 million (including transaction costs).