



# ESSENTIAL PROPERTIES



## Supplemental Operating & Financial Data

Fourth Quarter Ended December 31, 2018

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# Financial Summary

## Consolidated Statements of Operations

(in thousands, except share and per share data)	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
	(unaudited)	(unaudited)	(unaudited)	(audited)
<b>Revenues:</b>				
Rental revenue <sup>1</sup>	\$ 27,825	\$ 17,268	\$ 94,944	\$ 53,373
Interest income on loans and direct financing leases	277	63	656	293
Other revenue	548	135	623	783
<b>Total revenues</b>	<b>28,650</b>	<b>17,466</b>	<b>96,223</b>	<b>54,449</b>
<b>Expenses:</b>				
Interest	6,718	7,382	30,192	22,574
General and administrative	3,891	2,163	13,762	8,775
Property expenses	759	470	1,980	1,547
Depreciation and amortization	8,510	6,275	31,352	19,516
Provision for impairment of real estate	977	941	4,503	2,377
<b>Total expenses</b>	<b>20,855</b>	<b>17,231</b>	<b>81,789</b>	<b>54,789</b>
<b>Other operating income:</b>				
Gain on dispositions of real estate, net	345	3,012	5,445	6,748
<b>Income from operations</b>	<b>8,140</b>	<b>3,247</b>	<b>19,879</b>	<b>6,408</b>
<b>Other income:</b>				
Interest	211	26	930	49
<b>Income before income tax expense</b>	<b>8,351</b>	<b>3,273</b>	<b>20,809</b>	<b>6,457</b>
Income tax expense	52	128	195	161
<b>Net income</b>	<b>8,299</b>	<b>3,145</b>	<b>20,614</b>	<b>6,296</b>
Net income attributable to non-controlling interests	(2,519)	—	(5,001)	—
<b>Net income attributable to stockholders and members</b>	<b>\$ 5,780</b>	<b>\$ 3,145</b>	<b>\$ 15,613</b>	<b>\$ 6,296</b>
<b>Basic weighted-average shares outstanding</b>	<b>43,057,802</b>			
<b>Basic net income per share</b>	<b>\$ 0.13</b>			
<b>Diluted weighted-average shares outstanding</b>	<b>62,217,218</b>			
<b>Diluted net income per share</b>	<b>\$ 0.13</b>			

1. Includes contingent rent (based on a percentage of the tenant's gross sales at the leased property) of \$205 and \$195 for the three months ended December 31, 2018 and 2017 and \$1,082 and \$1,123 for the years ended December 31, 2018 and 2017, respectively.

2. Includes reimbursable income from our tenants of \$502 and \$109 for the three months ended December 31, 2018 and 2017 and \$589 and \$120 for the years ended December 31, 2018 and 2017, respectively.

3. Includes reimbursable expenses from our tenants of \$502 and \$17 for the three months ended December 31, 2018 and 2017 and \$534 and \$27 for the years ended December 31, 2018 and 2017, respectively.

# Financial Summary

## Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)

(unaudited, in thousands except per share amounts)	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
<b>Net income</b>	\$ 8,299	\$ 3,145	\$ 20,614	\$ 6,296
Depreciation and amortization of real estate	8,496	6,274	31,335	19,513
Provision for impairment of real estate	977	941	4,503	2,377
Gain on dispositions of real estate, net	(345)	(3,012)	(5,445)	(6,748)
<b>Funds from Operations</b>	<b>17,427</b>	<b>7,348</b>	<b>51,007</b>	<b>21,438</b>
Adjustments:				
Straight-line rental revenue, net	(2,499)	(1,178)	(8,214)	(4,254)
Non-cash interest expense	816	574	2,798	1,884
Non-cash compensation expense	1,042	260	2,440	841
Amortization of market lease-related intangibles	52	(196)	336	531
Amortization of capitalized lease incentives	43	38	159	139
Capitalized interest expense	(11)	(93)	(225)	(242)
Transaction costs	(1)	—	57	—
Other non-cash items	84	—	84	—
<b>Adjusted Funds from Operations</b>	<b>\$ 16,953</b>	<b>\$ 6,753</b>	<b>\$ 48,442</b>	<b>\$ 20,337</b>
<b>Net income per share<sup>1</sup>:</b>				
Basic	<u>\$ 0.13</u>			
Diluted	<u>\$ 0.13</u>			
<b>FFO per share<sup>1</sup>:</b>				
Basic	<u>\$ 0.28</u>			
Diluted	<u>\$ 0.28</u>			
<b>AFFO per share<sup>1</sup>:</b>				
Basic	<u>\$ 0.27</u>			
Diluted	<u>\$ 0.27</u>			

1. Calculations exclude \$145 from the numerator related to dividends paid on our unvested restricted share awards.

# Financial Summary

## Consolidated Balance Sheets

(in thousands, except share, per share, unit and per unit amounts)	December 31, 2018 (unaudited)	December 31, 2017 (audited)
<b>ASSETS</b>		
Investments:		
Real estate investments, at cost:		
Land and improvements	\$ 420,848	\$ 278,985
Building and improvements	885,656	584,385
Lease incentive	2,794	2,275
Construction in progress	1,325	4,076
Intangible lease assets	66,421	62,453
Total real estate investments, at cost	1,377,044	932,174
Less: accumulated depreciation and amortization	(51,855)	(24,825)
Total real estate investments, net	1,325,189	907,349
Loans and direct financing lease receivables, net	17,505	2,725
Real estate investments held for sale, net	—	4,173
Net investments	1,342,694	914,247
Cash and cash equivalents	4,236	7,250
Restricted cash	12,003	12,180
Straight-line rent receivable, net	14,255	5,498
Prepaid expenses and other assets, net	7,712	3,045
<b>Total assets</b>	<b>\$ 1,380,900</b>	<b>\$ 942,220</b>
<b>LIABILITIES AND EQUITY</b>		
Secured borrowings, net of deferred financing costs	\$ 506,116	\$ 511,646
Notes payable to related party	—	230,000
Revolving credit facility	34,000	—
Intangible lease liabilities, net	11,616	12,321
Intangible lease liabilities held for sale, net	—	129
Dividend payable	13,189	—
Accrued liabilities and other payables	4,938	6,722
<b>Total liabilities</b>	<b>569,859</b>	<b>760,818</b>
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, \$0.01 par value; 150,000,000 authorized; none issued and outstanding as of December 31, 2018	—	—
Common stock, \$0.01 par value; 500,000,000 authorized; 43,749,092 issued and outstanding as of December 31, 2018	431	—
Additional paid-in capital	569,407	—
Distributions in excess of cumulative earnings	(7,659)	—
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
<b>Total stockholders' / members' equity</b>	<b>562,179</b>	<b>181,402</b>
Non-controlling interests	248,862	—
<b>Total equity</b>	<b>811,041</b>	<b>181,402</b>
<b>Total liabilities and equity</b>	<b>\$ 1,380,900</b>	<b>\$ 942,220</b>

# Financial Summary

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

(unaudited, in thousands)	Three Months Ended December 31, 2018
<b>Net income</b>	\$ 8,299
Depreciation and amortization	8,510
Interest expense	6,718
Interest income	(211)
Income tax expense	52
<b>EBITDA</b>	23,368
Provision for impairment of real estate	977
Gain on dispositions of real estate, net	(345)
<b>EBITDAre</b>	24,000
Adjustment for current quarter acquisition and disposition activity <sup>1</sup>	1,396
<b>Adjusted EBITDAre - Current Estimated Run Rate</b>	25,396
General and administrative	3,891
<b>Adjusted net operating income ("NOI")</b>	29,287
Straight-line rental revenue, net <sup>1</sup>	(2,542)
Amortization of market lease-related intangibles	52
Amortization of capitalized lease incentives	43
Other non-cash items	5
<b>Adjusted Cash NOI</b>	\$ 26,845
<b>Annualized EBITDAre</b>	\$ 96,000
<b>Annualized Adjusted EBITDAre</b>	\$ 101,584
<b>Annualized Adjusted NOI</b>	\$ 117,148
<b>Annualized Adjusted Cash NOI</b>	\$ 107,380

1. Adjustment assumes all acquisitions and dispositions of real estate investments made during the three months ended December 31, 2018 had occurred on October 1, 2018.

# Financial Summary

## Market Capitalization, Debt Summary and Leverage Metrics

	December 31, 2018	Rate	Maturity <sup>1</sup>
<b>Secured debt:</b>			
Series 2016-1, Class A	\$ 255,079	4.45%	2.9 years
Series 2016-1, Class B	17,243	5.43%	2.9 years
Series 2017-1, Class A	227,129	4.10%	5.5 years
Series 2017-1, Class B	15,669	5.11%	5.5 years
<b>Total secured debt</b>	<b>515,120</b>	<b>4.35%</b>	<b>4.1 years</b>
<b>Unsecured debt:</b>			
Revolving credit facility <sup>2</sup>	34,000	LIBOR plus 1.45% to 2.15%	3.5 years
<b>Total unsecured debt</b>	<b>34,000</b>		
<b>Gross debt</b>	<b>549,120</b>		<b>4.1 years</b>
Less: cash & cash equivalents	(4,236)		
Less: restricted cash deposits held for the benefit of lenders	(12,003)		
<b>Net debt</b>	<b>532,881</b>		
<b>Equity:</b>			
Preferred stock	—		
Common stock & OP units (62,805,644 shares @ \$13.84/share) <sup>3</sup>	869,230		
<b>Total equity</b>	<b>869,230</b>		
<b>Total enterprise value ("TEV")</b>	<b>\$ 1,402,111</b>		
<b>Net Debt / TEV</b>	<b>38.0%</b>		
<b>Net Debt / Annualized EBITDAre</b>	<b>5.6x</b>		
<b>Net Debt / Annualized Adjusted EBITDAre</b>	<b>5.2x</b>		

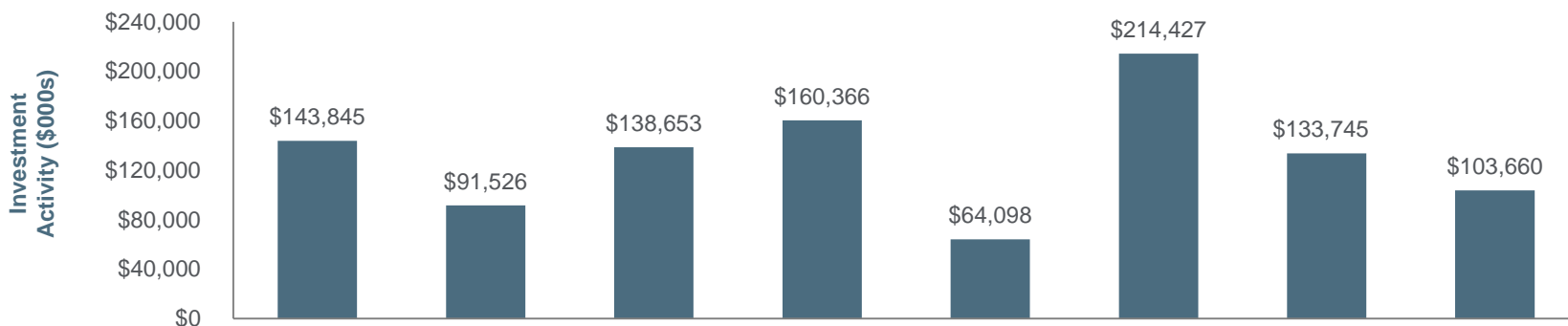
1. Maturity figures for our secured debt are based off of our anticipated repayment schedule. The Series 2016-1 notes mature in November 2046 but have an anticipated repayment date of November 2021. The Series 2017-1 notes mature in June 2047 but have an anticipated repayment date of June 2024. The Series 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 December 31, 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 December 31, 2018.

# Net Investment Activity

## Investment Summary



Investments	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018 <sup>5</sup>	4Q 2018 <sup>6</sup>
Number of Transactions	12	11	18	21	16	23	34	24
Property Count	35	37	50	90	28	86	62	39
Avg. Investment per Unit (in 000s)	\$4,108	\$2,474	\$2,728	\$1,742	\$2,195	\$2,438	\$2,042	\$2,572
Cash Cap Rates <sup>1</sup>	7.5%	7.6%	7.7%	7.7%	7.8%	7.6%	7.6%	7.6%
GAAP Cap Rates <sup>2</sup>	8.0%	8.9%	8.9%	8.7%	8.3%	8.7%	8.5%	8.5%
Master Lease % <sup>3</sup>	83%	71%	73%	65%	33%	82%	58%	57%
Sale-Leaseback % <sup>3</sup>	86%	76%	94%	75%	68%	90%	77%	83%
% of Financial Reporting <sup>3</sup>	100%	100%	98%	100%	100%	96% <sup>4</sup>	100%	90% <sup>4</sup>
Rent Coverage Ratio	3.1x	4.0x	2.8x	3.1x	2.3x	2.4x	2.7x	2.8x
Lease Term Years	17.0	17.3	18.4	15.5	14.1	17.2	16.1	16.6

1. Cash ABR 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 ABR for that particular quarter.

4. In aggregate includes the purchase of eight properties with no unit-level reporting per the lease; however, the Company was able to receive financials due to existing relationships with the tenants.

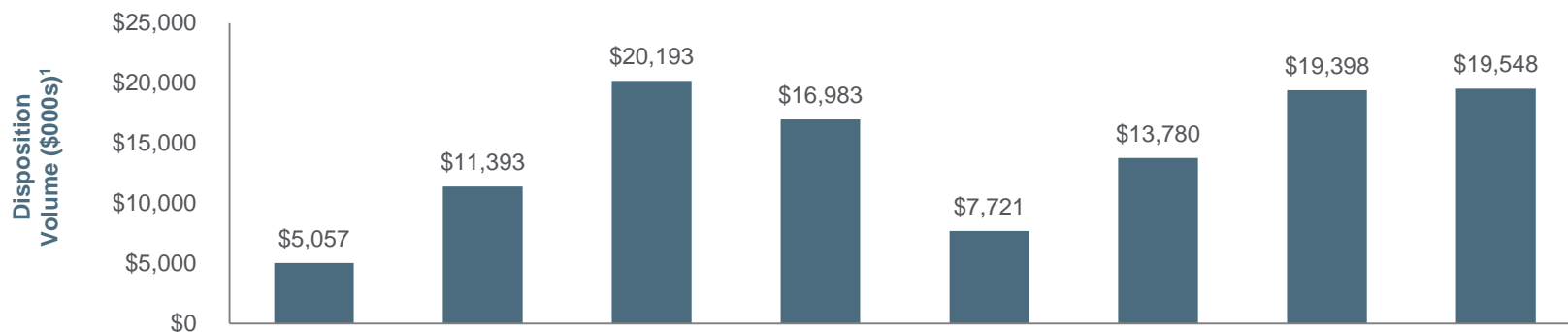
5. Includes a \$5.7M mortgage loan that contractually converts to a 20 year master lease in 2019.

6. Excludes one property securing \$3.5 million of short-term financing.



# Net Investment Activity

## Disposition Summary



Dispositions	1Q 2017	2Q 2017	3Q 2017	4Q 2017	1Q 2018	2Q 2018	3Q 2018	4Q 2018
Realized Gain/(Loss) <sup>1,2</sup>	(0.8%)	8.9%	10.2%	15.9%	(1.7%)	9.7% <sup>5</sup>	(6.6%) <sup>6</sup>	0.4%
Cash Cap Rate on Leased Assets <sup>3</sup>	6.5%	6.5%	6.1%	6.4%	6.7%	7.1% <sup>5</sup>	(6.8%) <sup>6</sup>	6.9%
Leased Properties Sold <sup>4</sup>	3	6	8	9	5	8	17	7
Vacant Properties Sold <sup>4</sup>	4	8	6	3	1	2	4	1
Rent Coverage Ratio	3.1x	2.0x	2.4x	1.8x	0.8x	2.1x <sup>5</sup>	1.8x <sup>6</sup>	1.8x

1. Net of transaction costs.

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

3. Cash ABR at time of sale divided by gross sale price (excluding transaction costs) for the property.

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

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

6. Excludes the sale of one leasehold property.

# Portfolio Summary

## Portfolio Highlights

As of December 31, 2018

Investment Properties (#) <sup>1</sup>	677
Square Footage (mm)	6.0
Tenants (#)	161
Concepts (#)	180
Industries (#)	15
States (#)	43
Weighted Average Remaining Lease Term (Years) <sup>3</sup>	14.2
Triple-Net Leases (% of Cash ABR)	91.9%
Master Leases (% of Cash ABR)	67.4%
Sale-Leaseback (% of Cash ABR) <sup>2</sup>	82.2%
Unit-Level Rent Coverage	2.8x
Unit-Level Financial Reporting (% of Cash ABR)	97.5%
Occupancy (%)	100%
Top 10 Tenants (% of Cash ABR)	33.1%
Average Investment Per Property (\$mm)	\$2.0
Average Transaction Size (\$mm) <sup>2</sup>	\$7.1
Total Cash ABR (\$mm)	\$106.8



1. Includes one undeveloped land parcel and 12 properties that secured mortgage note receivables.











2. Exclusive of GE Seed Portfolio.

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

# Portfolio Summary

## Tenant and Industry Diversification

### Top 10 Tenant Exposure

Top 10 Tenants <sup>3</sup>	Properties	% of Cash ABR
	77	5.0%
	5	4.1%
	13	3.9%
	15	3.6%
	5	3.4%
	13	2.9%
	26	2.7%
	3	2.5%
	19	2.5%
	5	2.5%
<b>Top 10 Tenants</b>	<b>181</b>	<b>33.1%</b>
<b>Total</b>	<b>677</b>	<b>100.0%</b>

### Diversification by Industry

Tenant Industry	Type of Business	Cash ABR (\$'000s)	% of Cash ABR	# of Properties <sup>1</sup>	Building SqFt ('000s)	Rent Per SqFt <sup>2</sup>
Quick Service	Service	\$ 15,494	14.5%	197	530,224	\$ 29.61
Car Washes	Service	12,107	11.3%	46	218,982	55.29
Early Childhood Education	Service	11,152	10.4%	48	578,017	18.73
Medical / Dental	Service	10,260	9.6%	82	449,359	22.83
Convenience Stores	Service	9,620	9.0%	80	314,866	30.55
Casual Dining	Service	7,661	7.2%	56	326,846	23.87
Automotive Service	Service	6,662	6.2%	51	372,994	18.13
Other Services	Service	4,053	3.8%	24	188,415	20.20
Family Dining	Service	3,875	3.6%	25	147,198	26.32
<b>Service Subtotal</b>		<b>\$ 80,884</b>	<b>75.7%</b>	<b>609</b>	<b>3,126,900</b>	<b>\$ 25.84</b>
Health and Fitness	Experience	8,742	8.2%	19	761,013	11.03
Movie Theatres	Experience	4,295	4.0%	6	293,206	14.65
Entertainment	Experience	3,455	3.2%	12	408,640	8.46
<b>Experience Subtotal</b>		<b>\$ 16,492</b>	<b>15.4%</b>	<b>37</b>	<b>1,462,859</b>	<b>\$ 11.04</b>
Home Furnishings	Retail	6,601	6.2%	10	493,027	13.39
Grocery	Retail	212	0.2%	1	32,190	6.58
<b>Retail Subtotal</b>		<b>\$ 6,813</b>	<b>6.4%</b>	<b>11</b>	<b>525,217</b>	<b>\$ 12.97</b>
Building Materials	Other	2,643	2.5%	19	896,956	2.95
<b>Total</b>		<b>\$ 106,832</b>	<b>100.0%</b>	<b>676</b>	<b>6,011,932</b>	<b>\$ 17.67</b>

1. Excludes one undeveloped land parcel.

2. Calculation excludes properties with no annualized base rent and properties under construction.

3. Represents tenant or guarantor.

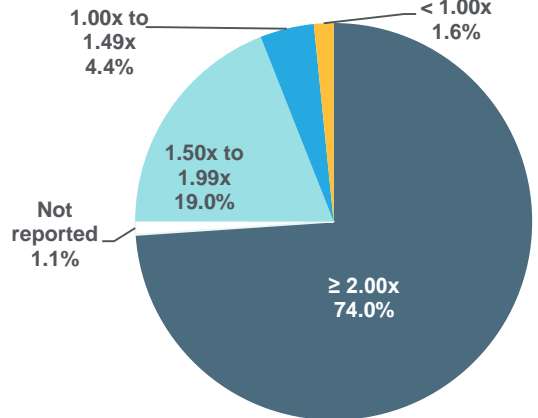
# Portfolio Summary

## Portfolio Health

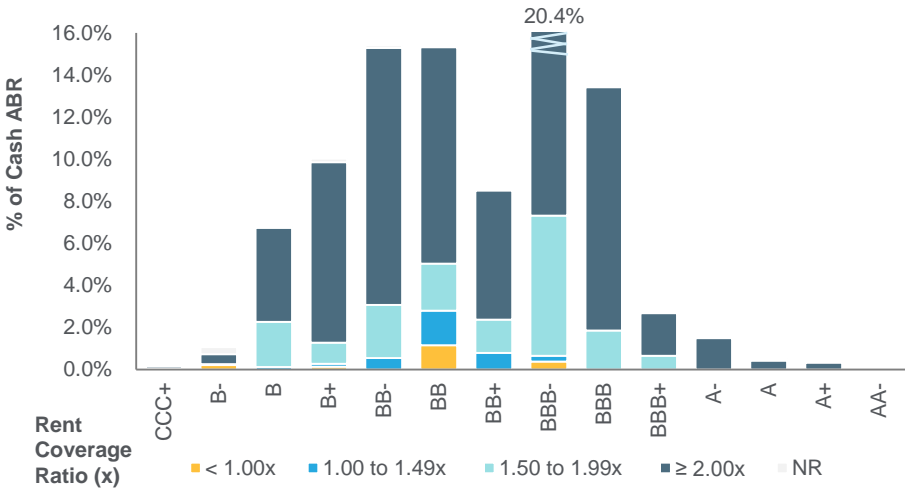
### Tenant Financial Reporting

Tenant Financial Reporting Requirements	% of Cash ABR
Unit-Level Financial Information	97.5%
Corporate-Level Financial Reporting	98.3%
Both Unit-Level and Corporate-Level Financial Information	97.2%
No Financial Information	1.1%

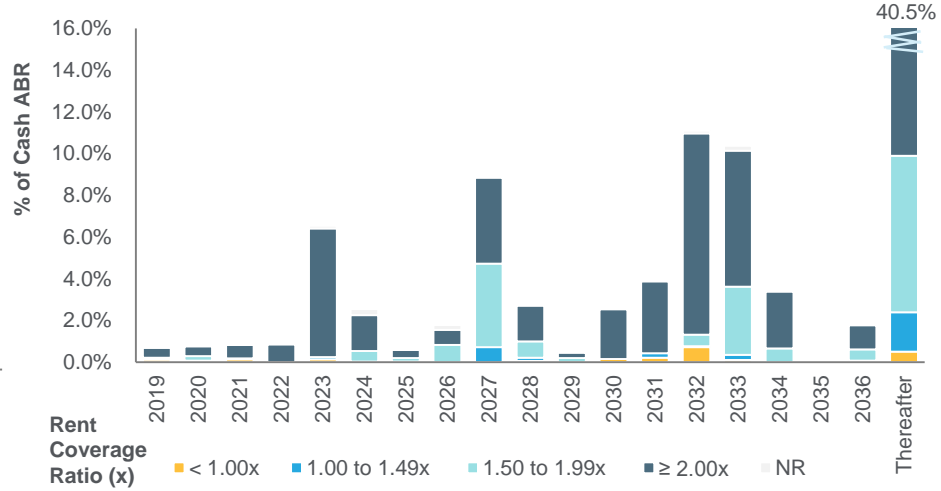
### % of Cash ABR by Unit-Level Coverage Tranche<sup>1</sup>



### Unit-Level Coverage by Tenant Credit<sup>2</sup>



### 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 December 31, 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 <sup>1</sup>	Cash ABR <sup>2</sup>	% of Cash ABR	# of Properties <sup>2</sup>	Wgt. Avg. Coverage <sup>3</sup>
2019	\$ 772	0.7%	10	3.0x
2020	801	0.8%	9	2.8x
2021	900	0.8%	13	3.5x
2022	901	0.8%	7	3.6x
2023	6,973	6.5%	80	3.2x
2024	2,720	2.5%	21	2.6x
2025	621	0.6%	8	3.8x
2026	1,888	1.8%	10	2.6x
2027	9,429	8.8%	53	2.5x
2028	2,886	2.7%	18	3.0x
2029	477	0.4%	4	3.2x
2030	2,705	2.5%	33	4.7x
2031	4,129	3.9%	22	3.5x
2032	11,843	11.1%	77	2.9x
2033	11,078	10.4%	51	2.3x
2034	3,606	3.4%	25	2.3x
2035	-	-	-	-
2036	1,878	1.8%	18	2.4x
2037	23,348	21.9%	105	3.0x
2038	17,928	16.8%	94	2.3x
2039	1,000	0.9%	11	3.6x
2040	949	0.9%	7	2.9x
<b>Total</b>	<b>\$106,832</b>	<b>100.0%</b>	<b>676</b>	<b>2.8x</b>

### Leasing Activity – FY'2018

\$(000)s	Renewed Per Terms of Lease	Re-Leased to New Tenant Without Vacancy	After Vacancy	Total Leasing
Prior Cash ABR	\$ 1,125	975	-	\$ 2,100
New Cash ABR	1,090	997	-	2,087
Recovery Rate	96.9%	102.2%	-	99.4%
Number of Leases	12	3	-	15
Average Months Vacant	-	-	-	-
% of Total Cash ABR <sup>4</sup>	-	-	-	2.0%

### Leasing Statistics

<b>Vacant Properties at September 30, 2018</b>	<b>1</b>
Expiration Activity	+ 0
Leasing Activity	- 0
Vacant Property Sales	- 1
<b>Vacant Properties at December 31, 2018</b>	<b>0</b>

1. Expiration year of contracts in place as of December 31, 2018 and excludes any tenant option renewal periods that have not been exercised.

2. Excludes one undeveloped land parcel.

3. Weighted by Cash ABR as of December 31, 2018.

4. New Cash ABR divided by Total Cash ABR as of December 31, 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 October 1, 2017, through December 31, 2018. The same-store portfolio for Q4 2018 was comprised of **378 properties** and represented **51.4%** of our current portfolio as measured by contractual cash rent divided by our cash ABR at December 31, 2018.

#### Contractual Cash Rent:

The amount of cash rent our tenants are contractually obligated to pay per the in-place lease as of December 31, 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
	Q4 2018	Q4 2017	
Experience	\$ 1,072	\$ 1,056	1.5%
Industrial	661	648	2.0%
Retail	1,509	1,488	1.4%
Service	10,490	10,301	1.8%
Vacant	-	-	0.0%
<b>Total Same-Store Rent</b>	<b>\$ 13,732</b>	<b>\$ 13,493</b>	<b>1.8%</b>
- Property Operating Expense	171	180	-4.7%
<b>Total Same-Store NOI</b>	<b>\$ 13,561</b>	<b>\$ 13,313</b>	<b>1.9%</b>



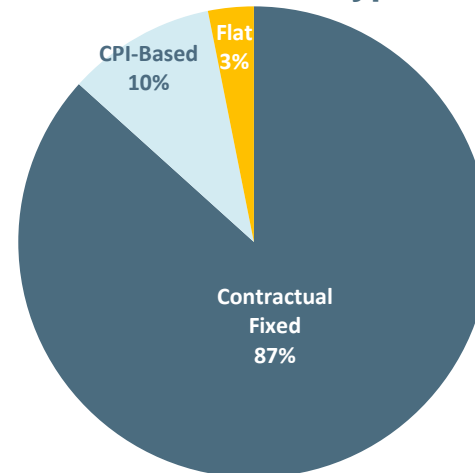
# Leasing Summary

## Lease Escalations

### Lease Escalation Frequency

Lease Escalation Frequency	% of Cash ABR	Weighted Average Annual Escalation Rate <sup>1,2</sup>
Annually <sup>3</sup>	78.1%	1.7%
Every 2 years	0.6	1.0
Every 3 years	0.2	1.3
Every 4 years	0.7	0.8
Every 5 years	14.5	1.1
Other escalation frequencies	2.6	1.3
Flat	3.2	NA
<b>Total / Weighted Average</b>	<b>100.0%</b>	<b>1.5%</b>

### Lease Escalation Type



- Leases contributing 97.1% of cash ABR 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 0.0% change in annual CPI
- 10.3% of contractual rent escalations by cash ABR are CPI-based, while 86.8% are based on fixed percentage or scheduled increases
- 76.8% 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 December 31, 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 contractually 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 non-GAAP financial measures are accepted industry measures used by analysts and investors to compare the operating performance of REITs.

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 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 our 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, we modify the NAREIT computation of FFO to include other adjustments to GAAP net income related to certain items that we believe are not indicative of our core operating performance, including 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, transaction costs and other non-cash charges. Such items may cause short-term fluctuations in net income but have no impact on operating cash flows or long-term operating performance. 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 non-cash and certain other revenues and expenses.

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 they 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. FFO and AFFO may not be comparable to similarly titled measures reported 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 non-GAAP financial measures are accepted industry measures used by analysts and investors to compare the operating performance of REITs.

### **EBITDA and EBITDAre**

We calculate EBITDA as earnings before interest, income taxes, and depreciation and amortization. In 2017, NAREIT issued a white paper recommending that companies that report EBITDA also report EBITDAre. 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. We use EBITDA and EBITDAre as measures of our operating performance and not as measures of liquidity.

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

### **Net Debt**

We calculate our net debt as our gross debt (defined as total debt plus net deferred financing costs on our secured borrowings) 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, all 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**

We calculate NOI as 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, amortization of capitalized lease incentives and market lease-related intangibles and other non-cash charges. 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 reported by 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 and annualized cash interest on our mortgage loans receivable as of that date.

### 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).

### 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.

### 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.