

February 24, 2020



National Storage Affiliates Trust Reports 2019 Fourth Quarter and Full Year Results; Announces Internalization of Its Largest PRO

GREENWOOD VILLAGE, Colo.--(BUSINESS WIRE)-- National Storage Affiliates Trust ("NSA" or the "Company") (NYSE: NSA) today reported the Company's fourth quarter and full year 2019 results, and announced the internalization of the Company's largest participating regional operator ("PRO"), SecurCare Self Storage, Inc. ("SecurCare"), as well as the transition of the Company's Chief Operating Officer.

Fourth Quarter 2019 Highlights

- Reported net income of \$18.8 million for the fourth quarter of 2019, an increase of 30.0% compared to the fourth quarter of 2018. Reported diluted earnings per share of \$0.13 for the fourth quarter of 2019, primarily relating to the HLBV method for allocating net income among the various classes of equity.
- Reported core funds from operations ("Core FFO") of \$36.8 million, or \$0.40 per share for the fourth quarter of 2019, an increase of 8.1% per share compared to the fourth quarter of 2018.
- Achieved same store net operating income ("NOI") growth of 3.8% for the fourth quarter of 2019 compared to the same period in 2018, driven by a 2.8% increase in same store total revenues partially offset by a 0.3% increase in same store property operating expenses.
- Acquired seven wholly-owned self storage properties for \$32.2 million during the fourth quarter of 2019. Consideration for these acquisitions included the issuance of approximately \$2.0 million of OP equity.

Full Year 2019 Highlights

- Reported net income of \$66.0 million for full year 2019, an increase of 17.2% compared to full year 2018. Reported diluted loss per share of \$0.15 for full year 2019, primarily relating to the HLBV method for allocating net income among the various classes of equity.
- Reported Core FFO of \$140.5 million, or \$1.54 per share for full year 2019, an increase of 11.6% per share compared to full year 2018.
- Achieved same store NOI growth of 5.0% for full year 2019 compared to the same period in 2018, driven by a 4.0% increase in same store total revenues partially offset by a 1.6% increase in same store property operating expenses.
- Acquired 69 wholly-owned self storage properties for \$447.8 million during full year

2019. Consideration for these acquisitions included the issuance of approximately \$51.8 million of OP equity.

Highlights Subsequent to Year-End

- NSA has entered into a definitive agreement with SecurCare, the Company's largest PRO, to acquire SecurCare in a merger and internalize its property management platform, which is expected to close during the second quarter of 2020, subject to customary closing conditions. As part of the internalization, NSA intends to offer employment to most of SecurCare's employees, including its key persons, to continue managing SecurCare's managed portfolio as members of NSA's property management platform. As a result of the merger, NSA will no longer pay any fees or reimbursements to SecurCare and distributions on the series of subordinated performance units related to SecurCare's managed portfolio will be discontinued. Further details regarding these transactions are contained in NSA's current report on Form 8-K, filed today with the SEC.
- In connection with the internalization of SecurCare, the Company's Board of Trustees approved the appointment of David Cramer, who is currently the president and chief executive officer of SecurCare, as NSA's Chief Operating Officer and Executive Vice President, with an expected effective date at or around the closing of the SecurCare merger, and accepted the resignation of Steven B. Treadwell from the same positions, to pursue other interests, effective at or around the same time. Mr. Nordhagen will continue to serve the Company in his capacity as executive chairman.
- NSA acquired 34 wholly-owned self storage properties for approximately \$205.8 million and two joint venture properties totaling approximately \$12.1 million.

Arlen Nordhagen, Executive Chairman of the Board of Trustees, commented, "As 2020 begins, we enter a transformational year for NSA. When we formed the Company in 2013, we envisioned a differentiated public self storage REIT that would leverage the benefits of integrating multiple experienced regional self storage operators to deliver consistently outstanding results to our shareholders. With the announcement of the internalization of SecurCare, we are excited to take the next step in the evolution of NSA and demonstrate that our unique structure can continue to build on the foundation of the stellar execution of our internal and external growth strategies since our IPO in 2015."

Mr. Nordhagen continued, "While we are sorry to see Steve Treadwell leave NSA to pursue an entrepreneurial opportunity, it is fortuitous that the timing of his departure coincides with the internalization of SecurCare so that Dave Cramer can immediately step into the role of COO. Dave and I have worked closely together for over 20 years, and Dave's wealth of knowledge and experience in the self storage industry will provide for a seamless transition during this next phase of the Company's growth."

Tamara Fischer, President and Chief Executive Officer, added, "We are very proud of what we accomplished during 2019, with a double digit increase in Core FFO per share driven by operating results that exceeded our expectations. As we look ahead to 2020, the expected accretion from the internalization of SecurCare is the realization of one of the key benefits of NSA's PRO structure. I look forward to working with Dave in his new role and continuing NSA's success."

Financial Results

(\$ in thousands,
except per share and
unit data)

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Growth	2019	2018	Growth
Net income	\$ 18,826	\$ 14,483	30.0%	\$ 66,013	\$ 56,326	17.2%
Funds From Operations ("FFO")⁽¹⁾	\$ 36,218	\$ 32,201	12.5%	\$139,151	\$116,378	19.6%
Add back acquisition costs	534	192	178.1%	1,317	663	98.6%
Core FFO⁽¹⁾	\$ 36,752	\$ 32,393	13.5%	\$140,468	\$117,041	20.0%
Earnings (loss) per share - basic	\$ 0.17	\$ (0.16)	206.3%	\$ (0.15)	\$ 0.07	(314.3)%
Earnings (loss) per share - diluted	\$ 0.13	\$ (0.16)	181.3%	\$ (0.15)	\$ 0.07	(314.3)%
FFO per share and unit⁽¹⁾	\$ 0.39	\$ 0.37	5.4%	\$ 1.53	\$ 1.37	11.7%
Core FFO per share and unit⁽¹⁾	\$ 0.40	\$ 0.37	8.1%	\$ 1.54	\$ 1.38	11.6%

(1) Non-GAAP financial measures, including FFO, Core FFO and NOI, are defined in the Glossary in the supplemental financial information and, where appropriate, reconciliations of these measures and other non-GAAP financial measures to their most directly comparable GAAP measures are included in the Schedules to this press release and in the supplemental financial information.

Net income increased \$4.3 million for the fourth quarter of 2019 and \$9.7 million for full year 2019 as compared to the same periods in 2018. The increases primarily resulted from additional NOI generated from the 69 wholly-owned self storage properties acquired during full year 2019 and same store NOI growth, partially offset by increases in depreciation and amortization and interest expense.

The increases in FFO and Core FFO for the fourth quarter of 2019 and full year 2019 were primarily the result of incremental NOI from properties acquired during full year 2019 and same store NOI growth, partially offset by higher interest expense and increases in distributions to subordinated performance unitholders.

Same Store Operating Results (439 Stores)

(\$ in thousands,
except per square
foot data)

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Growth	2019	2018	Growth

Total revenues	\$ 74,792	\$ 72,775	2.8%	\$297,177	\$285,820	4.0%
Property operating expenses	21,763	21,705	0.3%	88,694	87,262	1.6%
Net Operating Income (NOI)	\$ 53,029	\$ 51,070	3.8%	\$208,483	\$198,558	5.0%
NOI Margin	70.9%	70.2%	0.7%	70.2%	69.5%	0.7%
Average Occupancy	88.2%	88.2%	—	88.8%	88.5%	0.3%
Average Annualized Rental Revenue Per Occupied Square Foot	\$ 12.14	\$ 11.83	2.6%	\$ 11.98	\$ 11.58	3.5%

Year-over-year same store total revenues increased 2.8% for the fourth quarter of 2019 and 4.0% for full year 2019 as compared to the same periods in 2018. The increases were driven primarily by a 2.6% increase in average annualized rental revenue per occupied square foot for the fourth quarter of 2019 and a 3.5% increase in average annualized rental revenue per occupied square foot for full year 2019. Markets that generated above portfolio average same store total revenue growth include: Riverside-San Bernardino, Atlanta, and Las Vegas. Markets that generated below portfolio average same store total revenue growth include: Portland, Dallas and Tulsa.

Year-over-year same store property operating expenses increased 0.3% for the fourth quarter of 2019 and 1.6% for full year 2019 as compared to the same periods in 2018. For the fourth quarter of 2019, the increase primarily resulted from increases in personnel costs, general and administrative expenses and advertising costs, substantially offset by decreases in property taxes. The decreases in property taxes resulted primarily from unexpected favorable property tax assessments recorded during the fourth quarter of 2019. For full year 2019, the increase primarily resulted from increases in repairs and maintenance expenses, personnel costs and property taxes.

Investment Activity

NSA acquired seven wholly-owned self storage properties located across three states consisting of approximately 0.3 million rentable square feet configured in approximately 2,500 storage units during the fourth quarter of 2019. Total consideration for these acquisitions of \$32.2 million included approximately \$30.0 million of net cash, the issuance of approximately \$0.2 million of OP units, \$1.8 million of subordinated performance units and the assumption of approximately \$0.2 million of other working capital liabilities.

During the full year 2019, NSA invested \$447.8 million in the acquisition of 69 wholly-owned self storage properties located across 14 states consisting of approximately 4.2 million rentable square feet configured in approximately 33,000 storage units.

Common Share Dividends

On November 20, 2019, NSA's Board of Trustees declared a quarterly cash dividend of \$0.33 per common share, which was paid on December 31, 2019 to shareholders of record as of December 13, 2019.

2020 Guidance

The Company's outlook for 2020 incorporates the effect of the SecurCare internalization assuming an effective date of April 1, 2020, which is expected to be accretive to Core FFO per share by approximately \$0.03 in 2020, or \$0.04 - \$0.05 on an annualized basis.

The following table outlines NSA's FFO guidance estimates and related assumptions for the year ended December 31, 2020:

	Ranges for Full Year 2020	
	Low	High
Core FFO per share ⁽¹⁾	\$1.64	\$1.68
Same store operations (500 stores)		
Total revenue growth	2.25%	3.25%
Property operating expenses growth	3.0%	4.0%
NOI growth	2.0%	3.0%
General and administrative expenses		
General and administrative expenses (excluding equity-based compensation)	\$41.0	\$43.0
Equity-based compensation	\$4.5	\$5.0
Management fees and other revenue, in millions	\$21.0	\$23.0
Core FFO from unconsolidated real estate ventures, in millions	\$15.0	\$16.0
Subordinated performance unit distributions, in millions	\$28.0	\$30.0
Wholly-owned acquisitions, in millions	\$400.0	\$600.0
Joint venture acquisitions, in millions	\$25.0	\$50.0

(1) The following table provides a reconciliation of the range of estimated earnings (loss) per share - diluted to estimated Core FFO per share and unit:

	Ranges for Full Year 2020	
	Low	High
Earnings (loss) per share - diluted	\$0.00	\$0.20
Impact of the difference in weighted average number of shares and GAAP accounting for noncontrolling interests, two-class method and treasury stock method	0.67	0.47
Add real estate depreciation and amortization, including NSA's share of unconsolidated venture real estate depreciation and amortization	1.23	1.29
FFO attributable to subordinated unitholders	(0.28)	(0.30)

Add acquisition costs and NSA's share of unconsolidated real estate venture acquisition costs

0.02	0.02
\$1.64	\$1.68

Core FFO per share and unit

Supplemental Financial Information

The full text of this earnings release and supplemental financial information, including certain financial information referenced in this release, are available on NSA's website at <http://ir.nationalstorageaffiliates.com/quarterly-reporting> and as exhibit 99.1 to the Company's Form 8-K furnished to the SEC on February 24, 2020.

Non-GAAP Financial Measures & Glossary

This press release contains certain non-GAAP financial measures. These non-GAAP measures are presented because NSA's management believes these measures help investors understand NSA's business, performance and ability to earn and distribute cash to its shareholders by providing perspectives not immediately apparent from net income (loss). These measures are also frequently used by securities analysts, investors and other interested parties. The presentations of FFO, Core FFO and NOI in this press release are not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. In addition, NSA's method of calculating these measures may be different from methods used by other companies, and, accordingly, may not be comparable to similar measures as calculated by other companies that do not use the same methodology as NSA. These measures, and other words and phrases used herein, are defined in the Glossary in the supplemental financial information and, where appropriate, reconciliations of these measures and other non-GAAP financial measures to their most directly comparable GAAP measures are included in the Schedules to this press release and in the supplemental financial information.

Quarterly Teleconference and Webcast

The Company will host a conference call at 11:00 am Eastern Time on Tuesday, February 25, 2020 to discuss its financial results. At the conclusion of the call, management will accept questions from certified financial analysts. All other participants are encouraged to listen to a webcast of the call by accessing the link found on the Company's website at www.nationalstorageaffiliates.com.

Conference Call and Webcast:

Date/Time: Tuesday, February 25, 2020, 11:00am ET

Webcast available at: www.nationalstorageaffiliates.com

Domestic (Toll Free US & Canada): 877.407.9711

International: 412.902.1014

Replay:

Domestic (Toll Free US & Canada): 877.660.6853

International: 201.612.7415

Conference ID: 13692161

A replay of the call will be available for one week through Tuesday, March 3, 2020. A replay of the webcast will be available for 30 days on NSA's website at www.nationalstorageaffiliates.com.

Upcoming Industry Conference

NSA management is scheduled to participate in Citi's 25th Annual Global Property CEO Conference on March 2 – 4, 2020 in Hollywood, Florida.

About National Storage Affiliates Trust

National Storage Affiliates Trust is a Maryland real estate investment trust focused on the ownership, operation and acquisition of self storage properties located within the top 100 metropolitan statistical areas throughout the United States. As of December 31, 2019, the Company held ownership interests in and operated 742 self storage properties located in 35 states and Puerto Rico with approximately 47.1 million rentable square feet. NSA is one of the largest owners and operators of self storage properties among public and private companies in the United States. For more information, please visit the Company's website at www.nationalstorageaffiliates.com. NSA is included in the MSCI US REIT Index (RMS/RMZ), the Russell 2000 Index of Companies and the S&P SmallCap 600 Index.

NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in this press release constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements are subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company's control. These forward-looking statements include information about possible or assumed future results of the Company's business, financial condition, liquidity, results of operations, plans and objectives. Changes in any circumstances may cause the Company's actual results to differ significantly from those expressed in any forward-looking statement. When used in this release, the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions are intended to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: market trends in the Company's industry, interest rates, the debt and lending markets or the general economy; the Company's business and investment strategy; the acquisition of properties, including those under contract and our ability to execute on our acquisition pipeline; the timing of acquisitions under contract; the internalization of retiring participating regional operators ("PROs") into the Company; and the Company's guidance estimates for the year ended December 31, 2020. For a further list and description of such risks and uncertainties, see the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission, and the other documents filed by the Company with the Securities and Exchange Commission. The forward-looking statements, and other risks, uncertainties and factors are based on the Company's beliefs, assumptions and expectations of its future performance, taking into account all information currently available to the Company. Forward-looking statements are not predictions of future events. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

National Storage Affiliates Trust
Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
REVENUE				
Rental revenue	\$ 92,083	\$ 81,826	\$ 354,859	\$ 308,403
Other property-related revenue	3,133	2,626	12,302	10,183
Management fees and other revenue	5,352	4,846	20,735	12,310
Total revenue	100,568	89,298	387,896	330,896
OPERATING EXPENSES				
Property operating expenses	27,712	26,913	110,347	103,875
General and administrative expenses	11,606	10,606	45,581	36,220
Depreciation and amortization	27,343	22,921	105,119	89,147
Total operating expenses	66,661	60,440	261,047	229,242
OTHER (EXPENSE) INCOME				
Interest expense	(14,874)	(11,961)	(56,464)	(42,724)
Equity in losses of unconsolidated real estate ventures	(8)	(1,713)	(4,970)	(1,423)
Acquisition costs	(534)	(192)	(1,317)	(663)
Non-operating income (expense)	727	(160)	452	(91)
Gain on sale of self storage properties	—	—	2,814	391
Other expense	(14,689)	(14,026)	(59,485)	(44,510)
Income before income taxes	19,218	14,832	67,364	57,144
Income tax expense	(392)	(349)	(1,351)	(818)
Net income	18,826	14,483	66,013	56,326

Net income attributable to noncontrolling interests	<u>(5,738)</u>	<u>(21,119)</u>	<u>(62,030)</u>	<u>(42,217)</u>
Net income (loss) attributable to National Storage Affiliates Trust	13,088	(6,636)	3,983	14,109
Distributions to preferred shareholders	<u>(3,273)</u>	<u>(2,587)</u>	<u>(12,390)</u>	<u>(10,350)</u>
Net income (loss) attributable to common shareholders	<u>\$ 9,815</u>	<u>\$ (9,223)</u>	<u>\$ (8,407)</u>	<u>\$ 3,759</u>
Earnings (loss) per share - basic	<u>\$ 0.17</u>	<u>\$ (0.16)</u>	<u>\$ (0.15)</u>	<u>\$ 0.07</u>
Earnings (loss) per share - diluted	<u>\$ 0.13</u>	<u>\$ (0.16)</u>	<u>\$ (0.15)</u>	<u>\$ 0.07</u>
Weighted average shares outstanding - basic	<u>59,316</u>	<u>56,571</u>	<u>58,208</u>	<u>53,293</u>
Weighted average shares outstanding - diluted	<u>114,422</u>	<u>56,571</u>	<u>58,208</u>	<u>53,293</u>

National Storage Affiliates Trust
Consolidated Balance Sheets
(dollars in thousands, except per share amounts)
(unaudited)

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
Real estate		
Self storage properties	\$ 3,091,719	\$ 2,637,723
Less accumulated depreciation	(337,822)	(246,261)
Self storage properties, net	<u>2,753,897</u>	<u>2,391,462</u>
Cash and cash equivalents	20,558	13,181
Restricted cash	3,718	3,182
Debt issuance costs, net	3,264	1,260
Investment in unconsolidated real estate ventures	214,061	245,125
Other assets, net	65,441	75,053

Operating lease right-of-use assets	23,306	—
Total assets	<u>\$ 3,084,245</u>	<u>\$ 2,729,263</u>
LIABILITIES AND EQUITY		
Liabilities		
Debt financing	\$ 1,534,047	\$ 1,278,102
Accounts payable and accrued liabilities	57,909	33,130
Operating lease liabilities	24,665	—
Deferred revenue	15,523	15,732
Total liabilities	<u>1,632,144</u>	<u>1,326,964</u>
Equity		
Preferred shares of beneficial interest, par value \$0.01 per share. 50,000,000 authorized, 8,727,119 and 6,900,000 issued and outstanding at December 31, 2019 and 2018, respectively, at liquidation preference	218,178	172,500
Common shares of beneficial interest, par value \$0.01 per share. 250,000,000 shares authorized, 59,659,108 and 56,654,009 shares issued and outstanding at December 31, 2019 and 2018, respectively	597	567
Additional paid-in capital	905,763	844,276
Distributions in excess of earnings	(197,075)	(114,122)
Accumulated other comprehensive (loss) income	(7,833)	13,618
Total shareholders' equity	<u>919,630</u>	<u>916,839</u>
Noncontrolling interests	<u>532,471</u>	<u>485,460</u>
Total equity	<u>1,452,101</u>	<u>1,402,299</u>
Total liabilities and equity	<u>\$ 3,084,245</u>	<u>\$ 2,729,263</u>

Reconciliation of Net Income to FFO and Core FFO

(in thousands, except per share and unit amounts) (unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
Net income	\$ 18,826	\$ 14,483	\$ 66,013	\$ 56,326
Add (subtract):				
Real estate depreciation and amortization	27,019	22,606	103,835	87,938
Company's share of unconsolidated real estate venture real estate depreciation and amortization	3,763	5,524	19,889	10,233
Gain on sale of self storage properties	—	—	(2,814)	(391)

Company's share of unconsolidated real estate venture loss on sale of properties	—	—	202	205
Mark-to-market changes in value on equity securities	(610)	—	(610)	—
Distributions to preferred shareholders and unitholders	(3,514)	(2,716)	(13,243)	(10,822)
FFO attributable to subordinated performance unitholders ⁽¹⁾	(9,266)	(7,696)	(34,121)	(27,111)
FFO attributable to common shareholders, OP unitholders, and LTIP unitholders	36,218	32,201	139,151	116,378
Add:				
Acquisition costs	534	192	1,317	663
Core FFO attributable to common shareholders, OP unitholders, and LTIP unitholders	\$ 36,752	\$ 32,393	\$ 140,468	\$ 117,041

Weighted average shares and units outstanding - FFO and Core FFO:⁽²⁾

Weighted average shares outstanding - basic	59,316	56,571	58,208	53,293
Weighted average restricted common shares outstanding	26	28	28	29
Weighted average OP units outstanding	30,457	28,881	30,277	28,977
Weighted average DownREIT OP unit equivalents outstanding	1,848	1,835	1,848	1,835
Weighted average LTIP units outstanding	525	708	585	694

Total weighted average shares and units outstanding - FFO and Core FFO	<u><u>92,172</u></u>	<u><u>88,023</u></u>	<u><u>90,946</u></u>	<u><u>84,828</u></u>
FFO per share and unit	\$ 0.39	\$ 0.37	\$ 1.53	\$ 1.37
Core FFO per share and unit	\$ 0.40	\$ 0.37	\$ 1.54	\$ 1.38

(1) Amounts represent distributions declared for subordinated performance unitholders and DownREIT subordinated performance unitholders for the periods presented.

(2) NSA combines OP units and DownREIT OP units with common shares because, after the applicable lock-out periods, OP units in the Company's operating partnership are redeemable for cash or, at NSA's option, exchangeable for common shares on a one-for-one basis and DownREIT OP units are also redeemable for cash or, at NSA's option, exchangeable for OP units in the Company's operating partnership on a one-for-one basis, subject to certain adjustments in each case. Subordinated performance units, DownREIT subordinated performance units and LTIP units may also, under certain circumstances, be convertible into or exchangeable for common shares (or other units that are convertible into or exchangeable for common shares). See footnote⁽³⁾ for additional discussion of subordinated performance units, DownREIT subordinated performance units, and LTIP units in the calculation of FFO and Core FFO per share and unit.

Reconciliation of Earnings (Loss) Per Share - Diluted to FFO and Core FFO Per Share and Unit

(in thousands, except per share and unit amounts) (unaudited)

	<u>Three Months Ended December 31,</u>		<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Earnings (loss) per share - diluted	\$ 0.13	\$ (0.16)	\$ (0.15)	\$ 0.07
Impact of the difference in weighted average number of shares ⁽³⁾	0.03	0.06	0.05	(0.03)
Impact of GAAP accounting for noncontrolling interests, two-class method and treasury stock method ⁽⁴⁾	0.01	0.24	0.69	0.49
Add real estate depreciation and amortization	0.29	0.26	1.14	1.04

Add Company's share of unconsolidated real estate venture real estate depreciation and amortization	0.04	0.06	0.22	0.12
Subtract gain on sale of self storage properties	—	—	(0.03)	—
Subtract mark-to-market changes in value on equity securities	(0.01)	—	(0.01)	—
FFO attributable to subordinated performance unitholders	(0.10)	(0.09)	(0.38)	(0.32)
FFO per share and unit	0.39	0.37	1.53	1.37
Add acquisition costs	0.01	—	0.01	0.01
Core FFO per share and unit	\$ 0.40	\$ 0.37	\$ 1.54	\$ 1.38

(3) Adjustment accounts for the difference between the weighted average number of shares used to calculate diluted earnings per share and the weighted average number of shares used to calculate FFO and Core FFO per share and unit. Diluted earnings per share is calculated using the two-class method for the company's restricted common shares and the treasury stock method for certain unvested LTIP units, and assumes the conversion of vested LTIP units into OP units on a one-for-one basis and the hypothetical conversion of subordinated performance units, and DownREIT subordinated performance units into OP units, even though such units may only be convertible into OP units (i) after a lock-out period and (ii) upon certain events or conditions. For additional information about the conversion of subordinated performance units and DownREIT subordinated performance units into OP units, see Note 10 to the Company's most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission. The computation of weighted average shares and units for FFO and Core FFO per share and unit includes all restricted common shares and LTIP units that participate in distributions and excludes all subordinated performance units and DownREIT subordinated performance units because their effect has been accounted for through the allocation of FFO to the related unitholders based on distributions declared.

(4) Represents the effect of adjusting the numerator to consolidated net income (loss) prior to GAAP allocations for noncontrolling interests, after deducting preferred share and unit distributions, and before the application of the two-class method and treasury stock method, as described in footnote⁽³⁾.

Net Operating Income

(dollars in thousands) (unaudited)

Three Months Ended December 31, Year Ended December 31,

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 18,826	\$ 14,483	\$ 66,013	\$ 56,326
(Subtract) add:				
Management fees and other revenue	(5,352)	(4,846)	(20,735)	(12,310)
General and administrative expenses	11,606	10,606	45,581	36,220
Depreciation and amortization	27,343	22,921	105,119	89,147
Interest expense	14,874	11,961	56,464	42,724
Equity in losses of unconsolidated real estate ventures	8	1,713	4,970	1,423
Acquisition costs	534	192	1,317	663
Income tax expense	392	349	1,351	818
Gain on sale of self storage properties	—	—	(2,814)	(391)
Non-operating (income) expense	(727)	160	(452)	91
Net Operating Income	<u>\$ 67,504</u>	<u>\$ 57,539</u>	<u>\$ 256,814</u>	<u>\$ 214,711</u>

EBITDA and Adjusted EBITDA

(dollars in thousands) (unaudited)

	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 18,826	\$ 14,483	\$ 66,013	\$ 56,326
Add:				
Depreciation and amortization	27,343	22,921	105,119	89,147
Company's share of unconsolidated real estate venture depreciation and amortization	3,763	5,524	19,889	10,233
Interest expense	14,874	11,961	56,464	42,724
Income tax expense	392	349	1,351	818
EBITDA	<u>65,198</u>	<u>55,238</u>	<u>248,836</u>	<u>199,248</u>
Add (subtract):				
Acquisition costs	534	192	1,317	663

Gain on sale of self storage properties	—	—	(2,814)	(391)
Company's share of unconsolidated real estate venture loss on sale of properties	—	—	202	205
Equity-based compensation expense	1,154	1,029	4,527	3,837
Adjusted EBITDA	\$ 66,886	\$ 56,459	\$ 252,068	\$ 203,562

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