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Broadstone Net Lease Announces Third Quarter 2022 Results

ROCHESTER, N.Y. – Broadstone Net Lease, Inc. (NYSE: BNL) ("BNL," the "Company," "we," "our," or "us"), today announced its operating results for the quarter ended September 30, 2022.

THIRD QUARTER 2022 HIGHLIGHTS

INVESTMENT ACTIVITY	<ul style="list-style-type: none">• Invested \$204.5 million at a weighted average initial cash capitalization rate of 6.5%, including the acquisition of 27 properties with a weighted average initial term of 20.9 years and minimum annual rent increases of 2.0%. These investments were predominantly weighted towards industrial opportunities (85.8% of the quarter's volume, based on ABR), with the remaining investment activity spanning property types such as restaurant (6.6%), healthcare (4.6%) and retail (3.0%).• Subsequent to quarter end, we invested an additional \$283.1 million and currently have \$21.6 million of investments under control.
CAPITAL MARKETS ACTIVITY	<ul style="list-style-type: none">• Sold 962,200 shares of common stock for net proceeds of \$20.3 million under our at-the-market common equity offering ("ATM Program").• Completed a forward equity offering of 13,000,000 shares for anticipated net proceeds of approximately \$270.7 million, none of which have settled.• Entered into a \$200 million, five year unsecured term loan and a \$300 million, seven year unsecured term loan, the proceeds of which were used to repay in full our \$190 million term loan set to mature in 2024, and a portion of the outstanding borrowings on our unsecured revolving credit facility. In addition, we entered into interest rate swaps with a total notional value of \$260 million to fix the Secured Overnight Financing Rate ("SOFR") component of the borrowing rate at a weighted average fixed interest rate of 2.59% until August 1, 2029.• Ended the quarter with total outstanding debt of \$2.1 billion, Net Debt of \$2.0 billion, a Net Debt to Annualized Adjusted EBITDAre ratio of 5.5x, and a pro forma Net Debt to Annualized Adjusted EBITDAre ratio of 4.8x assuming settlement of the outstanding forward.• Increased our quarterly dividend to \$0.275.
OPERATING RESULTS	<ul style="list-style-type: none">• Collected 100% of base rents due for the third quarter, and our portfolio was 99.3% leased based on rentable square footage, with only three of our 790 total properties vacant and not subject to a lease as of quarter end.• Incurred \$9.9 million of general and administrative expenses, inclusive of \$1.5 million of stock-based compensation.• Generated net income of \$28.7 million, or \$0.16 per share.• Generated adjusted funds from operations ("AFFO") of \$63.4 million, or \$0.35 per share.• Reaffirmed the guidance range for the 2022 full year and currently expect to report AFFO of between \$1.38 and \$1.40 per diluted share.

MANAGEMENT COMMENTARY

"As we highlighted in our business update in early October, we've continued to grow our portfolio through accretive acquisitions supported by our proactive capital markets strategy, and our portfolio continues to perform well with 100% rent collection and minimal vacancies given its highly diversified and defensive construction," said Chris Czarnecki, BNL's Chief Executive Officer. "We continue to have strong conviction in our diversified strategy and its proven ability to deliver durable cash flows, while also providing us with the ability to pivot between property types and selectively pursue attractive investment opportunities as the broader market landscape evolves. While we continue to see no shortage of investment opportunities, a disconnect currently exists between the capital markets and property transaction markets. Cost of capital across the sector has considerably increased while asset pricing levels have been slower to respond. Given this disconnect, we anticipate pricing adjustments in net lease assets and believe it is prudent to take a more selective and opportunistic approach to capital deployment in the near-term."

SUMMARIZED FINANCIAL RESULTS

	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
<i>(in thousands, except per share data)</i>					
Revenues	\$ 103,524	\$ 98,013	\$ 122,777	\$ 295,378	\$ 290,234
Net income, including non-controlling interests	\$ 28,709	\$ 35,552	\$ 30,522	\$ 92,702	\$ 77,302
Net earnings per share	\$ 0.16	\$ 0.20	\$ 0.18	\$ 0.52	\$ 0.48
FFO	\$ 72,169	\$ 68,340	\$ 91,947	\$ 202,013	\$ 194,060
FFO per share	\$ 0.39	\$ 0.38	\$ 0.54	\$ 1.13	\$ 1.20
Core FFO	\$ 66,677	\$ 65,986	\$ 59,769	\$ 196,739	\$ 168,191
Core FFO per share	\$ 0.36	\$ 0.37	\$ 0.35	\$ 1.10	\$ 1.04
AFFO	\$ 63,386	\$ 62,804	\$ 55,836	\$ 186,590	\$ 157,270
AFFO per share	\$ 0.35	\$ 0.35	\$ 0.33	\$ 1.04	\$ 0.97
Diluted Weighted Average Shares Outstanding	182,971	180,256	169,587	179,132	161,273

FFO, Core FFO, and AFFO are measures that are not calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). See the Reconciliation of Non-GAAP Measures later in this press release.

REAL ESTATE PORTFOLIO UPDATE

As of September 30, 2022, we owned a diversified portfolio of 790 individual net leased commercial properties with 783 properties located in 44 U.S. states and seven properties located in four Canadian provinces, comprising approximately 36.8 million rentable square feet of operational space. As of September 30, 2022, all but three of our properties were subject to a lease, and our properties were occupied by 218 different commercial tenants, with no single tenant accounting for more than 2.4% of ABR. Properties subject to a lease represent 99.3% of our portfolio's rentable square footage. The ABR weighted average annual minimum rent increase, pursuant to leases on properties in the portfolio as of September 30, 2022, was 2.0%.

During the third quarter, we invested \$204.5 million in accretive acquisitions and revenue generating capital expenditures at a weighted average initial cash capitalization rate of 6.5%, including the acquisition of 27 properties located across 10 U.S. states with a weighted average initial lease term and minimum annual rent increases of 20.9 years and 2.0%, respectively. These investments were predominantly weighted towards industrial opportunities (85.8% of the quarter's volume, based on ABR), with the remaining investment activity spanning property types such as restaurant (6.6%), healthcare (4.6%) and retail (3.0%).

Subsequent to quarter end, we invested an additional \$283.1 million in 15 properties and have \$21.6 million of investments under control, which we define as under contract or executed letter of intent.

BALANCE SHEET AND CAPITAL MARKETS ACTIVITIES

During the third quarter, BNL sold 962,200 shares of common stock under its ATM Program at a weighted average sale price of \$21.44 per share for net proceeds of \$20.3 million. There was approximately \$145.4 million of capacity remaining on the ATM Program as of September 30, 2022.

On August 1, 2022, we entered into two new unsecured bank term loans, including a \$200 million, five year term loan that matures in 2027 (the "2027 Unsecured Term Loan"), and a \$300 million, seven year term loan that matures in 2029 (the "2029 Unsecured Term Loan"). Borrowings on the new term loans bear interest at variable rates based on the SOFR as adjusted, plus a margin based on our credit rating ranging between 0.80% and 1.60% per annum for the 2027 Unsecured Term Loan, and 1.15% and 2.20% per annum for the 2029 Unsecured Term Loan. The initial applicable margin was 0.95% and 1.25% for the 2027 Unsecured Term Loan and 2029 Unsecured Term Loan, respectively. Proceeds from the loans were used to repay in full our \$190 million unsecured term loan set to mature in 2024, including accrued interest, and a portion of the outstanding balance on our unsecured revolving credit facility. In addition, we entered into interest rate swaps with a total notional value of \$260 million to fix the SOFR component of the borrowing rate at a weighted average fixed interest rate of 2.59% until August 1, 2029. With the addition of these interest rate swaps, our unsecured bank term loans remain entirely hedged.

In August 2022, we completed a public offering of 13,000,000 shares of common stock at a price of \$21.35 per share, subject to certain adjustments, in connection with a forward sale agreement. We expect to settle the forward sale agreement by the August 2023 maturity date. As of September 30, 2022, we anticipate the forward sale agreement will provide net proceeds of approximately \$270.7 million, resulting in a pro forma Net Debt to Annualized Adjusted EBITDA ratio of 4.8x. We have not settled any part of the forward sale agreement as of September 30, 2022.

DISTRIBUTIONS

At its October 27, 2022, meeting, our board of directors declared a \$0.275 distribution per common share and OP Unit to stockholders and OP unitholders of record as of December 31, 2022, payable on or before January 15, 2022.

2022 GUIDANCE

BNL has reaffirmed its guidance range for the 2022 full year and currently expects to report AFFO of between \$1.38 and \$1.40 per diluted share.

The guidance range is based on the following key assumptions, which is unchanged from the guidance range provided on October 4, 2022:

- (i) investments in real estate properties between \$900 million and \$1 billion;
- (ii) dispositions of real estate properties between \$50 million and \$75 million; and
- (iii) total cash general and administrative expenses between \$31 million and \$33 million.

Our per share results are sensitive to both timing and amount of real estate investments, property dispositions, and capital markets activities that occur throughout the year.

The Company does not provide guidance for the most comparable GAAP financial measure, net income, or a reconciliation of the forward-looking non-GAAP financial measure of AFFO to net income computed in accordance with GAAP, because it is unable to reasonably predict, without unreasonable efforts, certain items that would be contained in the GAAP measure, including items that are not indicative of the Company's ongoing operations, including, without limitation, potential impairments of real estate assets, net gain/loss on dispositions of real estate assets, changes in allowance for credit losses, and stock-based compensation expense. These items are uncertain, depend on various factors, and could have a material impact on the Company's GAAP results for the guidance periods.

CONFERENCE CALL AND WEBCAST

The company will host its third quarter earnings conference call and audio webcast on Thursday, November 3, 2022, at 11:00 a.m. Eastern Time.

To access the live webcast, which will be available in listen-only mode, please visit: <https://events.q4inc.com/attendee/395933686>. If you prefer to listen via phone, U.S. participants may dial: 1-844-200-

6205 (toll free) or 1-646-904-5544 (local), access code 181980. International access numbers are viewable here: <https://events.q4irportal.com/custom/access/2324/>.

A replay of the conference call webcast will be available approximately one hour after the conclusion of the live broadcast. To listen to a replay of the call via phone, all participants may dial: 1-866-813-9403 (toll free) or 1-929-458-6194 (local), access code 547581. The replay will be available via dial-in until Thursday, November 17, 2022. To listen to a replay of the call via the web, which will be available for one year, please visit: <https://investors.bnl.broadstone.com>.

About Broadstone Net Lease, Inc.

BNL is a real estate investment trust that acquires, owns, and manages primarily single-tenant commercial real estate properties that are net leased on a long-term basis to a diversified group of tenants. The Company utilizes an investment strategy underpinned by strong fundamental credit analysis and prudent real estate underwriting. As of September 30, 2022, BNL's diversified portfolio consisted of 790 individual net leased commercial properties with 783 properties located in 44 U.S. states and seven properties located in four Canadian provinces across the industrial, healthcare, restaurant, retail, and office property types.

Forward-Looking Statements

This press release contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, our plans, strategies, and prospects, both business and financial. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "should," "expect," "intend," "anticipate," "estimate," "would be," "believe," "continue," or other similar words. Forward-looking statements, including our 2022 guidance and assumptions, involve known and unknown risks and uncertainties, which may cause BNL's actual future results to differ materially from expected results, including, without limitation, risks and uncertainties related to the COVID-19 pandemic and its related impacts on us and our tenants, general economic conditions, including but not limited to increases in the rate of inflation and/or interest rates, local real estate conditions, tenant financial health, property investments and acquisitions, and the timing and uncertainty of completing these acquisitions, and uncertainties regarding future distributions to our stockholders. These and other risks, assumptions, and uncertainties are described in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on February 23, 2022, which you are encouraged to read, and is available on the SEC's website at www.sec.gov. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. The Company assumes no obligation to, and does not currently intend to, update any forward-looking statements after the date of this press release, whether as a result of new information, future events, changes in assumptions, or otherwise.

Notice Regarding Non-GAAP Financial Measures

In addition to our reported results and net earnings per diluted share, which are financial measures presented in accordance with GAAP, this press release contains and may refer to certain non-GAAP financial measures, including Funds from Operations ("FFO"), Core Funds From Operations ("Core FFO"), Adjusted Funds from Operations ("AFFO"), Net Debt, and Net Debt to Annualized Adjusted EBITDAre. We believe the use of FFO, Core FFO, and AFFO are useful to investors because they are widely accepted industry measures used by analysts and investors to compare the operating performance of REITs. FFO, Core FFO, and AFFO should not be considered alternatives to net income as a performance measure or to cash flows from operations, as reported on our statement of cash flows, or as a liquidity measure, and should be considered in addition to, and not in lieu of, GAAP financial measures. We believe presenting Net Debt to Annualized Adjusted EBITDAre is useful to investors because it provides information about gross debt less cash and cash equivalents, which could be used to repay debt, compared to our performance as measured using Annualized Adjusted EBITDAre. You should not consider our Annualized Adjusted EBITDAre as an alternative to net income or cash flows from operating activities determined in accordance with GAAP. A reconciliation of non-GAAP measures to the most directly comparable GAAP financial measure and statements of why management believes these measures are useful to investors are included below.

Broadstone Net Lease, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except per share amounts)

	September 30, 2022	December 31, 2021
Assets		
Accounted for using the operating method:		
Land	\$ 755,206	\$ 655,374
Land improvements	331,858	295,329
Buildings and improvements	3,650,275	3,242,618
Equipment	10,422	11,870
Total accounted for using the operating method	4,747,761	4,205,191
Less accumulated depreciation	(505,456)	(430,141)
Accounted for using the operating method, net	4,242,305	3,775,050
Accounted for using the direct financing method	27,128	28,782
Accounted for using the sales-type method	571	571
Investment in rental property, net	4,270,004	3,804,403
Cash and cash equivalents	75,912	21,669
Accrued rental income	129,579	116,874
Tenant and other receivables, net	791	1,310
Prepaid expenses and other assets	18,984	17,275
Interest rate swap, assets	66,602	—
Goodwill	339,769	339,769
Intangible lease assets, net	322,314	303,642
Debt issuance costs – unsecured revolving credit facility, net	6,485	4,065
Leasing fees, net	8,752	9,641
Total assets	\$ 5,239,192	\$ 4,618,648
Liabilities and equity		
Unsecured revolving credit facility	\$ 219,537	\$ 102,000
Mortgages, net	94,753	96,846
Unsecured term loans, net	894,378	646,671
Senior unsecured notes, net	844,367	843,801
Interest rate swap, liabilities	—	27,171
Accounts payable and other liabilities	52,594	38,038
Dividends payable	49,886	45,914
Accrued interest payable	10,559	6,473
Intangible lease liabilities, net	64,971	70,596
Total liabilities	2,231,045	1,877,510
Commitments and contingencies		
Equity		
Broadstone Net Lease, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value; 20,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.00025 par value; 500,000 shares authorized, 173,155 and 162,383 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	43	41
Additional paid-in capital	3,148,075	2,924,168
Cumulative distributions in excess of retained earnings	(369,260)	(318,476)
Accumulated other comprehensive income (loss)	61,834	(28,441)
Total Broadstone Net Lease, Inc. stockholders' equity	2,840,692	2,577,292
Non-controlling interests	167,455	163,846
Total equity	3,008,147	2,741,138
Total liabilities and equity	\$ 5,239,192	\$ 4,618,648

Broadstone Net Lease, Inc. and Subsidiaries
Condensed Consolidated Statements of Income and Comprehensive Income
(in thousands, except per share amounts)

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30, 2022</u>	<u>June 30, 2022</u>	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Revenues				
Lease revenues, net	\$ 103,524	\$ 98,013	\$ 295,378	\$ 290,234
Operating expenses				
Depreciation and amortization	39,400	35,511	109,201	98,620
Property and operating expense	5,636	4,696	15,376	14,019
General and administrative	9,942	9,288	28,058	27,840
Provision for impairment of investment in rental properties	4,155	1,380	5,535	28,001
Total operating expenses	<u>59,133</u>	<u>50,875</u>	<u>158,170</u>	<u>168,480</u>
Other income (expenses)				
Interest income	4	—	4	11
Interest expense	(20,095)	(17,888)	(54,879)	(47,149)
Cost of debt extinguishment	(231)	—	(231)	(368)
Gain on sale of real estate	61	4,071	5,328	9,791
Income taxes	(356)	(401)	(1,169)	(1,187)
Change in fair value of earnout liability	—	—	—	(5,539)
Other income (expenses)	4,935	2,632	6,441	(11)
Net income	<u>28,709</u>	<u>35,552</u>	<u>92,702</u>	<u>77,302</u>
Net income attributable to non-controlling interests	(1,600)	(2,036)	(5,319)	(5,167)
Net income attributable to Broadstone Net Lease, Inc.	<u>\$ 27,109</u>	<u>\$ 33,516</u>	<u>\$ 87,383</u>	<u>\$ 72,135</u>
Weighted average number of common shares outstanding				
Basic	<u>172,578</u>	<u>169,555</u>	<u>168,680</u>	<u>150,227</u>
Diluted	<u>182,971</u>	<u>180,256</u>	<u>179,132</u>	<u>161,273</u>
Net earnings per common share				
Basic and diluted	<u>\$ 0.16</u>	<u>\$ 0.20</u>	<u>\$ 0.52</u>	<u>\$ 0.48</u>
Comprehensive income				
Net income	\$ 28,709	\$ 35,552	\$ 92,702	\$ 77,302
Other comprehensive income				
Change in fair value of interest rate swaps	40,039	18,772	93,772	30,328
Realized loss (gain) on interest rate swaps	639	695	1,993	2
Comprehensive income	69,387	55,019	188,467	107,632
Comprehensive income attributable to non-controlling interests	(3,868)	(3,151)	(10,809)	(7,313)
Comprehensive income attributable to Broadstone Net Lease, Inc.	<u>\$ 65,519</u>	<u>\$ 51,868</u>	<u>\$ 177,658</u>	<u>\$ 100,319</u>

Reconciliation of Non-GAAP Measures

The following is a reconciliation of net income to FFO, Core FFO, and AFFO for the three months ended September 30, 2022 and June 30, 2022 and for the nine months ended September 30, 2022 and 2021. Also presented is the weighted average number of shares of our common stock and OP Units used for the diluted per share computation:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2022	September 30, 2021
<i>(in thousands, except per share data)</i>				
Net income	\$ 28,709	\$ 35,552	\$ 92,702	\$ 77,302
Real property depreciation and amortization	39,366	35,479	109,104	98,548
Gain on sale of real estate	(61)	(4,071)	(5,328)	(9,791)
Provision for impairment on investment in rental properties	4,155	1,380	5,535	28,001
FFO	<u>\$ 72,169</u>	<u>\$ 68,340</u>	<u>\$ 202,013</u>	<u>\$ 194,060</u>
Net write-offs of accrued rental income	—	—	1,326	1,938
Lease termination fee	(791)	—	(791)	(35,000)
Cost of debt extinguishment	231	—	231	368
Severance	3	278	401	1,275
Change in fair value of earnout liability	—	—	—	5,539
Other (Income) expenses ⁽¹⁾	(4,935)	(2,632)	(6,441)	11
Core FFO	<u>\$ 66,677</u>	<u>\$ 65,986</u>	<u>\$ 196,739</u>	<u>\$ 168,191</u>
Straight-line rent adjustment	(5,175)	(4,965)	(15,075)	(14,983)
Adjustment to provision for credit losses	(4)	(1)	(5)	(1)
Amortization of debt issuance costs	948	900	2,704	2,832
Amortization of net mortgage premiums	(26)	(25)	(78)	(106)
Loss on interest rate swaps and other non-cash interest expense	639	695	1,993	2
Amortization of lease intangibles	(1,176)	(1,167)	(3,501)	(2,309)
Stock-based compensation	1,503	1,381	3,813	3,644
AFFO	<u>\$ 63,386</u>	<u>\$ 62,804</u>	<u>\$ 186,590</u>	<u>\$ 157,270</u>
Diluted WASO ⁽²⁾	182,971	180,256	179,132	161,273
Net earnings per share ⁽³⁾	\$ 0.16	\$ 0.20	\$ 0.52	\$ 0.48
FFO per share ⁽³⁾	0.39	0.38	1.13	1.20
Core FFO per share ⁽³⁾	0.36	0.37	1.10	1.04
AFFO per share ⁽³⁾	0.35	0.35	1.04	0.97

¹ Amount includes \$4.9 million and \$2.6 million of unrealized foreign exchange gain for the three months ended September 30, 2022 and June 30, 2022, respectively, and \$6.4 million of unrealized foreign exchange gain for the nine months ended September 30, 2022, primarily associated with our Canadian dollar denominated revolving borrowings.

² Excludes 395,441 and 377,407 weighted average shares of unvested restricted common stock for the three months ended September 30, 2022 and June 30, 2022, respectively. Excludes 381,220 and 366,477 weighted average shares of unvested restricted common stock for the nine months ended September 30, 2022 and 2021, respectively.

³ Excludes \$0.1 million from the numerator for the three months ended September 30, 2022 and June 30, 2022, respectively, and \$0.3 million from the numerator for the nine months ended September 30, 2022 and 2021, respectively, related to dividends paid or declared on shares of unvested restricted common stock.

Our reported results and net earnings per diluted share are presented in accordance with GAAP. We also disclose FFO, Core FFO, and AFFO, each of which are non-GAAP measures. We believe the use of FFO, Core FFO, and AFFO are useful to investors because they are widely accepted industry measures used by analysts and investors to compare the operating performance of REITs. FFO, Core FFO, and AFFO should not be considered alternatives to net income as a performance measure or to cash flows from operations, as reported on our statement of cash flows, or 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 standards established by the Board of Governors of Nareit, the worldwide representative voice for REITs and publicly traded real estate companies with an interest in the U.S. real estate and capital markets. Nareit defines FFO as GAAP net income or loss adjusted to exclude net gains (losses) from sales of certain depreciated real estate assets, depreciation and amortization expense from real estate assets, gains and losses from change in control, and impairment charges related to certain previously depreciated real estate assets. 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 (losses) 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 compute Core FFO by adjusting FFO, as defined by Nareit, to exclude certain GAAP income and expense amounts that we believe are infrequently recurring, unusual in nature, or not related to its core real estate operations, including write-offs or recoveries of accrued rental income, lease termination fees, the change in fair value of our earnout liability, cost of debt extinguishments, unrealized and realized gains or losses on foreign currency transactions, severance, and other extraordinary items. Exclusion of these items from similar FFO-type metrics is common within the equity REIT industry, and management believes that presentation of Core FFO provides investors with a metric to assist in their evaluation of our operating performance across multiple periods and in comparison to the operating performance of our peers, because it removes the effect of unusual items that are not expected to impact our operating performance on an ongoing basis.

We compute AFFO by adjusting Core FFO for certain non-cash revenues and expenses, including straight-line rents, amortization of lease intangibles, amortization of debt issuance costs, amortization of net mortgage premiums, (gain) loss on interest rate swaps and other non-cash interest expense, stock-based compensation, and other specified non-cash items. We believe that excluding such items assists management and investors in distinguishing whether changes in our operations are due to growth or decline of operations at our properties or from other factors. We use AFFO as a measure of our performance when we formulate corporate goals, and is a factor in determining management compensation. We believe that AFFO is a 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 revenues or expenses.

Specific to our adjustment for straight-line rents, our leases include cash rents that increase over the term of the lease to compensate us for anticipated increases in market rental rates over time. Our leases do not include significant front-loading or back-loading of payments, or significant rent-free periods. Therefore, we find it useful to evaluate rent on a contractual basis as it allows for comparison of existing rental rates to market rental rates. In situations where we granted short-term rent deferrals as a result of the COVID-19 pandemic, and such deferrals were probable of collection and expected to be repaid within a short term, we continued to recognize the same amount of GAAP lease revenues each period. Consistent with GAAP lease revenues, the short-term deferrals associated with COVID-19, and the corresponding payments, did not impact our AFFO.

FFO, Core FFO, and AFFO may not be comparable to similarly titled measures employed by other REITs, and comparisons of our FFO, Core FFO, and AFFO with the same or similar measures disclosed by other REITs may not be meaningful.

Neither the SEC nor any other regulatory body has passed judgment on the acceptability of the adjustments to FFO that we use to calculate Core FFO and AFFO. In the future, the SEC, Nareit or another regulatory body may decide to standardize the allowable adjustments across the REIT industry and in response to such standardization we may have to adjust our calculation and characterization of Core FFO and AFFO accordingly.

The following is a reconciliation of net income to Annualized Adjusted EBITDAre, debt to Net Debt and Net Debt to Annualized Adjusted EBITDAre as of and for the three months ended September 30, 2022, June 30, 2022, and September 30, 2021:

<i>(in thousands)</i>	For the Three Months Ended		
	September 30, 2022	June 30, 2022	September 30, 2021
Net income	\$ 28,709	\$ 35,552	\$ 30,522
Depreciation and amortization	39,400	35,511	36,682
Interest expense	20,095	17,888	15,611
Income taxes	356	401	473
EBITDA	\$ 88,560	\$ 89,352	\$ 83,288
Provision for impairment of investment in rental properties	4,155	1,380	25,989
Gain on sale of real estate	(61)	(4,071)	(1,220)
EBITDAre	\$ 92,654	\$ 86,661	\$ 108,057
Adjustment for current quarter acquisition activity ⁽¹⁾	2,358	2,780	3,534
Adjustment for current quarter disposition activity ⁽²⁾	—	(141)	(1,387)
Adjustment to exclude change in fair value of earnout liability	—	—	1,059
Adjustment to exclude net write-offs of accrued rental income	—	—	1,496
Adjustment to exclude realized / unrealized foreign exchange (gain) loss	(4,934)	(2,632)	—
Adjustment to exclude cost of debt extinguishments	231	—	242
Adjustment to exclude lease termination fee	(791)	—	(35,000)
Adjusted EBITDAre	\$ 89,518	\$ 86,668	\$ 78,001
Annualized EBITDAre	\$ 370,616	\$ 346,642	\$ 432,221
Annualized Adjusted EBITDAre	\$ 358,072	\$ 346,672	\$ 311,998

¹ Reflects an adjustment to give effect to all acquisitions during the quarter as if they had been acquired as of the beginning of the quarter.

² Reflects an adjustment to give effect to all dispositions during the quarter as if they had been sold as of the beginning of the quarter.

<i>(in thousands)</i>	September 30, 2022	June 30, 2022	September 30, 2021
Debt			
Unsecured revolving credit facility	\$ 219,537	\$ 320,657	\$ —
Unsecured term loans, net	894,378	587,098	646,458
Senior unsecured notes, net	844,367	844,178	843,665
Mortgages, net	94,753	95,453	97,530
Debt issuance costs	11,498	8,991	10,215
Gross Debt	2,064,533	1,856,377	1,597,868
Cash and cash equivalents	(75,912)	(16,813)	(16,182)
Restricted cash	(6,449)	(12,163)	(3,895)
Net Debt	\$ 1,982,172	\$ 1,827,401	\$ 1,577,791
Anticipated proceeds from forward equity agreement	(270,732)	—	—
Pro Forma Net Debt	\$ 1,711,440	\$ 1,827,401	\$ 1,577,791
Net Debt to Annualized EBITDAre	5.3x	5.3x	3.7x
Net Debt to Annualized Adjusted EBITDAre	5.5x	5.3x	5.1x
Pro Forma Net Debt to Annualized Adjusted EBITDAre	4.8x	5.3x	5.1x

We define Net Debt as gross debt (total reported debt plus debt issuance costs) less cash and cash equivalents and restricted cash. We believe that the presentation of Net Debt to Annualized EBITDAre and Net Debt to Annualized Adjusted EBITDAre is useful to investors and analysts because these ratios provide information about gross debt less cash and cash equivalents, which could be used to repay debt, compared to our performance as measured using EBITDAre.

We compute EBITDA as earnings before interest, income taxes and depreciation and amortization. EBITDA is a measure commonly used in our industry. We believe that this ratio provides investors and analysts with a measure of our performance that includes our operating results unaffected by the differences in capital structures, capital investment cycles and useful life of related assets compared to other companies in our industry. We compute EBITDAre in accordance with the definition adopted by Nareit, as EBITDA excluding gains (losses) from the sales of depreciable property and provisions for impairment on investment in real estate. We believe EBITDA and

EBITDAre are useful to investors and analysts because they provide important supplemental information about our operating performance exclusive of certain non-cash and other costs. EBITDA and EBITDAre are not measures 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.

We are focused on a disciplined and targeted acquisition strategy, together with active asset management that includes selective sales of properties. We manage our leverage profile using a ratio of Net Debt to Annualized Adjusted EBITDAre, each discussed further below, which we believe is a useful measure of our ability to repay debt and a relative measure of leverage, and is used in communications with our lenders and rating agencies regarding our credit rating. As we fund new acquisitions using our unsecured revolving credit facility, our leverage profile and Net Debt will be immediately impacted by current quarter acquisitions. However, the full benefit of EBITDAre from newly acquired properties will not be received in the same quarter in which the properties are acquired. Additionally, EBITDAre for the quarter includes amounts generated by properties that have been sold during the quarter. Accordingly, the variability in EBITDAre caused by the timing of our acquisitions and dispositions can temporarily distort our leverage ratios. We adjust EBITDAre ("Adjusted EBITDAre") for the most recently completed quarter (i) to recalculate as if all acquisitions and dispositions had occurred at the beginning of the quarter, (ii) to exclude certain GAAP income and expense amounts that are either non-cash, such as cost of debt extinguishments, realized or unrealized gains and losses on foreign currency transactions, or the change in fair value of our earnout liability, or that we believe are one time, or unusual in nature because they relate to unique circumstances or transactions that had not previously occurred and which we do not anticipate occurring in the future, and (iii) to eliminate the impact of lease termination fees and other items, that are not a result of normal operations. We then annualize quarterly Adjusted EBITDAre by multiplying it by four ("Annualized Adjusted EBITDAre"). You should not unduly rely on this measure as it is based on assumptions and estimates that may prove to be inaccurate. Our actual reported EBITDAre for future periods may be significantly different from our Annualized Adjusted EBITDAre. Adjusted EBITDAre and Annualized Adjusted EBITDAre are not measurements of performance under GAAP, and our Adjusted EBITDAre and Annualized Adjusted EBITDAre may not be comparable to similarly titled measures of other companies. You should not consider our Adjusted EBITDAre and Annualized Adjusted EBITDAre as alternatives to net income or cash flows from operating activities determined in accordance with GAAP.