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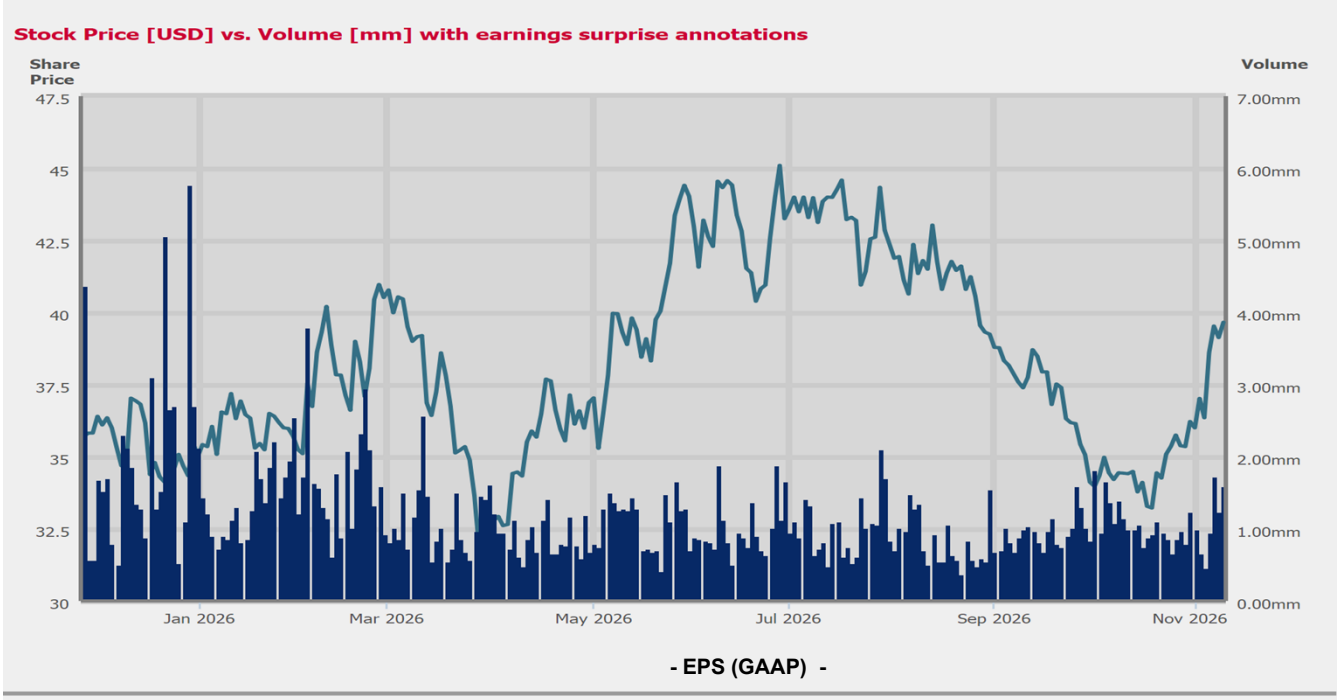
FQ3 2026 Earnings Call Transcripts

Tuesday, November 10, 2026 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2026-			-FQ4 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.23)	(0.68)	NM	(0.21)	(0.79)	NA
Revenue (mm)	1366.09	1361.00	(0.37 %)	1357.74	5390.83	NA

Currency: USD
Consensus as of Oct-27-2026 9:35 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2025	(0.11)	0.03	NM
FQ1 2026	(0.19)	(0.18)	NM
FQ2 2026	(0.23)	(0.13)	NM
FQ3 2026	(0.23)	(0.68)	NM

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 9

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Lineage Third Quarter 2026 Earnings Conference Call. [Operator Instructions]

I will now hand the conference over to Ki Bin Kim, Head of Investor Relations. Please go ahead.

Ki Bin Kim
Vice President of Investor Relations

Thank you. Welcome to Lineage's discussion of the third quarter 2026 financial results. Joining me today are Greg Lehmkuhl, Lineage's President and Chief Executive Officer; and Robb LeMasters, Chief Financial Officer. Our earnings presentation, which includes supplemental financial information, can be found on our Investor Relations website at ir.onelineage.com. Following management's prepared remarks, we'll be happy to take your questions.

Before we start, I would like to remind everyone that our comments today will include forward-looking statements under federal securities laws. These statements are subject to numerous risks and uncertainties as described in our filings with the SEC. These risks could cause our actual results to differ materially from those expressed in or implied by our comments. Forward-looking statements in the earnings release that we issued yesterday, along with the comments on this call, will not be updated as actual events unfold. In addition, reference will be made to certain non-GAAP financial measures. Information regarding our use of these measures and a reconciliation of non-GAAP to GAAP measures can be found in the press release and supplemental package that was issued yesterday. Unless otherwise noted, reported figures are rounded and comparisons of the third quarter of 2026 are to the third quarter of 2025.

Now I would like to turn the call over to Greg.

W. Gregory Lehmkuhl
CEO, President & Director

Thanks, Ki Bin, and good morning, everyone. Let me walk through our agenda for this morning. First, I'll cover the quarter and updated outlook at a high level and then share our latest views on cold storage industry dynamics. Robb LeMasters will then walk through segment performance, capital structure and the detail behind our outlook. I'll return with closing comments before we open up the line for your questions.

Turning to our quarterly performance on Slide 4. While the macro conditions remain challenging this quarter, as we'll discuss, our results were generally in line with our expectations. Adjusted EBITDA was $317 million, as we expected, albeit supported by favorable admin performance. Total AFFO was ahead of our expectations at $188 million or $0.73 a share, helped by lower maintenance CapEx and taxes.

In our Warehousing segment, same-store physical occupancy grew 110 basis points year-over-year to 76.2%, further confirmation that customer inventory levels have broadly stabilized. While underlying demand remains healthy, some customers are holding slightly leaner inventories in the near term, reflecting higher carrying and transportation costs. Consequently, warehouse volumes were somewhat lighter than normal seasonal trends would suggest after a strong first half of the year.

Services revenue per throughput pallet grew 2% year-over-year, holding its recent positive pace. And same-store throughput was down about 1% versus being down 3% in the first quarter and about 2% in the second. The trend is better, but international container volumes into the U.S. are still holding it back, which we'll discuss more on the next page.

Same-store NOI declined 4% year-over-year. As we said last quarter, the third quarter was the toughest 2025 quarterly comparison, and it was expected to be the low point of our same-store NOI change for 2026. All that being said, we're winning new business in what remains a competitive environment, and that's what an industry-leading network and service offering does and positions us well as the cycle turns.

Within GIS, trade-related disruption and elevated carrier costs continue to pressure results. Although we acted quickly to adjust carrier rates and our fuel surcharges automatically reset, the unprecedented acceleration of third-party carrier costs increased faster than we anticipated. We are continuing to increase our rates with customers to match the current environment, and we expect margin

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recovery over the next couple of quarters. Importantly, across both of these segments, international businesses have been a real source of growth, great job to our teams in each of those regions.

Given what we've seen since our last earnings call and what we anticipate for the remainder of the year, we're adjusting our full year guidance. We now expect adjusted EBITDA of $1.25 billion to $1.27 billion, which lowers the midpoint by $15 million. We're taking down the high end of our same-store NOI growth range to negative 3% to negative 2% and reducing GIS NOI while favorably adjusting administrative expense.

On AFFO per share, we're holding the midpoint but narrowing the range to $2.86 to $2.98, helped by tighter control of contributors to AFFO that do not impact adjusted EBITDA. We never like guiding toward the lower end of the targets we set at the start of the year. Going in, we knew the industry was working through headwinds, including industry oversupply and softer trade.

This year also brought surprises that were not contemplated in our initial guidance, including the fire at our Big Bear facility in Los Angeles, which we now estimate at a $20 million impact to warehouse NOI and adjusted EBITDA in 2026 and the California legal settlement in GIS we mentioned last quarter at roughly $7 million. Excluding just those 2 items, we would be forecasting to end the year towards the upper end of our initial full year adjusted EBITDA and AFFO guidance range.

Turning to Slide 5. Two of our core KPIs are moving in the right direction, giving us confidence that market conditions are stabilizing despite ongoing macroeconomic headwinds. Same-store physical occupancy increased and has grown year-over-year for 2 consecutive quarters, which we think illustrates that we're gaining market share from our competitors. Throughput remains negative, but the decline narrowed from 3.2% in Q2 '25 to 1.1%. While we don't expect a perfectly linear recovery, the trend is encouraging and supports our view that the business is moving in the right direction.

Turning to Slide 6, I'll provide an update on U.S. supply and demand. On the left, much of the new supply came from private developers and smaller players, and it is slowing substantially. Annual additions peaked at nearly 8 million square feet or 4% in 2025 and are expected to be 3 million square feet this year or under 2% of market capacity. In the face of this new capacity, as of October, we strategically idled 16 facilities since the start of 2025, totaling approximately 3 million square feet and over 200,000 pallet positions. Also keep in mind that just between us and amounts publicly announced by Americold, nearly 9 million square feet or 4% of U.S. cold storage capacity has been idled over just the past 2 years.

The same macroeconomic conditions that affected us are also affecting smaller competitors and their access to capital, which should limit new supply growth going forward. On the right, fresh and frozen food demand remains solid. The categories we serve continue to grow faster than the broader food industry, supported by favorable long-term trends. Frozen food remains a compelling option for value-conscious consumers and aligns with growing demand for convenient protein-focused meals. On the bottom of the slide, household spending on fresh and frozen products has outgrown total food spending across several key categories. So new supply is slowing, demand remains stable, and we've developed a playbook to win in this environment.

Now turning to Slide 7. Our international import/export volumes are about 15% of our global warehouse throughput and also affect our drayage business in GIS. Let's look at 2 trade dynamics affecting our revised outlook. First, as you can see on the chart at the top of the page, Lineage same-store container volumes began to march down following the April 2025 tariff announcements. This year, they were down 18% in the first quarter, 15% in the second and 8% in the third. The decline has been narrowing and with easier comparisons in the fourth quarter, we expected that trend to improve slightly.

Second, the indicators at the bottom of the page, diesel prices, trucking capacity, container pricing and interest rates have all trended unfavorably throughout the year. Early this year, the industry appeared to be adjusting to the impacts of the tariff announcements, but trends in the late summer and early fall suggested that recovery could be delayed. Oil then jumped to above $100 a barrel compared to just $75 when we spoke last quarter. As a result, we no longer assume any meaningful improvement in these trends during the fourth quarter.

Next, I'll address the question you may be asking. Why is Lineage being disproportionately impacted by macro trends? The answer is that we intentionally created this network by securing high-quality assets in some of the most difficult places to build so we could support our customers as they operate in a globally interconnected food supply chain. That positioned us in major population centers and critical port locations, where in a normal trade environment, we have delivered superior growth alongside our customers and expect to do so again as the market normalizes.

However, from an international trade perspective, the past 2 years has been very challenging, particularly because the disruption has been concentrated in parts of the food supply chain where Lineage holds the strongest market position. As a reminder, this 2-year impact followed 20 years of consistent growth in international trade. Also, Lineage is the largest cold chain provider supporting the seafood industry.

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As you know from our commodity mix charts, this represents roughly 13% of warehouse revenue. Due to the international trade disruption and container rates, NOI from seafood customers dropped over 14% year-over-year in the quarter and accounted for about half of our 4.2% same-store NOI decline. Conversely, once trade conditions improve, seafood could become one of the largest drivers of earnings growth, supported by attractive economics in storage handling and value-added services.

Despite these headwinds, there were areas of relative strength in parts of our network outside of the port-centric assets. The production advantage segment of our portfolio is more removed from global trade dynamics and more insulated from the headwinds on this slide. This portion of our network grew same-store NOI by 5% in the third quarter. Our international operations also continued to deliver solid performance. The overall food industry remains resilient and the macro headwinds are concentrated in the U.S. import/export segment.

All that said, I would not trade our portfolio for a little growth in the near term. We are the industry leader in occupancy with over 80% economic occupancy and the port warehouses we have around the world remain some of the best quality assets and are poised to outperform when the macro trade environment stabilizes. The operating leverage in our network works in both directions. Incremental volume is highly accretive, so the timing of the recovery is something we're watching closely.

With that, let me turn it over to Robb, who will give you more detail on the quarter and our revised outlook.

Robb A. LeMasters
Chief Financial Officer

Thanks, Greg, and good morning, everyone. Starting with Slide 8. In our global warehousing segment, third quarter total warehouse NOI was approximately $361 million and same-store NOI declined 4.2% year-over-year to $342 million. Same-store revenue grew 0.4%, same-store physical occupancy rose 110 basis points to 76.2% and economic occupancy rose 30 basis points.

Services revenue per throughput pallet grew 2.1%, and rent, storage, and blast revenue per physical pallet is down minus 2.2%. But within the segment, we achieved net pricing of 1% to 2% within our target range. The NOI decline was driven primarily by higher power costs, net of surcharges, which resulted in same-store NOI coming in slightly below our previous expectations. This was driven by our decision to temporarily de-energize portions of our solar arrays following the Big Bear solar fire incident.

That being said, we do expect this headwind to be largely transitory as we turn these systems back on. On the chart at the bottom left, same-store occupancy through the first half ran ahead of both typical USDA seasonality and our own 2025 same-store occupancy cadence. The second half has been different from what we expected. USDA seasonality would typically anticipate an uplift of 9% in the second half.

Last year, even in a choppy environment, we saw an improvement of 6%. Now with elevated interest rates, fuel prices and carrier rates alongside soft container volumes, we expect muted seasonality in the second half at just 3% sequential growth.

Turning to GIS on Slide 9. GIS NOI was approximately $56 million, down 13.8% and below our expectations. Revenue was $352 million, down 3.3%, but up 5%, excluding last year's Spain transportation disposition. GIS margin was 15.9%, down 200 basis points. Macro pressure was concentrated in our North American transportation business, which represents a little over half of the segment's revenue, where we coordinate freight for warehouse customers through consolidation, drayage and brokerage services.

We buy capacity from carriers on contract and in the spot market, price out to customers mostly on fixed terms and earn the spread. We began pushing through contract rate increases earlier this year, achieving pricing gains in the 5% to 6% range. While execution was strong, the market continued to tighten with rates moving higher into the 8% to 10% range by the third quarter, leaving us effectively playing catch-up.

As a result, we are lowering our full year GIS NOI outlook to $231 million to $236 million or negative 8% to negative 6% from negative 4% to negative 2% previously. Year-to-date, GIS NOI is down about 5%, excluding the $7 million legal settlement in the second quarter against a strong 2025 comparison when full year NOI grew 9%. As we reprice contracts and secure capacity, we expect GIS margins to recover meaningfully over the next couple of quarters, just as they have in the past when going through periods of volatility.

It's important to point out that while we experience a headwind when carrier rates increase, we will enjoy a proportional tailwind when they decline. At the end of the day, food needs to be stored and delivered to the end customer, and our GIS business offers even more compelling value to our customers during periods of elevated transportation rates given their propensity to seek more cost-effective solutions.

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Turning to Slide 10. Third quarter revenue was down 1% year-over-year. Adjusted EBITDA was approximately $317 million, down 7% year-over-year. AFFO was $188 million or $0.73 per share, down 14.1% year-over-year, driven by lower adjusted EBITDA and higher interest expense, largely related to the expiration of hedges. Administrative expenses, excluding stock-based compensation, was approximately $110 million, below the low end of our $120 million to $125 million quarterly guidance range.

Part of that was timing. With management's attention dedicated to the Big Bear response, we traveled less and pushed out training and other expenditures. As our outlook became more cautious, we also scrutinized discretionary spending. So while this is a favorable result for admin, we caution against extrapolating this run rate. That said, our $50 million cost takeout effort is ahead of schedule, and we expect to realize a greater portion of that within 2026.

We have, therefore, lowered full year administrative expense guidance again to $457 million to $463 million, which implies about $120 million in the fourth quarter. On recurring maintenance capital expenditures, we've lowered full year guidance to $148 million to $155 million from $160 million to $170 million, reflecting procurement savings project batching and improved processes for repositioning material handling equipment across the network. Further, lower taxes and disciplined cash management by our finance team also helped cash flow, driving AFFO ahead of our expectations despite an in-line adjusted EBITDA result.

Next is an update on capital structure that you can find on Slide 11. The figures on this slide are as of September 30, and a few things have moved since quarter end, so I'll cover those as well. We ended the quarter with net debt of approximately $8.1 billion and total liquidity of approximately $371 million. Net debt to adjusted EBITDA was 6.4x, and our transaction-adjusted ratio was 5.6x. Two things drove the changes in those metrics since last quarter. First, we retired approximately $1 billion of maturities, which we funded on our revolver. Second, we incurred more than $200 million of costs on Big Bear, primarily to complete cleanup activities and preserve the remaining half of the structure. This came ahead of the insurance proceeds that we now expect in Q4 to offset those outflows.

Now, let me explain what we've accomplished since quarter end. In October, we qualified as a direct eligible borrower under the Farm Credit system, reflecting our important positioning within the food and agribusiness sectors. Last week, we closed a $500 million 7-year unsecured term loan led by CoBank that ranks pari passu with our bank debt. Importantly, this agribusiness-focused financing gives us a differentiated source of capital and access to long-term funding at attractive all-in rates below prevailing market levels for comparable debt structures. Proceeds were used to repay revolver borrowings, so the transaction is leverage neutral, and it brings pro forma liquidity to approximately $870 million, not including insurance payments received since quarter end, which I'll touch upon now.

On Big Bear, our insurers have approved $100 million of insurance payments since quarter end, and we expect to be approved for an additional $200 million before the end of the year. We carry $325 million of coverage and appreciate our insurance responsiveness and support. Any recovery of lost profits will be excluded from the adjusted EBITDA line and is not contemplated as part of guidance. Separately, we are pursuing $1 billion of recovery through legal means from the third-party Big Bear solar operators.

On our strategic portfolio review, we further narrowed our options and still plan to execute transactions that will create sizable cash proceeds early next year. We expect an outcome that further demonstrates the private market's appetite for high-quality cold storage assets at valuations in excess of how the public markets currently value our company. Recent examples of favorable transactions include our sale of a $29 million Salt Lake City asset to an existing customer at a low 6% cap rate, consistent with the mid-6% cap rate on the Santa Maria sale last December, even in choppy macro conditions.

Proceeds will go first to reducing leverage and funding our development pipeline. Taken together, the insurance recoveries and the divestiture proceeds support our commitment to bring our net debt to adjusted EBITDA leverage ratio back to 5.0x to 5.5x target, and we expect meaningful progress towards that goal in the first half of 2027. Our development pipeline, which stands at $1.1 billion invested across 17 projects, is expected to add $130 million of incremental NOI at stabilization.

The pipeline is approximately 73% pre-leased, up 200 basis points from the prior quarter. These development projects are low risk as the majority are anchored by customers with long-term commitments. For example, our new state-of-the-art fully automated facility in Hazleton continues to ramp in line with our expectations.

Turning to our outlook on Slide 12. As Greg said, we're updating our full year 2026 guidance. We now expect same-store NOI growth of negative 3% to negative 2%, total warehouse NOI growth of negative 2.5% to negative 1.5%, GIS NOI of $231 million to $236 million or growth of negative 8% to negative 6% administrative expense of $457 million to $463 million, recurring maintenance CapEx of $148 million to $155 million and adjusted EBITDA of $1.25 billion to $1.27 billion. That takes AFFO per share to $2.86 to $2.98, a narrower range with the same midpoint.

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The $15 million reduction at the adjusted EBITDA midpoint reflects 3 headwinds and 1 offset. First, as noted on the right side of this slide, we've raised our estimate of the Big Bear headwind to warehouse NOI and adjusted EBITDA in 2026 from $15 million to $20 million. While the direct impact at the facility remains unchanged at $15 million, we now anticipate an additional $5 million related to a network-wide review of our solar portfolio prompted by the solar fire in June.

During that review, some systems were de-energized for additional independent safety inspections. Our solar providers are updating technology components and adopting enhanced maintenance procedures before the systems are reenergized. We plan to re-energize the majority of the arrays by early 2027, but the lost solar generation will cost about $5 million this year, split evenly between the third and fourth quarters. This impact alone is expected to reduce same-store NOI results by 75 basis points in the second half.

Second, we've modestly lowered our expectations for same-store warehouse activity, reflecting the muted seasonal uplift we discussed earlier and incremental pressure on our import/export business. Third is GIS. Continued carrier rate pressure and the effect of slower import/export activity on our drayage business have prompted a lower full year outlook. Fourth, and as an offset is our progress on administrative costs. Congratulations to the team on their hard work. Our $50 million cost reduction plan is ahead of schedule, and we expect to realize a greater portion of that within 2026, as I mentioned.

Altogether, we see these headwinds as transitory, and we expect them to normalize over time. Overall, our execution and balance sheet discipline should provide us the foundation to work through the macro headwinds and position us favorably longer term.

I'll turn it back to Greg for some closing thoughts.

W. Gregory Lehmkuhl
CEO, President & Director

As you just heard from Robb, while we've adjusted our guidance, I want to reiterate that excluding the directly quantifiable $20 million Big Bear headwind and the $7 million GIS California legal settlement, our current adjusted EBITDA outlook would have been at the upper end of our guidance we provided at the start of the year despite very difficult macro conditions.

On Big Bear, the fire was impossible to predict and extremely complex to manage. Following the June 17 fire, our management team stayed deeply involved for months in remediation, customer communication, community support, navigating the challenging L.A. political and media environment and repositioning product flows across our network. While difficult to measure precisely and not included in the $20 million we discussed, the fire had a very real knock-on effect on our ability to solely focus on our company's growth and operational improvement.

All that said, I wouldn't change how we responded because while we didn't cause this fire, we stepped up and put our community and our customers first in line with our company's culture and values. Putting all that aside, let's not forget industry fundamentals are stabilizing as demand for our categories continues to grow, new supply is falling and idling is taking a major bite out of market capacity.

While certain macro factors weighed on GIS, it remains a key value proposition for our customers and a meaningful long-term value driver for our business. We are also continuing to roll out LinOS, our proprietary warehouse execution platform, which is built to drive efficiencies across our network. LinOS is now at 18 sites growing to 20 by year-end. Most importantly, we are now exceeding our savings targets in aggregate.

As we look ahead to 2027, we're not standing still. We are intensely focused on commercial execution, operational continuous improvement, optimizing administrative expense, capital spending and working capital. At the same time, we're leveraging our investments in technology, automation and AI to drive productivity and efficiency across our global network. We believe those initiatives, combined with our scale and operating discipline, position us to deliver meaningful margin improvement and value creation as market conditions normalize.

Before we move to your questions, I want to thank our global team for their focus, resilience and dedication throughout the year. We will continue executing on the fundamentals, investing strategically and strengthening our position as the world's leading cold chain company.
Operator, let's open it up for questions.

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Question and Answer

Operator

[Operator Instructions]

Your first question comes from the line of Blaine Heck with Wells Fargo.

Blaine Matthew Heck
Wells Fargo Securities, LLC, Research Division

Maybe a bigger picture question on the policy backdrop. With Democrats taking both chambers last week, it seems like there might be more scrutiny of the tariff agenda, but little near-term change given the veto. I guess, is there a 2027 scenario you'd view as a real catalyst for container volumes? Or should we assume today's trade headwinds kind of persist through next year? And more broadly, how do you think any government policy shifts may play out in the food sector?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. Great question. So with the Democrats winning both the House and the Senate and affordability literally being the central mandate from Americans, the food industry could realistically see relief for the lower-end consumer. And as you mentioned, increased pushback against tariffs, which could potentially boost the consumer demand and international trade.

The House Democrats grocery agenda includes rolling back Trump tariffs and restoring Congress' oversight of trade. And some of that relief is already happening. I mean the administration lifted 50% tariffs on several Canadian agricultural categories effective just 2 weeks ago on October 30, including fruit sortation machines and probably more importantly, both corrugated and plastic food packaging, which is a direct cost input to our customers and could provide -- they can pass that cost relief on to the consumer.

Also, Democrats have firmly stated that they just won't vote for a farm bill without at least a 2-year delay in SNAP cost sharing requirements that were going to shift costs from the federal government to the states, which could have led to additional SNAP reductions. This, again, could support the lower-end consumer who are feeling definitely the most pressure from affordability today.

Operator

Your next question comes from the line of Michael Griffin with Evercore ISI.

Michael Anderson Griffin
Evercore ISI Institutional Equities, Research Division

Just given the expectations for lag seasonality in the fourth quarter, I was wondering if you could expand a bit on your customers' expectations for their inventory, just not in 4Q, but in 2027 as well. It seems like we've troughed on the destocking front, but do you expect inventories to start incrementally rebuilding? Or will the potential revenue benefit for Lineage really come on the new customer win front? And then lastly, any color you can give on how negotiations are going for 27 minimum storage guarantee renewals would be helpful.

W. Gregory Lehmkuhl
CEO, President & Director

Sure. Yes, thanks for your question. So overall, we see stable demand from customers and our second consecutive quarter of same-store occupancy growth is a useful gauge for that. It's obviously difficult to predict the future, but we're encouraged by the improved trend. In addition, if you just listen to the major food producer earnings calls like Conagra and Costco, frozen categories continue to outperform the broader food categories because frozen offers a compelling value prop to the customer with lower prices and less food waste.

And so just in the last several weeks, we've met with 4 of our top 10 customers. These customers alone hold inventory at over 60 of our facilities and span multiple food categories. And 2 of these customers are seeing inventory levels stable for the balance of the year and through 2027, while the other 2 expect to start to build inventory back in 2027. In addition, as part of these customer conversations, several of our large customers have asked us to support their global supply chain optimization efforts, 2 of which I met with personally.

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Given the scale and complexity of these initiatives, they chose us to partner with because only the largest companies have the network, the technology, the supply chain design capabilities and maybe most importantly, the operating capabilities to actually execute whatever the study yields. And lastly, what we're hearing from customers is that they're increasingly openly concerned about the viability of some of the new competitors and are discussing plans to transition back to the more established players in the market.

With regard to volume guarantees, that will be all part of our price negotiations in Q1, and we're just starting to have those conversations now, and we'll have more color on our next call in February.

Operator

Your next question comes from the line of Ronald Kamdem with Morgan Stanley.

Ronald Kamdem
Morgan Stanley, Research Division

Great. Just want to go back to the same-store NOI. Obviously, a lot happened this year. But given sort of the macro uncertainty, is that down 2% to 3% sort of the right way to think about as the run rate for next year? Or what are the puts and takes for why that could be better or worse as you flip the calendar?

W. Gregory Lehmkuhl
CEO, President & Director

Thanks, Ronald. I'll start by just kind of talking about our strategy going into 2027. Obviously, we haven't even finalized our budgets yet until next month. But our team for 2027 is really focused on 6 key areas. First of all, advancing our go-to-market and revenue management capabilities. And we'll have a lot more to come and talk about in subsequent quarters on our efforts around lead generation, pricing sophistication, customer segmentation and inside sales in coming quarters.

But what we've realized is we have an incredibly rich and the richest data set of temperature-controlled food in the world. And we've been pointing our AI, data science, technology capabilities toward the operational side of the house. And what we've realized in the last couple of quarters is there's a lot of opportunity on the go-to-market and revenue management side as well. And so we're shifting that focus now. We've used external expertise in the last couple of quarters to validate the opportunities we think are there, and we're excited to share more about those initiatives in the future.

Secondly, just leveraging our tech investments to achieve additional and further productivity gains. I feel great about that. LinOS is going great. We have a bunch of other technologies that we're rolling out, and we're ever expanding our lean efforts around the network. So I feel really good about the ability to continue to drive cost down and offset inflation.

Next is just achieving closer to inflationary level price increases. Our team is focused on that. As I mentioned, those discussions are already happening. Fourth, we'll continue to control the controllables such as admin and CapEx, like we've been very successful this year. That isn't done. There's certainly more work to do there. And then we talked about in the prepared remarks, GIS being under kind of undue pressure right now because of carrier rates, and we'll be looking to reset those margins and our customer rates to match the increase in carrier rates.

And then finally, we expect to achieve our target leverage ratio next year through strategic transactions to maintain our investment-grade rating.

Robb, I don't know if you want to provide any color or puts and takes.

Robb A. LeMasters
Chief Financial Officer

No, I think you covered most of it, Greg. I mean just talking through the actual metrics that you guys probably start your model on. On the volume side, I think we'll see how the fourth quarter goes. We were entering 2027, obviously, the second and third quarter, we were seeing a positive occupancy and seeing the throughput balance kind of stabilize. We'll see how the fourth quarter goes. Of course, we've highlighted that, that is going to be down a little bit as we enter 2027. So you enter a little bit lower there on the volume side. So you're right, a little bit more of the same there.

Greg then mentioned that we hope to have kind of a better offset, if you will, on price, and we did have some pretty good headwinds on mix. So we'll see how that plays out, but that could offset some of that volume pressure that we're seeing as we enter the year. And then margins have been a challenging circumstance. Of course, there's been inflation out there. And so when you have a flattish top

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line in '26 and potentially in '27, that's just hard to offset that. So we're watching margin. We're doing all the productivity stuff that Greg talked about, hoping we can kind of manage margin there.

Greg talked about on the non-same-store side, you do have the annualization of Big Bear, that's in my mind. And so we'll see how that plays out and how we can move that volume into other parts of the network. And ultimately, by the second half, sort of see that building nicely, but that will be a pressure. I think Greg covered GIS well. We, of course, don't have the $7 million settlement that was a headwind to 2026. It will take a quarter or 2, but I expect by the second half that, that will stabilize.

And then further down, I'm really proud of the team on admin. I would say we're combating inflation there, but we have really set in a new culture. It's not just about the $50 million campaign that we have. We'll obviously get a kind of annualization of that. But also, I just feel better about everybody looking under the hood to try to figure out continuous improvement on those areas. So when you blend that all up, I think those are kind of the inputs from a math standpoint as you guys build out your model.

Operator

Your next question comes from the line of Michael Goldsmith with UBS.

Michael Goldsmith
UBS Investment Bank, Research Division

Maybe starting on the supply side, you've highlighted roughly 4% of U.S. cold storage capacity being idled and now you're hearing customers express concerns about the viability of some newer competitors. So in markets where capacity has been idled or competitors are under pressure, are you actually seeing an improvement in new business pricing or renewal economics yet? And how does that compare with markets that remain oversupplied? And then as well, just as you win that business, are those volumes coming in at pricing and margins comparable with the existing portfolio? Or are there introductory rates or other concessions involved in winning that share?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. Great question. So as you mentioned, new supply is slowing materially. New additions have come from 8 million down to 3 million. And just between us and Americold, we've taken out 9 million square feet of capacity or 4% just over the past 2 years. So cold storage is clearly going through a period of rationalization, and we expect there to be winners and losers with the larger, more sophisticated providers like Lineage coming out ahead.

It's not too different than the beef or potato industries, our customers where capacity is getting rationalized there because they were -- just because of interest rate dynamics in those 2 categories. But as the world's largest by a wide margin, we just have advantages that are hard to replicate. Our network scale gives us the ability to shift customer volume around the system in ways that subscale operators just can't do, just like we're doing right now in the West after the Big Bear fire. You add our technology platform, particularly LinOS, our purchasing power, our customer relationships at the CEO level and our ability to put capital into sophisticated automated facilities, those advantages compound and deepen our moat.

And so what we're seeing really fits what we'd expect at this point in the cycle, operators have overexpanded, those that lack the capital to absorb this environment or lack the scale are clearly under pressure, and we wouldn't be surprised to see a couple of competitor exits in the coming quarters. As those situations resolve, whether that's through exits, asset sales, restructurings, we think we're uniquely positioned to become the natural home for that business and in some cases, the assets. We are seeing customers come back. We are seeing more pricing power in markets that recovered, as you alluded to, and the pricing that we're winning business back at is comparable to the existing rates in those markets.

Operator

Your next question comes from the line of Nick Joseph with Citi.

Nicholas Gregory Joseph
Citigroup Inc., Research Division

Maybe just following up on that last question. Can you give us an update and the plan for the idled facilities?

W. Gregory Lehmkuhl
CEO, President & Director

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Absolutely. So we've idled 10 facilities last year, 6 so far this year, removing 2.6 million square feet and about 212,000 pallet positions of capacity. And as I mentioned, 4% came out with just us and Americold, which is meaningful. We were going to continue to explore, I'd say, a handful of incremental opportunities for consolidation. But keep in mind that we have relatively fewer opportunities just because we have relatively higher occupancy. And so we're still looking at that, but I wouldn't think there'll be another 16 in the next 2 years.

Operator

Your next question comes from the line of Caitlin Burrows with Goldman Sachs.

Caitlin Burrows
Goldman Sachs Group, Inc., Research Division

Maybe just on the storage revenue per occupied pallet and the RSB, you mentioned that price was actually up, I think, within your 1% to 2% target. I was just wondering if you can go through kind of the pricing side, what you're seeing, but some of the other impacts that might be -- or some of the other inputs that might be resulting in that outcome, mix, et cetera?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. So thanks, Caitlin. We'll achieve what we set out to do, which was 1% to 2% net price this year. Moving into next year, we're going to be focusing on exceeding that range and getting closer to inflationary level increases. We are having those conversations now. But we'll have a really good sense of where we sit by our next call in February as the majority of our contracts reset in the first quarter.

And certainly, as you mentioned, mix is weighing on our revenue per pallet metrics, especially with container volumes being down so much and carrying such substantial service revenue and high rent, storage, and blast revenue. So -- but again, taking a step back, if you look at the long term, we've seen a 20-year trend of growth in international trade, and this has been a very challenging, I'll say, episodic period. And so our view is what we're experiencing today is more of a period of disruption versus a structural change. And as that shifts, you'll see our external pricing metrics improve accordingly.

Robb A. LeMasters
Chief Financial Officer

Yes. I might just add, I saw a couple of notes talking about RSB pricing versus services per throughput pricing. I generally look at those together. So that's comment number one, Caitlin, for you just to call that out. I would also say on the RSB side, just be cognizant that last year, we did have a really good outcome there. And so you have a little bit tougher comp. Also when you just compare Q2 to Q3 of some of those metrics, we did lose FX, right, 100 basis points when you think about your Q2 versus your Q3. So that's something to keep in mind.

And then lastly, as Greg said, I think we've talked a lot about mix within the services per throughput pallet area, but we do have mix on the RSB side. Specifically, seafood carries a little bit of a higher RSB per pallet. I think Greg outlined the pressure that we've seen there. So when you blend all that up, we're not looking at the RSB pricing as anything of an anomaly. And as we roll into next year, we'll look at the 2 together. And again, we're looking to grow that from a pure price standpoint, and then you'll have either positive or negative mix in and around that. But I think we'll have less of those pressures in 2027 than we had in 2026.

Operator

Your next question comes from the line of Daniel Guglielmo with Capital One Securities.

Daniel Edward Guglielmo
Capital One Securities, Inc., Research Division

You all referenced the land bank in your investor deck and the 51 completed greenfields and expansions since 2019. What does the cold storage demand environment need to look like in order for you all to start leveraging that pipeline for growth? The cost of capital is obviously a consideration as well. But any commentary you have would be helpful.

W. Gregory Lehmkuhl
CEO, President & Director

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Yes. I mean demand for new builds will be customer-driven. We meet with our customers every single week. They're all continuously for decades, optimizing their supply chains. We are at the table with their C-suite doing that. And when they determine they need a new node or there's a current market that is overcapacity, that's when we'll look to build. We're obviously -- capital is extremely valuable right now, and we're scrutinizing all expenditures more than we ever have. But we do see opportunities to grow alongside our customers as the quarters progress here.

Operator

Your next question comes from the line of Michael Carroll with RBC.

Michael Albert Carroll
RBC Capital Markets, Research Division

Greg, I was looking at 2 of the issues that you're highlighting during the call, I guess, one being the trade issue. Is that getting better? Or is at least you're starting to go against easy comps, so it's not getting worse from here? Obviously, I think that was the thought last quarter. Obviously, there was an update this quarter that kind of implies that you do think it's going to get weaker from here.

And the second one is on the GIS business. How quickly can you reprice that business to regain those margins? And is there a risk that those customers won't take those increases and try to rethink about their business? Or is it -- should we just think about margins recovering in the next 1 to 2 quarters or so on the GIS side?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. Thanks, Michael. Both good questions. I'll start with GIS. So we definitely think that we'll get these carrier rates back. This is a carrier rate issue. It's not driven by fuel prices. We have already gotten rate increases, but the rates have continued to really skyrocket over the last 3 quarters. And so we've seen these cycles before. And in 2022, as trucking capacity normalized, we reset pricing with customers and our margins in North American Transportation recovered meaningfully within a couple of quarters and continue to improve thereafter.

So we believe this cycle is no different as we work through contract repricing and allow -- just align our pricing to current market conditions. And again, this is not a fuel recovery issue, which I saw in some of the early notes because our fuel automatically resets every week. This is simply about aligning our buy and sell rates with our customer and carrier partners.

As far as the customers not awarding us these increases, I don't see that as a real risk because the rates are what they are, right? And we -- and they don't have a better option. They're using us because generally, we can consolidate them with other customers and move less than truckload shipments into truckload shipments, which have inherently significantly lower landed cost. And lastly, I'll just say, while GIS is under pressure right now, and it is, I guess, a relatively larger segment for us than some of our peers, we see this as absolutely critical to our total customer value proposition. The majority of our customers' costs are on the transportation side versus the warehousing side and being able to offer not only supply chain design and optimization, but truly execute farm to fork is a critical benefit for our customers and our relationships.

So going to your second question on containers, international container volumes are about 15% of our warehouse throughput, as we've talked about. And volumes down almost 14% year-over-year through 3 quarters. We had a really, I'll call it, easy comp in the fourth quarter of last year with it being down, I think it was 8%, Robb. And so we expected a little bit of growth in our last call in the fourth quarter, not a lot, but a little. And with oil going from $75 to $100, we're seeing continued pressure in that area. And so this reduced international trade definitely has a meaningful earnings impact as these categories such as seafood, are under significant pressure.

A good example of this is the -- there's been a 40% reduction in the salmon catch in Alaska this season, a product that flows directly through our Seattle operations into the rest of the United States, largely because fishermen have limited their trips out to sea due to high fuel prices. And so -- but as we've discussed, this is inherently high-margin business and a rebound in container or seafood volumes would provide a meaningful tailwind to throughput, to occupancy to earnings just as we've seen in prior cycles.

And so in the meantime, we're not sitting still and waiting. We are diversifying some of these port locations with domestic business, and we're having pretty good success on that front.

Operator

Your next question comes from the line of Michael Lewis with Truist Securities.

Michael Robert Lewis

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Truist Securities, Inc., Research Division

You mentioned the $130 million of incremental stabilized NOI still to come from the developments. I thought I heard you say the NOI ramp is in line with your expectations. Maybe you could confirm that. And then are you able to share how much of that NOI you expect to earn over the next year or some sense of the cadence of that coming online? I see some of these projects were completed 2 or 3 years ago and still are less than halfway to stabilized. And then more than half of that NOI is coming from projects that are still in process. So how should we think about this starting to kind of flow through?

Robb A. LeMasters
Chief Financial Officer

Yes. Thanks. Great question. Yes, you're referring to Page 20 of the supplemental, we laid that out. Yes, there really hasn't been substantial changes. Of course, different projects move out of that 25 months to 36 months, and that's what moves the math. That becomes part of your base. But the incremental NOI that we have is right in line with what we've been showing in the past couple of quarters. So there's different projects in there that are outperforming and ones that are meeting plan. So you always have a little bit of a mix of what's in the different buckets. Nothing notable.

And then in terms of the cadence, I think you're exactly right. If you think about specifically a big part of this incremental NOI would come from the projects that we have around Tyson's. And I think you know that those are ramping starting in '28 and '29. So you kind of have another year to wait as we mature the construction on this and then you really see a nice uplift in '28 and '29. '27 will get a little modest, but ultimately, the big jump happens in '28 and '29.

Operator

Your next question comes from the line of Mike Mueller with JPMorgan.

Michael William Mueller
JPMorgan Chase & Co, Research Division

I know recurring CapEx can be a function of how much facilities are used. The CapEx has been running low compared to expectations when you IPO-ed for some time. If the environment stays kind of muted another year or so, can the CapEx level stay down around where it is? Or does there need to be kind of a snapback catch-up?

Robb A. LeMasters
Chief Financial Officer

Yes. No, there is not -- we don't plan for a snapback catch-up. We are truly -- we outlined in the prepared remarks that we're scrutinizing kind of every dollar, whether it's bundling projects, whether through procurement, whether it's looking at MHE and moving that around more efficiently. So we're trying to find a bottom on that. We're just getting more efficient. And I'm just passing my 1-year anniversary here. I think we'll continue to just try to scrutinize every dollar. We'll see as we look out to '27, '28. We don't see a snapback. In fact, we just keep getting more and more efficient.

Operator

Your next question comes from the line of Viktor Fediv with Scotiabank.

Viktor Fediv
Scotiabank Global Banking and Markets, Research Division

So earlier today, you mentioned that you're expecting a weaker second half inventory build this year, partly due to inflationary pressures. But can you provide some additional context on what actually drove last year's stronger build that isn't repeating today? And what are you seeing through October on throughput and inventories? And lastly, given the potentially weaker Q4 exit point, should we also expect a more muted sequential occupancy decline in Q1 of '27?

W. Gregory Lehmkuhl
CEO, President & Director

So I'll start there, Robb. So yes, I think the biggest impact -- there's always impacts to different commodities around the world. The potato crop in Central Europe was lower than expected this year, which meant a lower harvest and less occupancy build through the fourth quarter. I think the biggest impact is the import/export and a substantial jump in fuel prices versus what we expected. It just

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puts additional pressure on our customers' interest rates didn't help. And then both of those things impact the end consumer. But I think the biggest single pressure there was the import/export container volume versus our expectations.

Operator

Your next question comes from the line of Vikram Malhotra with Mizuho.

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

I just wanted to clarify 2 things, I guess. One, you've talked about asset sales or I guess, strategic sales likely later this year was the expectation. I think you're referencing first half '27. So maybe just update us there, what type of assets? Is there a delay because of rates and what you're seeing? And then just can you clarify the last question? How much visibility do you actually have on occupancy and say, the margin going into 1Q '27?

Robb A. LeMasters
Chief Financial Officer

Sure. Yes. So yes, still feeling like we've identified the proper assets each quarter that we've given you an update. We're sort of in our mind, narrowing down to just a couple of transactions. Each one of those has good buyer interest. And so we have -- we do have options. You're exactly right that we're still committed to bringing the cash in the door in the first half. So no change there. Of course, deal timing and announcement around holidays, of course, moves around week-to-week, but the cash will be in the door. So we're feeling really good about that.

And then in terms of visibility for the first and second quarter, right, we're trying to close out the fourth quarter that sets us up for what's going to happen next year. And so we're cautiously optimistic as the environment sort of heals that the fourth quarter will provide us a little bit of a lower entry point. But then as we move into first and second quarter, we'll see what happens.

Operator

That is all the time we have today for questions. Apologies to those whose questions we did not get to. I will now turn the call back over to Ki Bin Kim for closing remarks.

Ki Bin Kim
Vice President of Investor Relations

Thank you, everyone, for joining our third quarter conference call. Have a good week.

W. Gregory Lehmkuhl
CEO, President & Director

Thanks, everybody.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

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