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EDITED TRANSCRIPT

LINE.OQ - Q3 2024 Lineage Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

My name is Pam, and I will be your conference operator today. At this time, I would like to welcome everyone to the Lineage third-quarter 2024 earnings conference call. I would now like to turn the conference over to Evan Barbosa, Vice President of Investor Relations. You may begin.

Evan Barbosa - *Lineage Inc - Vice President of Investor Relations*

Thank you. Welcome to Lineage's discussion of its third quarter 2024 financial results. Joining me today are Greg, Lineage's President and Chief Executive Officer; and Rob Crisci, Lineage's 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.

Turning to slide 2, 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 today, along with the comments on this call, are made only as of today and 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 that was issued this morning. Unless otherwise noted, reported figures are

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rounded and comparisons of the third quarter of 2024 are to the third quarter of 2023. Now, I would like to turn the call over to our President and CEO, Greg.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Thanks, Evan. Good morning, and thanks, everyone, for joining us today. Turning to slide 3, given this is our first earnings call, I'll kick off the call with a quick Lineage overview. I'll then cover our third quarter highlights and share some updates around capital deployment before turning over to Rob, who will provide insights into our business segment results and an update on our capital structure. He will also share our outlook for the remainder of the year.

Moving to slide 4, for those of you getting to know us for the first time, Lineage is the world's largest tech-enabled temperature-controlled warehouse REIT, growing from a single warehouse to over 480 with more than 3 billion cubic feet of warehouse capacity and LTM adjusted EBITDA of $1.3 billion. We're the global leader in our space with high-quality assets in locations most critical to our diversified customer base. Lineage is also differentiated by our industry-leading positions in technology, data science and automation as well as our ability to grow rapidly over the last 16 years, completing over 115 acquisitions. The cold storage industry is fragmented, and we are well positioned to continue to grow organically and through strategic capital deployment.

Next, on slide 5, like the great compounders of our era, we generate strong durable cash flows, driving future growth and attractive long-term returns. For Lineage, the engine of our flywheel is our NOI and our same warehouse growth, which creates additional investment capacity. These strong cash flows paired with a tax-efficient REIT structure helped to create an efficient cost of capital, which we can deploy in accretive development projects and strategic M&A, supporting future NOI growth. Our IPO in July only accelerated this flywheel by reducing our leverage and lowering our cost of capital, positioning us even better for long-term compounding.

Moving to our third quarter highlights on slide 6. I think it's fair to say that successfully executing the largest IPO of the year and the largest REIT IPO of all time certainly tops our highlight list. This was an important milestone for our company, and I want to sincerely thank the Lineage team, our Board of Directors and our bankers and advisers who worked so hard for so long to make the IPO a tremendous success. I'd also like to thank our existing and new investors who recognize what a well-positioned, specialty unicorn that Lineage is as well as our embedded long-term growth potential.

Our IPO proceeds were used to pay down debt, bringing our leverage under 5 times, earning us investment-grade ratings at both Fitch and Moody's. The IPO also positions us for future capital deployment as we'll speak about more in a moment. Financially, in Q3, we delivered strong 20% AFFO per share growth, aided by our successful IPO and strong operational execution by the team. Notably, we continue to successfully navigate market headwinds driven by customer inventory rationalization, high interest rates and pressures from inflation limiting consumer demand as food prices remain elevated.

We have seen limited seasonal lift as occupancy levels remain steady but below last year. In select markets, we are seeing some competitive pressures as speculative development and new supply has come online. Despite these industry headwinds, we are well positioned to win given our number one market position, technology investments, long-term relationships with over 13,000 customers, leadership in automation, network effects, our global Farm to Fork service offerings and our strong balance sheet. To that end, we believe we remain the acquirer of choice in the industry, ideally poised to take advantage of market opportunities.

As demonstrated in the quarter, we controlled the controllables and we were able to deliver strong financial performance, further demonstrating our ability to perform well in various economic environments. In the third quarter, we also achieved outstanding safety performance, which is our number one priority in first corporate value. We saw all-time best turn times, the metric that matters most to our customers. I can't say enough about how Jeff Rivera, our COO, and our entire global operations team are performing for customers.

We saw all-time high customer service scores as reflected in our daily customer pulse surveys. We also saw strong productivity and warehouse margin expansion despite lower volumes. Additionally, we continue to win new business, helping to offset the industry headwinds. Thank you and

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great job to our global sales and commercial finance teams. We awarded equity or cash IPO bonuses to our team members around the globe, making the majority of our team members owners of the company.

We were proud to be awarded our 100th patent, underscoring our commitment to remaining the industry's innovation leader as we are a tech and data science-driven company. We also declared our first quarterly dividend, representing an annualized rate of $2.11 a share. Lastly, we continue to fuel our long-term growth flywheel by deploying over $350 million in growth capital, including our acquisition of Cove Point Logistics closed November 1. We remain well positioned to continue to execute on our attractive pipeline of opportunities moving forward.

On slide 7, we continue to execute on our significant pipeline of greenfield and expansion projects. In September, we successfully opened what we consider to be the most state-of-the-art and innovative cold store in the world in Hazelton, Pennsylvania. The facility has fully automated full pallet, layer pick and case pick capabilities and is driven by our patented technology and algorithms. I would like to thank our network optimization, project management, operations, engineering, technology and our data science team for delivering another complex project on time and on budget.

On the M&A front, we fired up our acquisition engine after pausing for the IPO. Our first post-IPO acquisition was for $66 million, which fits perfectly into our strategy of mission-critical, hard-to-replace assets strategically positioned in port locations. The business is in the Port of Antwerp, which is the second largest port in Europe and supports our sustainability efforts by producing 80% of the energy it consumes with on-site renewables. Moving to Slide 8, we're excited to announce the largest deal since our IPO, ColdPoint Logistics, which we closed on November 1 for $223 million.

The acquisition expands Lineage's existing presence in the strategic Kansas City area and enhances our ability to provide an efficient solution for customers along the protein corridor with direct access to major U.S. ports via on-site rail. ColdPoint is expected to earn $16 million of EBITDA in 2024 and is well aligned with our investment criteria with an excellent management team, attractive locations, high-quality, young and known assets. And of course, it's financially accretive. On behalf of our over 26,000 team members around the world, I'd like to formally welcome and the ColdPoint teams into the Lineage family. Now I'll turn the call over to our CFO, Rob Cresci, before answering your questions.

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Thanks, Greg. Good morning, everyone, and thanks for your interest in Lineage. Starting on Slide 9 and looking at our financial results for Q3, our total revenue for the quarter was $1.3 billion, up 0.5% versus prior year. Our adjusted EBITDA increased 5.4% to $333 million, with adjusted EBITDA margin increasing 110 basis points to 24.9% as our team continues to execute well with strong labor productivity driving margin growth in a flattish top line environment. Our adjusted funds from operations or AFFO for the quarter was up 52% to $208 million, aided by the substantial interest savings generated by our debt reduction post-IPO.

Importantly, AFFO per share was $0.90, a 20% increase versus prior year. Overall, as Greg mentioned, a very strong operational quarter. Next slide. Looking at our Global Warehousing segment, which represented 87% of our total NOI in the quarter. Total segment revenue grew 1.3% and total segment NOI increased by 4.4% to $383 million, delivering warehouse NOI margin of 39.4% and 120 basis point increase.

Same warehouse NOI grew 2.4% on top of last year's 11% Q3 growth. So nice to see a quarter of same warehouse growth against another challenging comp. Looking at a few of the KPIs. Our same warehouse economic occupancy was 84.1%, which is down 190 basis points versus last year, but flat sequentially to what we saw in Q2. Physical occupancy was 77.6%, which ticked up slightly sequentially.

Our same warehouse throughput pallets decreased by 1.7% versus last year, but were flat sequentially. So to summarize, overall demand is stable but down versus prior year as our industry continues to rebalance after the supply chain disruptions over the past few years. We have seen less than typical seasonal occupancy increases, which is a trend we expect to continue through the fourth quarter. On the operational front, we continue to drive labor efficiencies and our energy operating expenses remain well managed, reflecting our commitment to cost management and sustainability.

As a reminder, labor and power are our two largest operating costs. We continue to control the controllables well and are positioning the business for strong operating leverage when volumes increase. We are grateful for our outstanding operating and sales leaders who are dedicated to serving

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our customers and our team members as Lineage continues to transform the global food supply chain. Next slide. Shifting to Slide 11, in our Global Integrated Solutions segment, which represented 13% of our total NOI in the quarter, we saw a slight decrease in total segment revenue, which came in at $363 million, down 1.6% year-over-year.

Additionally, our total segment NOI was down 11% to $56 million and segment margin decreased 170 basis points to 15.4%. As a reminder, our Global Integrated Solutions segment offers value-added solutions for our customers, which helps to benefit our warehousing business. The declines in the GIS segment are primarily driven by the challenging demand environment for transportation due to lower volumes and excess capacity. Notably, transportation costs are significantly higher than warehousing costs for the majority of our customers.

Our farm-to-fork solutions drive efficiencies across their supply chains, deepening our relationships and aiding customer stickiness. Turning to Slide 12 on capital structure, we used the net proceeds from the IPO to repay the entire $2.4 billion balance on our delayed draw term loan, retire our ICE5 CMBS loan and pay off $1.2 billion of revolver. This strategic use of IPO proceeds has significantly improved our leverage profile with our leverage ratio defined as net debt to adjusted EBITDA at 4.9 times at the end of the quarter. Our total liquidity at the end of the quarter stood at $2.1 billion, including cash and capacity on our revolving credit facility.

Subsequent to the end of the quarter, as Greg mentioned, we completed the ColdPoint acquisition using a combination of cash on hand and a draw on our revolver. Our strong balance sheet and newly attained investment-grade credit ratings positions us well to continue to execute on our large pipeline of capital deployment opportunities. Next slide. Turning to our outlook for 2024. We expect full year AFFO per share of $3.16 to $3.20. This implies Q4 AFFO per share of $0.70 to $0.74 and total Q4 AFFO of $180 million to $190 million.

A little more color on the Q4 guide. We see low single-digit same-store NOI growth against last year's 9% comp. This is based on our expectation of similar market conditions to Q3 with less than typical seasonal inventory increases. Notably, we experienced a rooftop solar panel fire on third-party equipment at our large Los Angeles Big Bear facility, which most importantly was extinguished without any injuries. However, the damage from the fire unfortunately has closed about half of the facility, creating an approximate $6 million headwind to Q4.

Lastly, we have added some additional modeling support in the appendix. For Q4, we have an estimated average share count of 257 million, which represents a full quarter of post-IPO shares. On interest expense, we are estimating $60 million for the quarter, again, representing the impact of a full quarter post-IPO. So with that, I will turn it back over to Greg to wrap up our prepared remarks.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Thanks, Rob. I'll conclude on Slide 14. We delivered strong financial results in our first quarter as a public company with 5% adjusted EBITDA growth and 20% AFFO per share growth. We have significantly reduced our leverage to obtain investment-grade ratings and restarted our capital deployment engine. Moving forward, we expect to continue to benefit from our leadership position in the global food supply chain with strong long-term demand trends. We are executing well and controlling the controllables like productivity, energy management and admin expense.

We have the largest platform driving significant network effects, the best assets are the industry leaders in technology, automation and data science, are the most diversified geographically and across our more than 13,000 customers. We provide the most comprehensive set of services with our Global Integrated Solutions segment. We are leaders in lean operational excellence and believe we remain the acquirer of choice in the industry. We have the balance sheet and attractive cost of capital to take advantage of market opportunities through strategic M&A and capital deployment.

In summary, we believe we're well positioned to succeed in any economic environment, and our leadership team is hyper-focused on compounding growth to drive long-term shareholder value. Lastly, I want to thank our over 26,000 team members around the world for the great work they do to safely serve our customers every day. And with that, we'll now turn the call over to the operator for your questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ronald, Morgan Stanley.

Ronald Kamden - *Morgan Stanley - Analyst*

Great. Congrats on a strong operational and cash flow quarter. I guess my question is, you characterized demand as occupancy being stable, but still under pressure from customer inventory rationalization. as the market sort of is thinking about next year and you take a step back on the Lineage platform, can you talk about your ability to have pricing power in an environment where, again, demand is maybe stable and customers are still rationalizing inventory?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Ron, thanks for your question. So I think it's no secret that overall food volumes have been soft this year, both on the retail side and even a little bit more recently on the foodservice side. And as we speak to customers, I think they're very much in kind of wait-and-see mode. They know food prices while rising slower than previous years are still high and the consumer is feeling it.

So while our customers are still seeing soft demand in Q4, they are certainly anticipating a rebound, but are uncertain on when that rebound will occur. So at Lineage, we're focusing on controlling the controllables, pulling the levers we have, managing our costs, our labor productivity, firing up our M&A engine. And I think in the third quarter, we performed well and are still growing despite the soft market and believe we're extremely well positioned to see operating leverage when volumes do recover, especially given our recent productivity gains and technology investments. On the pricing question, as a reminder, our customers' warehousing costs usually constitute only low single digits percent of their revenue.

So while our price is important, it's not nearly as important as having the peace of mind that they can safely store their products and we can get them to their customers safely. So we're constantly working with our customers to reach mutually beneficial pricing, storage guarantees, contractual structures. And all that said, we think even in this environment, we can get inflationary level increases from customers given that they know that they know our costs are going up, we're going to pay our people more next year. And the alternative to us doing that is someone else with a slowly rising cost structure like the customer themselves or other third parties.

Operator

Caitlin Burrows, Goldman Sachs.

Caitlin Burrows - *Goldman Sachs Group, Inc. - Analyst*

Congrats on your first quarter as a public company. I guess maybe as we think about automation, how would you compare the margin of a fully automated facility like the one in Hazelton versus maybe one that's been converted versus a traditional location, realizing that wide ranges could be possible, but just trying to get some sort of sense of how impactful automation can be.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. Thanks, Caitlin. So we look at each development project uniquely based on what the customer needs are. And so whether they're conventional or automated, and there's a lot of different levels of automation that we're considering, we have network optimization teams and automation teams on all three continents that collaborate and optimize the builds and expansions that we do. And so as far as the underwrite and the margins, we're not focused on margin. We're focused on return on capital.

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We have a very disciplined investment committee process where we're looking at each one of these. And I think we published that our yields on these projects are between 9% and 11%, and that's regardless of whether they're automated or conventional.

Caitlin Burrows - *Goldman Sachs Group, Inc. - Analyst*

Sorry. I wasn't necessarily wondering on the development side, but that's all helpful. I was more wondering on like a best-in-class Hazelton type location versus a traditional type property you have and trying to figure out more from like how much labor cost savings there could be from automation and maybe margin is not the right KPI. But is there some way that you could compare like the productivity or margin or whatever it might be of a fully automated best-in-class location like that versus a more traditional location?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Sure. So I'll kind of restate that the automation has a lot of different flavors. Certainly, in Hazelton, we're looking for substantial labor savings, more than 50%, given how much of that building is automated, but they vary a lot even across automated buildings. And Hazelton, like our other development projects, we expect to hit our underwrite and hit our projected returns.

Operator

Alexander Goldfarb, Piper Sandler.

Alexander Goldfarb - *Piper Sandler & Co. - Analyst*

Yes, congrats on the successful IPO. Just looking at the acquisition market, clearly, you guys have been strong in that, especially synthesizing individual assets to your platform. How is that pipeline looking? And was there any slowdown during the IPO process? Presumably, what would be understandable if deal volume slowed due diligence, just given all the focus on the IPO.

So just trying to get a sense of how we should think about acquisition volumes and if there was any sort of IPO pause that we should plan for.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes, absolutely, we intentionally slowed a full year before and through the IPO, so we could focus on executing that successfully. But I mean, listen, we believe we're clearly the acquirer of choice in our industry because we're a people and culture-centric company that people love to join. We've also been winning for a long time, and people love to join a winning team. The $223 million ColdPoint deal is just another great example of a nice sized transaction. where we were able to work directly with the sellers and the management team to make a deal that everybody felt great about, and we avoided a broader sale process.

So we are truly excited to fire back up our acquisition engine. We have a huge pipeline of M&A opportunities globally. We evaluate all these opportunities in all markets against our investment criteria and literally meet every single week with our investment committee, which includes Rob and me, Jeff, our COO; Brian McGowan, our Chief Network Optimization Officer, who we finally refer to as our the Lineage M&A team; and Adam and Kevin, our Chairman, are actively involved in every one of those calls. So as an executive team, we're highly incented on AFFO per share growth and are focused on the deals that have the best risk-adjusted return and will be most accretive to shareholders.

I mean and so while we have literally billions in our M&A pipeline, we are going to remain patient and disciplined and pursue only the deals that deliver the highest risk-adjusted return.

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Operator

Michael Carroll, RBC.

Michael Carroll - *RBC Capital Markets - Analyst*

Yes. I want to circle back to what Rob said in the prepared remarks regarding the fire, I believe, at Big Bear. I guess when did this fire happen? And did the repairs already take place? And basically, should we expect the weakness in 4Q, is that any of that going to flow into 1Q '25? Or is it just going to be contained in the fourth quarter, and we won't have any of those issues going into 2025?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

So I'll start and then turn it over to you. So I'll just start by saying safety is our number one priority, the safety of our team members, partners, communities in which we work and live. It is our company's first corporate value. And to that end, there were no injuries to our team members nor first responders as a result of the fire. In LA and Big Bear, which many of you have toured, the investigation is still ongoing.

The fire appears to have started in the solar arrays on the roof that the solar arrays are leased and operated by a third party. And we closely requested inspections of all of our solar arrays across our network and are continuing to monitor that and see any reason that this would reoccur. As far as the financial impact, I'll turn it over to Rob to provide some more color.

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Yes. So the data, it was in mid-August. Yes, so we're obviously working hard to get everything back online. We removed from the same-store pool. We mentioned the headwinds. So I think we'll be able to update you in February the progress we've made, but there is certainly a lot of work that still needs to be done to get the facility back to where it was.

And I think as you're all aware, because many people toured it, it's a great, very big facility. And so it's very important to us, and we're excited to get it back online.

Michael Carroll - *RBC Capital Markets - Analyst*

Okay. Great. And just is there insurance proceeds that we can expect from this?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. I think over time, yes, we are insured, and so that would come in over time.

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Yes, we expect to recover our losses.

Operator

Mike Mueller, JPMorgan.

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Mike Mueller - *JPMorgan Chase & Co. - Analyst*

How indicative of market pricing would you say the Cold Point acquisition is? And on that transaction, how much higher do you think you can drive EBITDA, say, over the next couple of years?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. So I think it was a deal that we sourced. We had a great relationship there. So we're excited to add that company to the portfolio. I think we mentioned on the call, if you do the math, about a 14 times multiple. Like anything we buy, we do expect to improve that over time.

We're excited to welcome the team to the Lineage family, and we'll get to work right away on how we can make each other better. So I think over time, we certainly will drive improvement like in all of our acquisitions. But the good news is we bought it here at a nice multiple. And so all that improvement will accrue to us moving forward and our shareholders.

Operator

Joshua Dennerlein, Bank of America.

Joshua Dennerlein - *BofA Global Research - Analyst*

So a big part of your pitch at the IPO is the technology advantage you guys have built out and are continuing to build out. I guess how should we think about the benefits of your tech platform rollout on the business? And I guess I'm most interested in just maybe how it will impact EBITDA margin. And then is there anything that's rolling out in the next, say, 12 months that we should be aware of that might kind of benefit you guys in any way?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

So the thing that we talked about most on our roadshow was LinOS. And as a reminder, LinOS is our proprietary warehouse execution system that we've developed and implemented already in multiple automated facilities. The software uses our proprietary algorithms to optimize effectively all the movements and activity within the warehouse. The goal of the software is to attack our largest controllable cost, which is labor. We spent about $1.4 billion globally in labor.

Our current efforts are focused on rolling out LinOS in our conventional buildings, which we just began piloting in the last few weeks. In the first site we launched, we saw clear opportunities for things like task interweaving and eliminating the waste software is intended to eliminate. So we remain super excited about LinOS and our technology investments. The early results are certainly promising, and we look forward to providing some more color next year as we grow our pilots.

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Yes. So yes, I think as we mentioned, it's really attacking labor efficiency and getting more efficient and helping our people off to spend as much time in the freezers and remove the number of trips and forklifts that are empty. And a lot of really good stuff. We've got $1.4 billion in labor expense and that's really what we're attacking there. If you look moving out, as Greg mentioned, we're just rolling it out. So I wouldn't expect benefit to '25. I think '26 and beyond, certainly, we would, and that's what we're working towards.

Operator

Samir Khanal, Evercore ISI.

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Samir Khanal - *Evercore ISI - Analyst*

I guess, Greg or Rob, I know you talked about occupancy still under pressure and the muted seasonal pickup in 4Q. I guess how does that translate into mid-single-digit NOI growth for next year, which I know you've talked about in the past, I think, in the road show.

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Yes. So we are working on controlling the controllables, as Greg mentioned. And so we're hyper focused on labor efficiency and controlling energy costs and all the things we talk about, and that will drive really good leverage when the market does improve. So certainly, this year, we gave the guidance number of low single digit for Q4. That's against a 9% comp. Throughout this year, we've had double-digit comps, right? So we did 2.4% in Q3 against 11% comp.

If you look at that over two years, you're sort of in that mid-single-digit flywheel that we talk about. And moving forward to next year, again, we will benefit from easier comps. all the work that we've done. And then we'll certainly update in February on what we expect we will do for next year. We go through a very comprehensive budget process here that has already started. We're working next week, meeting with all of our people. It's a great process. And so we're going to go through that, and then we'll be able to update the Street in February.

But we're certainly doing all we can to make sure we stay on that flywheel, and we are very, very confident that we will deliver that flywheel moving forward.

Operator

(inaudible)

Unidentified Participant

I was hoping that we could dig into the acquisition market just a little bit more, understanding that you have a unique position where you are the acquirer of choice. But if you were going to look at deals that are just on the market, what's the competitive landscape look like? Are there a lot of bidders for these products? And what sort of pricing would you expect?

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Yes, sure. I can start on that. So there's competition. I mean, these are attractive assets. We're in a great market. We're in the food end market, which grows over a long period of time. These are, though, very operationally intensive assets. So you've got to be a really, really good operator in order to succeed in our industry.

And so that definitely gives us an advantage. We have a much improved cost of capital, right, which was the whole point for doing the IPO. We got to investment grade. And so we're in a great position. We did this deal at 14 times this quarter. Every deal is different, right? So there's going to be sometimes multiples are lower than that, sometimes higher.

It's really an exciting place to be sitting here in America, but having this wonderful global business. So we look at things in Australia and New Zealand, where we have a great management team. We look at things in Europe where we've got great leadership. And we can really find the best risk-adjusted returns. And again, as Greg mentioned, we're hyper focused on AFFO per share.

So we take into account tax and interest costs and everything else. But we can sit here and just find the best risk-adjusted returns for our capital globally. And that's a really powerful position to be in. And for myself and someone who's still new to the company after a couple of years, really exciting to be here looking at our deployment opportunities moving forward. It's a great time.

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Unidentified Participant

And any details that you can provide on pricing, understanding that there's a wide range?

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Yes. I mean, individual deals, I think over time, like we mentioned, you saw we did this multiple and things could be a little higher, a little lower. But we're always going to do financial accretive acquisitions that will benefit our AFFO per share.

Operator

Greg McGinniss, Scotia.

Greg McGinniss - *Bank of Nova Scotia - Analyst*

Rob, I just wanted to touch on the mid-single-digit same-store target again. So Lineage appears to be operating well in a somewhat challenging environment. But from our view, the key driver of future same-store NOI growth is a recovery in consumer demand. Are you seeing anything from your customers or more broadly economically that give you confidence in an improving market?

Robert Crisci - *Lineage Inc - Chief Financial Officer*

Yes. I mean I think Greg touched on a couple of those points.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. I mean, certainly, there's no doubt over the last couple of years, there was just in case inventory built up, especially with higher interest rates, customers have been focusing on optimizing their supply chains. And in many cases, that's led to inventory rationalization most predominantly this year. But given our scale and global reach, we're right in the middle of those conversations with our customers. We're working with the and their executive leadership teams to help them streamline their supply chains and best position their inventory around the world.

So we've always taken a long-term approach with customers and believe that will lead to them growing their business with us over time. I think what we're hearing directly from customers is they are seeing demand. You are seeing discounting at the retail and foodservice level to get product flowing faster again. And I think historically, we're at very low inventory levels right now, and we would expect restocking to happen at some point. And when it does, like we've talked about, we're in an excellent position given our productivity and tech investments to take advantage of that and see great operating leverage.

Operator

Blaine Heck, Wells Fargo.

Blaine Heck - *Wells Fargo & Co. - Analyst*

Given that it's the morning after the election, I wanted to ask whether there are any Trump policies that you guys find particularly encouraging or concerning with respect to the business? And in particular, what impact increased tariffs might have on your business given your exposure to port locations? And maybe you can also remind us how much of your portfolio is in or adjacent to port markets?

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Robert Crisci - *Lineage Inc - Chief Financial Officer*

I'll just say, Greg have prepared many election-related jokes. We cut them. So we'll just go right to the answering the question.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

So listen, we've been around for more than 15 years and performed well across various administrations, across various policies and through a myriad of economic cycles. So we're confident in our plan moving forward. Specifically, if you want to talk about tariffs, for example, food is a global business and around the world. The fact is people need eat. And regardless of what happens with policy or tariffs, we feel extremely well positioned to support the global food supply chain.

That's what we're built for. For example, I was meeting with an executive of one of our seafood customers not very long ago, and he was talking about how this could impact the seafood business. And he said, listen, if we see, for example, higher tariffs on China, we can simply shift and buy from Vietnam or Malaysia or Thailand or somewhere else in the world and in all cases with with presence in 250 ports around the world, there's a really good chance that we're going to be able to support that product flow regardless of where it ends up.

Operator

Omotayo Okusanya, Deutsche Bank.

Omotayo Okusanya - *Deutsche Bank AG - Analyst*

I also wanted to add my congratulations on your first reporting quarter. Question around expenses. Again, you guys did an amazing job on controlling the controllables, as you mentioned earlier on in the call. And I guess when I kind of think about 4Q and some of the industry headwinds you're still kind of mentioning, how much more kind of operating leverage do you have in that regard to really kind of flex labor up and down as you kind of see kind of changes in demand going forward?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. So I think over the long term, as we talked about, there's a lot of room for improvement, right? We talked about LinOS and a lot of things that we're rolling out. So I think will be continued great operating leverage. Just specifically to Q4, as you saw last year, if you look back, I mean, seasonally, admin and maintenance CapEx are relatively high in the fourth quarter. That's really just a seasonal trend. A lot of that has to do with a lot of sort of year-end expenses.

And so that's built into our guide. If you look at AFFO per share, we gave hopefully some helpful modeling numbers where you have the interest in the share count, which is now a full quarter post IPO counter each other. And the other thing I'll say on the quarters, right, is historically, we've always run this company as a private company as a full year basis company. We have this great budgeting process. We work to crush the budget. Everyone is kind of focused annually.

So we're still building our muscle around quarterly forecasting. So I think over time, like we won't have a lot of our maintenance CapEx hitting in the fourth quarter. We'll be able to smooth out over the year. But that's just a few puts and takes on the Q4 guide. But we definitely feel that there's a lot of room to continue to drive labor efficiency, admin, right?

From an admin perspective, this company has been built to grow and double again and again and again, right? And so we have a lot of cost. We're going to work to leverage that cost moving forward. And so hopefully, we can have not just great operating leverage in terms of sort of warehousing, but also looking at the admin line as well.

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Operator

[Daniel], Capital One Securities.

Daniel - *Capital One Securities - Analyst*

We think the lean operations are a big piece of the story. So how many warehouses do you all have certified now? And then as you continue to roll this out, are there specific learnings or improvements you've made to the program that you'd be willing to share?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. We have 40-plus buildings that are certified in and many more that are being launched as we speak.

Robert Crisci - *Lineage Inc - Chief Financial Officer*

It's not 10% of the total portfolio.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Much more than that in NOI. But as far as facility count, it's about 5%. And yes, we're learning with each lean implementation with each lean certification. And all those best practices are posted on our lean SharePoint and shared across the network, even if buildings are not for lean process.

As you know, lean is all about supporting the operator that does the hard work every day and making their job easier to serve our customers and eliminating waste in every process. And it's continuous improvement. It's always improving. It never ends. And that spirit of always getting better is within our operations, and warehousing.

It's across our Global Integrated Solutions segment and across our admin functions. It's really a philosophy for which we run the company, and we think there's a whole lot of room to grow or to go to continue to optimize in all areas across the organization.

Operator

Nick Thillman, Baird.

Nick Thillman - *Robert W. Baird & Co. Inc. - Analyst*

Down year-on-year in 3Q. And I guess maybe part of that could be power-related savings that you could pass through the customer can achieve some goal on that. But just overall, taking a step back, like what leverage do customers have in pricing discussions today? Do larger customers have more advantage there? And then maybe geographically speaking, you guys touched on spec construction.

We know like markets like Texas and like Jacksonville are a little bit more hampered by that, but maybe touching a little bit on some of the soft spots you're seeing there.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

So at the very beginning of the question cut off, can you just repeat the first sentence? Sorry about that, we couldn't hear you.

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Nick Thillman - *Robert W. Baird & Co. Inc. - Analyst*

Yes. So the first part was just on kind of rent per occupied pallet was down year-on-year. Maybe the leverage like customers have in pricing discussions today? Do larger customers have a little bit more advantage there, a little bit of commentary there and then on the geographic mix.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

I think customers do have a little bit more leverage than they had over the last couple of years. I mean our customers are going through a very tough time right now in a soft market, and we're partnering with them to create solutions that make sense to them and price is one component of that. And I think you saw some of that play out in the results this year. As Rob talked about, there's been growing excitement in the cold storage category over the last several years.

This is logical given the institutionalization of our industry and in part because of the lineage story. And as champions of our industry, we welcome that excitement because it reinforces cold storage as a really important subsector of the industrial real estate market and critical infrastructure of the global food supply chain, just like data centers, cell towers and public storage have become in their markets over the last 20 years. So not surprisingly, this has drawn capital into our space and created some new competition and even some speculative developers similar to what's happening in these other exciting new categories. I mean that said, we have clear advantages over any new market entrants.

I mean as we spoke about in the prepared remarks, we have the largest network with over 480 warehouses globally and the network benefits that come with scale, including the largest network of port locations and distribution centers. We have a newly formed investment-grade balance sheet and superior access to capital. We have a track record for accretively deploying capital and growing the company through M&A and development, which just further increases our scale advantages and network effects. We have long-standing relationships with over 13,000 customers, interfacing, like I mentioned, with their CEOs and leadership teams, which is a barrier that's very, very hard to replicate for new competition.

We have our farm-to-fork service offerings with our integrated solutions group, so we can truly look at our customers' end-to-end supply chain and help them optimize this and make price not the only thing, if you will. We have world-class safety, M&A, development, operations, sales engineering, lean commercial finance teams around the world with decades of experience. So we feel really well positioned to continue to partner with our customers and grow. And again, they understand that when we have labor increases and other cost increases that it's fair to give us inflationary-ish level increases.

Nick Thillman - *Robert W. Baird & Co. Inc. - Analyst*

Great. That's helpful. So just following up on just geographically, any markets where you're seeing a little bit more strength when it comes to kind of market conditions? Or is it more broad softness?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. Absolutely. We have a lot of markets that are performing very well. We have a bunch of regions. We have 22 regions in the US. We have a bunch of regions that are performing very well, Pacific Northwest. Australia, led by Brooke Miller, our President there, is doing outstanding. Our Canadian team is rocket. I can't say enough about them. So yes, we have a bunch of pockets around the world that are performing very well.

Operator

Vince Tibone, Green Street.

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Vince Tibone - *Green Street Advisors, LLC - Analyst*

I wanted to follow up on an earlier comment that you're facing pressure from new supply in certain markets. Could you share what those markets are and also just discuss high-level industry-wide supply trends in the cold storage sector? And if you're able to kind of frame that in terms of percentage of stock, I think that would be helpful and just your general views about supply pressures going forward. Are you seeing a slowdown or acceleration in development starts today from your competitors? Any commentary on the supply side of things would be very helpful.

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. Certainly, as I answered in the last question, there has been a influx of capital into our industry. Frankly, we think there's going to be some fallout from that and people that maybe thought it was easier than it is and don't understand the scale advantages that the larger players have. We do think that the cost to build that they experienced over the last couple of years is kind of at all-time highs, and they have investment hurdles to overcome. That said, we do think speculative development and new development will subside over the next couple of years.

And as the industry continues its long-term growth trend, that capacity will be absorbed. So we feel great about that, about how we kind of line up against these. As far as specific markets, it's been pretty widespread. I'd say one market that was maybe oversupplied would be kind of Florida in general. We've seen some softness there due to new competition.

Vince Tibone - *Green Street Advisors, LLC - Analyst*

That's really helpful. Maybe just one quick follow-up. How do you view like net lease cold storage spec product as competitive where someone is trying to lease to a single user? Or is it really more of the operating multi-tenant model that is more competitive with your exact portfolio?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

I would say more on the multi-tenant, but both certainly. I mean if a spec builder is going to build for a producer, we would rather be the people to operate that and build for them. Many of the spec buildings don't have an operator yet or a tenant and those become, I would say, risky investments, and we will evaluate acquiring those as they come online. We do net lease deals as well, and that's part of our capital deployment as well.

So every market is different. It's really about how much capacity and how much demand. And so you kind of add it all up and what's great in our position being the leader, we have the most information, we have the most data. We have capabilities that are unmatched and really give us a lot of confidence in which markets that we want to expand, which markets we don't want to expand competitive pressures. And so we're in a great position.

Operator

Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Greg, I just wanted to follow up on the customer rationalization that you discussed a little bit that's contributing to the weaker demand environment. Are there other underlying trends impacting that rationalization that your customers are experiencing? Or is it solely related to some weaker consumer and end-user demand? And along those lines, should we assume that the challenging environment continues to impact the Global Integrated Solutions segment of the portfolio?

Or can GIS stabilize without a recovery in demand? What's the interplay look like there as we think about '25?

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Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

I'll start briefly. So what's great about our market is long-term demand trends are very good. People are always eating, that's growing. The more markets they're developing, the more markets that want access to what we do, which is be able to get the best food to people all throughout the world. So that's a great place to be. So the demand trend is up and to the right.

And so it's a matter of getting back to sort of what's normal. I think in terms of the GIS segment, that is largely transportation, right? I'm sure people follow transportation companies. This is very consistent with what everyone else is seeing, right? There's more cyclicality there. Importantly, as we mentioned in the prepared remarks, the reason why this is so important for us is the farm to fork and driving more business into our warehouses.

And so moving forward, yes, there will be a rebound there. That's going to be a little bit more cyclical, but it's always going to be benefiting our warehousing business, which should allow the warehousing business to grow faster over time.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. That's helpful. And if I could just sneak one last one in around the model. I appreciate some of the color around the fourth quarter. You mentioned the higher CapEx budget seasonally in the fourth quarter. Are you able to share a 4Q maintenance CapEx range that's embedded within the fourth quarter guide? And also, can you talk about G&A?

Greg Lehmkuhl - *Lineage Inc - President and Chief Executive Officer*

Yes. So as we mentioned, we really focus on AFFO per share. So that's the main part of our guide moving forward. There are a lot of levers that can be pulled within a quarter, right? As we always talk about the market gets better, then happens a little bit higher, maybe you spend more, the market softens.

As you saw last quarter, there are certainly things we can do to make sure we deliver the results. So we really want to focus people on AFFO per share. And when we put out guidance, we certainly feel that those are good numbers to use.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. But is there a specific maintenance CapEx range that's embedded in the fourth quarter guide, the 70 to 74?

Robert Crisci - *Lineage Inc - Chief Financial Officer*

No.

Operator

There are no more questions. I will now turn the conference back over to Evan Barbosa for closing remarks.

Evan Barbosa - *Lineage Inc - Vice President of Investor Relations*

On behalf of the entire Lineage team, thank you for joining us today and for your interest in Lineage. We look forward to speaking to you again on our next quarterly earnings call. Thanks.

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