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EDITED TRANSCRIPT

LINE.OQ - Q4 2024 Lineage Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by and welcome to the Lineage 4th quarter 2024 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions).

Thank you. I'd now like to turn the call 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 4th quarter and full year 2024 financial results. Joining me today are Greg Lehmkuhl, Linage's President and Chief Executive Officer, and Rob Crisci, Linage'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.

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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, reporting figures are around it. Comparisons of the fourth quarter of 2024 are to the fourth quarter of 2023, and comparisons of the full year 2024 are to the full year 2023. Now, I would like to turn the call to Greg.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Thanks, Evan, and thanks everyone for joining us today.

Turning to the 2024 highlights on slide 3, I'd like to start with a brief recap of our 2024 accomplishments. We executed the largest IPO of the year and the largest re IPO of all time. This enabled us to reduce our leverage to under 5 times, which earned us investment grade ratings at both Moody's and Fitch and positions us well to continue to deploy capital across our attractive pipeline of development and M&A opportunities.

Financially, we delivered 4% adjusted EBITDA growth and 6% AFFO per share growth and initiated our dividend at an annualized rate of $2.11 a share. Operationally, we delivered same warehouse physical occupancy of 78% despite a challenging external environment driven by our high-quality assets in the locations most critical to our diversified customer base.

As we reflect on 2024, we achieved the 2nd year in a row of our all-time best safety performance, reinforcing our first corporate value of safety, record new business wins helping to offset the industry headwinds, best ever truck turn times for our customers, the service metrics they care about the most. Best warehouse labour productivity in our history, and this continued into the first quarter.

The issuance of our 100th patent demonstrating our unwavering commitment to innovation, automation, and data science. We received market recognition and awards like the CNBC Disrupter 50 list for the 4th consecutive year. The Fortunes 2024 changed the world list for the 2nd time, the Inc.s 2024 Best in Business Awards for the innovation and Technology category, and the 2024 Smart Way Leader by the USCPA in recognition for our dedication to sustainability through innovative freight solutions.

Finally, we executed on our robust pipeline of development and M&A opportunities, deploying $760 million of growth capital, including the opening of what we believe to be the most state of the art and innovative, fully automated coal store in the world in Hazleton, Pennsylvania, which opened on time and is operating as expected.

The acquisition of Cold Point Logistics in Kansas City and several other creative acquisitions around the globe. I would like to sincerely thank all of our team members across the world for contributing to our success in 2024.

Next slide. As we move into 2025, fresh and frozen food remains a growing segment driven by strong long-term demand. The vast majority of food consumed in developed markets requires temperature-controlled warehousing at some point in its journey forward. At Lineage, our strategically built network and cutting-edge technology gives us a significant competitive advantage and positions us as the global leader in the cold chain.

Operationally, we're seeing continued benefits from our focus on labour productivity, be process excellence, and energy management, driving efficiency across our business.

And speaking of efficiencies, our LinOS initiative is on track and our early pilots are exceeding expectations. As a reminder, LinOS is our proprietary warehouse execution system that we've developed and already implemented in multiple automated facilities and have begun piloting in our conventional buildings. The software uses patented and proprietary algorithms that are a result of many years of development and collaboration between our data science, technology, and operations team.

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Our belief is that Linos will transform warehouse operations, resulting in significantly higher performance for customers while accelerating efficiency improvements. Our early pilots are both exceeding our efficiency expectations and being positively received by our hourly team members and warehouse leadership. Our teams are genuinely excited about how this technology can transform our operations. In fact, I've been getting requests from general managers asking to be next on the list as the enthusiasm around this initiative spreads. In short, it's still early, but we're more excited than ever about LinOS, and we will provide more color moving forward as our pilots continue and we learn more.

Before introducing our 2025 guidance, allow me to provide some color on the path travelled over the last few years. As part of our long-term planning cycle, we recently had our data scientists refresh our analysis on the core holdings of our North American warehousing business to shed light on recent trends.

Now no study is perfect, but our data suggests that first of all, food consumption has not changed. In fact, our studies show that since 2021, our outbound pallet volume remains stable, fluctuating less than 1% annually. The volume just shifted between channels, for example, from food service to retail, and importantly, due to our diversification, has minimal impact on us because we store pretty much everything.

However, inventory holdings have fluctuated over the past several years. Here is a brief timeline of what happened back in 2020, 2021, we saw supply chain chaos, production shortages, port shutdowns, and the inventory was bled down. 2022 was the year where customers began to rebuild inventories quickly, leading to overbuilding.

That overbuilding continued into the 3rd quarter of 2023 when the excess inventory began to unwind. That unwinding continued through the 2nd quarter of 2024. Set another way, inventory levels remained elevated for the first half of 2024. Since then, we've experienced a more normal seasonal pattern, which is what we expect to continue moving forward.

For 2025 we expect full year adjusted EBITDA of $1.35 billion to $1.4 billion and AFFO per share of $3.40 to $3.60.

To reiterate, our 2025 guidance assumes normal seasonality from today's historically low inventory levels with no market improvement. As always, our guidance excludes the impact of unannounced future acquisitions or developments.

Our solid financial position, bolstered by a strong balance sheet available cash, and significant debt capacity, provides the opportunity to deploy over $1.5 billion in capital in 2025. Now I'd like to turn the call over to our CFO, Rob Crisci.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Thanks Greg. Good morning, everyone, and thanks for your interest in Lineage. Starting on slide 5 and looking briefly at our financial results for the fourth quarter, our total revenue was $1.34 billion flat versus prior year. Our adjusted EBITDA increased 10% to $335 million with adjusted EBEA margin increasing 210 basis points to 25%. Our AFFO for the quarter was up over 145% to $213 million and AFFO per share was $0.83, a 73% increase versus prior year.

We did benefit from a one-time tax item in the quarter of approximately $13 million or $0.05 aiding our AFFO results. Also in the quarter, we deployed $329 million of growth capital, including the closing of our previously announced acquisition of Cold Point Logistics. The integration is off to a great start, and we are proud to have the Call Point team as part of the lineage family.

Turning to our full year 2024 results on slide 6, our total revenue for full year 2024 was $5.34 billion. Our adjusted EBITDA increased 4%. Importantly, our two-year adjusted EBITDA [Keger] is a strong 11% despite market headwinds, a testament to our ability to perform well in all market environments. Adjusted EBITA margins increased 100 basis points to 24.9% in 2024 and is up 310 basis points over the past two years. AFFO was up 25% to $705 million and AFFO per share was $3.29, a 6.5% increase versus prior year.

Turning to our global warehousing segment, which represented 87% of our total NOI in 2024, full year segment revenue grew 1% and total segment NOI increased 2% to 1.5 billion, delivering warehouse NOI margin of 39.5%, a 40 basis points increase. Since 2022 we've grown our total warehouse NOI margin, 390 basis points driven by strong labour productivity improvements and continued operational execution.

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We operate highly efficient warehouses thanks to our committed team members, lean processes, and innovative techno technology. We believe we are on a long-term journey to reduce our cost structure, in particular our labour and energy expense through operational excellence and the continued deployment of our proprietary technologies. We believe we're only getting started.

Looking forward to 2025, we expect full year segment NOI growth of 4% to 6% on a constant currency basis and 3% to 5% on an as reported basis. We see the same warehouse NOI growth of 2% to 5% on a constant currency basis and 1% to 4% as reported.

As Greg outlined, we believe our market has stabilized after two years of unusual volatility driven by inventory rebalancing. Inventory levels remained elevated in the first half of 2024 and stabilized later in the year. Our guidance assumes normal seasonality for 2025, but no market improvement. We are well positioned for strong operating leverage on any incremental growth.

In summary, we expect to drive continued growth and margin expansion in 2025, all before any benefit from our LinoS project, meaningful market improvement, or incremental capital deployment.

Shifting to slide 8 and covering our global integrated solution segment, we saw a slight decrease in total segment revenue, which came in at $1.5 billion, down 2% versus prior year. NOI was down 5% and NOI margin decreased 50 basis points to 15.9%. As a reminder, our global integrated solution segment offers value added solutions to our customers, which increases stickiness and supports our warehousing business.

Well, we saw declines in 2024 driven by global transportation trends and specific weakness in some European markets. We are well positioned for a rebound in 2025. This is aided by new business wins as we benefit from our customers taking advantage of our unique network and full suite of services, allowing us to partner with our customers to optimize their supply chains. For 2025, we expect full year segment NOI growth of 5% to 10%.

During the slide, we ended the year with net debt of $6.5 billion. Total liquidity at the end of the year stood at $1.8 billion including cash and revolving credit facility capacity. Our leverage ratio, defined as net debt to adjust the EBITDA was 4.9 times at the end of the year. Our strong balance sheet, available cash, and debt capacity provides the opportunity to deploy more than $1.5 billion of growth capital in 2025. We are excited to enter to enter the new year with a reloaded balance sheet and large pipeline of attractive acquisition and development opportunities that will allow us to continue to build on our position as the global industry leader.

Turning to our 2025 guidance, which Greg already previewed, we expect full year adjusted EBITDA of $1.35 billion to $1.4 billion and AFFO per share of $3.40 to $3.60.

As a reminder, this guidance excludes the impact of unannounced future acquisitions or developments. We've also included some additional modelling support on this page. We are very excited to deliver a strong year for our shareholders. With that, I'll turn it back over to Greg.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Thanks, Rob. I'll conclude on slide 11. We cap this transformational year on a strong note, proving once again that our business is built to perform in any environment. Our focus on execution, cost efficiencies, and smart capital deployment has forged a solid path of growth for many years, and we're excited about the opportunities ahead.

Looking forward, we're confident in the long-term demand drivers of the global food supply chain and our ability to lead the industry. With our unmatched platform, cutting edge technology, broad customer reach, and over 100 million of incremental future NOI growth from previously completed or in process development projects that have yet to be that have yet to stabilize, we're in a great position for compounding growth and long-term shareholder value creation. Our balance sheet remains strong, giving us the flexibility to invest in a robust pipeline of strategic opportunities. Like Rob said, we're just getting started. With that, let's open it up for questions, operator.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Alexander Goldfarb, Piper Sandler.

Alexander Goldfarb - *Piper Sandler - Analyst*

Hey, morning out there. So, a question on just the industry overall. You guys talked about inventory levels normalizing after the post-COVID recalibration. You talked about also being at low levels at the same time, there's tariff talk, there's still inflationary pressure, grocery prices, restaurant prices. So, what gives you confidence that the food market, the cold storage market truly has settled out and it sounds like there's some optimism in your tone that things could improve? What are some anecdotes that give you that confidence versus nervousness that the consumer is still under pressure whether it's eating out or eating at home?

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Good morning, Alex. So, as we talked about the prepared remarks, even though the significant volatility in inventory levels we've seen for the last few years, our throughput in our core holdings really didn't change very much, less than 1%. And so, inventory fluctuated quite a bit as I outlined and settled in our core holdings in the 3rd quarter of last year and we saw normal seasonal patterns since.

And so, if we look at the current inventory levels, they're low versus kind of pre-COVID history and we're not being optimistic. We're assuming that things just resume a seasonal pattern versus, from these historically low levels. I think the upside here is that's not in our guidance is that what we're hearing from customers is they're acutely focused on increasing sales.

They're doing promotional activity and all kinds of things and discounting in order to get volume moving, and that would be all upside versus our guidance as our incremental margins are great and we have strong operating leverage. And so, we're not being optimistic in our guidance. We're assuming the market stays the way it is today.

Operator

Ki Bin Kim, Truist

Ki Bin Kim - *Truist - Analyst*

Thanks, I appreciate your commentary and the color you provided on guidance, but I also wondering if you can provide some more details. For example, in occupancy, it sounds like that should still mean negative occupancy next year as the first half of this year might be a little bit challenging. I'm not sure if that's correct, but if you can provide some details on that and maybe pricing, thank you.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah, for sure. So let me drill down a little bit on seasonality. So, Greg covered a lot of this, right? It's been unusual the last several years, given all the stuff Greg just talked about. So, if we drill down just a little bit more. So, if you look at our 2024 results by quarter for our new 2025 same store poll, right, which is in the appendix. You actually see that last year that the NOI is almost exactly the same each of the four quarters like within 5 billion or so. That's highly unusual and that's the result of what Greg just said, which was last year in the first half, we still had elevated inventory levels and then normal seasonality began to the second half.

So that dynamic, therefore creates challenging comps for us in the first half of this year. The good news, as Greg mentioned, right, is that we feel the industry is stabilized at these lower levels and as Greg also said, we're not assuming any improvement.

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So, drilling down again. Normal seasonality. So, if we look at pre-pandemic data, back when our industry was more normal, Q1 generally declines from Q4, then Q2 generally declined a little bit from Q1. Q3 jumps up a fair amount and then Q4 is typically the peak aided by the holiday season, then it starts to come back down. Into one and we sort of start we see this year as a normal year and expect our results to follow that trend. So, if you break that out as a sort of first half, second half, generally in a normal year you'll get 47% to 48% of your NOI EBITDA in the first half and 52 53% in the second half, and that's what our guidance assumes.

Operator

Ronald Camden, Morgan Stanley.

Ronald Camden - *Morgan Stanley - Analyst*

Hey, just a quick two parter, just I love all the same sort of guidance for the warehouse segment. I love if you could drill in a little bit how much of that is top line versus expense saves, just high level, what's driving that? And then the second question is just that $1.5 billion of capital deployment. Can you talk a little bit more about the pipeline, the kind of opportunities that you're looking at? Thanks.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

So, I'll start with pricing. In terms of pricing, we expect to get inflationary level pricing. We are most focused on being long term partners with our customers, and we treat each customer and market uniquely. At times we'll trade volume for price if it makes sense for us, and then we expect to continue to get productivity improvements, energy efficiencies and have synergies.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

And on the on the on the pipeline, yeah, I mean the pipeline is exciting, right? None of this is in our guide. We have the capacity. We're not saying we're going to deploy $1.5 billion. We're saying we have the capacity as we laid out between our available dead and where our ratios are to do that, and there's a ton of development opportunities. There's a ton of M&A opportunities. If you look back over the past couple of years. We spent about $750 each year in terms of growth capital, right? As we've been working hard to get our balance sheet in the right position, get the IPO done so we can really accelerate the growth of this company, and we're there and we're super excited about that, and we're working on a lot of exciting things that we hope to tell people about here in the Near future.

Ronald Camden - *Morgan Stanley - Analyst*

Thank.

Operator

(Nicholas Stillman, Baird).

Unidentified Participant

Hey, good morning. Guys. I just wanted to drill in a little bit on pricing within kind of just on a per pallet basis. Seems as though that's kind of, I know you guys aggressively priced in 23 now it's a little bit flat, I guess as you look at the 25, are you willing on the new customer acquisition to kind of give up price to prioritize occupancy or how should we be kind of thinking about that?

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Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Good morning and I'll just reinforce what I said. I mean, over time we think we can get inflationary level price increases and we're looking at each market, the supply demand dynamics in each market, and we're looking to partner with customers to make sure that we, stay a valued partner for the next for the long term here. That said, we are getting inflationary level prices in nearly all of our markets and feel confident we can do that. It's very difficult to see in the external metrics because a little bit of mixed shift between commodities or anything else can mask that that that price improvement.

Operator

Todd Thomas, KeyBanc

Todd Thomas - *KeyBanc - Analyst*

Hi, thanks. Good morning. I wanted to follow up on capital deployment. I realized guidance does not include anything incremental that has not been announced, but how should we think about the mix of equity and debt to fund future investments from here with leverage ending the year at just under 5 times on net debt to adjusted EBITDA basis.

And then separately, I was just curious if you could talk about the yield pickup. Related to the $1.3 billion of completed and in process projects that $101 million of NOI, that that opportunity, how should we think about the cadence of that incremental NOI coming online during 2025?

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah, so on the on the first one, so the $1.5 billion, that just assumes funding with cash and debt, so no equity. Certainly, we've got plenty of opportunities to accelerate that with equity. If the math worked out, we'd always be willing to do that. Obviously, that depends a lot on share price and where you want to issue shares. So, we're just assuming debt and cash.

On the second point, which I think is an important one, we have a number of these great buildings that are either, we had Hazleton open recently. We've got a lot of things in progress. We talk about that 100 billion plus; I'd say about a quarter of that we're expecting it to flow through this year. And then the remainder and out years and we have very consistent yield on these projects. It's a huge part of our compounding and, we want to make sure that we people understand that that this is a big part of what we do, and we've got a lot of stuff we've already done that just hasn't rolled through our financial yet.

Todd Thomas - *KeyBanc - Analyst*

Okay, thank you.

Operator

Jeremy Klos, Goldman Sachs.

Jeremy Klos - *Goldman Sachs - Analyst*

Hey there, regarding occupancy, any concerns about the gap between economic and physical occupancy? How do you guys think about the spread between those two metrics? Thanks.

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Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Yeah, I mean. Our spread is relatively tight between physical and economic, and we see that absolutely as a good thing. We think long term customers do not want to pay for space that they're not using, and we feel that that's a great place to be.

Jeremy Klos - *Goldman Sachs - Analyst*

Got it, thank you.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Of course.

Operator

Blaine Heck from Wells Fargo.

Blaine Heck - *Wells Fargo - Analyst*

Great, thanks. Good morning. Can you guys talk about supply and whether you're seeing pressure on rates driven by new supply in any specific markets, and then looking forward to 2025 and beyond, what do deliveries or completions look like broadly. I Guess, will we continue to have supply pressure this year?

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Good morning and thanks for the question. So, I'll start just by saying, we're in a, we're in a market that grows long term globally, a very stable market as I talked about, our throughput balance on core holdings have not changed a lot. It is an attractive industry for that reason, and it's not surprising we've seen new investment over the last few years. So, as we discussed last quarter, like you mentioned, there are some new competitors that even speculative developer developers that have entered our space.

In the current construction cycle, that new capacity peaked in 2023 it came down by about 50% in both 2024 and 2025 levels versus 2023, and we expect those new deliveries to continue to decrease over time.

It's also important to mention that the capacity that's been had over the last few years has been built at the highest cost to build in history, absolutely for sure, and we don't expect those build costs to decline from the current levels because inflation, land costs, entitlement, and just the complexity of building, especially with automation.

And so as such, it's very hard for these smaller newer players to succeed at anything below market prices in a market with rising capital cost, and we actually expect some of these businesses to underperform and some to fail, and we're seeing evidence of that in the marketplace, and we expect some of these dislocations to create opportunities for us as we continue to position ourselves as a choir of choice in the industry.

And when you compare us to these new entrants. I mean, we have very distinct advantages. We have huge scale advantages. We have the network effects that come with that. We are the world leader in cold storage automation. We have proprietary technology like Lineage Link and LinOS. We have C-level customer relationships with over 13,000 customers around the world, and we have our GIS segment where we can support their coal chain from farm to for where none of these other competitors can do that. So long story short, we feel great about our ability to compete.

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Blaine Heck - *Wells Fargo - Analyst*

Thank you.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Of course.

Operator

Steve Sakwa, Evercore ISI.

Steve Sakwa - *Evercore ISI - Analyst*

Yeah, thanks. Could you maybe just talk a little bit about the pricing that you're saying on the acquisitions that you're maybe looking at like how was that changed and you know with your cost of capital changing. How are you thinking about pricing on new deals going Forward?

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah, so obviously the market here has been challenged in the last few years and that, you sort of see a little of that in the public valuations and it also blows through the private valuations, ultimately, we're going to make the best decisions to drive long term value for our shareholders with the highest risk just to returns.

So, you know there's always a good arbitrage opportunity for anything that we do. So, in the near term that accrues directly to our shareholders and then as we improve the businesses over time. That also will accelerate those returns and so really no changes, versus how we've done this in the past, we definitely benefit from having the balance sheet that we have today and that lower cost of capital, and that gives us an advantage and being number one in the industry gives us a huge advantage.

And so, like I said, we're excited about the opportunities here and you know if we can take advantage of any market dislocations in the air term we certainly will.

Operator

Michael Carroll, RBC.

Michael Carroll - *RBC - Analyst*

Yeah, thanks, Greg. I wanted to circle back on your LinOS comments. I know you indicated that the pilot tests are showing strong initial results. Can you help us understand what that means? I guess what did these pilots prove, and are you seeing better revenue growth and better margins on those assets? I guess how can we clarify that comment that you're seeing stronger results than you expected?

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Yeah, great question. So, as I mentioned, the little estimate initiative is very much on track. The pilots are early, but they're absolutely exceeding our expectations. We're super excited about it. This year is about proving out the functionality of the technology and getting it rolled out to different types of facilities. So, think docks, think high reach, think case pick, and getting all that technology rolled out in every aspect of the operation across different facility types to prepare for a broader roll out next year.

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And so, as I mentioned, we believe that this technology can fundamentally transform our operations, and we are seeing early indications of that. I actually have a great story, Michael, from our first pilot. In the first week of rolling out LinOS early this year in Chicagoland, our COO, Jeff Rivera, was just standing there observing the operation and kind of watched LinOS act as kind of controlling the orchestra of the operation, if you will.

And one of our most senior team members, a 30-year reach truck driver who had been working with this technology for two days, drove by Jeff on his forklift, gave him a thumbs up and said, "This is freaking awesome," and he actually used a little bit more different word. But I'll be polite. And so, I think the buzz and the excitement within the company and in our leadership team has never been higher. We've never been more optimistic. That said, it's really early and we want to wait till we have more proof points before we come out with any sort of additional color, but we will definitely, we are extremely excited to share that as this year progresses.

Operator

Daniel Guglielmo, Capital One Securities.

Daniel Guglielmo - *Capital One Securities - Analyst*

Hello everyone, thank you for taking my question. I know you all have a mix of large and small customers with the TOP25 customers making up about a third of revenues. As we continue to come out of this customer demand kind of draw, are you seeing a divergence in the speed at which large customers are occupying spaces versus your smaller customers, or are there any trends of note between the two?

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

So I would say no. We are our customer base has been very stable as we look over the trailing 12 here, and we wouldn't anticipate that to change moving forward, importantly, we're with our scale, we're touching all commodities, all customers in all in all the regions. In which we operate, and you know that that diversification is part of the, a big part of our story. So any shift that would happen that we're not anticipating, one would benefit another would would could be impacted, but we're super diversified and not a concern for us.

Daniel Guglielmo - *Capital One Securities - Analyst*

Great, thank you.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Of course.

Operator

Michael Goldsmith, UBS.

Michael Goldsmith - *UBS - Analyst*

Good morning. Thanks a lot for taking my question. I appreciate some of the background on the supply, but just maybe ask a little bit more directly, will competitive supply for 2025, will that be lower, higher, or the same than last. Year? Thanks.

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Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

But what you need in terms of new things coming online, it's lower. Yeah, I guess, yeah, I mean, what competitive supply dynamics.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

We would expect it to be consistent with last year and new supply going down moving forward.

Michael Goldsmith - *UBS - Analyst*

Thank you very much. Appreciate it.

Operator

Omotayo Okusanya, Deutsche Bank.

Omotayo Okusanya - *Deutsche Bank - Analyst*

I mean, you look at the USDA data that's kind of suggesting that inventory pressures are still existing in the business.

There's a lot of talk about kind of continued inflationary pressure on food costs and some of the more recent data around like weaker consumer sentiment. I mean, as you kind of just look at a combination of those things, do you kind of look at that as a dynamic that continues to kind of put pressure on things for a while? I mean, some of your comments today seem like 2025 really is a year of market stabilization. But I just kind of compare it against some of that demand-related data, and I just kind of wonder if that kind of lingers for a little longer than maybe everyone is expecting.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

So, on the, yeah, yeah, I'll just comment brief. So, I went through all that sort of normal seasonality information. We looked back at the USDA data for that as well. So, I mean, what you're seeing in the USDA data is that normal seasonality, at least over the past year, as we talked about, starting in the back half of last year. Go ahead, Greg.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

YYeah. And I think it's just important to point out again that despite the inflationary pressures, our throughput in our core holdings has not changed, and so the pressure has really been more on inventory levels, and that peaked in the second quarter of last year. Since then, inventory levels in our core holdings have stabilized at a lower level, and that is what our guide does not assume that there's any sort of rebound in throughput or inventory holdings.

We assume things are where they are. They're not going to improve, and we feel we can perform in that environment. And just a little more on the USDA data, I think everybody knows this. But USDA data is based on a voluntary survey conducted via telephone to facility managers, and only a portion of the total cold stores in the U.S. report, and many can report inconsistently or only report for a portion of their warehouses.

And so, while it's an interesting data point, it's far from perfect. For us, 20% of our business is outside of the U.S., and only 40% of our commodity basket in the U.S. is reported through the USDA. So we don't believe that's a good predictor of our results in the short term, although it does certainly have correlation in the long term.

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Omotayo Okusanya - *Deutsche Bank - Analyst*

Helpful, thank you.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Of course.

Operator

Michael Muller, J.P. Morgan.

Michael Muller - *J.P. Morgan - Analyst*

Yeah, hi, what do you see as more normalized longer-term physical and economic occupancy levels for your portfolio?

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

I mean, we certainly strive to move up our physical and economic over time as we gain market share, and we think we are gaining market share. Our customers are always looking to optimize their supply chains, especially our larger customers. There's a number of large optimization initiatives going on at our big customers.

One of them had just completed their seven-month study, and they'll be reconfiguring their North American supply chain, and we were just informed earlier this week. And it's a TOP10 customer for us that we'll get a 50% increase in business from that customer as this year progresses. So, we're looking to gain market share. We think as we optimize our cost structure, as we implement LinOS, as we continue our lean initiatives, we think we can be -- we think in the long term, we can be the lowest cost provider with the best service, with the best scale, with the broadest service offerings, and that will lead to ongoing gain of market share over time.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah, I think another thing worth pointing out, right, is because I occupancy levels have come down. There's space to sell, right? We have room in our building upsides, there's a ton of upsides.

You don't have to go and build a bunch of new buildings in order to service your customers. You can take advantage of available space. So, I mean that's again, this is none of this is embedded in our guide, in normal course we think we can drive, someone did it same so NOI before any of these other great things we're talking about and we'll be there here in the second half of the year and moving forward. So, it's a pretty exciting time as we mentioned.

Operator

Viktor Fediv, Scotiabank.

Viktor Fediv - *Scotiabank - Analyst*

Hello, this is Viktor Fediv on with Greg McGinniss. I'd like to ask, so at [NAREIT], you highlighted a new focus on managing your SG&A expenses. Are you able to provide more clarity on the expectations around that for 2025 and how you plan to address going forward?

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Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah, for sure if you look at operating leverage, both operationally and through admin, it's a huge part of what we're driving here at the company. You saw nice EBITDA growth in a down-market last year, so we're always looking to optimize. I mean, we're investing more in certain areas.

We are making sure other areas have the right size, and it's an important part of what we do. So, there's a little bit of growth in admin for '25, of course, because we're a new public company, and there's public company costs and things we didn't have before. But other than that, we are there's really just not much growth. And I think there's -- again, we built this company because we plan to grow this company to an enormous scale over a long period of time, and we've made some of those investments in advance.

And so moving forward, we can grow without a ton of incremental investment in admin. I can tell you; our CEO and I are very focused on this.

Viktor Fediv - *Scotiabank - Analyst*

Yes. Thank you.

Operator

Vikram Malhotra, Mizuho

Vikram Malhotra - *Mizuho - Analyst*

Good morning. Thanks for taking the question. I just want to clarify on your kind of occupancy and maybe just NOI comments and assumptions. I think you mentioned, having sort of NOI 47% 1st half and the balance in the second half. That's kind of normal seasonality.

So, if I just run that through just to just to clarify, are you, is that embedding basically occupancy falling in the first half and picking up a fair amount in the second and essentially the NOI growth negative in the first half just on you on the on the percentage you gave and a big pick up in the second. Could you clarify that? Thanks.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah. I mean, I think if you run those numbers through your models, you're sort of flattish to slightly down in the first half and up in the second half. I mean, that's I think that's normal seasonality because inventory levels were elevated in the first half last year. So yeah, that's very consistent with what we just laid out.

Vikram Malhotra - *Mizuho - Analyst*

Thank you.

Operator

Ki Bin Kim, Truist

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Ki Bin Kim - *Truist - Analyst*

Thanks for taking me back. Just two quick follow-ups. First, what is the stock-based comp assumed in your '25 guidance? And second, I'm looking at Page 11 -- I'm sorry, Page 15 on your slide deck. Just curious, why did the non-same-store storage revenue fall? I mean, it looks like your economic occupancy fell 700 basis points, but your average occupied pallets were actually up 2.8%, so just a little confusing.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

So, I mean, non-same store, right, there's a lot. We had some buildings move out of same store and non-same store because of the solar fire last year, but there's just a lot of stuff embedded in there. Sorry, what was the first question?

Ki Bin Kim - *Truist - Analyst*

Stock-based comp.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Stock-based comp, yeah. I mean, I think we're at a normal run rate now at the end of the fourth quarter, right? A big part of the stock-based comp increase is our starting line, right, where we went to the entire company and offered equity to the majority of people. And I think that's driven a huge benefit, and it will help us in a million different ways. And so that's kind of in the base now.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Part of the reason why we have all-time very good productivity, yeah.

Ki Bin Kim - *Truist - Analyst*

So, what is the normalized run rate?

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah, I think we're there for the 4th quarter.

Ki Bin Kim - *Truist - Analyst*

Okay, thank you.

Operator

Alexander Goldfarb, Piper Sandler

Alexander Goldfarb - *Piper Sandler - Analyst*

Hey, thank you for the follow-up. Just a two-parter here, if you don't mind. One, if you could just give us an update on the lockup or I guess the expiration of lockup of the pre-IPO investors, where you guys stand, and what's going on there?

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And then the second part is Slide 5 of the presentation really speaks to the outperformance of the platform versus flat year-over-year revenue. And just curious, is this more driven -- that outperformance, is that more driven as you guys acquire assets and you're able to put them on your system? Or do you also see similar outperformance at existing center at existing warehouses, such that and then do you think that this will be able to continue so that the Lineage technology platform that you guys spoke about at the IPO that that will continue to reflect in results and that we should see this continued outperformance of the metrics versus the top-line revenue?

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah I appreciate the question. Yeah, I mean, and I appreciate you bringing it back to this. Like this is what we do. We are world-class operators. The lean processes, the technology, like yes, it's not just things we acquire. We are consistently always getting better. The whole point of lean is you're always getting better, right? And we've rolled it out across some of our companies, not everywhere. And then LinOS is all amazing upside on top of this, right?

So yes, we expect to outperform, we expect to continue to drive margin improvement as we both said on the call, we're just getting started, and I think there's a ton of opportunity there.

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

And as we get better, everything we acquire just becomes more creative.

Rob Crisci - *Lineage, Inc. - Chief Financial Officer*

Yeah, bigger network, more places to take advantage of that. And then I want to also appreciate the question on the sell-down, so just some comments around that. So, we don't see the sell-down process at all as a meaningful headwind, and I'll sort of give you some color on why.

So Kevin and Adam, our founders, large individual long-term shareholders. They're obviously very, very aligned with the public market on making sure the settlement process aids our public investors and all of our investors. They control the settlement process. They plan to execute the organized sell-down over this three-year period, starting with the IPO.

They're very focused on long-term share price appreciation, as are we all, increasing the public float and expanding our base of great long-term shareholders. We also have increased passive index ownership, right? We're around 30% index ownership now. And then again, thinking about the sell-down over time, only 30% of the company is publicly floated today. But of the remaining 70%, founders and management own a significant amount.

And obviously, we expect all of those people to be long-term owners. And so that leaves maybe two-thirds of the stock owned by pre-IPO investors. And of course, we can't predict their investment decisions, but we view a significant number of them, and they've told us such that they are also long-term holders of the stock. So, this is a very organized process over the next two-and-a-half years.

There's no like cliff dates and things that should worry people about this being a real headwind. Appreciate the question.

Operator

Jamie Feldman, Wells Fargo.

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Jamie Feldman - *Wells Fargo - Analyst*

Great. Thanks for taking the question. and I think your response to Alex may have answered some of it, but the stock has underperformed since the IPO.

What in your conversations with investors, what do you think is most misunderstood? What do you think the key concerns are? And what would you tell people to get more comfortable, especially as we start a new year, and you think business is stabilizing?

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Yeah, I think what's been misunderstood is that we've been, we're growing this company 4% total EBITDA, 6% AFFO per share in a major inventory rebalancing. And so, in the start in the stiffest headwind the industry has seen in many years, we're still growing, and we're built to grow. Right now, we're delivering the best customer performance of our history where we have record new business wins.

Our operational, our safety, our energy management performance is great. As Rob said, we'll get great G&A leverage going forward. We have technology and automation that no one else in the industry has, and we're built to grow. And we're going to prove that over the next several years, and I do not think we're getting credit for that on The Street yet.

And I understand that we have to show that, but we've shown it for a long time prior to going public. We were kind of in this strange rebalancing position since we've been public, and we expect to perform very well going forward.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Evan Barbosa for closing remarks.

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

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

Greg Lehmkuhl - *Lineage, Inc. - President & Chief Executive Officer*

Thanks, everybody.

Operator

This concludes today's conference call.

Thank you for your participation. You may now disconnect.

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