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Lineage, Inc. NasdaqGS:LINE

FQ2 2025 Earnings Call Transcripts

Wednesday, August 6, 2025 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2025-			-FQ3 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.10)	(0.03)	NM	0.05	(0.06)	NA
Revenue (mm)	1331.80	1350.00	1.37	1396.26	5434.80	NA

Currency: USD
Consensus as of Aug-05-2025 9:12 AM GMT

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- EPS (GAAP) -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2024	(1.67)	(2.44)	NM
FQ4 2024	0.07	(0.33)	NM
FQ1 2025	(0.10)	0.01	NM
FQ2 2025	(0.10)	(0.03)	NM

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Call Participants

EXECUTIVES

R. Evan Barbosa
Vice President of Investor Relations

Robert C. Crisci
Chief Financial Officer

W. Gregory Lehmkuhl
CEO, President & Director

ANALYSTS

Alexander David Goldfarb
Piper Sandler & Co., Research Division

Blaine Matthew Heck
Wells Fargo Securities, LLC, Research Division

Brendan James Lynch
Barclays Bank PLC, Research Division

Caitlin Burrows
Goldman Sachs Group, Inc., Research Division

Craig Allen Mailman
Citigroup Inc., Research Division

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

Greg Michael McGinniss
Scotiabank Global Banking and Markets, Research Division

Ki Bin Kim
Truist Securities, Inc., Research Division

Michael Goldsmith
UBS Investment Bank, Research Division

Michael Albert Carroll
RBC Capital Markets, Research Division

Michael Anderson Griffin
Evercore ISI Institutional Equities, Research Division

Michael William Mueller
JPMorgan Chase & Co, Research Division

Nicholas Patrick Thillman
Robert W. Baird & Co. Incorporated, Research Division

Omotayo Tejumade Okusanya
Deutsche Bank AG, Research Division

Ronald Kamdem
Morgan Stanley, Research Division

Samir Upadhyay Khanal
BofA Securities, Research Division

Todd Michael Thomas
KeyBanc Capital Markets Inc., Research Division

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

Vince James Tibone
Green Street Advisors, LLC, Research Division

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Presentation

Operator

Good morning, and welcome to the Lineage Logistics Second Quarter 2025 Earnings Call.

[Operator Instructions]

It is my pleasure to turn the call over to Mr. Evan Barbosa. Sir, you may begin.

R. Evan Barbosa
Vice President of Investor Relations

Thank you. Welcome to Lineage's discussion of its Second Quarter 2025 Financial Results. Joining me today are Greg Lehmkuhl, 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 rounded, in comparisons of the second quarter of 2025 or to the second quarter of 2024.

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

W. Gregory Lehmkuhl
CEO, President & Director

Thanks, Evan and thanks everyone for joining us today. I'll start by going over our agenda for this morning. First, I'll recap our second quarter performance, which was in line with our expectations. Next, we'll cover our updated second half outlook, including our occupancy and price expectations for the remainder of the year. After that, we'll cover our guidance update, which is a reduction versus our prior outlook, driven by muted seasonal inventory levels. I will then turn it over to Rob to review segment details and provide an update on our balance sheet. Lastly, I will summarize the quarter and turn it over to your questions.

Turning to our quarterly performance on Slide 4, we delivered AFFO per share growth of above 8%. Total revenue increased modestly by 1% and adjusted EBITDA decreased by 2%, reflecting the challenging market dynamics we're currently navigating. These dynamics are driven by persistently higher food prices, interest rates, tariff impacts and a general sense of uncertainty helped by our customers and are leading to reduced expectations around the balance of the year inventory build. This updated outlook has led us to reduce our annual AFFO per share guidance to $3.20 to $3.40 compared to our prior range of $3.40 to $3.60.

Transition to our second quarter results. Our global warehousing segment was in line with our expectations as we laid out in last quarter's call. Same warehouse NOI was down 6% year-over-year against elevated inventory levels we experienced last year. While these market dynamics are fluid and obviously difficult to predict, we remain confident in our core business. We saw a sequential improvement during the second quarter in our same-store NOI, which increased from $336 million to $343 million. Notably, Q2 is normally the lowest seasonal occupancy quarter of the year. We're also seeing storage revenue for physical occupied pallet stability as expected as I'll discuss more in a minute.

Our global integrated Solutions saw 8% year-over-year segment NOI growth led by our U.S. transportation and direct-to-consumer businesses. Across the company, we are acutely focused on partnering with our customers as they navigate through these turbulent times. We will continue to work as strategic partners to help them to improve their supply chain efficiency.

Additionally, the rollout of LinOS, now at 6 conventional sites, continues to accelerate and perform above our expectations, showing double-digit productivity improvements. We expect to have 10 conversions completed by year-end, setting us up to further accelerate

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the broader rollout in 2026. Also during the quarter, we completed our inaugural $500 million investment grade-bond offering. Additionally, we executed on our M&A and development pipeline and accretively deployed $535 million in growth capital, including closing our agreements with Tyson Foods in addition to 3 smaller acquisitions.

Before moving on to a more detailed analysis of our performance, I want to say a few words about our company. Lineage is positioned as the industry leader with broad and deep customer relationships, the largest network, cutting-edge technology and is a world leader in warehouse automation. I'm confident that we are well positioned to grow as the food industry inventory stabilize, new capacity is absorbed and our internal initiatives continue to get traction. I would also like to take a moment to sincerely thank all of our team members across the world for living our values as they deliver excellent service to our customers every day.

Moving to Slide 5. When we met with investors in early June in “NAREIT” we reaffirmed guidance based on what we were seeing in the marketplace at that time. The blue line on this chart shows our actual and projected physical utilization, whereas the green line shows typical quarterly USDA seasonality from 2015 through 2019, the years before the pandemic caused disruption in the normal seasonal pattern and the red line shows 2025 actual USDA seasonality.

As you can see, throughout much of the first half of the year, we were slightly above the pre-pandemic USDA averages, which we see as a proxy for normal seasonality and informed our prior guidance. Late in the second quarter, with inventories historically started to decline, we saw muted seasonality in occupancy. This trend continued into the third quarter, and we've only recently seen a positive inflection in their inventories. This delayed occupancy improvement, combined with persistently high freight prices, tariff uncertainty, and elevated customer inventory carrying costs drove our decision to lower outlook for the second half.

To be clear, our occupancy projection is what changed as our assumptions around cost efficiencies, price, throughput and GIS growth remained unchanged from our previous guidance. All that said, we still expect inventories to build through the third quarter and into the fourth quarter supporting sequential same warehouse NOI and adjusted EBITDA improvement in each quarter of the year.

Turning to Slide 6. We had a number of questions about price in relation to our storage revenue for physical pallet after we announced our first quarter results. A quick reminder that our storage revenue per physical pallet consists of rent, storage and blast revenue. As outlined at NAREIT, we expect to see stable trends for the balance of the year. This quarter, we saw nearly 5% sequential improvement in same warehouse storage revenue per physical pallet.

As you can see on the chart, there's always some short-term volatility in this metric, which is driven by a number of factors, including rate, volume guarantees, inventory turns, blast, freezing volumes, commodity mix, exchange rates and seasonality. Additionally, we saw a sequential increase in our minimum storage guarantees, increasing 290 basis points from Q1 to Q2 as the new business we are winning has a higher percentage of storage guarantees than our base. While it remains a competitive environment, about 90% of contracts to be renegotiated this year have been completed, giving us confidence in our stable price outlook for the balance of the year.

Moving to Slide 7. Based on the factors I described today, we're lowering our full year 2025 outlook. Coupled with the AFFO per share reduction I've already outlined, we're revising our full year adjusted EBITDA guidance to the range of $1.29 billion to $1.34 billion, down from our previous range of $1.35 billion to $1.4 billion. Given the dynamics unfolding in the industry, we want to provide more clarity regarding our near-term expectations. And accordingly, we are initiating guidance for the next quarter.

For Q3, we expect AFFO per share to be between $0.75 and $0.79 and adjusted EBITDA to be between $326 million and $336 million. Some of the maintenance CapEx spend moved from the second quarter into the third quarter, which is reflected in our AFFO per share guidance. It's obviously been a very tough road since our IPO with customer inventories rationalizing tariff uncertainty, higher interest rates and food prices and new competition entering our market.

We believe the industry demand is bouncing along the bottom right now. Unfortunately, the uncertain macro backdrop is slowing our expectations of a broader market inflection in inventories and throughput. Lowering guidance is both difficult and disappointing for us but we remain focused on executing our business plan and driving shareholder value. We are also aligned with our investors as our management team has the majority of our compensation tied to long-term equity incentives.

In summary, we believe we've turned the corner and our business has begun to steadily improve in the short term, while we continue to invest to win in the long term. We saw sequential NOI improvements in Q2, which is normally the lowest quarter of the year. We expect this improvement to continue in the second half with same-store NOI trending positively, positioning us well for growth in 2026.

To that end, on Slide 8, allow me to outline some of the actions we're taking to position Lineage for long-term success. We're focused on driving competitive differentiation across 3 key areas: Delivering customer success; leveraging our network effects; and enhancing warehouse productivity.

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Starting with customer success. We're focused on addressing our customers' primary concerns, which include optimizing supply chain costs, increased efficiency and further improving service by marrying our global integrated solutions offering with our expansive global warehouse network. We're also enhancing our responsiveness and customer service consistency. Through a new partnership with Cognizant, we are elevating our customer care model through proven best-in-class technologies, expanded service hours and deep customer service expertise, all while retaining the same team members as points of contact that our customers have known for years.

Next, on network effects, we're leveraging our best practices, economies of scale, investments in technology, broad service offerings and presence across 19 countries to support the increasingly global needs of our customers. We're also using our scale to drive cost savings across our platform in areas such as energy and insurance.

In markets experiencing excess capacity, we're proactively consolidating facilities to drive higher occupancy and efficiency. As the industry leader, our scale and breadth position us to create value through network optimization efforts like these.

Finally, regarding warehouse productivity, I truly believe we have the best operating team in the business. Lean has always been at the core of our operating culture. It has helped us deliver service excellence and consistent productivity gains over many years. We expect Lineage to build on this foundation and accelerate efficiencies while making Lineage an even better place to work.

As previously mentioned, our ongoing LinOS pilots are continuing to show double-digit productivity improvements. We look forward to sharing more financial details with investors by year-end. Lastly, our industry leadership in automation remains unmatched as illustrated by our agreements with Tyson Foods discussed last quarter. Simply put, we will never stop working to earn the right to grow with our valued customers.

Now I'd like to turn the call over to our CFO, Rob Crisci.

Robert C. Crisci
Chief Financial Officer

Thanks, Greg. Good morning, everyone. Starting on Slide 9 and quickly recapping our segment performance. In our Global Warehouse segment, total revenue grew slightly and total NOI declined 4% to $367 million. Same warehouse revenue was down 3%, while same warehouse cost of operations decreased 1% aided by our continued labor and energy productivity initiatives. Contribution from non-same warehouse NOI grew 33%, driven by acquisitions and developments that continue to ramp.

We received some positive contributions from the Tyson Foods agreements, which closed in June, and we are off to a great start. Additionally, we expect $109 million of incremental future NOI from previously completed and in-process development projects that have yet to stabilize. We've already spent over $1.1 billion of the $1.2 billion total investment on these projects where the future NOI benefit is yet to be realized. In summary, we are well positioned to grow, aided by the impact of these nearly completed developments.

Shifting to Slide 10 and covering our global integrated solutions segment. Revenue was up 2% to $380 million and NOI was up 8% to $68 million. Our NOI margin was up 100 basis points to 17.9%. We are seeing strong momentum in our U.S. transportation and direct-to-consumer businesses. Our customers continue to appreciate Lineage's integrated solutions and unmatched global service offering. For the remainder of 2025, we expect this strong momentum to continue with double-digit growth in the second half.

Moving to Slide 11. We ended the quarter with net debt of $7.4 billion. Total liquidity stood at $1.5 billion, including cash and available capacity on our revolving credit facility. Our leverage ratio, defined as net debt to LTM adjusted EBITDA was 5.7. We will remain highly disciplined on future capital deployment.

In June, we successfully completed our inaugural $500 million investment-grade bond offering, which carried a 5.25% coupon on a 5-year term. Our new bond has been well received by investors and has traded tighter since the offering. I'd like to thank Michelle Domas, our world-class treasury team and our banking partners for the great execution on our inaugural deal. Investment-grade status was a key driver of our decision to go public, and we are excited to have access to these markets moving forward.

With that, I'll turn it back over to Greg to wrap up before opening it up to your questions.

W. Gregory Lehmkuhl
CEO, President & Director

In summary, on Slide 12, our Q2 results were in line with our expectations. We're lowering our guidance due to our revised outlook regarding the seasonal inventory build, pricing remains stable. And importantly, we saw sequential revenue, NOI and EBITDA

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improvement, which we expect to continue going forward. We are the global cold chain leader in providing the critical infrastructure for the food industry, an industry with positive long-term growth.

We're achieving meaningful progress on our internal initiatives such as our LinOS technology. We are positioned to deliver strong operating leverage when the industry improves. And finally, our management team has never been more committed to delivering results and to driving long-term shareholder value.
With that, let's open it up for questions. Operator?

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mr. Alexander Goldfarb from Piper Sandler.

Alexander David Goldfarb
Piper Sandler & Co., Research Division

I guess for my one question, Greg, at NAREIT, you guys reiterated the guidance from earlier this year. Clearly, you had a chance at that point to revise down. And just want to understand everything was tracking well until basically June 1. And then after that, things fell off. It just seems a little tough, again, especially given that you guys had an opportunity to revise them. Just curious what you're thinking and how things were trending then versus what materially happened subsequent to NAREIT that caused you guys to reduce the outlook?

W. Gregory Lehmkuhl
CEO, President & Director

Alex, honestly, great question. And you're right. What changed is our occupancy guide. We had been trending in line with typical seasonality. And I think everyone remembers we described and we described typical seasonality is the normal seasonal pattern of we were referencing 2015 to 2019 before all the disruptions of COVID, when the normal seasonal pattern happened for generations really before that disruption and that you start in Q1, you dropped to a bottom in Q2 and then you build up to through Q3 and Q4. And so at NAREIT, we were trending actually in line with typical seasonality, actually a little bit better than normal seasonality and how the USDA indicated the market was performing. So we were above the line, as indicated on our Slide 5.

In June, when we typically see utilization inflect after bottoming in May. And this year, we just started to see the typical seasonal uplift of utilization in late July, which is obviously later than usual, and that pickup has been a little bit more gradual than it typically is. So we do still anticipate a seasonal uplift in the second half, and we do see that happening now in the last couple of weeks.

But because of the delay and because of the muted seasonal pattern that we're seeing today versus what we were seeing when we talked at NAREIT and because of the ongoing uncertainty around tariffs that elevated inventory carrying costs, we're just lowering our expectations on the magnitude of the uplift. Importantly, as you saw, we did see sequential improvement in our same-store NOI Q1 to Q2, and we expect to improve in each quarter of the year.

Operator

Our next question comes from the line of Ki Bin Kim from Truist.

Ki Bin Kim
Truist Securities, Inc., Research Division

Maybe we can just start off at a higher level. What's the best argument you think you've heard from your clients in terms of why occupancy is too low or throughput volume is too low today versus what, I guess, the industry players and yourselves included might think what is normal going forward. So what are the best argument for that?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. I think as I mentioned on the prepared remarks, we believe the industry is bouncing along the bottom right now. I mean food producers on their earnings calls and in all of our meetings continue to cite just high food pricing and value-seeking behavior from customers. Our view right now is that inventories have been under serious pressure for a couple of years now and in servicing consumers without stock outs, which nobody will handle would be very difficult at even lower levels. And so we definitely feel we're bouncing off the bottom.

There are some data -- positive data points out there like the beef herd counts, which are obviously still below the 2021 levels, that appear to stabilize based on the 2025 USDA data, and Circana's data showed that restaurant industry in -- the whole industry gained momentum after a slow start to the year. Also, our customers are pushing very, very hard for -- to increase volumes through incentives and their sales efforts. And if those incentives are successful or we get any interest rate relief either one of those things could act as a stimulus for increasing inventories moving forward.

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Ki Bin Kim
Truist Securities, Inc., Research Division

And do you think GLP-1 drugs are having a significant impact on volumes or occupancy?

W. Gregory Lehmkuhl
CEO, President & Director

We don't, and our customers don't. I mean certainly, if you look at our commodity mix of heavy in proteins, seafood, food and veg, those are areas where people are eating more of, not less of. And we think long term, if the drugs work, and hopefully, they do and dramatically impact diabetes deaths, then people will live longer and people will eat more in the long term.

Operator

Our next question comes from the line of Mr. Michael Griffin from Evercore.

Michael Anderson Griffin
Evercore ISI Institutional Equities, Research Division

Appreciate the comments earlier on the LinOS pilot. And I know you said you'd kind of quantify the benefits of that later in the year. But maybe can you give us any anecdotal examples of initiatives you're undertaking and maybe some of the benefits you've seen from the implementation of these pilot 6 or 10 facilities, however many it's been?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. We have 6 implemented so far, we'll do 10 by the end of the year. And all I can say is this is -- our initiative is exciting. It's on track. It's exceeding expectations. And we're seeing double-digit total labor productivity improvements across the 6 sites. So to remind everyone, LinOS is our proprietary warehouse execution system. This started many years ago from a vision and a belief from Sudarsan Thattai, our CIO; and Elliott Wolf, our Chief Data Scientist and their teams that we can reimagine the way warehouses run and that technology and data science are the enablers.

And so LinOS through our own proprietary algorithms optimizes literally every resource and movement that happens in the warehouse, much like air traffic control, if you will, from how trucks are loaded and unloaded to where product is put away to directing each task in the building with the result of optimizing performance for customers and dramatically increasing our warehouse efficiency. And so we have the evidence now that this vision is coming to life and can fundamentally change our competitive position over time given its impact on customers' cost and even our employee experience.

And most great things take time and LinOS is no different. And this year is about proving out the functionality and getting it rolled out to different types of facilities before a much broader and accelerated rollout next year and the year after. And so we're increasingly excited about how this can just fundamentally transform our operations because we see the benefit now across the 6 sites, not only in direct labor, which was the primary focus but also in indirect labor, employee benefits, energy, safety, employee turnover, the employee experience, training expense.

We even think it's going to materially lower both our CapEx and our facility maintenance expense over time as we're more efficient in the use of our facilities and our material handling equipment. And so over time, we think it will materially lower our cost structure, help us compete and improve what we already have as an excellent service for our customers. So we're highly encouraged, and we believe LinOS is going to be everything we thought it would be, and we can't wait to share a lot more detail around kind of financials and how these algorithms work around the NAREIT conference later this year.

Operator

Our next question comes from the line of Brendan Lynch from Barclays.

Brendan James Lynch
Barclays Bank PLC, Research Division

Greg, you mentioned this a bit in your prepared remarks but can you discuss the pricing strategy in the second quarter for rent, storage relative to the first quarter? It looks like you recaptured the trend line on that Slide 6, which was a little bit of a surprise given it sounded like you were giving some price concessions in the first quarter to get volume. So maybe just what has changed and what we should expect going forward?

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W. Gregory Lehmkuhl
CEO, President & Director

Yes. The short answer is nothing has changed. And let me explain why. So we communicated over the last quarter's results and at NAREIT that we thought pricing levels would be stable for the balance of the year. In our prepared remarks today, we discussed that there's always some short-term volatility in this metric, and you'll see that on Slide 6, which is driven by a number of factors. I'll repeat them. Rate or price is certainly a piece of that but also volume guarantees, inventory turns, last reason volumes, commodity mix, geographic mix, exchange rate and seasonality can all impact the way this metric fluctuates quarter-to-quarter.

And so yes, the pricing was up for rent, storage and blast, sequentially. But much like we weren't concerned that it went down a little bit last quarter, we're not over celebrating this quarter of the sequential 5% because it's not all price. This quarter was benefited by European FX and elevated volume guarantees, which while they were reset in the first quarter, given the resetting inventory levels. The second quarter is normally and is this year likely to be the lowest occupancy quarter of the year, so you're collecting a little bit more about volume guarantees, which elevates your rent, storage and blast per occupied pallet.

And so again, long story short, nothing has changed. We got our 2% to 3% price. We see the pricing environment as competitive but stable, and we wouldn't -- we're not concerned about this element for the balance of the year and is consistent with our prior guidance.

Operator

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

Ronald Kamdem
Morgan Stanley, Research Division

Just a quick 2-parter. Just can you talk a little bit more about sort of throughput was down same-store 3.2% this quarter, which decelerated from the last quarter number. Just help us think about sort of what's happening on that front? Is product just being stuck somewhere in the supply chain, is number one.

And then the second comment is just updated thoughts on supply in the industry.

W. Gregory Lehmkuhl
CEO, President & Director

You got it. So we talked about this concept of core holdings in the last quarter, and we define that as volumes from customers that have not meaningfully changed their business with us over the last 4 years. So we didn't win business, we didn't lose business. They're consistent, and that represents over 70% of our global warehouse holdings. So as we talked about, core holdings have been under pressure since the beginning of the inventory unwind coming out of COVID starting in '23.

And as a reminder, and as we explained on the last call, the total outbound pallets on an annual basis have remained remarkably flat over the last few years. In this quarter, as you mentioned, we did see throughput pallets down 3% in our same-store warehouse portfolio year-over-year. But we would expect that given the elevated inventory levels we saw last year. And if you look sequentially, the throughput was up about 1%. And so our view is the core holdings remain under pressure due to the items I've already mentioned, higher food prices, elevated inventory carrying costs, higher interest rates and just the uncertainty around tariffs.

On the supply side, I think -- we all know that it's not a super transparent industry like some other sectors. And it's not widely tracked by third-party brokers and things are published and talk about supply and demand in our space. So we've been working collaboratively with CBRE to create a database of new announcements this year. And what that database and data shows is that we peaked at -- the new openings peaked in '23 and we've seen elevated levels in the 2 years since then.

The latest information we have now shows that over the last 2 years, 3% to 4% capacity came online each year, and we now expect 2025 to be at a similar level. However, announcements for '26 deliveries are showing a substantial decrease in new volume coming online versus the past few years. Our data right now shows about 1% new supply being delivered in '26. And of course, that could change as new announcements are made but we certainly anticipate a drop going forward.

And so just one more data point, as you guys probably already all know, we observed a similar pattern of construction in the broader industrial warehousing sector, where there was roughly a 3-year period of elevated new supply post COVID, and that has now returned to historical levels.

Operator

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Our next question comes from the line of Michael Goldsmith from UBS.

Michael Goldsmith
UBS Investment Bank, Research Division

Can you walk through the assumptions that underpin the third quarter and fourth quarter guidance? And what gives you confidence in the material step-up in trends expected in the fourth quarter?

W. Gregory Lehmkuhl
CEO, President & Director

Why don't I start just...

Robert C. Crisci
Chief Financial Officer

Yes, go ahead.

W. Gregory Lehmkuhl
CEO, President & Director

So just to talk about the biggest assumption that gives us confidence is continued progress on internal initiatives, on productivity savings, on energy savings, on all the things that we're doing across our company to drive efficiency and new business. And the occupancy that we -- the reason we changed our guidance is the occupancy expectation being more muted than we were previously guiding to. But we are already seeing that we bounced off the bottom in occupancy, and we are climbing into the season that we would expect to climb into although it'd just be a couple months later than we anticipated. Our price assumptions, our productivity assumptions are almost everything else same. Tariffs have a little impact. But that's really what changed.

Rob?

Robert C. Crisci
Chief Financial Officer

Yes, that's right. Yes. And so we're trying to give you a little bit more data here. So we gave you Slide 5, which is our occupancy guide for the rest of the year, which mirrors everything that Greg said. And I think there's confidence in the fourth quarter versus the third quarter, which is very similar to prior to what we saw last year. So we talked about starting to see normal seasonality in the second half of last year. and that's embedded in our guide here. So I think we feel really good about it, and we lowered for all the reasons Greg said. But again, it's just occupancy and it's our industry and it's evolving, and we feel really good that we are now sequentially improving and that's a great place to be.

W. Gregory Lehmkuhl
CEO, President & Director

If it as much as it has in prior years, then there's -- then we'll be seen as conservative, I guess but trying to take a prudent view given what we're seeing.

Operator

Our next question comes from the line of Samir Khanal from Bank of America.

Samir Upadhyay Khanal
BofA Securities, Research Division

I guess, Greg, help us understand how to think about the rebound or the inflection in occupancy? I mean, clearly, there's very little visibility from our side here, right? So is it the macro? Is it the health of the consumer? What should we be paying attention to as we think about the timing of the inflection? And then at this point, I think folks are trying to understand what the trajectory of growth even looks like into the '26. So help us understand kind of what you track and that would be helpful.

W. Gregory Lehmkuhl
CEO, President & Director

Sure. I mean the #1 thing we track is our conversations with customers and our own occupancy. And if you think about our second half guide, we did see us come off the bottom, and we've had a few weeks of -- a couple of weeks of increase, which trends like it did

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last year, where we saw substantial occupancy resets going in the late third quarter to the fourth quarter. And so that underpins our guide.

As far as when the industry will start to rebound, I think again, our customers' inventories are -- we feel about as low as they can be, while still servicing the consumer. Everybody is looking to stimulate new demand and interest rates and tariff deals getting finalized, both actor could act as stimuli for increased inventories.

Operator

Our next question comes from the line of Todd Thomas from KeyBanc Capital Markets.

Todd Michael Thomas
KeyBanc Capital Markets Inc., Research Division

I guess 2 questions. One, just a follow-up. Are you able to provide for July, any detail around occupancy or some of the specific drivers around warehouse storage in the Services segment? Any specific updates regarding July specifically, it sounds like there was a little bit of a pickup here later in the month?

Second question though is around the dynamic between the softness that you experienced in the warehouse business relative to GIS, which grew 8% in the quarter. Can you talk about some of the growth drivers for GIS in the period and what's behind the sharp acceleration in the second half of the year?

Robert C. Crisci
Chief Financial Officer

Sure. So we're just closing out July. But in terms of occupancy levels, we're back now above April, May, right? So it's back to that again, as you see in our chart, you start to move up. We just started moving up several weeks later, right? And then you just have less months with more things in the warehouse, and that's what led to the guidance cut. But we are seeing what we expected, which is good to see.

W. Gregory Lehmkuhl
CEO, President & Director

Yes. And then we're just taking a more muted view on the slope of the trend for the balance of the year given that it happened late, and we're trying to be prudent with our guidance. On the GIS side, I got to say, I've never been more proud of our GIS team around the world. They're doing a fabulous job. We have better players on the field. It remains, as you guys know on the trucking side of the business on all the services we provide in our GIS group, which are very complementary to our warehousing business and very critical to our customers' total supply chain optimization.

But this team is doing a phenomenal job. The sales team is doing a great job selling new business. And I think we're just doing a better job than ever talking to our customers about their end-to-end cold chain. And what we -- and some of them a few years ago didn't even know that we have these services and now we're the services have developed the team strengthened and the technology strengthened and the coupling of the warehouse with the GIS services has gotten stronger. And so I would expect this trend to continue for the foreseeable future as they're just gaining momentum.

Operator

Our next question comes from the line of Craig Mailman from Citi.

Craig Allen Mailman
Citigroup Inc., Research Division

Just want to circle back on inventories and kind of how you guys are viewing them going forward? I mean I just heard your comment that a pretty common refrain over here in the last couple of quarters from you and your peer that it doesn't feel like inventories can get any lower for your tenants and yet we're still seeing kind of occupancy from a nominal perspective stay pretty muted. The low-end consumer is under pressure, there's shrink inflation. So even though people are spending the same amount, you're getting less what you're spending. You're seeing fast food companies like McDonald's, see tepid sales because the value proposition isn't there.

I guess, is it wishful thinking at this point to think that the trend to seasonality should be confused with an inflection in nominal inventory levels? I mean, can't we have both where you get that seasonality but you're just off a base that's not going to materially improve given the outlook and given the financial situation of a lot of people in the country? I mean, I'm just trying to kind of circle

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the square here because we're -- it just feels like the USDA data has been year-over-year negative for over 2 years. And yet when we hear from you and your peers, it's just tenants say things are going to get better that it doesn't happen, right? And the post-COVID world is just different. I don't know if it's technology improvements on the tenant side. I don't know if it's the shrink inflation, GLP-1s, whatever it is but it just doesn't feel like the needle is moving back on inventory levels despite that consistent comment that it just doesn't feel like inventories could shrink anymore and still service the end user?

W. Gregory Lehmkuhl
CEO, President & Director

So fair point, certainly. And our guide does not assumed any inflection in the underlying environment or that kind of general consumption inventory levels get better for the balance of this year. There's no doubt that consumer is still under pressure because of high food prices, high interest rates, uncertainty and that's putting pressure on overall food sales. The seasonality we talked about, we saw last year even in this tough environment, and we're guiding to even more muted seasonality than we saw last year.

And so we think we're being conservative. We're not depending on an inflection for all the reasons that you pointed out. We think long term, leading up to the 2020, call it, '22, fresh and frozen food consumer preference, it's shifting that direction. Consumers want to be healthy. We -- the majority of our food fits in that category. And we think that the long-term trend and the data that the people like [indiscernible] and other organizations feel that there'll be growth in the long term. But we are bouncing off the bottom right now, and we're not trying to predict or dictate when we think that's going to change.

But that said, our -- we saw sequential improvement in our results in the first and second quarter. We expect to see that in third and fourth despite the challenging environment, the technology we're putting in place we think is a game changer for our business. Our GIS segment is doing very well. We're doing a great job controlling costs in every aspect of our business around the world. And we think our network, our technology, our customer relationships, our GIS service offering puts us in a great position to win in the long term. And we do still feel, despite the fact we don't know when, that volumes at the consumer of fresh and frozen will start to grow again at some point.

Robert C. Crisci
Chief Financial Officer

Yes, that's right. Everything you said, which I think is fair point, is currently reflected in our numbers. So that's what's been happening. We are seeing things getting better slowly. We're doing everything we can on our end to control what we can control. And so I think any change to any of the things that you said is upside opportunity, and we're not expecting any of that to happen this year in our guide. But we do think over the long term, there is quite a bit of upside opportunity but we're going to wait to see it happen.

W. Gregory Lehmkuhl
CEO, President & Director

Yes. And we think we'll leave this year with good momentum. We think we'll see sequential improvement each quarter and good momentum going into next year. Obviously, we're not guiding next year right now but we feel good about all the internal initiatives we're doing, our new business with customers the way we're -- our partnerships with customers are only strengthening and we think that will benefit us long term.

Operator

Our next question comes from the line of Mike Carroll from RBC.

Michael Albert Carroll
RBC Capital Markets, Research Division

Greg, can you provide some color on where cold storage companies are currently trading or at least being valued in the private market? I mean has private market valuations changed as much as we've seen in the public markets? I guess what's the right valuation metric that these assets are traded at? I mean, should we be thinking about EV-to-EBITDA ranges? And I know it's -- each asset is different, each company is different but what's the typical EV-to-EBITDA range that cold storage companies are trading in the private market today or at least if trade start or where do they typically trade at?

W. Gregory Lehmkuhl
CEO, President & Director

I mean it's obviously an evolving metric. But right now, they're probably trading higher than the higher [per share] multiples. Yes, I think we're trading at a 55% to 60% of NAV. We think it's obviously undervalued. That's our view.

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Robert C. Crisci
Chief Financial Officer

Yes. The private markets take a longer-term view, right? And so the quality of the assets but just the long-term growth of this industry, yes, there's definitely a disconnect. Now as you know, we've deployed a bunch of capital. I think we're in a good place. We've got a lot still to come, as we mentioned in the prepared remarks, in terms of NOI that's still developing -- in terms of Tyson and the acquisition. So we've deployed a lot of capital at attractive multiples. Now that, that's going to flow through our results, we're going to do our best here to improve sequentially and then we'll continue to monitor the markets.

But there's certainly, at this point in time, the sort of true long-term value of our industry is not -- we don't feel shown in the public valuations and private a different story.

Michael Albert Carroll
RBC Capital Markets, Research Division

Like what's the typical EV-to-EBITDA range that assets trade in the private market, I guess, compared to your valuation, I guess, where does that typically go?

Robert C. Crisci
Chief Financial Officer

It really depends on region. There's so many dynamics but they're things trading double-digit EBITDA to 15, 20x EBITDA that we see in smaller transactions in Europe and other places. It's a pretty big disconnect at this point.

W. Gregory Lehmkuhl
CEO, President & Director

Yes, wide range, I would say.

Operator

Our next question comes from the line of Vikram Malhotra from Mizuho.

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

I have 2 clarifications. I guess this first one, and I'm still struggling to get a sense of like how conservative you truly are in the back half, given kind of we're still seeing elevated inventory levels. Do you mind just from that chart you've provided, like what is your actual occupancy build just a number sequentially into the second half, whether physical or economic, if you can give? And compare that to -- how does that compare to, say, like pre-COVID historical trends, just like how conservative you are, like what -- and give us the exact -- like occupancy from that chart?

And then just second clarification is G&A. Your G&A did come in, I guess it was a big benefit in 2Q versus we anticipated and the second half assumes a big pickup. So cash G&A, like what is driving that in the second half?

Robert C. Crisci
Chief Financial Officer

Yes. So Slide 5 -- I mean that's exactly -- to answer your question, that's what Slide 5 is here for. So 2015 and 2019 is your pre-COVID USDA seasonality. That's the green line. What we are embedding at the midpoint of our guide here, which is you could look at the charts, basically, call it, 75% plus or minus in Q3, 78% in Q4. So that has muted seasonality compared to history. We think it's prudent like we're not trying to be overly conservative or overly aggressive. This is what we see right now. Our team is going to work hard to beat these numbers.

And in terms of G&A, again, we're managing the company prudently. And we have -- we think there's room to grow the business quite a bit at this level of G&A, right? We expect to grow the business over the long term. We think we'll get great leverage in the short term. We're certainly going to look everywhere and to make sure we're investing the right amount in the right areas, and that's something that never changes. It's something we'll continue to work on.

Operator

Our next question comes from the line of Blaine Heck from Wells Fargo.

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Blaine Matthew Heck
Wells Fargo Securities, LLC, Research Division

Just following up on guidance, can you give us a little bit more color on what's driving the AFFO decline expected in the third quarter versus Q2 despite the increased occupancy, same-store EBITDA, is that all driven by CapEx seasonality? Or is there anything else going on there?

And then with respect to the fourth quarter, it's a pretty wide range between $0.78 and $0.94. So can you just share your thoughts on what key drivers would result in AFFO coming in towards the upper or lower end of that range?

Robert C. Crisci
Chief Financial Officer

Yes. Q3 is just timing of CapEx. So we -- some of the CapEx we expect in Q2 pushed into Q3. I think we're still working to get better at being even every quarter. We used to have an annual budget process. The team is doing a great job but we're just -- there's still some seasonality in maintenance CapEx, which over time will work to remove but we definitely have higher maintenance CapEx in Q3 and Q4 and we gave the full year number.

I mean, yes -- in terms of the range, I mean, I think there's -- it really depends on occupancy. That's the biggest driver. As Greg mentioned, price is stable. Our cost controls are in place. Our team will work hard if occupancy is lower to take out costs to make sure we can still produce as high as EBITDA and AFFO number we possibly can. But we just thought it was prudent. Because, again, you're in an industry here that's inflecting from a seasonality standpoint, and it's just a week or 2 change can drive very different results. And so we wanted to give you, again, we're trying to be as transparent as we can and show you, here's what we see. Here's what we're assuming. And then obviously, people can make their own determinations from there. But that's our goal of this call.

Operator

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

Caitlin Burrows
Goldman Sachs Group, Inc., Research Division

Maybe just back to the private market valuation discussion. I know you guys have only been public for a year. But I guess, how do you think about the option of being private versus public? And do you think it -- or under what circumstances or do you think it would be better for shareholders to take the company private?

W. Gregory Lehmkuhl
CEO, President & Director

Certainly, it's been a -- I mentioned in the prepared remarks, I think we went public at a very interesting time as the industry was resetting. That said, I think getting our investment-grade rating, having access to the capital markets. We're better -- we're still better in the public space despite tough quarters like this.

Robert C. Crisci
Chief Financial Officer

So, yes, I think that's right. Getting the cost of capital, having the ability to issue equity moving forward for accretive opportunities. We're continuing to do that. Like we're going to look hard at how do we compound and grow this company and having that flexibility to be an investment-grade company is huge. So I think the future is very bright even though, obviously, the first year has been tough.

W. Gregory Lehmkuhl
CEO, President & Director

Yes. I mean we -- if you look at our guidance, we see sequential improvement. We think -- our mission is to help the stock rebound through our performance as fast as it's come down. And we think we can do that. We think we're very well positioned. And even at the current deflated stock level, we're still seeing accretive deals in the marketplace where we can generate alpha through those deals. So we're -- there's still a ton of opportunities even at these levels.

Operator

Our next question comes from the line of Omotayo Okusanya from Deutsche Bank.

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Omotayo Tejumade Okusanya
Deutsche Bank AG, Research Division

We talked a lot about just customer trends in the USDA data and -- just kind of curious, the occupancy decline and everything you're seeing in regards to a more tempered outlook. Is this all U.S. centric? Or are you also seeing similar trends in your international business as well?

Robert C. Crisci
Chief Financial Officer

Yes. We're really -- I mean, we want to show you USDA data because it's something people look at. It's just -- it represents the trend. But the point is that it's not necessarily our entire portfolio that track nor U.S., for that matter. I mean, it's about -- as we put on the slide, about 40% of our portfolios reflect in USDA trends but there is seasonality throughout the world.

W. Gregory Lehmkuhl
CEO, President & Director

Yes. I think we're seeing inventories hold up better in other regions, both in Europe and Australia, which is our largest market in Asia Pacific. So the U.S. is driving the year-over-year occupancy decline.

Operator

Our next question comes from the line of Greg from Scotia Capital.

Greg Michael McGinniss
Scotiabank Global Banking and Markets, Research Division

I'm curious on this occupancy and whether the lower seasonal occupancy you're experiencing is ratable across all categories? Or if there's specific categories that are under more pressure? And if you could comment on the more import export focused category specifically as well, that would be appreciated.

W. Gregory Lehmkuhl
CEO, President & Director

So it is pretty broad-based, I would say, the pressure we're seeing. I'll comment a little bit about tariffs. We're certainly seeing chicken sell well and the beef herd as well. Those are 2 categories that are mixed. Seafood, the inventories have stabilized but the end sales are at a pretty low historic level. And a lot of these are, of course, out of the import export side are a result of tariff policies. Our customers are constantly redirecting product around the world and kind of managing through with their buys on the tariff policies.

One of the things that we were hoping to see as a result of tariff negotiations is to open up new markets for U.S. exports as the U.S. is the most efficient producer of food in the world. I mean, for example, agriculture and particularly proteins is one of America's last grade exports. The U.S. is extremely competitive. I think the protein space on the world stage and many of these markets have been either partially closed or closed to U.S. protein imports in recent -- until recent trade deals are finalized and were closed historically.

So as an example, the U.K. and Australia just opened up their markets to U.S. beef imports if these deals get closed that are likely going to be in the near term here. And while that won't stimulate a lot of new exports in the short term because beef is so low in the midterm, long term certainly could. And we're looking for more deals like this to help stimulate production in the U.S.

Robert C. Crisci
Chief Financial Officer

Yes. So to quantify, we did go through and really try to quantify our tariff impact in all of our review calls. We got about $10 million, our estimate NOI headwind in the second half. That's embedded in the guidance on the occupancy chart that you could see. So we do have some locations that have more inventory because of tariffs. But then again, enough that have lower to lead to a headwind overall. So we did want to give that number to give everyone a sense of sort of what we've been seeing.

Greg Michael McGinniss
Scotiabank Global Banking and Markets, Research Division

Okay. Are you not worried about the use of like growth hormone in our beef that's going to limit exports?

W. Gregory Lehmkuhl

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CEO, President & Director

I think the protein space will adapt to that and figure it out.

Operator

Our next question comes from the line of Michael Mueller from JPMorgan.

Michael William Mueller
JPMorgan Chase & Co, Research Division

Can you talk about the strategy to manage interest expense going forward after the caps and swaps burn off at year-end?

Robert C. Crisci
Chief Financial Officer

Yes, for sure. So we did the bond deal. We did a new swap here just recently. So we are actively managing it. There is about a $10 million per quarter headwind in 2026 versus 2025 because of the expiring swaps. So we benefited a lot from them. We're glad we did them, they're expiring, and we are working hard to mitigate that through a number of different areas, the bond deal, taking advantage of investment-grade markets. We have the opportunity to do potentially financing in different currencies, and we'll continue to do all we can to make sure we have the lowest cost of capital.

Michael William Mueller
JPMorgan Chase & Co, Research Division

And real quick as a follow-up. Was the new swap you mentioned was that just on the recent quarter and how significant is it?

Robert C. Crisci
Chief Financial Officer

$750 million. I think it's about 3.2%.

Operator

Our next question comes from the line of Nick Thillman from Baird.

Nicholas Patrick Thillman
Robert W. Baird & Co. Incorporated, Research Division

Greg, maybe just wanted to get your comments on what you're seeing from some of the smaller operators in the space today, what you're seeing they're doing from like a pricing standpoint? Are you seeing them starting to be under more pressure than you? Do you see them exiting the market? I guess, a little commentary because it is you and a larger player that have a decent amount of market share but curious on kind of the more fragmented part of the industry.

W. Gregory Lehmkuhl
CEO, President & Director

Yes. I mean there's obviously a number of new competitors. There is -- there has been some discounting going on. And some are more aggressive than others, most are very rational on price, I'd say. And there's a few that are discounting in areas where supply is greater than demand. I mean I think, as I mentioned, we see the waning of new supply coming online and demand increasing for any reasons that we already talked about, will probably be the primary driver of that absorption over time. But also both us and another company are consolidating buildings, which are taking some capacity out of the market.

Also, there's a lot of old inventory in the U.S. and geographies around the world that's becoming obsolete quickly and will come offline in the coming years, which will help offset some of the supply that's come online in the last couple of years.

Operator

Our next question comes from the line of Vince Tibone from Green Street.

Vince James Tibone
Green Street Advisors, LLC, Research Division

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Could you discuss the current rollout plan for LinOS over the next several years? And also like what percentage of your facilities are you targeting for LinOS, is it all of them? And then what is it just like a realistic implementation timeline to get all these potential efficiencies flowing through the portfolio?

Robert C. Crisci
Chief Financial Officer

Yes. Well, I mean, our individual facility, it's pretty fast. I mean, as Greg mentioned, during the pilots, we quickly see gains within weeks.

W. Gregory Lehmkuhl
CEO, President & Director

Yes. We see gains generally the first week, which is amazing for a new technology I think, in any aspect of any business. But as far as the implementation, we'll share more later in the year and we are working. Based on how excited we are about it, we are literally working every day on how we can further accelerate our implementation. We'll have 10 done this year, and we look to dramatically increase that number in the coming years. It will probably take us 2 or 3 years to get the majority of our network converted. And again, we're working really, really hard to accelerate that given how excited we are.

Robert C. Crisci
Chief Financial Officer

But it should be [indiscernible]. Yes, the majority of our conventional facilities eventually will be on LinOS.

W. Gregory Lehmkuhl
CEO, President & Director

Absolutely. And new acquisitions will go immediately on to LinOS, including the Tyson ones we just bought. So this will provide more accretion for future M&A. It will make our new builds more productive and transform our existing conventional facilities.

Robert C. Crisci
Chief Financial Officer

We're very excited, and I know we've been talking about it for the past year but we'll start to have benefit in our numbers in '26, and it will accelerate from there. And as Greg mentioned, around NAREIT, we plan to give a bunch of detail around this. We'll probably do a special session around NAREIT to provide a lot more detail and color on what we're seeing.

Vince James Tibone
Green Street Advisors, LLC, Research Division

Great. That's really helpful. Maybe just a quick follow-up. Is there any incremental capital we should be thinking about with this broader rollout? Or it's really more of a workflow system, the tech investment has already been made. If you can just talk a little bit about is there a CapEx associated with this?

Robert C. Crisci
Chief Financial Officer

Yes. I mean, majority of the tech investment has been made, there's some operating costs when you're going and having people on site and training people. But it's not material. You should not expect a CapEx bubble from LinOS implementation.

Operator

Our last question comes from the line of Daniel Guglielmo from Capital One Securities.

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

The labor expense line accelerated this quarter versus being flattish last quarter. Is there anything to call out there? Are there certain regions or countries where it's been harder to keep employees or where labor rates are rising faster than expected?

W. Gregory Lehmkuhl
CEO, President & Director

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So our wage increases are implemented for the majority of our markets on April 1. That's probably what you're seeing. That said, we -- in our guidance and what we're seeing is continued productivity improvement. Even outside of LinOS, we have a ton of levers we're pulling and a myriad of productivity initiatives that impact that labor line outside of just the LinOS that always talk about to increase both labor productivity, things like daily labor planning is being implemented throughout the U.S. to start with.

We're implementing a next-generation labor management system that both of these things are just designed to match the labor dynamically to the facility activity. And so we're seeing good productivity trends even before the LinOS implementation and those act as a perfect foundation for the LinOS rollout as we decelerate next year.

Robert C. Crisci
Chief Financial Officer

And same warehouse labor was down year-over-year, same warehouse cost of operations was down year-over-year.

Operator

Thank you. That concludes our question-and-answer session. I will now turn the call over to Mr. Evan Barbosa, for closing remarks.

R. Evan Barbosa
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 with you again on our next quarterly earnings call.

Operator
This concludes today's conference call. You may now disconnect.

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