S&P Global
Market Intelligence

Lineage, Inc. NasdaqGS:LINE

FQ2 2026 Earnings Call Transcripts

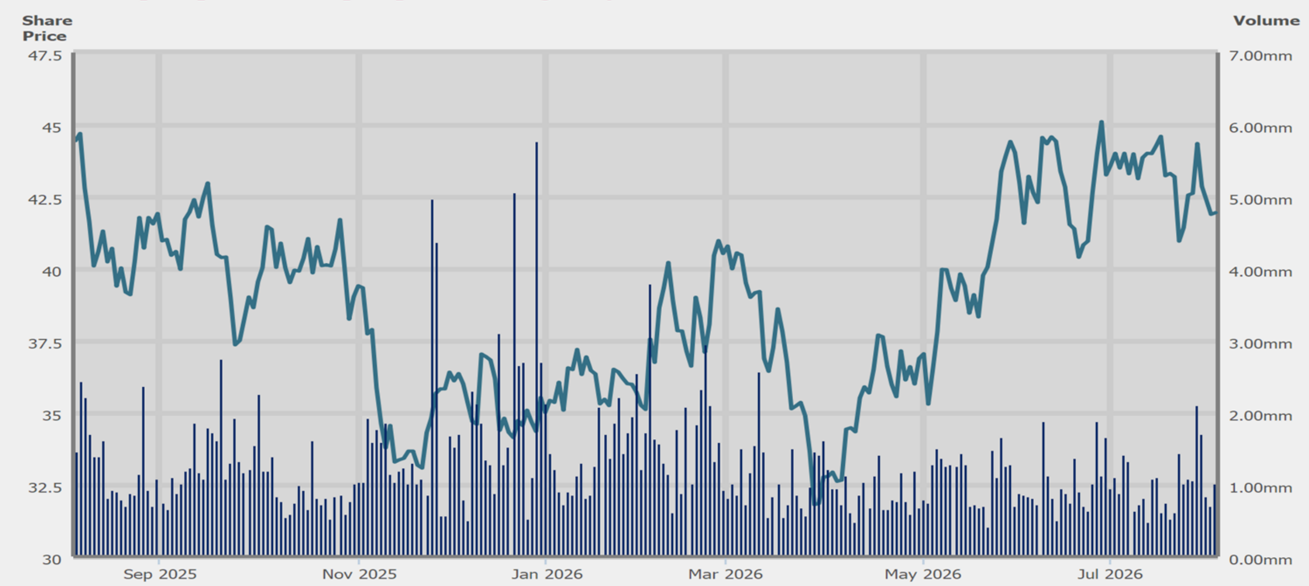
Wednesday, August 5, 2026 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2026-			-FQ3 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.23)	(0.13)	NM	(0.18)	(0.75)	NA
Revenue (mm)	1352.14	1361.00	▲0.66	1371.44	5384.58	NA

Currency: USD
Consensus as of Aug-05-2026 8:47 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2025	0.04	(0.44)	NM
FQ4 2025	(0.11)	0.03	NM
FQ1 2026	(0.19)	(0.18)	NM
FQ2 2026	(0.23)	(0.13)	NM

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Call Participants

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Vice President of Investor Relations

Robb A. LeMasters
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Presentation

Operator

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

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

Ki Bin Kim
Vice President of Investor Relations

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

Before we start, I would like to remind everybody 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 reconciliation of non-GAAP to GAAP measures can be found in our press release and supplemental package that was issued this morning. Unless otherwise noted, reported figures are rounded and comparisons of the second quarter of 2026 are to the second quarter of 2025.

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

W. Gregory Lehmkuhl
CEO, President & Director

Thanks, Ki Bin, and good morning, everyone. Let me walk through our agenda for this morning. First, I'll provide key highlights from the second quarter, then I'll share our latest views on cold storage industry dynamics. Following my remarks, I'll turn it over to Robb LeMasters, who will walk through the details of our segment performance, capital structure and outlook. I'll then return to share closing comments before we open up the line for your questions.

Turning to our quarterly performance on Slide 4. We are pleased to report another quarter of better-than-expected results. Operational trends continue to show signs of stabilization, and this quarter marks another step forward in demonstrating our ability to execute on our plan and navigate the industry challenges highlighted in past calls. During the second quarter, adjusted EBITDA was approximately $320 million, ahead of both our internal expectations and consensus estimates. Total AFFO was approximately $198 million or $0.76 per share, also ahead of expectations. As a reminder, the year-over-year decline in AFFO continues to be driven primarily by the expiration of prior year interest rate hedges consistent with our 2026 guidance. On a comparable basis, excluding this impact, underlying AFFO trends are showing meaningful improvement.

Turning to core operations. Let's start with the solid results in our warehousing segment. We're pleased to see growth in same-store physical occupancy this quarter, increasing 90 basis points year-over-year. This is a welcome inflection point following last quarter's slight decline and the larger declines we saw throughout 2025. This reflects our ability to grow share despite competition, a function of our industry-leading offerings we'll discuss in a moment.

The sequential occupancy trends were slightly better than normal seasonality and economic occupancy continued to track at a consistent spread to physical occupancy. Same-store rent, storage and blast revenue per physical pallet declined 0.7% year-over-year, while services revenue per throughput pallet increased 2.1%. As we've explained in the past, customer commodity and geographic mix, along with FX create some quarter-to-quarter noise in these metrics. So we tend to view them on a combined and trended basis versus a short-term proxy for pricing trends.

Robb will go into more detail, but we've completed the significant majority of our 2026 customer pricing discussions and remain confident in the 1% to 2% net pricing increase we previously discussed. We remain encouraged by the strong execution of our sales team, particularly given the current environment. I'll reiterate that our full year outlook for revenue per pallet is unchanged. We still expect to be slightly down, consistent with prior guidance. That reflects the trade-related and mix headwinds we've called out on previous calls, which have broadly played out as expected.

Turning to volume. Same-store throughput pallets declined 1.8% year-over-year. We continued to experience pressure in Q2 on higher turning trade-related port volumes with container volumes down 14% in the quarter. While this quarter's pace of decline represents an improvement relative to the declines we experienced in Q1. I'd remind you that customer product mix can always play a role quarter-to-quarter. So this doesn't represent a change to how we see the full year playing out. I'd also remind you that we adjust labor according to mix and service activity, allowing us to react quickly to optimize cost as mix changes.

Overall, same-store NOI declined 2.9% year-over-year continued improvement from the steeper declines we saw throughout 2025. Compared to the prior quarter, that's a wider decline in Q1's negative 0.9%, which is mostly explained by the step-down in FX benefit roughly 250 basis points in Q1 to about 90 basis points this quarter as well as Q1's elevated international services activity that we called out last quarter.

Before turning to our outlook, I want to briefly discuss the fire we had at our Big Bear facility in Los Angeles during the quarter. I want to sincerely thank our team members on the ground for their extraordinary response along with the first responders who act quickly to protect the surrounding community. Safety remains our top priority, and I'm incredibly proud of our team and how they're handling this very challenging situation. As part of our response, we committed over $3.3 million to local nonprofits through direct assistance to support the local community during the cleanup and remediation efforts. Robb will provide more details in his remarks.

Turning to our outlook. We have maintained our adjusted EBITDA midpoint while narrowing the range despite the impact of the Big Bear fire. We're also raising our full year same-store NOI guidance to a range of negative 3% to 0% and increasing our AFFO guidance to $2.80 to $3.05 per share. The underlying trajectory of our business through the first half has been encouraging. Operations are performing better than expected, and the signs of stabilization we've highlighted over the past couple of quarters have continued. That said, the operating environment still includes some challenges, competitive dynamics in certain domestic markets and trade-related volume headwinds, but we're encouraged by our results in the face of these obstacles. The overall direction is positive, and we have the building blocks in place through pricing discipline, productivity initiatives and the contribution of our past investments in people, process and technology.

I also want to spend a moment on something that I think it's overlooked, the strength of geographic diversification. This year and last year, our APAC, European and Canadian business have been a real source of stability. We haven't experienced the same headwinds we've dealt with here in the U.S., and we continue to extend our leadership position in each of these respective markets, built on the same customer service and value that has become our global hallmark. I'm excited about the trajectories in these portfolios and proud of the teams driving such solid results. As a reminder, we have 20 facilities under construction or in the process of ramping and stabilizing. We've invested $1.1 billion of capital into these projects and expect them to deliver over $134 million incremental NOI when stabilized. Non-same-store contribution in the second quarter came in better than expected, given the strong continued customer demand for our high-quality modern assets, you'll also notice in our updated development pipeline disclosure that our pre-leased levels stand at 71%.

Moving to Slide 5, U.S. supply and demand trends. This slide revisits the 3 primary headwinds we faced in the recent past: supply and demand, inventory destocking and trade impacts. I'll move quickly as we've covered each of these in detail on prior calls. We still see pockets of pressure from new supply and about 15% of our U.S. markets, but broader stabilization trends are holding. We are better equipped to fend off competitors as customers increasingly recognize our superior value proposition and operational excellence. Looking ahead, slowing supply growth, asset repurposing, potential competitor exits or bankruptcies and asset obsolescence should help offset the excess capacity overhang. We're also managing supply proactively through selected facility idling.

The second headwind, customer inventory destocking affected all of our North American business, levels that built up during COVID have since reset closer to historical norms. Finally, our third headwind is import-export volumes pulling back on the tariff uncertainty. International container volumes, which are about 15% of our warehouse throughput, stay pressured in Q2, and we remain cautious given the ongoing political concerns. Notably, incremental international volume is highly margin accretive given the strong services attachment and network operating leverage. We expect to begin lapping 2025 steep volume declines in late Q3 into Q4, easing the headwind as the year closes. Longer term, we expect U.S. agricultural trade to again become a tailwind.

Beyond tariff resolution, there are several upside factors not embedded in our guidance, normalizing food inflation, easing political uncertainty, new product categories and lower interest rates, any of which could meaningfully move the needle over time. So taken together, supply is stabilizing, destocking is behind us and trade is a headwind that we expect to lap by year-end. None of these are structural, they're cyclical, and each is now moving in our direction. It's the same story of the past few decades at cold storage. Food demand doesn't go away, and we are the critical infrastructure that enables it. We like our position as we continue to turn the corner.

Moving to Slide 6. In navigating some of these macro challenges, we've doubled down on driving costs out of our operating cost base, allowing us to outperform industry inflation by 750 basis points. The Lineage operating platform and our lean continuous improvement approach are a big part of why we've been able to hold adjusted EBITDA stable year-over-year through the first half of 2026, following a challenging 2025. The team continues to impress me by finding new ways to land new business while aggressively managing our cost to drive profitability.

And with that, let me turn it over to Robb LeMasters, who will give you more detail on the quarter and some comments on our revised outlook.

Robb A. LeMasters
Chief Financial Officer

Thanks, Greg, and good morning, everyone. Starting with Slide 7. In our Global Warehouse segment, second quarter total warehouse NOI was approximately $367 million and same-store NOI declined 2.9% year-over-year, both ahead of our expectations. In Q2, same-store NOI benefited by 90 basis points from favorable FX year-over-year as we contemplated in our previously provided outlook.

Looking forward, we expect FX to be a relatively minor year-over-year factor for the balance of 2026. Within the same warehouse pool, rent, storage and blast revenue per physical pallet declined approximately 0.7% year-over-year, while same-store physical occupancy improved 0.9%, reflecting strong commercial execution by our sales team. That team has built deep relationships in the food space and is now extending the reach of our sophisticated cold storage and logistics offerings into adjacent cold chain categories. As Greg mentioned last call, we secured a key confectionery account win that launched successfully in June. That ramp is off to a strong start, and we expect continued momentum from this and other candy customers, positioning confectionery as a top 10 category for us over time.

Turning to services. Throughput and services revenue per throughput pallet both came in slightly ahead of our expectations for the quarter. A favorable mix helped offset what continues to be a challenging volume environment tied to trade-related headwinds. As we look to the back half, the comparisons do get a bit easier in the second half of the third quarter and then for the full Q4 as we lap last year's post liberation days downdraft. That said, we expect the mix tailwind that benefited Q2 to fade. Netting those 2 dynamics together, we continue to expect full year throughput and service metrics to be down modestly, consistent with our prior expectations for the full year.

Shifting to Slide 8 to our Global Integrated Solutions segment. GIS NOI was $61 million. Excluding the impact of last year's Spain transportation disposition, the segment saw solid underlying revenue growth of 5%, driven by continued momentum in our U.S. transportation and foodservice businesses. While the underlying revenue growth was solid, 2 items impacted margins during the quarter. First, accelerating truckload and LTL carrier rates, which we passed through to customers, but at a lag, created near-term pressure. We expect margin recapture as new market rates are absorbed into customer pricing over time. The second offsetting item was a $7 million legal settlement that was not contemplated in prior guidance stemming from an employment matter from prior years.

Excluding the settlement, GIS delivered solid underlying margin of 19%. Together, these drove a lower NOI for the quarter, and we're lowering our full year GIS NOI outlook to minus 4% to minus 2% from 0% to plus 2% previously. Ultimately, the strength in the transportation and foodservice markets that is driving the higher carrier rates and providing this temporary profit squeeze should actually work in our favor and drive more customers to our unique value-driven offering. Customers will increasingly look to offset carrier rate pressure with a well-priced integrated storage plus transportation solution.

Turning to Slide 9, adjusted EBITDA and AFFO. Second quarter adjusted EBITDA was $320 million, which includes the impact of the legal settlement I just mentioned. Second quarter AFFO was approximately $198 million or $0.76 per share. Better-than-expected results were driven by both stronger-than-expected same-store and non-same-store NOI growth. Administrative expenses, which exclude stock-based comp, were approximately $118 million in the quarter, modestly better than expected due to the timing of certain spending and better cost management.

As a result, we're tightening our full year admin guidance to $460 million to $470 million, which puts us at the lower end of our previously guided quarterly range of $120 million to $125 million for the remaining 2 quarters of 2026. On AFFO, in addition to the adjusted EBITDA beat, we benefited from favorable timing of maintenance, capital expenditures and tax items, driving a result of $0.76 per share, well above both consensus and our internal expectations. We're pleased to see both our core operations NOI and adjusted EBITDA come in ahead of expectations despite a challenging operating environment.

Moving to Slide 10, capital structure. We ended the quarter with net debt of approximately $7.8 billion and total liquidity of approximately $1.6 billion. We have manageable near-term maturities and ample flexibility to address them through our revolver or other available sources of capital, supported by our strong access to both the U.S. and European public bond markets. Also, we continue to make good progress on our strategic portfolio review. We're evaluating a range of options here with the goal of increasing our financial flexibility so we can capitalize on potential M&A opportunities that market dislocations may present while maintaining a strong balance sheet to invest in future high-return opportunities alongside our customers and being able to return capital to shareholders.

As we've done this work, we feel even better about the disconnect between the private and public valuations for high-quality cold storage assets. We now have firm timetables around key transactional work streams, and we're confident we'll be in a position to provide a comprehensive update by year-end. Our adjusted net debt to transaction adjusted EBITDA stands at approximately 5.3x. This metric accounts for intra-period acquisitions or dispositions and capital invested in our development pipeline that has yet to stabilize.

Keep in mind that these development projects have been significantly derisked as the majority are anchored by customers with long-term commitments. For example, our new state-of-the-art fully automated project in Hazleton continues to ramp in line with our expectations. These new automated buildings are genuinely complex mega builds and Hazleton is now 1 of 25 fully automated facilities in our portfolio, reinforcing our leadership in developing and operating highly sophisticated productivity-enhancing cold storage solutions for our customers. Maintaining our investment-grade balance sheet remains a key focus for our company, and we remain committed to bringing reported leverage currently approximately 6.0x into our targeted range of 5.0x to 5.5x.

Before turning to guidance, let me provide a little more detail on the Big Bear fire that Greg mentioned. As a reminder, this facility is roughly 500,000 square feet with about 85,000 pallet positions, so call it approximately 1% of our total global capacity. We moved quickly to engage our customers, and were able to address their immediate needs by shifting volume to surrounding sites. We believe the fire originated during third-party testing of the rooftop solar array, which was owned and operated by Altus. This is the only site where we have a relationship with Altus, and we're pursuing all options to hold them accountable. In the meantime, we carry insurance for exactly this kind of event, and we are working with our insurance partners to cover immediate remediation costs and the financial impact while responsibility gets fully worked out.

There are really 2 areas where we expect to see an impact. First, there will be a drag on the adjusted EBITDA we had expected to deliver in Q3 and Q4. That's driven by lost revenue during the recovery period, plus incremental costs to support our customers and team members through the transition. We do expect to retain the significant majority of this business, but there's a lag before inventory fully replenishes and when we're back to the level of service our customers expect from us. We've estimated that impact at approximately $15 million of adjusted EBITDA in the guidance we provided today. Over time, we expect to recover that lost profit through our business interruption insurance, and that recovery will be recognized below the EBITDA line.

To be clear, our current guidance does not contemplate any BI insurance benefit. As we get more clarity on both the costs and the recoveries, we'll provide additional color next quarter. Second, we'll incur repair and remediation costs for the building structure and freezers, along with legal fees, community support costs and other onetime items. It's too early to precisely quantify all that, but we'll exclude these costs and the offsetting insurance recoveries from adjusted EBITDA, so we keep our core operating results comparable to other periods.

Moving on to our outlook. We're raising our full year 2026 guidance for same-store NOI and AFFO per share with same-store NOI growth now expected at negative 3% to flat, up from negative 4% to negative 1%. On the non-same-store NOI front, the only substantial change is Big Bear moving into that pool. So with the increase in same-store NOI offset by the Big Bear headwind, we still expect total warehouse NOI growth of negative 2% to positive 1%. Other minor changes include a slight reduction in GIS NOI from the legal settlement and temporary carrier pressure, offset by an improvement in the outlook of our admin guidance.

Together, these puts and takes leave the midpoint of our EBITDA guidance unchanged. For full year 2026, AFFO per share is now expected to be $2.80 to $3.05, up from $2.75 to $3, reflecting better CapEx management from batching CapEx projects and procurement savings. We're pleased with our consistency and better-than-expected results in the first half. Our underlying trajectory of improving same-store service revenue, same-store occupancy gains and stabilizing development projects gives us a solid foundation. A few things to keep in mind on second half cadence. Quarterly and seasonal month-to-month timing is always difficult to precisely estimate, but we want to give you as much visibility as we can sitting here today for modeling purposes.

First, FX is a minimal factor year-over-year in both Q3 and Q4. Second, Q3 2025 is our toughest comparison of the year. Given that, we still expect Q3 2026 same-store NOI to grow sequentially, but on a year-over-year basis, that same-store growth will likely be at its lowest reported level of the year, probably a bit below Q2 levels. Q4 is where it gets more interesting. We're lapping an easier import-export comparison from Q4 of last year. And by that point, we'll be ramping new business wins and the continued progress we are making on our key productivity initiatives. Taken together, we think that gets us close to flat year-over-year fourth quarter same-store NOI growth.

On administrative expenses, which exclude stock-based compensation, we are expecting those should run toward the lower end of our previously guided quarterly range of $120 million to $125 million per quarter. On the non-same-store front, our outlook reflects continued strong contributions from 2025 acquisitions and the ramp of new developments. Netting out the Big Bear impact, we expect a non-same-store NOI run rate of approximately $20 million per quarter in both Q3 and Q4. A stabilizing supply and demand environment and a sharper focus on revenue growth, coupled with expense management and balance sheet optimization, provide a solid foundation for 2026 and positions us well for long-term growth.

I'll now turn it back over to Greg to wrap up our prepared remarks.

W. Gregory Lehmkuhl
CEO, President & Director

Thanks, Robb. Temperature-controlled warehousing is essential infrastructure, the connected tissue linking food producers, processors, distributors and retailers. Cold storage exists to bridge the distance in time between where and when food is grown and when and where it's consumed. Data science, algorithms and AI don't change this. The turkey on your Thanksgiving table this year was almost certainly frozen in storage for months in advance. People will always need to eat and food will always need to be stored along the way. And while we're not fully insulated from every permutation that can reshape our customers' behavior, we believe the core demand for what we do is structurally durable and will grow over time.

Before I wrap up, I want to spend a moment on LinOS. In the quarter, our LinOS sites expanded to 14 total conventional sites. We saw significant progress in our productivity across locations, giving us increased confidence in this investment and in achieving the goal of $110 million in EBITDA impact.

In summary, this quarter's results reinforce the trajectory we've built over the past several quarters. Operations are performing better than expected, and our KPIs continue to trend positively. We're encouraged by the continued signs of stabilization in our core business and believe we're well positioned to build on this momentum in the coming quarters.
Before we move to your questions, I want to sincerely thank our global team members for their continued dedication to our customers.
Operator, let's open it up for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from [indiscernible] with Goldman Sachs.

Unknown Analyst

Could you go through your take on the occupancy, so that's average warehouse occupancy of 80% from 79.9% in 1Q, why that was up sequentially? I realize it's only 10 basis points, but that's compared to 2Q normally being a seasonal step down. Do you think it was a function of something you did or customer actions or policies and whether it could potentially be related to the Cyclospora outbreak?

Robb A. LeMasters
Chief Financial Officer

Yes. I mean just to clarify, so year-over-year, you're exactly right. Occupancy was up year-over-year on a same-store basis, really great outcome there, first-time outcome for us since going public. So that's a great turn looking year-over-year. Sequentially, we actually saw about what we thought actually a little bit better. So we were down sequentially in terms of occupied pallets about 1%. We reviewed the USDA data, it's not perfect. Generally, it looks to be down about 3% sequentially. So we would know that, that's slightly better than what we thought on an occupancy and an occupied pallet basis.

Operator

Your next question comes from the line of Steve Sakwa with Evercore ISI.

Stephen Thomas Sakwa
Evercore ISI Institutional Equities, Research Division

Maybe just following up on the occupancy. It's nice to certainly see things stabilizing. As you kind of look out over the next couple of years, maybe outside of taking market share, how do you sort of see both the physical and economic occupancy kind of trending for the portfolio? And what do you think is a normalized level for the Lineage portfolio?

W. Gregory Lehmkuhl
CEO, President & Director

Steve, thanks for your question. So on occupancy, I mean, we continue to see stability basically. We broadly believe food inventory levels are healthy and relatively balanced. That said, we have heard several customers say since the last earnings call that they're rebuilding inventories because they overcorrected during the destocking period that we've been discussing. I'm not saying that's a widespread trend, but I do believe it's another indication that inventories have at least stabilized. So I mean, I think we're back into a normal period, and we would expect outside of market share gains, consistent inventories that would reflect normal seasonality going forward.

Operator

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

Michael Albert Carroll
RBC Capital Markets, Research Division

Greg, I wanted to follow up on your LinOS comments that you made at the end of prepared remarks. I know the company continues to expand this pilot program or the pilot program this year. Should we expect it to be more rolled out broadly in 2027? And when will that start to impact numbers? I mean, Robb in his prepared remarks, I believe, said that there are some productivity improvements expected in 4Q '26. Is that driven by LinOS? Or is that driven by other tech type investments the company has made?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. Thanks for your question, Michael. So as you know, we've been successfully running LinOS in our automated buildings for some time, and we're now in the process of rolling out, as you mentioned, across our conventional warehouse network. We've mentioned in the prepared remarks, the Hazleton automated mega build. I mean this facility is delivering best-in-class service at an extremely competitive cost entirely because of our long-term investment in LinOS in data science and automation. The remaining 2 Tyson facilities that we're building right now will use the same tech and deliver similar performance.

I will just throw out there that the Hazleton building is a site to see. If anyone wants to see it live, we have an amazing team there that gives a great tour. If you're interested in seeing it, just get with Ki Bin or Alex, and we'd be happy to host. But let me spend a couple of minutes on updating you on the LinOS conventional rollout. I'll start just by saying that cold storage warehouses are uniform. Every facility has its own physical footprint and product characteristics. Racking may be 2 pallets deep in one building and 4 pallets deep in another, freezer temperatures are different. Obviously, cooler temperatures are different than freezers.

Product categories have very unique customer requirements. We don't handle seafood the same way we handle strawberries, for example, the docks and the yards are configured differently. And so these variations and complexity are core to our business and no doubt making building technology more challenging. But each quarter as we roll out LinOS, we encounter new requirements and learn more. We knew from the beginning that this was a major undertaking for our company, and we're clear that the progress would probably not be perfectly linear.

Last quarter, on this call, we discussed that we were discovering new requirements in some of our larger buildings, while the smaller facility rollouts were going very smoothly. In Q2, the team made very significant strides in the larger buildings, and I'm proud to say that we're hitting our internal savings targets across all 14 LinOS buildings and still on track to deliver 20 conventional buildings by year-end. I mean we've been building the digital foundation to make this possible for over a decade. As you all know, we own this platform end-to-end, which we think is really important.

And the fact that, frankly, this is very complex and difficult and that it's performing as designed in 14 buildings already gives us confidence that this technology will just deepen our competitive moat over time on the conventional side of the business, just like it's already done on the automated side of the business with evidence like why we won Tyson.

And lastly, it takes real scale and sophistication to make this kind of investment, something that very few in our industry have, and it's one of the reasons why we feel so well positioned to continue to lead the industry. So as far as the impact this year, yes, we'll see some impact in the fourth quarter. It's not going to be -- it's not going to move the needle this year, and we'll see increasing impact in '27 and '28, and we'll share those numbers as we move forward.

Operator

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

Michael Robert Lewis
Truist Securities, Inc., Research Division

Early on in the call, you mentioned some headwinds the industry has faced in recent years that are now abating, obviously, elevated supply, destocking, et cetera. I was wondering if you had an update on the impact of the GLP-1 since the usage there is still going up. I know it might be hard to parse, but any thoughts on the impact of those drugs on the food industry and on your business?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. Great question. We hear a lot of noise around GLPs. And actually, since our last call, we've dug into the new Cornell research as well as several other independent studies, and I think the data is getting better. And so what we've learned is even under the most aggressive adoption scenarios, GLP-1 penetration lands in the mid- to high teens as a share of the adult population. Critically, the steepest calorie reductions are concentrated in snacks and packaged foods, not fresh and frozen.

And so when we apply the individual commodity impacts in the study to our actual commodity mix, even the most bearish studies suggest that the impact to our business is in the very low single digits and the most current research points to something less than 1%. And so lastly, GLP-1s were designed to target obesity and diabetes, which is the fourth largest killer in the United States. And none of these steps -- none of these studies factor in the potential impact of people living longer on total food consumption. So long story short, we're going to continue to follow this data extremely closely. But based on the most contemporary research, we don't believe the GLP-1 drug will have a material impact on our business.

Operator

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

Todd Michael Thomas

KeyBanc Capital Markets Inc., Research Division

I appreciate the commentary around new supply growth. I wanted to ask about supply. Last quarter, you commented that you thought you were past the peak impact from new supply and you and your peers have been idling warehouses. Greg, I think you mentioned functional obsolescence and you've talked also about customers sort of transitioning back to the Lineage platform assuming a relatively steady demand environment, how are you thinking about the industry's return to a tighter supply/demand balance and what that time line might look like?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. Great question and one we've been discussing openly for several quarters now. Our view is that the cold storage industry right now is going through a real rationalization. And we think the outcome is going to be a story of winners and losers and the larger, more sophisticated providers like Lineage will be the winners. As the largest company in our industry by a significant margin, we have advantages that are very hard to replicate. The scale of our network allows us to move customer inventory across the system in ways a regional or subscale operator just simply cannot.

Our tech platform, I just talked about LinOS, our procurement capabilities, our customer relationships, the ability to deploy capital into sophisticated purpose-built automated warehouses like Hazleton for Tyson are all just compounding advantages that widen the gap between us and the rest of the field. And what we're seeing in the market is consistent with what you'd expect at this point in the cycle. Some operators overexpanded, lack the capital structure to absorb the challenges that we've been facing. and don't have the platform to deliver against both diverse and extremely stringent customer requirements and are under a lot of pressure.

And so we wouldn't be surprised at all, and we're certainly hearing on the street, if you will, that there'll be a couple of competitor exits in the coming quarters. And we think this is just a natural way that supply gets rationalized in any real estate cycle and will ultimately benefit the operators who have the staying power, the capital and the platform to absorb the volume and in some cases, the assets.

On the idling front, I think you know we idled 10 facilities last year. We've idled 5 so far this year, taking out almost 2.5 million square feet of capacity or about 1% of the -- our U.S. capacity. We're evaluating a handful more this year. But because our occupancy levels are strong and our new business pipeline is so strong, I wouldn't expect that pace to continue. We're happy with where we sit right now. And also, I think it's exciting to point out that a couple of the buildings that we've idled, we believe that we'll be able to turn those back on for specific customer activities. So I think the industry is shaping out, and we're in a great position to capitalize.

Operator

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

Omotayo Tejumade Okusanya
Deutsche Bank AG, Research Division

I wanted to talk about GIS for a second. Some of the kind of like weaker port activity that you kind of noted impacting the business. Just kind of curious how you're thinking about that unfolding back half of '26 into '27 just given some of this kind of incremental information around taxes, tariffs from the Trump administration. And second of all, if you still feel like there's still opportunities to kind of lower labor costs in general within that business so that you can still kind of manage your margins.

Robb A. LeMasters
Chief Financial Officer

Yes. Thanks for the question. Yes. So GIS is a tale of a couple of positives and negatives as the year sort of unfolded for us. We clearly highlighted that the settlement was not contemplated in our guidance, that kind of came in the quarter. So when you back that out, we actually had a pretty good quarter, right? It was actually in line to slightly better, excluding that. What we're really dealing with there is we have had some benefits overall in the business as it relates to fuel. That's generally a pass-through, but that's come through slightly better than we thought.

What's really hit us, as you mentioned, was on the drayage side, and we contemplated the container volume in our warehouse business. That was contemplated. I would say that's about in line, maybe a touch harder than we even thought in that business. And then we have the carrier rate situation, which is really just a tightening of the economy ultimately drives up the rates and what's going on with supply and demand on the trucker side. That generally levels out. It can take a quarter or 2. So as we made a comment, we're lowering our guidance generally from the $7 million settlement and a little bit of softness related to that carrier issue. So I think that kind of covers all the different puts and takes as we roll forward, given your comments there, we still are positive about what's going to happen with the drayage long term and with import exports on our warehouse business, but really haven't contemplated a pickup as it relates to the second half.

Operator

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

Michael William Mueller
JPMorgan Chase & Co, Research Division

Greg, on your comments about confectionery becoming a top 10 category, can you talk a little bit about like where are you winning this business from? What are they currently doing for storage and logistics?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. Great question, Michael. So for the customer that we launched this building for, the product was flowing through the traditional foodservice segment or channel. It was not going through third-party cold storage, and they felt they could get better service and better cost through working with us, and we believe that's a trend that will continue with this customer and others. And so it is -- it does have specific requirements, specific temperature requirements and pulling it out of just the normal foodservice channel made sense to them, and we believe it will for others. And so we are really excited about the next several years in growing this segment of our business, and it's a great example of how some of the excess supply can get absorbed.

Operator

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

Vikram L. Malhotra
Mizuho Securities USA LLC, Research Division

I guess just I wanted to dig into the cost more in the warehouse segment. Just if you can unpack a little bit more kind of on labor, on power, et cetera. What's your ability to control costs from here, what's the impact positive negative from oil perhaps? And then we just think about the occupancy build, do you mind giving us a little bit of color on how that should influence the margin.

W. Gregory Lehmkuhl
CEO, President & Director

I'll take the first one. You want to take the second?

Robb A. LeMasters
Chief Financial Officer

Sure.

W. Gregory Lehmkuhl
CEO, President & Director

Okay. So I mean we have a culture of lean continuous improvement at Lineage, and we're making productivity energy gains every quarter. Our technology platform is a huge supporter of that. LinOS continues to ramp up, but we have a lot of other initiatives and technologies rolling out side-by-side with LinOS like our EasyMetrics platform, which is a labor planning tool. And we have that just this year, went from very few to 100 buildings. So we feel great about our ability to manage labor over time, and we think we have many years of runway to attack that cost and that is obviously our largest controllable cost.

Robb A. LeMasters
Chief Financial Officer

Yes. And just in terms of guidance, in terms of thinking about the margin as well as occupancy and a couple of the factors that we generally go through with you guys. As we contemplated the guidance, there's a couple of different aspects there. There's the volumetric side, the revenue side, the revenue per pallet side, if you will, and then margins. As we're looking through those different components and as the year has unfolded. On the volume side, really, that has to do with keeping your eye on occupancy as well as throughput pallets, right? Those are 2 different businesses, the storage business for occupancy.

And then as you think about throughput, that really drives what's going on in the services side. When you blend those both up, right, seeing good stuff on the occupancy front and still seeing headwinds on the throughput. So generally, slightly better than where we came in the year as it related to the total volumetric side, but still probably flat to a little bit down when you blend up those 2 business lines in the volumetric side.

On price, just to review that, on the storage business, again, we look at those kind of together. We have the RSP for physical pallets and then we have services revenue per throughput pallet. Every quarter, there's both a price element of how we put it out to the street. Greg talked about how we're getting that in both businesses at a 1% to 2%. But then different quarter-to-quarter mix or commodities or different customers can really move that around. And so we've been consistent all year, and we still see that ultimately blending to a slightly down rate for the full year.

Again, that's RSP side as well as services revenue per throughput side. So that will be a slight negative. And when you take those 2, right, that kind of blends to a same-store revenue flat to down a little bit. And Greg talked about that you try to offset that with the cost savings initiatives, but you're fighting inflation, right? And so any business that has a challenged top line like that, which we're coming through, really hard to mitigate all the labor inflation you have and Greg and the team are doing a great job. But the third component then becomes around margins. We generally are baking in a slight decline in margins because we saw that this quarter had a little bit of margin pressure. Last quarter, we did well. So that's really our third component. But to keep margins almost flat in this environment is a stellar outcome. So those are the 3. Hopefully, that helps you kind of parse through how we're thinking about the minus 3% to 0% overall guidance.

Operator

Our next question comes from the line of Jamie Feldman with Wells Fargo.

James Colin Feldman
Wells Fargo Securities, LLC, Research Division

Sitting in for Blaine, who's out today. But I appreciated your color on the back half, kind of some of the comps for same-store NOI and how to think about the model. Is there anything as we look ahead to '27 that sticks out as particularly easy or challenging comps? I know you also mentioned this year, you have the drag from some refinancing. But just kind of like big picture line items, where do you think it gets particularly easy next year and where may not be so easy based on how you did this year?

Robb A. LeMasters
Chief Financial Officer

Yes. No, I mean, just moving through the P&L, as you think about the different components, generally a little bit early to go into 2027, but we're setting up good as we exit the year, right, we said we're scratching at a flat outcome. I think Greg has really helped the team battle through those 3 headwinds, but there's a couple that are still kind of rolling over as we go into next year, import/export being one top on my mind, just given geopolitical tension.

So we'll see how that same-store NOI sort of builds as we turn the corner. On the non-same-store NOI, I think there's good evidence that we're really building our greenfields and expansions and that should build. Admin, we've talked about that we've really gotten ahead of that. That's nice, but we will be fighting inflation again next year. So we've taken out the costs and we want to continue to invest in the business, but I think you'll have a good outcome there. So generally, that's our view. A little bit too early to say and still really attacking the problems at hand. So we don't want to get ahead of ourselves. We've had a good first half, but need to get through the second half.

Operator

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

Ronald Kamdem
Morgan Stanley, Research Division

Just wanted to follow up on some of the other uses this cycle. I mean you talked about confectionery. I think we talked about sort of pharmaceutical and [indiscernible] as well. And again, just a little bit more color if we could get some more hard numbers of what you think this revenue opportunity could be? Is that business priced like the rest of the business? Just what are the puts and takes because it does seem like this is different versus previous cycles.

W. Gregory Lehmkuhl
CEO, President & Director

Sure. Thanks, Ronald. Yes, confectionery does price similarly to the rest of the business. We love the business, we like the margins, and we think this could be multiple hundreds of millions in revenue over time. So that's the way we're looking at it. I think on the other uses or absorption of supply, there have been a couple of deals already where we've idled buildings where we've been able to make deals to either sell or working on leases for noncompetitive uses. And so one was with a trucking company, one was with a producer that would clearly not -- would ensure that those -- that capacity exits the third-party public warehousing space. And so that adjusts overall supply as well.

Operator

Your next question comes from the line of Craig Mailman with Citigroup.

Craig Allen Mailman
Citigroup Inc., Research Division

Maybe a 2-parter here. I guess just -- first, on conversations you're having with tenants. I mean, we're starting to see some in your tenant base kind of cut prices as the last resort to spur volumes, and so they're already getting pressured on margin there. Just kind of curious how that bodes for kind of your ability to push through rent increases as we go forward here and what you're discussing with tenants so far?

And then just second, on the guidance, my understanding was always the second half was a ramp versus the first half on earnings. But if you look at the run rate, you guys are [decelerating] in the back half of the year. And I understand Big Bear is a $15 million EBITDA headwind, but you also have the $7 million legal settlement. And so it's that $0.05, $0.06 drag from Big Bear. I'm just trying to think about why guidance shouldn't trend towards the high end of the range versus the midpoint?

W. Gregory Lehmkuhl
CEO, President & Director

So I'll take the first one first, and then I'll turn it over to Robb to answer the second one. So on price, as the new supply hit us over the last couple of years, we had to contend with price challenges. We reported already and discussed that this year, we expect to get net price increases of 1% to 2%. And I think we've worked through the vast majority of that new supply getting delivered. And so I would expect similar results next year where we would have net positive price.

Robb A. LeMasters
Chief Financial Officer

Yes. And then talking about the math around your question as to how the year unfolds. To be clear, what we've commented on is the year-over-year growth. So we do see the second half of the core business on the warehousing side being up dollars, right? But as you think about the year-over-year, you're putting some year-over-year growth rates. And I think the simple way to think about it is the first and the second quarter same-store NOI blends to about a minus 2%, right? The first quarter was about minus 1%, and we just reported a minus 3%. So if you blend those 2 together, and that's a minus 2%. And you know that our new guidance is minus 3% to 0. So midpoint there is minus 1.5%. So you can see really they line up quite nicely. So nothing really to deal with. And then, of course, I'm sure you're adjusting for FX. That has been a tailwind in the first part of the year, and that goes away as we think about the second half. So pretty proud of the team and nothing to call out. We are not seeing a deceleration at all, given your question.

Operator

Your next question comes from the line of Ami Probandt with UBS.

Ami Probandt
UBS Investment Bank, Research Division

I'm here with Michael Goldsmith. A couple of questions on the new development disclosure. First off, how fast do you expect to ramp occupancy at the development facilities, which were delivered in the last year? Should we expect a similar path to those delivered 2 or 3 years ago? And then for facilities, what is the -- what leads to the spread between the achieved economic occupancy and NOI?

Robb A. LeMasters
Chief Financial Officer

So on the development pipeline, yes, we're seeing a very similar ramp across the portfolio, really good outcome as you study that page, you'll see that the class that really you watch right before it becomes part of our base. The IRR that we're expecting actually notched a little bit up, right? So sequentially from Q1 to Q2 that's what I keep my eye on, and you can see that, that 25-month to 36-

month class, in Q1, we were expecting about a 12% return. Now we're expecting at 13%. These are smaller numbers, but generally just points to really the aging of our portfolio right before it becomes part of our base, really is looking nice. So nothing to call out in terms of the years, it's a multiyear ramp for projects.

And then I think your question -- your second question had to do with economic versus physical occupancy, I believe, but you can clarify if I didn't get it right. We're generally seeing the same trends in the second quarter. We've talked about that generally being a spread of about 400 to 600 basis points, and we came in right in that range. Very consistent with what we saw in Q1. So we've addressed that in the last couple of earnings calls that we really worked with our customer, and we do on a year-to-year basis, and we generally feel like people have a need for that extra capacity that they sign up for. That is what's caused the delta between economic and physical.

And that range really feels like we're in the right zone right now with our customers. They need that for seasonal purposes or other means. And so we really feel like we're in a good shape there. I don't think you'll have any surprises up or down from the range that we've been consistently at the past couple of quarters.

Operator

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

Vince James Tibone
Green Street Advisors, LLC, Research Division

Can you provide an update on the strategic review process? At Nareit, I think you talked about selling -- potentially looking to sell up to $1 billion. Just want to see if that's still the case and how we should think about kind of the most likely timing of any transaction. Is it possible something is agreed upon and announced for year-end? Or is this more of a '27 event now?

Robb A. LeMasters
Chief Financial Officer

Yes. Thanks for the question. Yes. Again, we really took it upon ourselves to look at the portfolio and see the disconnect that we're seeing in the public versus private markets and take advantage of that, frankly, to solve where we want to get to from a leverage standpoint to have more optionality in the future. As you know, our reported leverage is 6x right now. And we've made a commitment to our rating agencies and the whole U.S. investors that we want to have flexibility to get into the range of the 5 to 5.5x, which is what we committed to at the IPO.

If you do the math as to how you get there, you're exactly right, you need to divest a little over $1 billion of proceeds at the multiples that we've outlined in the past in order to get in that zone. And so we still see a really good path. What I've done over time is look at the various transactions that we could do. We've narrowed it down. We've hired advisers or consultants to kind of try to understand what the value could be. And I think our comments today just say we really have soft circled a couple of interesting transactions that would get us there. We're encouraged by that.

And we expect, to your question, that we'll have a meaningful update on the lion's share of those transactions within this calendar year. Now the cash proceeds could spill over into the early part of next year. But I know everybody is watching kind of getting there by year-end. And so we're feeling increasingly confident that we can make substantial progress this year and give you an update by our year-end announcement.

Operator

Your next question comes from the line of Alexander Goldfarb with Piper Sandler.

Alexander David Goldfarb
Piper Sandler & Co., Research Division

Just following on Vince's question. I realize, Robb, you're not giving '27. But overall, it sounds like the macro environment is the macro environment. It sounds like customers are settling out, maybe a little plus, maybe a little minus, but settling out. But if we think about you guys selling $1 billion of assets and deleveraging, it sounds like net-net, '27 is a lower number than '26. I realize you're not giving guidance, but just conceptually from what you guys have talked about the macro and then what you're doing strategically, that's mentally sort of how the math seems to pencil. And I just want to make sure if that's correct or if you do anticipate '27 would be positive versus '26 on AFFO basis.

Robb A. LeMasters

Chief Financial Officer

Yes. No. So again, we're not guiding to AFFO for 2027, but you've laid out a couple of pieces there. I think we generally have outlined that if we find the right transaction at the right pricing, we don't find this to be a super dilutive event at the AFFO. It's hard when for a period of time, you sell an asset and then you put the cash on the balance sheet and you don't earn the same. That's just a fact of deal math. But we don't think that, that AFFO dilution from that event alone will be substantial to be concerned about. And so then you just have the business. And as I commented earlier, it will be too difficult to kind of talk about the business outside of that transaction.

Operator

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

Viktor Fediv
Scotiabank Global Banking and Markets, Research Division

On the Big Bear fire, you mentioned that you were able to relocate some of your customers to nearby facilities. So to what extent does that create a tailwind for your same-store portfolio through higher occupancy and throughput? And is the estimated $15 million impact net of those benefits? And also, compared to the Kennewick incident, are there any meaningful differences in the insurance structure, expected timing or potential scope of recoveries that could result in different financial outcome this time around?

W. Gregory Lehmkuhl
CEO, President & Director

Thanks for your questions. I'll just start to talk just a couple of high-level comments on the fire, and then I'll turn it over to Robb on the financials. But I again, just want to thank our team. This was a very, very, very challenging situation. And our response on the ground is nothing short of extraordinary; from literally day 1, standing side-by-side with the firefighters and helping them solve how to put out this fire was simply remarkable. As Robb talked about, the facility is a relatively small portion of our overall network, just about 1%.

And we've been working with customers literally from the first day to divert product across the network to provide solutions for them. It's also important to recognize another kind of network effect or benefit of scale is that we have almost 30 other facilities in the broader Southern California region, and those teams have jumped in and helped our customers in a heroic way. And so right now, we are focused on the cleanup entirely supporting the community. We've given over $3.3 million to the local residents through charities and directly and feel great about our remediation and community support efforts. As far as the Kennewick piece and comparing it to that, yes, our insurance coverage is adequate to handle this, and we wouldn't expect the cash flows to be much different than that played out.

Operator

Your next question comes from the line of Nicholas Thillman with Baird.

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

Maybe I wanted to touch on some comments you made about just operators looking to exit and capacity potentially being flushed from the North American market. But you also commented on potential institutional interest just within the cold storage infrastructure and the public-private disconnect on valuations. Just curious how you think it could play out from a pricing impact if you're starting to see some of the private players get more involved and maybe get some reset basis on some of these assets. Does that put downward pressure on pricing for the portfolio overall? I guess how are you viewing being aggressive on the acquisition front versus just letting capacity get flushed out of the system?

W. Gregory Lehmkuhl
CEO, President & Director

Yes. I mean I think we're in the best position to acquire the assets that we want as some of these companies take different strategic directions because we have the most synergies because we have the densest network and we can have the technology and capability and admin structure to optimize these assets. As far as new private institutional investors coming in, I think it's clear that it's very difficult for these small companies to compete with the more established providers. And so I don't think there's a lot of motivation for them to come and buy a 5-asset company that's struggling because them buying them doesn't change their trajectory because they're not in a different competitive position. So we don't see that as a major threat. And we think, if anything, given this shakeout could firm up price over time and allow us to get closer over time to being able to recover inflationary levels as it plays out.

Operator

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

Ki Bin Kim
Vice President of Investor Relations

Thank you, everyone, for joining our second quarter earnings call. Have a good week.

W. Gregory Lehmkuhl
CEO, President & Director

Thanks, everybody. Appreciate it.

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