Goldman Sachs | Equity Research

19 August 2024 | 12:31AM EDT

Buy

Lineage Inc. (LINE)

Technology and cost initiatives to drive margin expansion and earnings growth; initiate at Buy

LINE	12m Price Target: **$105.00**	Price: **$83.98**	Upside: **25.0%**

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We initiate coverage of cold storage REIT Lineage, Inc. (LINE) with a Buy rating and 12-month price target of $105. We expect earnings growth will be driven by a re-acceleration in same store NOI growth due to increased demand and a return to more normal seasonality in 2025 and 2026 (after a slower 2024 with tough comps versus 2023) while cost saving initiatives are realized (mainly related to labor and power). Our model does not assume incremental acquisitions or new development starts (which the company has done historically, in particular acquisitions) due to unclear timing and size; however, we do believe a roll-up opportunity exists, which could provide upside to our numbers over time.

Key Data

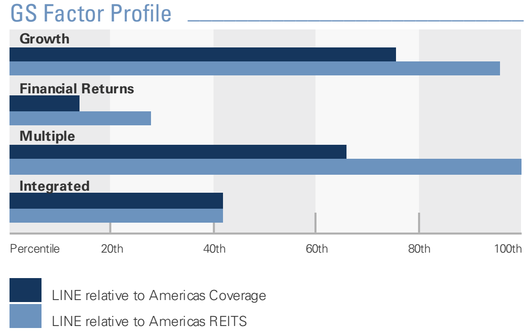
Market cap: $21.2bn
Enterprise value: $26.0bn
3m ADTV: NA
United States
Americas REITS
M&A Rank: 3

GS Forecast

	12/23	12/24E	12/25E	12/26E
Revenue ($ mn)	5,341.5	5,337.4	5,604.5	6,014.6
NAVPS ($)	–	–	–	–
FFOPS ($)	–	1.54	3.54	4.03
P/FFOPS (X)	–	54.5	23.7	20.8
EV/EBITDA (X)	–	12.0	19.7	17.8
Dividend yield (%)	–	1.0	2.0	2.2
Net debt/EBITDA (X)	7.2	3.8	3.7	3.4
ROE (%)	(1.9)	(8.2)	0.8	2.3

	6/24	9/24E	12/24E	3/25E
FFOPS ($)	–	0.75	0.79	0.88

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

PM Summary

Lineage is a cold storage REIT that owns and operates temperature-controlled warehouses. Customer companies use the cold storage facilities to store and handle frozen or refrigerated food (e.g., seafood, poultry, fruit, etc.) across their supply chains.

The primary drivers of growth in the cold storage industry are how much food is consumed overall, and what kinds of food consumers prefer. We believe LINE's own scale, market share, locations, and property quality will allow it to have some pricing power, driving revenue growth. More importantly, on the cost side, we expect management will minimize labor costs (i.e., their largest cost) through automation and power costs through data analytics and solar power. As a result, we forecast SS NOI growth of 0.4%, 5.7%, and 7.1% for 2024, 2025, 2026, respectively as margin expands each year: 40.8%, 41.4%, and 42.1% (Exhibit 6). This drives average 2025/2026 AFFO growth of 12.8%, above closest peer COLD at

Buy

Lineage Inc. (LINE)

Rating since Aug 19, 2024

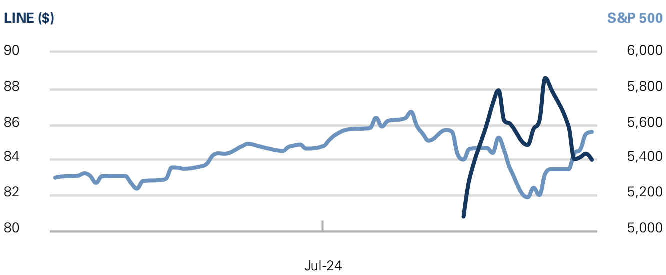
Ratios & Valuation

	12/23	12/24E	12/25E	12/26E
P/FFOPS (X)	–	54.5	23.7	20.8
EV/EBITDA (X)	–	12.0	19.7	17.8
Dividend yield (%)	–	1.0	2.0	2.2
ROE (%)	(1.9)	(8.2)	0.8	2.3
FFO addback				
Prop. sales (gains)/losses ($ mn)	–	–	–	–
D&A (including JV D&A) ($ mn)	–	–	–	–
Min. interest/OP adj. ($ mn)	–	–	–	–
Non-recurring items ($ mn)	–	–	–	–
Funds from operations ($ mn)	516.5	654.7	817.3	923.3
Share and units (FFO counts) (mn)	0.0	126.1	252.1	252.1
FFOPS ($)	–	5.19	3.24	3.66
Funds available for dist. ($ mn)	–	–	–	–
FADPS ($)	–	–	–	–

Growth & Margins (%)

	12/23	12/24E	12/25E	12/26E
EPS growth	–	NM	108.6	181.0
FFO growth	–	NM	129.8	14.0
DPS growth	NM	NM	107.0	7.0

Price Performance



	3m	6m	12m
Absolute	–	–	–
Rel. to the S&P 500	–	–	–

Source: FactSet. Price as of 16 Aug 2024 close.

Income Statement ($ mn)

	12/23	12/24E	12/25E	12/26E
Total revenue	5,341.5	5,337.4	5,604.5	6,014.6
Cost of goods sold	(3,589.8)	(3,544.6)	(3,690.8)	(3,919.0)
SG&A	(501.8)	(504.4)	(590.0)	(627.0)
R&D	–	–	–	–
Other operating inc./(exp.)	–	–	–	–
EBITDA	**1,249.9**	**1,288.3**	**1,323.8**	**1,468.6**
Depreciation & amortization	(759.7)	(855.0)	(872.1)	(889.5)
EBIT	**490.2**	**433.3**	**451.7**	**579.1**
Net interest inc./(exp.)	(490.4)	(437.6)	(293.0)	(303.9)
Income/(loss) from associates	–	–	–	–
Pre-tax profit	**(92.0)**	**(432.8)**	**74.7**	**222.2**
Provision for taxes	13.9	8.8	(2.0)	(18.0)
Minority interest	–	–	–	–
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**(78.1)**	**(424.0)**	**72.7**	**204.2**
Post-tax exceptionals	(18.1)	(9.3)	–	–
Net inc. (post-exceptionals)	**(96.2)**	**(433.3)**	**72.7**	**204.2**
EPS (basic, pre-except) ($)	**--**	**(3.36)**	**0.29**	**0.81**
EPS (diluted, pre-except) ($)	**--**	**(3.36)**	**0.29**	**0.81**
EPS (ex-ESO exp., dil.) ($)	**--**	**--**	**--**	**--**
DPS ($)	–	0.83	1.71	1.83
Dividend payout ratio (%)	NM	(24.6)	593.3	226.0
Wtd avg shares out. (basic) (mn)	0.0	126.1	252.1	252.1
Wtd avg shares out. (diluted) (mn)	0.0	126.1	252.1	252.1

Balance Sheet ($ mn)

	12/23	12/24E	12/25E	12/26E
Cash & cash equivalents	68.2	91.2	91.2	91.2
Accounts receivable	912.9	1,014.7	1,098.3	1,188.9
Inventory	170.6	188.3	203.8	220.6
Other current assets	104.1	120.0	129.7	140.2
Total current assets	**1,255.8**	**1,414.2**	**1,523.1**	**1,640.9**
Net PP&E	16,451.6	12,374.9	12,052.5	11,658.4
Net intangibles	4,673.9	4,620.8	4,620.8	4,620.8
Total investments	112.5	115.0	115.0	115.0
Other long-term assets	291.3	422.7	441.4	461.7
Total assets	**22,785.1**	**18,947.6**	**18,752.8**	**18,496.8**
Accounts payable	1,136.6	1,093.6	1,183.7	1,281.3
Short-term debt	1,205.0	471.2	602.8	1,035.7
Current lease liabilities	–	–	–	–
Other current liabilities	574.4	697.7	721.9	454.7
Total current liabilities	**2,916.0**	**2,262.5**	**2,508.4**	**2,771.7**
Long-term debt	7,803.3	4,465.4	4,362.9	4,070.2
Non-current lease liabilities	1,996.6	1,960.0	1,960.0	1,960.0
Other long-term liabilities	7,937.1	489.2	509.5	540.2
Total long-term liabilities	**17,737.0**	**6,914.6**	**6,832.4**	**6,570.4**
Total liabilities	**20,653.0**	**9,177.1**	**9,340.8**	**9,342.1**
Preferred shares	**--**	**--**	**--**	**--**
Total common equity	**1,161.1**	**9,244.3**	**8,885.8**	**8,628.6**
Minority interest	**971.0**	**526.2**	**526.2**	**526.2**
Total liabilities & equity	**22,785.1**	**18,947.6**	**18,752.8**	**18,496.8**

Cash Flow ($ mn)

	12/23	12/24E	12/25E	12/26E
Net income	(96.2)	(433.3)	72.7	204.2
D&A add-back	780.7	873.0	886.1	898.5
Minority interest add-back	–	–	–	–
Net (inc)/dec working capital	102.0	(157.1)	(18.7)	(20.3)
Others	9.2	243.7	81.0	89.0
Cash flow from operations	**795.7**	**526.3**	**1,021.1**	**1,171.5**
Capital expenditures	(782.0)	(814.0)	(619.0)	(563.0)
Acquisitions	(283.0)	(57.1)	–	–
Divestitures	–	1.5	–	–
Others	–	–	–	–
Cash flow from investing	**(1,065.0)**	**(869.6)**	**(619.0)**	**(563.0)**
Dividends paid	(46.5)	(326.0)	(431.2)	(461.4)
Share issuance/(repurchase)	–	4,835.0	–	(287.2)
Inc/(dec) in debt	–	(2,102.2)	(102.5)	(292.7)
Others	315.8	(1,256.2)	131.6	432.8
Cash flow from financing	**269.3**	**1,076.3**	**(402.1)**	**(608.5)**
Total cash flow	**(102.4)**	**23.0**	**0.0**	**0.0**
Free cash flow	13.7	(287.7)	402.1	608.5
Free cash flow per share ($)	NM	(2.87)	1.59	2.41

Source: Company data, Goldman Sachs Research estimates.

11.0% (Exhibit 9), and our REIT coverage average of 5.5%.

We do not model incremental external growth (acquisitions and development starts), which the company has done historically (in particular acquisitions) due to unclear timing and size. If deals were to occur, there could be upside to our numbers; our scenario analysis laid out in Exhibit 7 suggests that run-rate earnings could increase by up to 9.2% depending on acquisition volume and cap rates.

Our 12-month price target of $105 is based on a target Q5-Q8 AFFO multiple of 31.5x. The range is based on the relationship between NTM AFFO multiples and average 2025/26 expected GS AFFO growth rates for our entire REIT coverage (Exhibit 10), as we believe earnings growth is the greatest predictor of share price performance over the long term. In addition, our multiple takes into consideration the following for Lineage:

- Private track record of growth: SS warehouse growth of 6%, 15%, 16% in 2021, 2022, and 2023;
- Below-average leverage post IPO: 4.7x vs. REIT sector at 5.8x;
- LINE's leading cold storage market share and scale: 482 warehouses and 11.8% global market share vs. the company's closest peer at 5.7%, which improves customer relationships and LINE's ability to invest in things like automation and power-saving technologies;
- Higher quality properties, based on age: 22 years vs. the cold storage sector at 28 years (and dry warehouses, 29 years), and location: distribution properties 76% of portfolio vs. 43% for closest peer; and
- Property type: Cold storage is highly operationally intensive, resulting in lower margins vs. other property types. On the other hand, we believe the operational intensity creates more of a moat around its business, making it more difficult for competition to succeed or for new supply to be a threat.

Company background and portfolio

Lineage is a cold storage REIT which owns temperature-controlled warehouses. Customer companies use cold storage facilities to store and handle frozen or refrigerated food (examples such as seafood, poultry, fruit, etc., Exhibit 1) across their supply chains. Cold storage also helps address that a certain food or ingredient may be in season during only part of the year but consumed throughout the year, that certain parts of a single animal are consumed at different points during the year, and that certain foods may be grown/caught/produced in one region but consumed in many.

The primary drivers of growth in the cold storage industry are how much food is consumed overall and what kinds of food consumers prefer. There is some seasonality in the business where demand is highest during the summer (in order of demand: 3Q, 2Q, 4Q, 1Q).

As of 1Q24, LINE had over 84.1 mn sq ft and 3.0 bn cubic ft of capacity across 482 warehouses with 312 in North America, 82 in Europe and 88 in Asia-Pacific (Exhibit 9 has stats on number of properties, geography, tenant exposure vs. peers). LINE has over 13,000 customers that consist of primarily food retailers, manufacturers, processors, and food service distributors. LINE's largest 15 customers generate 24.8% of revenue, with the largest customer generating 3.3%. The average relationship length of these customers is 34 years (although the exact usage and capacity can vary over that time), in 32 LINE locations, across 4 countries. Customers can be sticky given LINE facilities are an essential part of a company's supply chain: customer churn is estimated to be 2% per year.

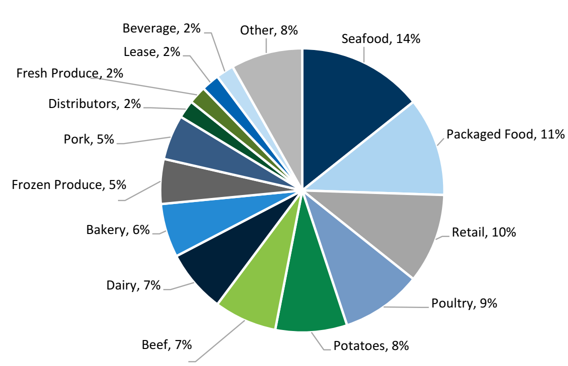
Global Warehousing (GW)

Most of LINE's NOI (86% TTM) comes from the Global Warehousing segment (GW) which involves charging customers for the storing and handling (or services) of pallets; this is charged on a pallet basis rather than per square foot, monthly. LINE groups its temperature-controlled warehouses into four types (Exhibit 2):

1. **Distribution centers (76.3% of GW NOI, 283 warehouses):** warehouses that typically store products for multiple customers, often in or near difficult to duplicate metropolitan, infill, or port locations.
2. **Public warehouses (11.9%, 125):** warehouses that typically store products for multiple customers, usually outside metropolitan and infill locations.
3. **Production advantaged (10.6%, 41):** warehouses adjacent to or near customer production facilities.
4. **Managed warehouses (1.2%, 14):** facilities owned or leased by the customer for which LINE manages the operations on their behalf.

Geographically, as of the TTM through 1Q24, LINE's GW NOI was split 79% in North America, 13% in Europe, and 8% in Asia-Pacific.

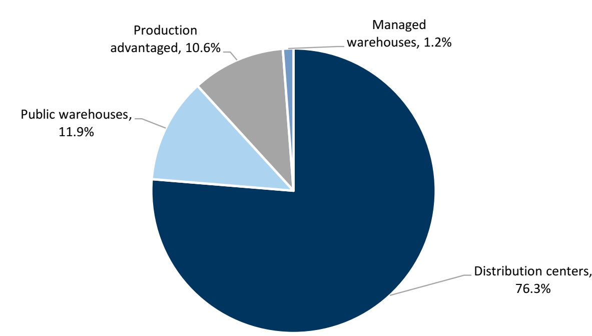
Exhibit 1: LINE stores a variety of food products in its warehouses
Commodity Type as % of Global Warehousing Segment Revenue



Percentages do not sum to 100% due to rounding

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 2: The majority of LINE's NOI comes from Distribution centers (76%)
% of Global Warehousing NOI by property type



Source: Company data, Goldman Sachs Global Investment Research

As of 1Q24, about 46.5% of storage minimum contracts (storage minimum contracts are 41.8% of all contracts) are either month to month or expire in 2024, resulting in potentially more fluid occupancy at the facilities and turnover of product when compared to other REIT property types with longer lease terms.

Cold storage: more operationally intensive, but an opportunity to improve margin

In terms of LINE's property level costs, the biggest elements are labor and power:

Labor: LINE's property level labor costs are even larger than G&A or interest expense, where the company is working to limit them through automation. CBRE estimates only 5% of US cold storage operations are automated vs. 16% for LINE (81 automated warehouse, including 24 fully automated), with LINE's intention to increase further. Through automation, LINE can:

- Increase the capacity of a warehouse by increasing the usable height, or cubic feet, as manually operated forklifts can only go so high.
- Reduce the need for manpower, in an industry with labor shortage and high turnover (due to harsh working conditions, i.e. in a facility with temperatures 32 degrees F or below).
- Provide revenue benefits with customized tenant solutions, retention, and pricing.

Power is required to cool each of LINE's properties, and efforts are under way to control the expense. Strategies include:

- Through its unique in-house data analytics team, LINE can use AI and machine learning to forecast weather patterns (in particular, heat waves) to pre-purchase energy, manage its energy load, or hedge costs, allowing the company to save when others will/would have to pay higher rates for energy due to increased demand.
- In conjunction with more automation, more of LINE's warehouses can function without lightning, further saving on power costs.
- Generating alternative sources of energy through onsite solar and monetizing carbon credits to offset energy costs. **LINE was the 5th largest corporate producer of solar energy in the US in 2022, and has a goal to reach the top 3.** LINE's energy efficiency initiatives have been recognized in awards from the US Dept. of Energy in each of 2019-2022.
- LINE's use of LED lights and rapid close doors.
- LINE has 96 patents issued and 151 patents pending, including ones related to controlling labor and power costs.

Given these costs, cold storage margins are lower compared to other property types, but we believe this gives operators (such as LINE) the opportunity to reduce those costs, increase NOI and margins, growing earnings. We also believe the operational intensity makes it tougher for competition to emerge, and gives LINE future roll-up acquisition opportunities.

Global Integrated Solutions (GIS)

The remaining NOI (14% TTM) comes from the Global Integrated Solutions (GIS) segment, which helps customers move food through the supply chain, generating efficiencies and savings for the customer, and revenue for LINE. 93% of GIS customers are also GW customers.

LINE Earnings Growth

Currently, the company derives most of its earnings growth internally through Global Warehousing same store results, but LINE can also grow externally through acquisitions (which it has done historically as the industry is highly fragmented) and development (more so recently).

Earnings Growth: Same store growth to re-accelerate in 2025/'26

Historical components of earnings growth

LINE's earnings are driven by internal growth (primarily the same store global warehousing segment) and external growth (acquisitions — rolling up smaller operators in a fragmented industry — and development). Here we review the history of each and the outlook.

Internal growth

Revenue for storing pallets is driven by:

- (A) economic occupancy (pallets can be reserved and not physically used: as of 1Q24, 41.8% of storage revenue was subject to minimum storage agreements, more on this below), times
- (B) revenue per occupied pallet (rate growth tends to be inflation-plus depending on the market environment or particular contract).

Warehouse services revenue is driven by turn or throughput, plus handling revenue per throughput pallets. This is offset by power, labor, other facilities, and other services costs.

Same Store NOI growth was 6%, 15%, and 16% in 2021, 2022, and 2023 as the industry benefited from pandemic induced demand (more frozen food consumed from meals at home) and supply chain normalization (more product being stored on hand in facilities, increasing occupancy). 2024 is expected to stabilize and bottom, given the tough comps versus 2023 (Exhibit 3), before normalizing in 2025 and 2026.

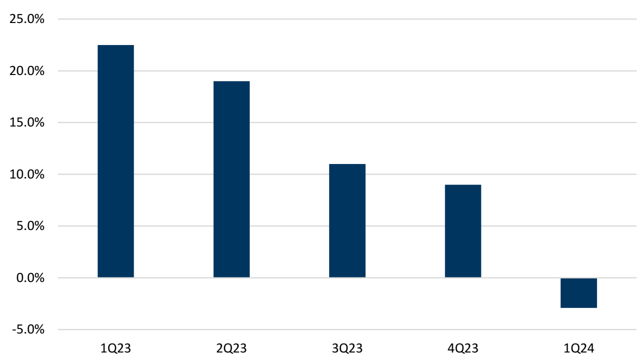
External growth

Acquisitions. Lineage made $11.7bn of acquisitions over 2018-2023, with annual amounts ranging from a low of $302mn in 2023 to a high of $3.3bn in 2020, Exhibit 4. When stabilized, acquisitions can reach 12% yields. Given the slowdown in cold storage transaction volume industry-wide (Exhibit 5) and its difficulty to predict, we do not forecast acquisitions in 2H24, 2025 and 2026; however, we expect accretive acquisitions to provide upside to estimates when they are completed.

Industry size estimates suggests that there is an additional 4.4 bn cubic ft in North America and 22.4 bn cubic ft globally (including North America) of public cold storage warehouses that could be potential acquisition targets. This number excludes privately operated cold storage facilities of LINE's customers (for example, a Publix cold storage facility that Publix owns and operates), which could become acquisition targets. LINE's market share is estimated to be 32.9% in North America and 11.8% globally (according to GGCA) of public warehouses; when considering private cold storage facilities in the total, LINE's market share is lower.

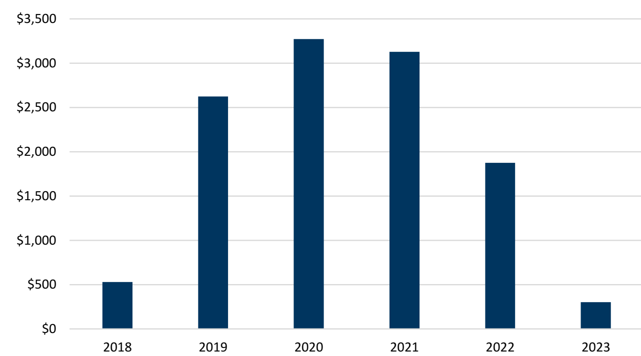
Lastly, we note that when LINE acquires a property, there are likely no fixed contracts. LINE adds the fixed minimum storage contracts over time, which suggests that given LINE's large volume of acquisitions the last few years, there is opportunity to add more fixed contracts. In 2022, 34% of LINE's storage revenue was subject to minimum storage agreements, now up to 41.8%, with 51% of new business in 2023 having fixed commitments. We believe LINE intends to increase this number over time which could positively impact economic occupancy.

Exhibit 3: 2023 saw outsized growth, creating a tough comp for 2024
SS NOI YoY growth by quarter



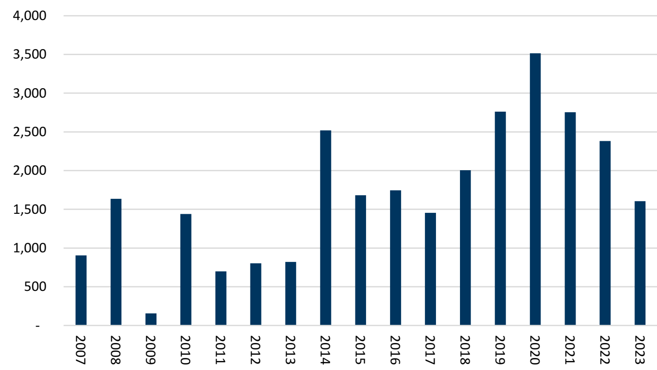
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: LINE acquired heavily when interest rates were low during the pandemic...
Annual acquisition volume ($mn)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: ...in line with overall cold storage transactions
2007-2023 US cold storage transaction volume ($mn)



Source: MSCI, Goldman Sachs Global Investment Research

Development. The company also engages in greenfield development and expansion, but not to the same extent or volume as acquisitions. LINE has spent a total of $1.6bn over 2018-2023, with annual amounts ranging from $143mn in 2018 to $355mn in 2023. Stabilization of projects can vary but tends to be 18-36 months (Production Advantaged tend to stabilize fastest, followed by Distribution warehouses, then Public warehouse). Management has noted that new supply is expected to decline going forward due to increased construction costs to build facilities, the higher cost of funding or capital, more expertise needed to build automated warehouses, and the operational intensity of running a cold storage warehouse.

Earnings growth outlook

We believe LINE's estimate revisions, and as a result share price movement, will be driven by two main factors: (1) internal growth (as a result of demand improving or cost reductions faster than anticipated), and (2) potential accretive acquisitions coming to fruition. We build our LINE model through 2026, where Exhibit 6 shows we expect an average annual AFFO growth rate of 12.8%. Our model assumes the following:

We assume SS NOI growth of 0.4%, 5.7%, and 7.1% for 2024, 2025, 2026, respectively as margin expands each year: 40.8%, 41.4%, and 42.1%. Same store NOI growth and resulting margin expansion is primarily driven by:

- **Lower labor cost** as a percentage of revenue, due to higher automation, which allows for more efficient and cost effective processes such as pallet receiving, case picking, storage and retrieval systems.
- **Lower power cost** as percentage of revenue as LINE continues to execute on its power savings initiatives (see above section for more detail on those strategies).
- We forecast **revenue per occupied pallet (i.e., rate or pricing) increases faster than inflation.** We believe this is possible due to:
    - Scale (many properties across a customer's supply chain)
    - Property locations (near end customers and population centers suggesting that product will need to be moved or stored in that area)

    - Customer mix (higher priced items such as seafood allowing for higher pricing on pallets), and
    - Customer relationships (in addition to storing product, LINE works with companies on how to optimize supply chain and provides GIS, see above) allows for LINE to have some pricing power.
- Over time, LINE's occupancy could increase:
    - As demand improves, if corporate customers decide to hold onto more inventory at cold storage facilities instead of minimizing costs in the current macro environment, or
    - more customers use LINE facilities (but we believe newer customers would be smaller in size given LINE already has relationships with larger industry participants) or current larger customers expanding relationship with LINE.

Overall, due to LINE's operational intensity, we reiterate that earnings growth is primarily driven through cost savings. This is different from most REITs, where operating margins are naturally already higher and consistent. Additional earnings drivers include:

- We assume **GIS NOI growth** of -0.9%, 4.2%, and 6.2% for 2024, 2025, and 2026, respectively. This is driven by volume rather than margin expansion, as we forecast consistent margin of 16.5% from 2024 to 2026.
- While LINE grew in the past primarily through acquisitions, we believe current market conditions (high interest rates slowing transaction volume across asset classes including cold storage) have made transactions less likely in the near term.
    - If LINE were to engage in future external growth activity, we would anticipate the dollar spend to be more weighted to acquisitions rather than developments, based on historic behavior and the opportunity set.
    - Exhibit 7shows an estimate of the run-rate earnings accretion LINE could generate from completing various volumes of acquisitions (or developments) at a variety of yields. We show that by investing $250mn - $3.0bn at a yield of 5.5%-8.0% (and assuming a cost of capital of 5.5%, which given its investment grade ratings from Fitch and Moody's on August 7, 2024, could prove to be conservative), LINE could generate AFFO growth of up to 9.2%. This is not currently incorporated into our model and could provide upside to estimates.

Exhibit 6: We expect LINE's earnings to grow 12.8% on average in '25/'26
LINE earnings summary

LINE	2H24	2025	2026	2024-2026 Average
GS AFFOPS	$1.46	$3.24	$3.66	
Growth		*12.6%*	*13.0%*	*12.8%*
REIT Coverage Average (Simple Average)		5.3%	5.8%	*5.5%*
LINE vs. REIT Avg.		7.3%	7.2%	*7.3%*
Industrial REIT Coverage AFFO Growth		8.3%	10.4%	*9.4%*
LINE vs. Industrial REITs		4.3%	2.5%	*3.4%*
Assumptions				
Same Store NOI Growth	0.4%	5.7%	7.1%	*4.4%*
Same Store Margin	40.8%	41.4%	42.1%	*41.4%*
Debt Issuance	$0	$1,250	$500	*$583*
Debt rate	0.0%	5.5%	5.5%	*5.5%*
Year-end Net Debt to LTM EBITDA	4.5x	4.3x	4.0x	*4.4x*

2025 growth is 2H25 vs. 2H24. Industrial REIT Coverage AFFO growth is simple average

Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: Estimates could be revised higher if LINE were to accretively acquire
Estimated 2025 AFFO run rate accretion of varying acquisition volumes & cap rates

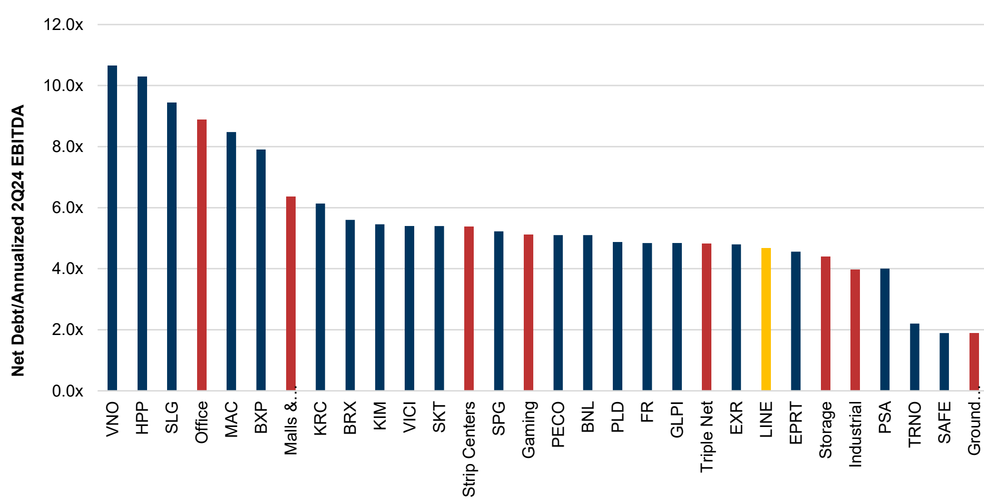
		Acquisition Volume					
		$250	$500	$1,000	$1,500	$2,000	$3,000
Acquisition Cap Rate	5.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	6.0%	0.2%	0.3%	0.6%	0.9%	1.2%	1.8%
	6.5%	0.3%	0.6%	1.2%	1.8%	2.4%	3.7%
	7.0%	0.5%	0.9%	1.8%	2.8%	3.7%	5.5%
	7.5%	0.6%	1.2%	2.4%	3.7%	4.9%	7.3%
	8.0%	0.8%	1.5%	3.1%	4.6%	6.1%	9.2%

We assume cost of capital is all debt given LINE's recent IPO

Source: Goldman Sachs Global Investment Research

- **Interest expense**: From $490mn in 2023, we estimate interest expense shifts to $440mn/ $295mn/$306mn in 2024/2025/2026. The shift lower in 2024 is largely due to IPO proceeds being used to pay down delayed term loan, which carries into 2025. Interest expense in 2026 increases again when interest rate caps expire ($1bn 5% cap and $1.5bn 2% cap). We also assume LINE issues debt of $500mn in 2Q25, $750mn in 4Q25, and $500mn in 2Q26, all at 5.5%. It is possible this 5.5% rate could be lower as interest rates come down and due to LINE's recent BBB+ investment grade rating. LINE's current leverage (Exhibit 8) is below its leverage target of 5.0x to 5.5x, suggesting the company has the capacity to issue debt.

Exhibit 8: LINE's leverage post IPO is below the REIT average of 5.8x
Net debt/EBITDA by REIT as of 2Q24 (including preferreds)



SAFE leverage is shown on debt/Book Equity. LINE ratio includes FLOs (financing lease obligations) and is post IPO (i.e., 3Q24)

Source: Company data, Goldman Sachs Global Investment Research

Valuation, Price Target, and Risks

Comps: Cold Storage and industrial REITs

We compare LINE to its most direct peer, COLD (another Cold Storage REIT), and its next closest subsector property type, industrial warehouses (EGP, FR, PLD, REXR, TRNO) in Exhibit 9.

- **Compared to Cold Storage REITs,** LINE has a higher percentage of distribution properties (76% vs. 43%), more warehouse automation and technology, and historically lower relative operating costs (in particular, power) resulting in better NOI margins (37% for LINE vs. 29% for COLD for Warehouse NOI on average from 2021-2023) and in turn earnings. We believe this can continue, and as a result, we believe LINE will have higher earnings growth than COLD and trade at a premium to it.
- **Compared to industrial REITs**, LINE has different demand drivers and shorter lease terms, which could make their SS revenue and SS NOI growth results differ, and the visibility and confidence in future growth lower. LINE also has lower operating margins due to the operationally intensive nature of the business (for labor and operations within the real estate LINE is responsible, whereas for industrial REITs the tenant is responsible). Due to the structural difference in the businesses, this should continue. However, given LINE's comparable earnings growth to industrial peers, we believe it will trade at similar multiples.
- **FFO/AFFO growth.** We estimate LINE's average 2025/2026 AFFO growth to be 12.8%, above peer COLD at 11.0%, while the growth rate versus industrial peers depends on the company and time frame. Industrial REITs still benefit from a large rent mark to market opportunity, driving earnings growth.
- **Portfolio and Scale.** Compared to peers (COLD and industrial), LINE's portfolio is the largest outside of PLD. We believe this scale can provide an operational advantage in terms of customer retention and attraction (more LINE locations along the customer's supply chain).
- **Debt to EBITDA.** We estimate LINE's net debt to EBITDA post IPO is 4.7x, modestly above peers (4.3x) and below the REIT average (5.8x).
- **Multiples:** As described in more detail below, our price target is based on Q5-Q8 AFFO.

Exhibit 9: LINE comparison vs. peers
Summary table

	LINE	COLD	EGP	FR	PLD	REXR	TRNO
Valuation							
FFO Multiple							
2024		23.5x	21.9x	20.8x	23.0x	21.3x	28.3x
2025	34.0x	19.9x	20.1x	18.8x	20.7x	19.3x	26.0x
2026	28.8x	17.5x	18.4x	17.1x	18.8x	17.2x	23.0x
AFFO Multiple							
2024		19.3x	28.0x	25.1x	28.3x	26.5x	35.2x
2025	23.8x	17.6x	25.5x	22.9x	24.6x	23.4x	31.9x
2026	20.9x	15.6x	22.4x	20.3x	22.0x	20.8x	28.5x
Implied Cap Rate	5.5%	6.9%	4.5%	5.0%	5.5%	4.8%	3.9%
Portfolio Data							
Number of Properties	482	239	NA	424	5,576	422	292
Total GLA (mn)	84.1	45.5	60.0	67.9	1,200.0	49.7	18.1
Portfolio occupancy	83.6%	78.1%	97.1%	95.3%	96.4%	93.7%	96.0%
SS NOI growth 2024 guidance	NA	4.0%	6.1%	7.8%	6.8%	7.5%	NA
Largest Markets as a % of ABR							
1st	California (10%)	North America (86%)	Texas (33.8%)	Southern California (24.4%)	Southern California (20.2%)	Los Angeles County (58.1%)	Northern New Jersey/New York City (26.9%)
2nd	Washington (9%)	Asia-Pacific (7%)	Florida (24.5%)	Central/Eastern Pennsylvania (10.9%)	New Jersey/New York City (9.0%)	Riverside / San Bernardino County (17.3%)	San Francisco Bay Area (17.8%)
3rd	Netherlands (8%)	Europe (6%)	California (17.7%)	Dallas/Ft. Worth (8.7%)	Chicago (5.7%)	Orange County (12.2%)	Los Angeles (16.4%)
Exposure to largest tenant	3.2%	5.0%	Amazon (1.8%)	Amazon (6.4%)	Amazon (5.1%)	Tireco, Inc. (2.5%)	Amazon (3.4%)
Financial Data	GS	Consensus	Consensus	Consensus	Consensus	Consensus	Consensus
2024E FFO growth		20.2%	8.6%	7.4%	-3.5%	8.0%	7.2%
2024E AFFO growth		15.2%	9.4%	14.3%	-4.8%	11.6%	7.5%
2025E FFO growth	6.5%	18.1%	8.7%	10.7%	11.4%	10.5%	9.0%
2025E AFFO growth	16.2%	9.6%	10.0%	10.0%	14.9%	13.2%	10.6%
2026E FFO growth	17.8%	13.5%	9.5%	10.1%	9.8%	11.9%	13.0%
2026E AFFO growth	14.0%	12.4%	13.7%	12.8%	11.8%	12.2%	11.7%
Net Debt/EBITDA	4.7x	5.3x	3.8x	4.8x	4.9x	4.6x	2.2x

FFO growth refers to Core FFO. AFFO growth is company defined AFFO. LINE 2025 growth rates are 2H25 vs. 2H24. LINE 2024 estimates/metrics are post IPO so 2H24 only. LINE leverage is as of 3Q24 post IPO. SS NOI is on a constant currency basis for COLD and a cash basis for industrial REITs

Source: FactSet, Goldman Sachs Global Investment Research

Price Target

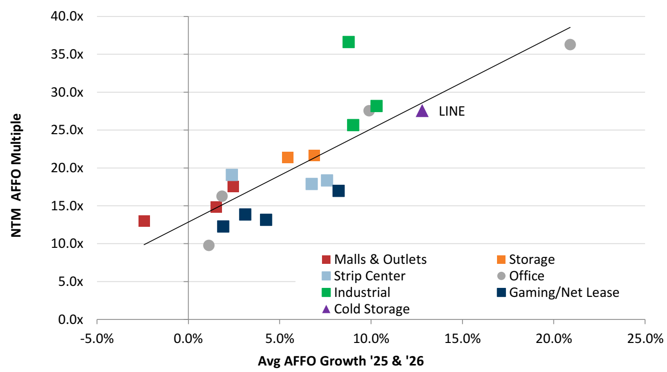
We initiate on LINE with a 12-month price target of $105 based on a target Q5-Q8 AFFO multiple of 31.5x. The range is based on the relationship between NTM AFFO multiples and average 2025/26 expected GS AFFO growth rates for our entire REIT coverage (Exhibit 10), as we believe earnings growth is the greatest predictor of share price performance over the long term. In addition, our multiple takes into consideration the following:

- Private track record of growth: SS warehouse growth of 6%, 15%, 16% in 2021, 2022 2023,
- Below-average leverage post IPO: 4.7x vs. REIT sector at 5.8x,
- LINE's leading cold storage market share and scale: 482 warehouses and 11.8% market share vs. closest peer is 5.7%, which improves customer relationships and LINE's ability to invest in things like automation and power-saving technologies, and
- Higher quality properties, based on age: 22 years vs. the cold storage sector at 28

years (and dry warehouses, 29 years), and location: distribution properties 76% of portfolio vs. 43% for closest peer.

- Property type: As mentioned previously, cold storage is more operationally intensive resulting in lower margins vs. other property types. On the other hand, we believe the operational intensity creates more of a moat around its business, making it more difficult for competition to succeed or for new supply to be a threat.

Exhibit 10: On an AFFO basis, LINE trades at a slight discount versus the multiple to growth trend line
NTM AFFO multiples vs. avg 2025/26 expected AFFO growth rates



LINE 2025 growth rate is 2H25 vs. 2H24

Source: FactSet, Goldman Sachs Global Investment Research

Key downside risks to our price target

Cost savings initiatives: We believe LINE will be able to achieve margin expansion and SS NOI growth through cost savings. If labor and/or energy savings are smaller than we anticipated, that would create downside risk.

Lack of demand: LINE can achieve revenue growth through higher pricing (revenue per pallet) and occupancy (economic). If food consumption declines (whether due to consumer weakness, inflation, etc.), or tenants want to hold less inventory (due to uncertain macro conditions and costs) then revenue could be smaller than we anticipated, that would create downside risk.

Higher rates for longer: If interest rates remain elevated longer than anticipated that could increase interest expense higher than we anticipated and create downside risk.

G&A expense: As LINE is now a public company, G&A expenses could increase faster than we anticipated. That could create downside risk to our numbers.

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Reg AC

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