TRANSCRIPT

Q3 2026 Earnings Conference Call

WillScot Holdings Corp. (Nasdaq: WSC)

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TRANSCRIPT

Operator

Welcome to the Third Quarter 2026 WillScot Earnings Conference Call. My name is Cherie, and I will be your operator for today's call. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Charlie Wohlhuter. Charlie, you may begin.

Charlie Wohlhuter

All right. Thank you, Cherie, and good afternoon, everyone. We appreciate you joining us for WillScot's third quarter 2026 earnings call. With me in the room today are Worthing Jackman, our Executive Chairman; Tim Boswell, President and Chief Executive Officer; and Matt Jacobsen, our Chief Financial Officer. A copy of today's presentation material may be found on our investor relations website at investors.willscott.com.

Before we begin, please take a moment to review Slide 2 of our posted presentation, which includes our safe harbor statement. During today's remarks and the question-and-answer session, we may make forward-looking statements regarding our business, operating performance, market conditions, and financial outlook. These statements are subject to risks and uncertainties, many of which are outside of our control. Actual results may differ materially from those expressed or implied. For additional information regarding these risks and other factors that could impact our results, please refer to the safe harbor statement included in today's presentation, as well as our filings with the SEC.

And now, it's my pleasure to turn the call over to our President and Chief Executive Officer, Tim Boswell, to begin today's discussion.

Tim Boswell

Thank you, Charlie, and good afternoon, everyone. We appreciate you joining us today to review our third quarter 2026 results, our outlook for remainder of 2026, as well as some early thoughts on 2027. I'm pleased with our third quarter results and excited about the momentum that is building across our business. For the past year, we have been executing a focused commercial strategy to strengthen our local market presence, expand our enterprise accounts and verticals, and grow our value-added solutions.

Sitting here today, our execution has improved, and we're capitalizing on market activity, such that we have the strongest organic growth outlook for the business that we've had in years. And with the underlying improvements that we've made to both our operating platform and our team, I am quite confident that WillScot has never been better positioned to compete and win in our markets than we are today.

Starting with our top-line trajectory, this is a run rate business with long lease durations. All internal indicators point to a strengthening growth outlook for 2027. In the third quarter, lease revenues grew 4% year-over-year, and delivery

and installation revenues grew by 23% year-over-year. Delivery and installation revenues have been up double digits every quarter this year, which is a leading indicator for lease revenue growth.

Consistent with that, modular activations were up 12% year-over-year in Q3, representing the fourth consecutive quarter of year-over-year activation growth. As we've said in the past, given our long lease durations, it takes several quarters of year-over-year activation growth to inflect units on rent, and we achieved that year-over-year volume inflection in the third quarter with modular unit on rent growth of 1.2%.

Matt will cover the Q4 guidance, though our assumption is that this volume favorability will continue to strengthen as we progress through the fourth quarter. This is an important milestone. And while storage volumes are still down, the growth in modular means that we expect to enter 2027 with a net revenue tailwind from volume for the first time in five years. And our pending order book for modular has grown and is now up over 20% versus prior year.

So, we've seen no deceleration in activity and have a growing pipeline for the first half of 2027. Each element of our commercial strategy is contributing to this momentum. Though our shift last year to focus on enterprise accounts and new verticals aligned well with the mix of market activity and is delivering clear impact.

In the third quarter, enterprise account revenue increased 15% year-over-year and now represents more than 30% of our revenue on a trailing 12-month basis. Our win rates show a positive correlation with project size and complexity, and our value proposition is clearly differentiated with these customers. In this quarter alone, we began delivering 750 units, representing over 125,000 square feet to support the expansion of a major pharmaceutical campus in the southern United States.

In Florida, we are relocating an entire college and setting up a temporary campus to make room for a large urban redevelopment project. We set up a temporary training facility for the New York Giants, similar to the one that we built for the Los Angeles Rams, both of whom established marketing partnerships with us. We're activating over 250 units for the first phase of a large multi-year expansion of a semiconductor manufacturing facility. And we've seen consistent growth across large-scale data center and power generation projects all over North America, which I'm sure we'll discuss later in the call.

These are just some examples to demonstrate that the breadth, scale, and complexity of what we're doing in our business today has changed dramatically relative to the project types we were executing even three years ago. And there are some important implications. First, the common theme across all of these examples is that when the most sophisticated customers need space to mobilize their teams, they choose WillScot because of our execution capabilities in the field, that's a validation of our differentiated competitive positioning and operational capability.

Second, our revenue quality is improving, favoring our highest value solutions and our highest quality customers. And third, these customers and projects have the most demanding service level requirements, which are challenging us to execute at a higher level and extending our capability lead relative to the competition.

We're using these successes and customer feedback to guide both our operational improvement roadmap as well as our capital allocation. On the operations side, we’re driving improvements where we see the biggest impact to both the customer experience and to margins. It all starts with working safely, which is central to our culture and company values. Our recordable incident rate has dropped to 0.57 over the past year. This is a core feature of the value proposition we are taking to customers when they determine which provider they want to partner with on their job site.

Every sophisticated customer in the construction sector is focused on improving the worker experience onsite. This starts with safety, and by aligning closely with our customers on standards of execution, we're making one another better and keeping our teams healthy.

Second, we went live across the entire network in Q3, with our new field service scheduling and dispatch platform, this has digital self-service features for our customers, real-time communications, and optimizes scheduling and route planning. So we expect a host of benefits as we optimize usage of this platform in 2027. Third is our customer service billing and collections functions, where we are focused on ease of doing business and minimizing revenue leakage.

And fourth is our network optimization initiative, where we are tightening the real estate footprint, reducing non-productive assets, and realizing cost savings. All of these continuous improvement initiatives make us more competitive in the market and present margin expansion opportunities on top of the normal operating leverage that we expect as lease revenue builds.

In terms of capital allocation, the commercial momentum and improved operational execution give us a clear view of where we can reinvest organically in the business. The mix of market activity and our improved enterprise account penetration are presenting some of the most attractive organic investment opportunities that I've seen in my 15 years with the company.

As Matt will discuss, our net capital expenditure outlook for the year is up approximately $125 million versus our outlook at the beginning of the year. We have allocated this incremental capital to our most highly utilized and most versatile product lines, to projects where we see long lease durations with our best customers and subject to our disciplined return thresholds. Over 90% of the incremental fleet we've acquired is either on rent or assigned to a customer order with contractual minimum durations of over two years. So, we have clear line of sight to the return on investment, and it is supporting our run rate into 2027. And we're seeing constraints in the market across labor, logistics, and fleet, which we expect will support a favorable pricing environment well into 2027. Importantly, there's been no change in our view of the long-term capital requirements for the business. The ability to flex capital expenditures up and down rapidly in response to changes in demand is a strength of the business. And even with this increased investment, our year-to-date free cash flow margin of 14% remains best-in-class and our ROIC expanded both sequentially and year-over-year in the quarter.

Matt is going to cover the details of Q3 and our Q4 outlook, though if I zoom out, the growing commercial momentum, improved operational execution, and investments in organic growth are all fundamental improvements that together support the strongest leasing run rate exiting Q4, that we've seen in the past five years.

Based on our commercial pipeline and growth investments, we believe that low single-digit organic revenue growth for 2027 is achievable and with normal operating leverage and our focus on continuous improvement and margin expansion initiatives, this would support mid single-digit percentage organic EBITDA growth in 2027.

We believe this is a balanced initial outlook as we monitor the changes in the political landscape this week and potential risks to the pace of data center construction specifically. And there's also the potential for upside, if we continue to drive growth and modular activations or see improvements across our more transactional product lines. It is of course early, and we'll follow-up with our formal guidance for 2027 on the fourth quarter call.

That said, we started 2026 with the goal of delivering an inflection in organic lease revenue growth this year, and I want to thank our team members across the organization for executing that plan, delivering our third quarter results, and strengthening our long-term trajectory for the benefit of our shareholders.

With that, Matt, I'll turn the call over to you.

Matt Jacobsen

Thank you, Tim, and good afternoon, everyone. I'll focus my prepared remarks on how our commercial momentum translated into the financial metrics for the quarter, how we're balancing growth investments with other capital allocation priorities, and provide an update on what we expect for Q4.

Total revenue for the quarter was $601 million, up 6% year-over-year, and ahead of our outlook of $585 million. Ongoing strengths and modular activations grew up a 23% increase in delivery and installation revenue, and a 7% increase in total leasing and services revenue. Net income in the quarter was $52 million and diluted earnings per share was $0.28, up $0.04 to the prior year quarter. Adjusted net income was $53 million and adjusted diluted earnings per share was $0.29. Adjusted EBITDA for the quarter was $234 million, exceeding our outlook of $232 million, with an adjusted EBITDA margin of 38.8%.

Now looking more closely at leasing revenue performance. Total leasing revenue increased 4% year-over-year to $452 million in Q3, up from 1.5% growth in Q2. Modular space leasing revenue increased $6 million, or 2% year-over-year, driven by increases in both volume and rental rates. Modular activations increased 12% year-over-year. And in turn, average modular units on rent increased 1.2% year-over-year, and were up nearly 1% sequentially in the quarter, despite what is typically a flat to down quarter for units on rent.

Recent orders placed for modular units over the rolling 13 weeks have also been up 12% year-over-year, further supporting the positive leasing revenue trajectory that we expect entering into 2027. Average monthly rate on modular units was up approximately 2% year-over-year. Keep in mind, the average monthly rate is a lagging indicator and does not reflect the most recent performance of rates on recent orders.

Looking forward into Q4, we're encouraged by the pricing opportunity in front of us based on rates of orders booked more recently. Portable storage leasing revenue, declined approximately $5.6 million, or 7% year-over-year, reflecting continued volume headwinds in transactional projects and local non-residential construction activity. Enterprise account activations and climate-controlled storage growth partially offset those pressures. VAPS revenue grew 4% year-over-year to $104 million. And lastly, write-offs to leasing revenue declined meaningfully from prior year levels based on elevated write-off activity in the prior year. This was a primary driver for the $13 million increase year-over-year in other leasing revenue.

As we discussed last quarter, the significant increase in modular activation levels compressed margins year-over-year due to increased variable rental and transfer costs, a high mix of D&I revenue, and due to the reduced write-off activity, all of which have positive implications for 2027. Margins expanded sequentially by 160 basis points, as we discussed and expected in Q2, but were tempered by increased activity levels that have continued into Q4. We expect further sequential expansion in Q4, and activation related costs begin to taper from Q3, and recent modular activations contributed more significantly to lease revenue.

Turning to cash flow. The business continues to generate predictable cash flows, while supporting elevated levels of reinvestment. Operating cash flows were $198 million for the quarter, up about 4% from the prior year. The stability of our operating cash flow overtime is a key attribute of this business and gives us confidence as we allocate capital. Based on our order activity and our demand outlook, we invested $123 million of net Capex. As a result, adjusted free cash flow was $78 million, representing a 13% margin in the quarter. On a last 12 months basis, adjusted free cash flow totaled $342 million.

I would like to take a minute to discuss our incremental fleet investments. We're investing capital where we have clear customer demand and visibility into growth and attractive returns subject to our disciplined return thresholds. This investment supports fleet categories where utilization exceeds 80% and we have strong demand visibility into 2027. Of the incremental fleet units we've received so far this year, as Tim said, over 90% of them are already on rent or assigned to pending orders within our order book. Of those on rent, average minimum lease durations exceed two years with expected durations that are substantially longer.

New fleet allocations are primarily going to our largest customers, and we expect the supply and demand environment will continue to put upward pressure on market rates. We've also added a new slide this quarter in our materials detailing our fleet mix and illustrating the shift in our fleet net book value over time to higher value offerings. This reflects our strategy to increase exposure to larger customers and longer duration projects to drive durable leasing revenue growth and increased return on invested capital.

Moving to liquidity and leverage. After repaying approximately $57 million of debt during the quarter, we ended Q3 with approximately $3.4 billion of net debt and leverage of 3.7x last 12-month adjusted EBITDA. We maintain $1.6 billion of availability in our ABL, and our effective weighted average pre-tax interest rate is approximately 5.6%. We have no debt maturities until August of 2028.

We remain focused on debt reduction and have paid down $159 million of debt year-to-date and over $200 million in the last 12 months. Reducing our absolute debt balance will continue to be a priority following investments in the fleet to drive revenue and adjusted EBITDA growth. Through this combination of growth and absolute debt reduction, we expect leverage to be approaching 3x as we exit 2027.

Moving now to our updated outlook. Based on our performance year-to-date and continued strength in modular activations and units on rent, we're raising our full-year 2026 outlook for revenue and net CapEx to $2.34 billion and $400 million, respectively, and maintaining adjusted EBITDA at $920 million.

Relative to our prior guidance, we now anticipate a higher level of modular activations and delivery and installation revenue in the fourth quarter. We expect to drive leasing revenue growth of approximately 4% year-over-year and will build on the unit on rent growth that we achieved in Q3. With continued strength in the order book, we expect that we will sustain elevated work order volumes, logistics, and support costs across our footprint, which will moderate the level of sequential margin expansion generally seen ending the year.

So we maintain our full-year EBITDA expectation to account for this. These are short-term investments that will enhance profitability over a much longer period and support greater durability in our business. And finally, for modeling purposes, there haven't been any significant changes in our expectations for interest, depreciation, tax rate, or other below EBITDA items since our Q2 update.

In summary, we delivered a strong third quarter with top-line revenue and adjusted EBITDA ahead of our expectations. Leasing revenue growth accelerated, modular units on rent inflected, and we continue to reinvest behind attractive growth opportunities and to deploy excess cash to reduce debt. Though upfront deployment costs continue to create near-term pressure on margins, we're focused on executing our commercial and operational priorities to drive top-line growth and margin expansion into 2027 and de-leveraging towards 3x as we exit next year.

With that, I'll turn it back to Tim.

Tim Boswell

Thank you, Matt. And I suspect it's been a long day for our analysts and investors on the line. I'll just reiterate that as a team, we're focused on executing the fundamentals here that are within our control. We're seeing tangible improvements in our results, as well as progress against our long-term strategic initiatives. And these are putting us on a solid growth trajectory heading into 2027 with the potential to compound earnings in a meaningful way. Thank you for your attention. Operator, please open the line for questions.

Operator

Thank you. (Operator Instructions). Please stand by while we compile the Q&A roster. And our first question will come from the line of Angel Castillo with Morgan Stanley. Your line is open.

Angel Castillo - Morgan Stanley

Hi, good evening, and thanks for taking my question. Just wanted to ask, I guess, Tim, could you just help us understand a little bit more of the strategic choice here to effectively move forward with a preliminary '27 outlook? Just so much macro and political volatility here. I guess, I would have expected a little bit, perhaps more caution, but as you noted, you've delivered your first unit on rent growth quarter and it's 4Q, pretty good activations. You talked about the pending orders. So, a number of factors clearly showing kind of a positive shift in direction here.

So just, if you could expand on all that a little bit more just to help us understand the degree of confidence here and just effectively be willing to underwrite that low single digits top-line and mid single digits and just kind of the risk, put upside and downsides of that, would be helpful.

Tim Boswell

Yes. Sure, Angel. And it's really based on the reality that the fundamental trajectory going from Q4 into Q1 is as good as we've seen in the past five years. When you have a volume tailwind going into a future period that can give you a lot more confidence around the kind of baseline performance that you can expect out of the business. So, we're going to be carrying that type of revenue growth run rate into Q1.

And as we look at the order book today, it's only grown through the course of the year. So, we're looking at a modular order book that's up over 20% year-over-year with a mix of enterprise accounts in that order book that's up -- I think it was up 70% year-over-year and that's giving us better visibility into the first half of 2027. So, we've got a fair amount of momentum in the lease revenue side of the business, which is difficult to disrupt in the short term.

What we're not doing is taking a definitive position on the second half of next year, but the momentum that we're carrying into the year is undeniable. And when you've got lease revenue growth in the business, it also makes it a lot easier to drive margin expansion. So we've got the opportunity for not only normal operating leverage in the business for a change going into next year, but I detailed four of the other programs that we're executing operationally that give us some other ways to win from a margin standpoint. So, that's generally what's underlying our view of this initial outlook.

Angel Castillo - Morgan Stanley

That's very helpful. And then maybe just to kind of continue down that path. I know it's early, so maybe getting into the quarters is a bit too early for that. But just to your point on not taking a view on the second half, I'm just curious, I guess, is the right way to view this, then, that mid-single digits implies a stronger first half, and then the second half you're just kind of you're assuming is more flattish, or should we just think about it more kind of mid-single digits throughout the year? Just trying to understand what that kind of not taking a view on second half ultimately means.

Tim Boswell

Yeah. I would just take the low single-digit top-line and mid-single-digit EBITDA and assume that's kind of layered evenly through the course of the year, right? The big variable is, what level of modular activations do you get, plus or minus, as you go into the second half of the year. And that'll have less of an impact on the overall P&L result for 2027. So it's really the strength of the momentum going into Q1 in the first half that I think gives us a comfort level with this kind of baseline outlook.

Angel Castillo - Morgan Stanley

Very helpful. Thank you.

Operator

One moment for our next question. And that will come from the line of Kyle Menges with Citigroup. Your line is open.

Kyle Menges - Citi

Great. Thank you guys for taking my question. Maybe to follow-up on some of that commentary on the order book. I'm curious, if what is in the order book would it indicate probably longer lease terms than maybe what's typical or the historical average in modular? It sounds like the order book really being driven by the enterprise account, so just trying to understand maybe as your mix shifts more heavily to enterprise accounts. At least at a high level, would that tend to suggest longer lease terms than maybe what your historical average has been?

Tim Boswell

Short answer there, Kyle, is yes. Over half of the order book that we're looking at in modular is driven by the enterprise portfolio. So, that is a higher quality mix than we would have had 12 months ago. As I said in the prepared remarks, of the fleet that we've purchased this year, above our initial guidance to start the year, not only is over 90% of it on rent or attached to a customer order, the minimum contractual lease duration is in excess of two years.

So, you recall on average in our modular business historically, we typically see a minimum contractual lease duration of about 12 months and an average effective duration of three years. So, what you're seeing with these larger projects with our enterprise customers is minimum contractual durations that are double that historical average and we certainly expect the effective duration to extend well beyond those contractual minimums. So your point is correct, we are seeing longer duration projects with that part of the business.

Kyle Menges - Citi

That's helpful, and makes sense. And then just as a follow-up, I don't think about maybe if we're talking about mid-single-digit EBITDA growth just how that might translate to free cash flow growth as well, should we expect free cash flow growth to be fairly commensurate with that or maybe better or it's just any color you can provide there would be helpful. Thank you.

Matt Jacobsen

Yeah, Kyle, I think sorry with the top of the equation there is that's going to drive increases to operating cash flow growth, but the demand side of this will kind of determine the investment level. So, it's probably a little bit too early right now to say exactly what that's going to look like and if that percentage of increase will be the same or more or less. We'll have to provide an update here in Q2 as we have a little bit more visibility into the year, a little early right now.

Kyle Menges - Citi

Understand. Thank you, guys.

Operator

One moment for our next question. And that will come from the line of Andrew Wittman with Baird. Your line is open.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Great. Good evening, and thank you for taking my questions. Obviously, having positive units on rent in modular has been something that I think everybody's been looking for, for a long time. So, what a nice refreshing feeling that is. I'm just curious, and this is maybe a little myopic, but I just think it'll help me understand the moving pieces a little bit. Excuse me. The lack of the EBITDA raised in the fourth quarter.

I mean, it's not like you guys don't make money on delivering installation. I know, it's lower margin. I kind of feel like, if revenues up there should be some flow through. Am I splitting a hair too much here or is there an actual offset somewhere else? You guys didn't talk a lot about the storage side of the business in terms of activations and orders. Obviously, it's more challenged and smaller, maybe not as important. But I'm wondering, if it's there maybe talk about storage, how that affects this or if I'm missing something else on, or splitting a hair, that's too myopic. But maybe thought you could address that one.

Matt Jacobsen

Yeah, Andy. I'll pick, this is Matt. I think, the -- I'll hit storage first and the punchline there is storage is consistent with last year, and consistent with I'm talking the seasonal piece, and it's consistent with our previous expectations. So, no change there. And I think in total that portfolio is performing as we expected in the fourth quarter, or will perform as expected in the fourth quarter. I think volume in total will remain down around 7% year-over-year, but that's no different than we had thought.

If you think about the changes in the guide into the fourth quarter, that increase in activations, obviously is going to have the increase in the variable cost to get those ready. And the other headwind we've had from a margin perspective now for the last couple quarters is around some of the transfers to move this fleet around. Obviously, these are going out for long durations, but you're incurring both the variable cost and that transfer expense on the front end. And so that's really what's driving the lack of that flow through in the fourth quarter, but it sets us up for a much better exit point for the year going into 2027.

Tim Boswell

I would just add, Andy, you did see the sequential margin expansion from Q2, which we expected because you've got that lease revenue building in in the business. It just wasn't to the degree that we would have thought at the end of Q2, because we significantly increased our modular work order and activation assumptions in Q4. So I think that effectively positions us to start realizing that margin expansion as we move into Q1.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Okay. That makes sense. I guess, I just wanted to ask another follow-up here and maybe this is just recency bias from what the market did today and response to all this data center concern stuff. And I heard some of your comments Tim on how you framed the outlook for '27. Sounds like you tried to bake in some of this uncertainty here.

But like I'm just wondering if from here after so much increase in your fleet, these complexes in particular which are going out on the data centers and the larger projects broadly you mentioned semiconductor, pharmaceutical, all this stuff, like does the return bar for these things need to go even higher? I heard two years longer duration. Sounds like you're getting good rates. That's great.

I'm wondering if the bar needs to go even higher to take that another $25, $50 million increase in CapEx. Just recognizing that, I don't know, maybe we are getting close to peak, and you do have a lot of other fleet that's not on rent. The old stuff, the double wides and the other stuff, the trailer offices. I'm just wondering if, as you're thinking about '27, that becomes a real way to approach the year. Maybe you pass on some deals that maybe this year you would have taken because the macro's changing. Just wondering, if you could maybe talk about that, or maybe I'm just, maybe I'm thinking too much about this?

Tim Boswell

No, you're thinking about exactly the same things that we're thinking about as a team, and we meet and discuss these major project pipelines weekly as a group, and are constantly balancing the attractiveness of that opportunity pipeline with the different alternatives we have to source fleet. And we're looking at a pipeline that has volumes that far exceed what we're actually sourcing in the market.

So, we feel like there's still tension on the system. We're allocating the fleet that we do have access to, to the best deals. It is forcing market pricing to respond across other aspects of the business. In my prepared remarks, I suggested we'll be in a constructive pricing environment, I think well into the first half of next year. And in terms of the fleet types that we're buying, I mentioned these are our most versatile fleet categories in terms of their ability to be reconfigured and then redeployed across geographies. So, we are being quite diligent in terms of thinking about subsequent rentability of the asset we're putting out today.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Thanks a lot guys. Have a good evening.

Operator

Thank you. One moment for our next question.

Scott Schneeberger - Oppenheimer & Co. Inc.

Thank you very much. Good afternoon. Good evening. Tim, I was hoping to delve in a little bit more on pricing. You said favorable into early next year. I'm just curious, can you kind of break it out modular versus storage? I assume you're speaking to modular, but also just kind of the asset classes, asset categories, which you're putting out on the large projects by maybe some of the small and local. And thank you for the '27 outlook that you shared with us this evening. How much of it is price in the low single digits versus the volume? Thanks.

Tim Boswell

So, let's start on the pricing side, and as we said in the prepared -- or maybe on the volume side first, we said in the prepared remarks, we do expect that 1.2% year-over-year modular volume favorability to expand as we go into the end of Q4. We fully expect there will be a partly offsetting storage headwind as we go into next year. And the only other probably big data point to think about for 2027 is the World Cup is obviously a non-recurring event that spanned Q2 and Q3 of 2026. So keep that in mind as you think about the revenue progression through the course of next year.

What you saw in the Q3 result is modular AMR up about 2% year-over-year. What we're seeing across the modular portfolio, especially if you just kind of zoom in on our larger complexes, the units that are typically longer duration and designed to be coupled together, you're seeing rates on new orders that are up double digits year-over-year, as if we just look at orders that were written in Q3.

So you're starting to see this progression towards stronger spot pricing in the market. And that is definitely, -- we're definitely taking that into account as we think about the puts and takes for 2027. It's not across everything, though, like ground level offices, for example, are still pressured. Container rates are still pressured, really more focused on volume recovery there. But there's enough momentum in certain segments that we feel pretty good about the overall pricing environment.

Matt, anything you want to add to that?

Matt Jacobsen

Yeah. The only thing I would say, you start to deliver at those higher rates, and that will churn through the portfolio over time and gives you a durable increase over a period. But we're absolutely driving rates on those. And kind of a segue back to Andy's question, Scott, is we're seeing that increase in the returns on those large projects, given that favorable pricing.

Scott Schneeberger - Oppenheimer & Co. Inc.

Thanks. And I guess, I'll just use my follow-up on thematically the same thing. VAPS, I think revenue increased 4% year-over-year in the quarter. How is that on this strong visibility out into the first half of next year? How's VAPS looking being applied to those units? Thanks.

Matt Jacobsen

Yeah. There is a bit of a mix in VAPS on kind of the type of projects, Scott. And my simple example I always like to use is that with a complex that's 10 units, it's not going to have 10 steps of steps and ramps. But we have been seeing some good performance in VAPS and some of the recent trajectory there with the teams is starting to re-accelerate that. So that's been good, it's early.

The other piece I would say on our perimeter solutions, for example, that's part of that number and we'll be seeing that double year-over-year here in the fourth quarter. We'll continue to expand that across the various markets and get more scale on that product and the markets that we're already serving. But all those together are things that we're working on to continue that growth, but 4% year-over-year, I mean, that's one of the stronger lines we've seen in the year-over-year leasing, and so we are seeing good momentum there.

Scott Schneeberger - Oppenheimer & Co. Inc.

That's good. Thanks, guys.

Operator

Thank you. One moment for our next question. And that will come from the line of Steven Ramsey with Thompson Research. Your line is open.

Steven Ramsey, Thompson Research Group, LLC

Hi, good evening. Wanted to think at least conceptually about the CapEx profile and though it's been hinted at in various questions. But this order book strength and with enterprise being a third of revenue, CapEx now at $400 million, to meet the demand that is pretty solidified for the first half and assuming it stays good for the rest of the year. CapEx, is it going to come in above the $400 just directionally given this strength?

Tim Boswell

I think for the first half of the year, Steven, we've got enough visibility that I'd kind of maintain that run rate as we exit Q4 going into the first half of next year. We have the ability to adjust that, if the demand environment changes either way. You also still have a fair amount of transactional fleet in the business that if demand broadens out into local markets, you can reactivate that in a highly capital-efficient way, but if the megaproject activity continues as it is, I'd suggest at least in the near-term that that capital spend level is relatively consistent. But we've got a high degree of flexibility around that. So as things change and we re-budget every 90 days through our planning process, we'll reassess it.

Steven Ramsey, Thompson Research Group, LLC

Okay, that's great. And if we zoom out and think about the enterprise strength and scale that you're at now and try to connect that to your long-term guidance, does this put you on a pace to reach your long-term guidance even though local markets are not recovering?

Tim Boswell

In terms of the initial outlook for 2027, we're certainly looking at the embedded growth that we think we have within the enterprise portfolio as one of those levers that's very much within our control just given the momentum we have with each of the five vertical teams that we're managing.

And yes, growing 15% year-over-year, does put the enterprise portfolio on track to reach that longer term objective that we talked about back at the Investor Day. And back then we were talking about a $500 million portfolio, which is well north of $600 million now.

Steven Ramsey, Thompson Research Group, LLC

Okay. Thank you.

Operator

One moment for our next question. And that will come from the line of Josh Chan with UBS. Your line is open.

Joshua Chan - UBS Securities

Hi, good evening. Thanks for taking my question. I guess, you mentioned that you raised your outlook on modular activations and delivery and installation in the quarter, spot pricing is tightening. So I guess, like did something change in the quarter positively? I guess, what is the source of this seemingly a little bit more of an acceleration in the underlying demand? Thank you.

Tim Boswell

Josh, the demand profile and the order rates that we've been seeing, again, in the modular side of the business have been in the low teens in terms of year-over-year growth all year long. What we are seeing is with the strength of enterprise accounts, those orders are placed earlier. There's a longer sales cycle, so you do have an accumulation of some of those longer-dated projects that are building in the order book, such that the overall modular order book is now up over 20% year-over-year, and that variance has grown through the course of the year.

So, I wouldn't say anything changed dramatically in Q3. What we're seeing is the accumulation of order growth across the business over the last 12 months. And again, in a business where you've got three-year lease duration, that's what it takes to inflect the trajectory of volumes, and it's quite welcome. The fact that we are allocating new capital to these projects does mean that we have to be super disciplined about pricing. And as we see more constraints in the market, whether it's labor or fleet, and we're allocating capital into that market, it's going to put upward pressure on pricing, not just in the product lines that we're purchasing, but I think, more broadly. So that's the environment that we're in right now. I'd say, it's been building in that direction through the course of the year and wasn't a dramatic change in trajectory in Q3.

Joshua Chan - UBS Securities

Sure. That's really helpful color. Thank you. And then, I think for my follow-up, I think, there was a comment earlier about maybe activation costs possibly tapering during the course of Q4 or something like that, if I heard that right. Could you describe kind of the trajectory of this activation cost going forward?

Matt Jacobsen

Yeah, this is Matt. Typically, and I'll explain the typical year, I mean, typically you see, especially the northern half of the United States, new project starts typically slow down as you get into the fourth quarter for weather and other seasonal-related items. I expect that would still continue from kind of a local project activity, kind of the other side of the business.

Where you don't see as much seasonality, though, Josh, is in the large projects. Obviously, we've had strength in the large projects, so I think that piece of the business continues kind of into the fourth quarter, as we've seen the pace here recently. But as the local projects slow down you will see a reduction in our variable costs. And some of the other things that you see sequential margin expansion, as you go into the fourth quarter.

Now it might be less than, we would typically see, because of that project strength, but I would expect 150 basis points to 200 basis points of improvement, as those activation costs really begin to taper from Q3. And we see a reduction in the variable costs and transfers along with the increased leasing revenue, right, that we've built up.

Tim Boswell

The only thing, I'd add to that is, we think about 2027 and the different puts and takes, obviously, the year-over-year comps for activations get harder, because we had a pretty strong first half of the year. That also means that the year-over-year comps for variable cost get -- are not likely to grow as much. And going into the year with a stronger lease revenue trajectory, means that you've got a potential margin tailwind there, as you go into next year with a stronger revenue base, right? So, that's one of the only other points, we were trying to make is, as we think about levers for 2027.

Matt Jacobsen

And Josh one clarification there, the 150 basis points to 200 basis points, that's kind of that activation related expansion, I would expect from Q3 to Q4. We'll still see 150 basis points to 200 basis points of expansion from the D and I revenue mix, as well. So, I think for the fourth quarter in total, we would expect 300 basis points to 400 basis points of expansion. Just one clarification.

Joshua Chan - UBS Securities

Okay. Perfect. Yeah, thanks so much for the color, that really helped. Thanks for your time.

Tim Boswell

Thank you.

Operator

Moment for our next question. And that will come from the line of Manav Patnaik with Barclays. Your line is open.

Ronan Kennedy - Barclays Bank PLC

Hi, good afternoon. This is Ronan Kennedy on for Manav. Thanks for taking our question. So, I may confirm, please, on data centers, you specifically flagged this week's political changes as a risk. How much of the '27 activities already contracted, permitted, under construction versus still exposed to approvals? And therefore, at bigger risk of, -- and is the bigger risk cancellation or moving to the right? And then how much diversification do pharma, semis, and power provide if data centers slow?

Tim Boswell

Hey, Ronan, it's Tim. We've been obviously tracking this closely through the course of the year. And the first place I'll go is the book of large and mega projects that are, coming into our CRM every quarter, and that's what we're using to kind of deploy our sales resources into the market and pursue those opportunities. So over 75% of the large and mega projects in our system are non-data center. So the vast, vast majority.

We have seen an acceleration of data center projects through the course of this year, and they do represent approximately 18% of the pending order book. But the vast majority of that is scheduled to activate, like within the next 30 days. So I view the order book as having very low risk related to the activation of the data center projects we've already contracted.

Now, you've got the units that are already on rent to data centers. These are active projects. I view it as highly unlikely that we see project cancellations that have already started. I think the much more likely scenario is that these build outs take longer. And for those projects that have already started, there is the potential for them to get bigger.

The variable then for next year is what new level of project starts can we expect out of the data center vertical. Again, it's a minority of the large and mega project population that we're chasing. But it's too soon to say, right? And we're going to have to follow our customers, and we're going to have to follow the ultimate project owner's lead in terms of servicing that activity.

Ronan Kennedy - Barclays Bank PLC

Got it. Thank you. And then, on the local market, I think, could a recovery in local markets be served by reactivating the existing transactional fleet in a way that would be more capital efficient versus say, if it's continued mega project activity, you would need something more close to the current CapEx run rates.

Tim Boswell

100%. If we got a broader market recovery with our transactional local customers, the storage fleet, the single wide fleet, the ground level office fleet, it's relatively underutilized. We can reactivate that with normal maintenance and refurbishment costs, that's way more capital efficient than buying new complexes for the mega projects. But we're very highly utilized across that complex fleet and the returns are very, very good. So we're happy to do that based on that's where the activity is. Any broadening, yes, could be served in a more capital efficient manner. And as some of these larger projects reach maturity, I do think there's also the opportunity to cross sell better as those projects move into more maintenance mode with our more transactional product lines.

Ronan Kennedy - Barclays Bank PLC

Got it, then that dynamic would be kind of more disproportionately positive for free cash flow and returns, even if, especially in the transactional, the revenue contribution would be relatively modest compared.

Matt Jacobsen

I mean, this is not on a per unit basis. It's not so, it's not so different. So, it would be still highly accretive to revenue and even more so to cash flow given the capital efficiency that Tim mentioned.

Ronan Kennedy - Barclays Bank PLC

Got it. Thank you both for all that. Appreciate it. Thank you.

Operator

Thank you. (Operator Instructions). And our next question will come from the line of Tim Mulrooney with William Blair. Your line is open.

Timothy Mulrooney - William Blair & Company LLC

Good afternoon, guys.

Tim Boswell

Hey, Tim.

Matt Jacobsen

Hey, Tim.

Timothy Mulrooney - William Blair & Company LLC

So, Tim, you made a comment here on the data center's low risk to projects that you've already started, which I think everyone pretty much agrees with you on that point. You also made a comment that you think there's potential for those projects to get bigger. And I'm not trying to hold you to anything there, but just curious about your line of thinking there. What kind of makes you think that that's a possibility?

Tim Boswell

They've already been approved and started. And I think there will be some advantages of scaling around projects that are already in the dirt, right? So that's all I was alluding to. And again, too soon to say, and we probably shouldn't be the ones trying to predict that as this market evolves given how new some of these changes are over the last week.

Timothy Mulrooney - William Blair & Company LLC

Yeah, that's what I thought. I just wanted to make sure, just looking for your insight there, that's helpful. And then your comment about constraints across labor and fleet really caught my ear, given the implications on pricing power as you move into 2027. Could you talk about that a little bit more, like have these constraints really picked up in recent months or is this more just a continuation of a trend that you've seen for a while now?

Tim Boswell

It is a continuation of a trend and we experience it in our own business in terms of the inflationary pressures that are going into materials we use in our fleet for example we'd estimate that we've absorbed 6% to 7% material cost inflation for the last several years.

Skilled labor and skilled trades are being pulled onto all of these mega projects. And we utilize a lot of that same type of labor across our branch network in our field operations. So, we're feeling it ourselves, as a market participant.

And when we're bidding larger projects, we know from our customer conversations that securing access to our equipment earlier in the planning cycle is of very high value to these larger general contractors in particular, and that is an indicator of the constraints that exist presently in the market. So, these are observable trends that, in our view, have been building through the course of the year. We're being as nimble as we possibly can to service our customers. Part of that is procuring a new fleet. Part of it is handling all of the transportation and setup as much as possible in-house using our teams and that's a big competitive advantage relative to how others operate in the market. And it's one of the reasons I think our win rates are going up across these enterprise project opportunities.

Timothy Mulrooney - William Blair & Company LLC

Understood. Thank you.

Operator

Thank you. We have now reached the end of today's call. I would now like to turn the call back over to Mr. Tim Boswell for any closing remarks.

Tim Boswell

Great. Thank you, operator. Thanks again to our team for continuing to drive the business forward. To everyone on the call, we appreciate your interest in WillScot. We'll look forward to seeing many of you on the road beginning next week. And for those we don't see, we wish you a happy and healthy holiday season, and we'll look forward to speaking again in February. Operator, you can now end the call.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. You may now disconnect.