



TRANSCRIPT

Q4 2024 Earnings Conference Call
WillScot Holdings Corp. (Nasdaq: WSC)
February 20, 2025, at 5:30 PM ET

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Matt Jacobsen, Chief Financial Officer
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Timothy Mulrooney, William Blair & Company LLC

TRANSCRIPT

Operator

Welcome to the fourth-quarter 2024 WillScot earnings conference call. My name is Cherie, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

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

Charlie Wohlhuter

All right. Thanks, Cherie. Good afternoon, everyone, and welcome to the WillScot fourth-quarter 2024 earnings call. Participants on today's call include Brad Soultz, Chief Executive Officer; Tim Boswell, President and Chief Operating Officer; and Matt Jacobsen, Chief Financial Officer. Today's presentation material may be found on the Investor Relations section of the WillScot website.

I'd like to direct your attention to slide 2, containing our safe harbor statements. We will be making forward-looking statements during the presentation and our Q&A session. Our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control. As a result, our actual results may differ materially from today's comments. For a more complete description of the factors that could cause actual results to differ and other possible risks, please refer to the safe harbor statements in our presentation and our filings with the SEC.

With that, I'll turn the call over to Brad Soultz.

Brad Soultz

Thanks, Charlie. Good afternoon, everyone, and thank you for joining us today. 2024 was a pivotal year for WillScot, marked by strategic changes that modernized our business and positioned us for continued scalable growth as North America's largest provider of turnkey space solutions.

Despite the end market challenges we face, the durability of our business remains strong, and our team delivered solid financial results.

On slide 10, many of our strategic priorities over 2024 focused on our platform to position us for the next stage of growth. Earlier in the year, we merged the Mobile Mini and WillScot field sales and operations teams for better streamlined execution. We then finalized our major systems integration and consolidated our field service and dispatch platforms and teams.

In Q3, we unified our brand under WillScot and introduced enhanced digital marketing tools for customer service and sales. Along the way, we've continued to scale the team, adding requisite expertise and experience. Tim will talk more about priorities for 2025, though we see important opportunities to further improve performance across sales, field operations, and our back office, and our team is fully aligned accordingly.

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As you can tell, we've been busy with the laser focus on refining our already-strong operational foundation that is the backbone of our growth plans, all of which will be on full display at our upcoming Investor Day on March 7.

Turning back to slide 4. A hallmark of our business is our strong capital generation profile and the wide range of opportunities this affords us to drive shareholder value. We use this first to serve customer needs with best-in-class and differentiated solutions. We then evaluate our existing portfolio for adjacent offerings that complement our core and will allow us to further expand our solution set. We have a balanced approach to new product development, developing new offerings, both in-house and through acquisitions.

In 2024, we solidified our cold storage and clear span structures platforms, which are now ready for full commercialization as we head into 2025. We've also recently added perimeter solutions to our in-house VAPS offering. And we see all of these helping us evolve towards higher-value solutions, which results in greater differentiation from our peers, and adds new nodes of growth and enhances an already-strong return profile.

In recognizing the existing strength of our capital generation, continued focus on improving profitability. Earlier this week, our Board of Directors initiated a quarterly cash dividend for all shareholders. We believe that a dividend simply provides an additional avenue to return capital to shareholders and demonstrates our confidence in our strategic growth outlook and the resilience of our cash flows.

And before I hand it over to Tim, I'd like to pause to welcome Charlie to our team, and thank Nick for four years of outstanding IR stewardship. Nick has accepted a well-deserved promotion within our finance team. As previously announced, the Board and I felt it was the appropriate time to add the COO role to better support our ongoing growth. I'm excited for you to hear from Tim and where he's focused in this new capacity.

Tim Boswell

Thank you, Brad, and good afternoon and good evening, everybody. As Brad noted, 2024 was a year of foundation building, executing initiatives across our sales, and field teams to support them with strong go-to-market capabilities, to better serve our customers.

One of our most significant accomplishments this year was completing the final systems and field integration of our sales and operations teams. We now have a single general manager and a sales team accountable for every geographic market in North America, and this was a big change for the team in 2024. This integration allows us to go to market more efficiently as one unified team, ensuring we can effectively communicate our full suite of product offerings to every customer at every opportunity.

Our teams have embraced this transition. Customers love the local single point of contact it unlocks clear career development and growth opportunities for our team. And it gives us a single chain of command to drive accountability for performance. In turn, we're seeing our sales team stabilizing in their roles as well as improvements in customer satisfaction.

So as an organization, we're on much stronger footing heading into 2025 and focused on improving execution in four main areas. The first is our core commercial execution, or said simply, selling. The changes we implemented in 2024 were disruptive, but they are behind us now.

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While executing the reorganization, we also made a very strong push in the area of sales enablement, creating levers to improve productivity. We've introduced new digital marketing capabilities to fill the funnel with more and higher quality leads. We've improved our CRM sales dashboard to recommend better selling actions to our sales reps. We've upgraded our pricing technology to improve both conversion and rate attainment with better segmentation and we're implementing a new quote configuration tool to improve product bundling.

All of these give our local sales teams a stronger toolkit heading into 2025. And with that in place, we are planning to add sales headcount in certain markets, assuming conditions remain supportive.

Complementing those efforts, and we haven't talked about this much externally, we have an incredibly impressive portfolio of enterprise accounts comprised of blue-chip names across virtually every industry sector in North America. We can do a lot more with these customers, as well as comparable companies that aren't yet part of our enterprise portfolio. So between improved efficiency with our local accounts and development of our national accounts, we have stronger levers in place today than we've had in years to drive organic market penetration.

Second, this focus on commercial execution is also going to allow us to start scaling some of the newer additions to our product offering. In 2024, we set the foundation for both our cold storage and clear span offerings, which are now broadly available across our branch network. We're ready to throw some gas on the fire commercially and expect these will become meaningful run rate contributors heading into 2026.

Third, with our operations finally integrated, we're renewing our focus on operations excellence. We've always been the leading operator of modular and storage products independently, but we're now in a position to deliver a fully integrated customer experience.

In the field, the harmonization of our field service and dispatch systems last year provided the necessary tools to optimize our logistics resources across our entire product portfolio. Our insourcing and network optimization strategy leverages all resources in a market cluster such as our trucks, drivers, service crews and real estate locations. This drives increased efficiency and improved service delivery.

And in the back office, streamlining our order-to-cash workflow will address an important customer pain point with significant financial upside. Importantly, all of these operational initiatives have been prioritized based on the thousands of customer surveys that we receive each month and point us to the areas that have a meaningful impact on our customer experience.

The fourth and final area that I will highlight is human capital. Across sales, marketing, field operations, shared services and technology, we have been adding external talent to complement an established core team. We're prioritizing investments and training for our sales team and general managers, and we're turning up the dial on performance management and accountability. We have an amazing business with enviable fundamentals, our competitive positioning has never been stronger, and we're focused on executing the levers that are within our control.

So before turning it to Matt, a quick word on what we're seeing so far to start 2025. Q4 results ended up in line with our reduced expectations, although with volumes continuing to remain sluggish, Nonresidential construction starts square footage was down 2% year over year in Q4, following declines in the mid-teens for the last several quarters. Total units on rent are following that trend, which you can see broken down on slide 20.

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Starting the year, modular activation volumes have been down low single digits to prior year, but we did forecast this, and it is partly due to several large projects, including the Maui schools that delivered in February last year. Storage activations have been down high single digits. We continue to see good order rates on complexes and weaker activity on our more transactional products, so no change in those trends.

And we continue to see disproportionate wins on larger projects, such as the FIFA Club World Cup this year and the World Cup in 2026, remodels for large retailers, which are picking back up as expected after being deferred for several years, in addition to consistent demand from large-scale construction and infrastructure projects. It's still too early to make a call on the strength of the broader Q2 construction season, and we've considered upside and downside scenarios in the guidance, as Matt will discuss.

Wrapping up in 2024, we focused on aligning our people, our systems and products to drive deeper engagement with customers. From an operational perspective, our near-term priorities are focused on commercial execution, commercializing the new product categories, field and back-office operations and our team. We are beginning to see improvements in all areas, most importantly, an employee and customer sentiment, which we plan to build upon. We'll provide further detail on these opportunities at our Investor Day and are excited about this next phase of WillScot's evolution.

I'll pass it to Matt for a review of our financials and outlook.

Matt Jacobsen

Great. Thank you, Tim. I'll begin on slide 22 with an overview of the year and the quarter. 2024 was a challenging year in our end markets, but we still delivered modest full year revenue and adjusted EBITDA growth to record levels of \$2.4 billion and \$1.063 billion, respectively, in line with what we communicated on our Q3 earnings call. Our ability to sustain solid financial results despite contraction in key end markets underscores the resilience of our business model.

Looking at the fourth quarter, total revenue of \$603 million declined by about 2% year over year with leasing revenue down about 3%. As Tim explained, volumes were weaker. However, our strategies around pricing and value-added products continue to help offset the impact as average monthly rental rates were up 6% year over year for modular and up 5% year over year for storage.

We're seeing steady demand for value-added products resulting in greater penetration and a very small contribution now from perimeter solutions, which we intend to grow over time.

Further, our ability to flex other operating costs, including realization of savings from the actions we took at the end of Q2 also helped to ease the volume declines and drove 30 basis points of year-over-year margin expansion to 47.3% in the fourth quarter and adjusted EBITDA of \$285 million. I would note, this is the second consecutive quarter we drove year-over-year margin expansion in 2024.

Moving to slide 23. Cash provided by operating activities remained strong. We generated adjusted free cash flow of \$137 million in the fourth quarter at a 23% margin, which was consistent with our profile for the full year in 2024.

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Adjusted free cash flow for 2024 was \$554 million. As you can see, our cash flow generation is robust and sustainable and affords us multiple options for deployment.

On slide 25, our capital allocation framework demonstrates our continued commitment to investing both organically and through M&A to drive long-term growth, but also shows the strength and confidence we have and the resiliency of our free cash flow across the cycle. We expanded our product offerings through five acquisitions during the year, investing \$121 million to further differentiate and enhance our portfolio.

Additionally, we invested \$270 million in share repurchases over the course of the year, reducing our fully diluted share count by 3.4% over the last 12 months. Our disciplined capital allocation strategy contributed to our 17% return on invested capital for 2024, reinforcing our ability to generate strong capital returns.

And as you saw earlier this week, our Board of Directors initiated a dividend program by declaring a \$0.07 per share cash dividend. With the dividend program, we now have another avenue to return surplus capital to shareholders.

Before turning it back to Brad, I'll spend some time on slide 26 on our outlook for 2025. At the midpoints, we anticipate \$2.375 billion of revenue and \$1.045 billion of adjusted EBITDA. We believe our outlook reflects the macro uncertainty upon which we've entered the year.

As Tim touched on, we saw some moderation of the market decline in the latter months of 2024, with nonresidential construction square foot starts only decreasing low single digits year over year in Q4 versus mid-teen declines through the rest of the year. We expect volume headwinds to moderate through 2025 as the macro stabilizes, although we are cautious with our expectations given there is still uncertainty.

Like many industrial companies, our customers seem more optimistic now that we have political certainty in the US, but are cautious regarding higher for longer interest rates and tariff implications. We continue to see opportunities for improved commercial execution in certain areas, and we have very tangible growth across some of our newer product lines.

We are also laser-focused on reaccelerating VAPS penetration in modular and continuing to increase VAPS penetration and storage, which drive incremental value for customers and our company, and we continue to see rate optimization opportunities across our diverse portfolio. Putting this all together, we expect to achieve modest top line growth in the second half of the year, as we expect average rates inclusive of VAPS and expanded product offerings will increasingly offset the volume-related headwinds present as we entered the year.

We do, however, expect first quarter revenues to be down mid-single digits versus the prior year based on lower volumes entering the year. We expect the margin progression in 2025 to be similar to 2024, although we expect Q1 to be modestly below prior year levels as we are investing in additional sales team members to drive more commercial outlook. We're including these investments in the corresponding productivity ramp in our outlook, which creates some margin compression versus the prior year in the first half of 2025. However, we believe these investments will drive increased activations and organic growth and help to improve our run rate exiting 2025.

Our net CapEx guidance of \$265 million at the midpoint for 2025 reflects a bit of carryover investment from 2024 that was delayed along with numerous organic investment opportunities that we anticipate will drive an increasing leasing revenue run rate into 2026. We expect continued investment in VAPS, including our new perimeter solutions, FLEX product, complex fleet, and modular refurbishments, as well as investments in cold storage and clear span structures.

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As we think about free cash flow then, building off 2024, adjusted free cash flow of \$554 million, the key changes at the midpoint of our guidance are increased net CapEx of about \$30 million and an increase in federal cash taxes of approximately \$30 million. So we expect total cash taxes to be around \$80 million for the year, of which about \$50 million is federal. This represents a partial tax shield of about 50% of our federal taxable income for 2025. We expect to be a full federal cash taxpayer in 2026.

We believe that we also have some opportunities to improve working capital over time. As we put that all together, we expect free cash flow for 2025 to be in the ballpark of about \$500 million.

So the midpoint I'll walk through here reflect our base case. Things won't play out exactly like we've planned and it's important to think through the different ways that 2025 could play out. The hardest variable for us is to predict non-residential construction demand with the uncertainty that still remains in the market.

So the high end of the range, starts should re-accelerate, which seasonally occurs in Q2 in most years, our margins could see additional compression in the near term as we put variable costs back into the P&L to meet that demand, and CapEx could move to the higher end of the range as we refurbish more additional equipment. That's a great problem to have as margins would then expand in the second half of the year with a higher unit on rent base as activity seasonally subsides in winter months.

On the other hand, starts could continue to decline, which depending on the severity, could push our outlook towards the lower end of our range. This would be the third year in a row of a contraction, which would be a surprisingly long period. That's a challenging environment for our portfolio, even with three-year lease duration.

However, we know how to operate in that scenario, and we continue to aggressively take out variable costs out of the P&L and reduce CapEx, just like we did in '24 and in 2020. And if our investments in expanding our sales team don't result in incremental activations, we'll pull back on those investments. One of the features of our business model is at the range of free cash flow generated by the business in any of these scenarios remains rather tight and predictable.

So those are the scenarios that bookend our outlook. Regardless of the macro backdrop, we're focused on improving our commercial execution and our operational excellence, as Tim and Brad alluded to, both of which, in turn, improve our forecast accuracy and our overall financial results.

With that, Brad, I'll hand it back to you for any closing thoughts.

Brad Sultz

Thank you, Matt, and congratulations to you in your new role as our CFO. With respect to our outlook, I would just add that programmatic tuck-in acquisitions remain a high priority for capital allocation. While largely not considered in our '25 guidance, our current pipeline of potential acquisitions could support a continuation at the pace we achieved over the last three years.

I would like to also extend a heartfelt thank you to our team, customers and shareholders. In 2024, we focused on aligning and scaling our people, systems and products to drive deeper engagement with our customers.

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With this foundational work largely complete, we're prioritizing all aspects of excellence, which provide new levers to support our growth. Thank you for joining us today. And we look forward to sharing more details with you at our Investor Day in two weeks.

This concludes our prepared remarks. Operator, please open the line for questions.

Operator

(Operator Instructions) Angel Castillo, Morgan Stanley.

Angel Castillo - Morgan Stanley

I wanted to go back to maybe the comments sort of the dynamics around net CapEx is a little bit higher year over year. I see kind of the outline in the in the slide as to what you're kind of investing in. But I was wondering if you could talk about this more longer term, as we think about more kind of normalized business in the absence of perhaps inorganic growth, what do you kind of see as the normal level of CapEx required to continue to drive your business in terms of percentage of sales? And if you could think about that in terms of kind of maintenance and growth CapEx separately, that would be helpful. Thank you.

Matt Jacobsen

Yeah. That's no problem. This is Matt. I'll address that. As we look at maintenance capital, based on the business right now, I think \$200 million is a good general number to look at. We are investing in some other product areas. We have been, this last year in 2024, as we are expanding cold.

We're now for 2025, investing incrementally in cold, but also a bit more into clear span in some of these product -- other product development areas that Tim mentioned, perimeter solutions will be one of those, a little bit of solar on some of these other products. But I think \$200 million is kind of that right range and these other product categories for '25 are really taken to that midpoint of the guide based in kind of a neutral volume environment going forward. Obviously, at different ends of the range, depending on your volume assumptions, that will ramp up or down.

Angel Castillo - Morgan Stanley

That's helpful. And then maybe just -- I was hoping you could give us an update also on kind of the spread between your spot and your AMR for modular. I think just kind of where it sits kind of exiting the year and how you see that kind of shaping up throughout 2025?

Matt Jacobsen

Yeah. I think for Q4 on modular, really no change from the third quarter. right in line with -- I think we were 12% last quarter. It's right at 11% right now. So no real change on modular. So as we look forward, we expect to continue to push a little bit on rate each quarter through our normal process, but no real change there.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - Oppenheimer & Co. Inc.

I'd like to just kind of speak a little bit to the 2024 to 2025 EBITDA bridge. I know there were some cost savings from past summer that carry through next year on a half contribution, which is probably a sizable component. And then we've heard a lot of you guys speak about the investment. And then of course, the macro is probably going to be a deciding factor.

But could you just fill in the blanks there and maybe prioritize what are the swing factors? What are the main drivers on the year-over-year bridge to get you to the low end and the high end of your guide for '25 EBITDA?

Matt Jacobsen

Yeah, Scott, maybe I'll probably talk to the midpoint first. That's probably little bit more straightforward. I mean as we look at where we're exiting the year, obviously, volume is down 5% in modular and 17% in storage. So we're starting with that headwind.

On the modular side, rate and VAPs are offsetting most of that here in the first quarter on storage. We're not making up the full 17%. So storage as we go work our way through the year, we're starting with the headwind, and we expect that to moderate a bit. So that's kind of more of the top line piece, again, starting kind of flattish and modular growing through the year, starting down in storage and working that back.

On the cost side, if I look maybe I'll talk sequentially from the fourth quarter. We did see in the second half of the year, the benefits of the Q2 cost takeouts that we did. And as we look into 2025, we do have some of that -- some variable compensation costs will come into 2025 as we have better performance from where we originally expected.

We are making an investment here in the first quarter for an annual kind of company meeting that will drag that a little bit in the first quarter. And then as we talked about, we're starting to add additional sales resources to help drive organic growth in the business. So I think those are some of the bigger components as you kind of look forward from current SG&A and what that looks like.

At the end of the year, basically from a margin perspective, it's relatively in line, especially in the second half with a little bit of headwind maybe here in the first half, as I talked about.

Scott Schneeberger - Oppenheimer & Co. Inc.

That was a mouthful. I appreciate it. For my follow-up, I'd like to just dig in on VAPS a little bit. Looking at the LTM delivered rate over the past four quarters, for both modular and for storage, it's been pretty much stalled. What should we expect over 2025 for VAPS? I know you have some initiatives there. Are we going to be able to see that LTM deliver rates start to get moving towards your target goal rates? And what would be the drivers of that?

Tim Boswell

Scott, this is Tim. I'll start and the other guys here can supplement. I mean the biggest change that we're making heading into 2025 is likely to be in terms of our quoting process, introducing new guided selling and bundling features there to try to eliminate some of the variability in terms of sales rep performance when we look across variability by individual or by branch.

You see a lot of inconsistency still in terms of quote penetration for value-added products. But when we quote it, we close it between a 70% to 80% conversion rate. So the continued performance management of our own sales team is probably the number one factor impacting that delivered rate.

Another thing that's going on under the hood that's working against us is actually the mix of modular that's going out. single-wide mobile offices have our highest VAPS penetration on a per unit basis, and they're probably the weakest from a volume standpoint and complexes and FLEX units have lower penetration. I won't get into all the details. But FLEX is our fastest-growing fleet type on a per-unit basis.

So that mix shift under the hood is a headwind to the delivered rate. So just stabilizing the single wide mix actually would help drive some improvement in that area.

The LTM on storage, this is a newer effort, right? In Q4, for example, this year, we had -- shoot, I think it was about 15,000 seasonal activations this year with very low VAPS penetration. So that's going to be a headwind to that number. And if we look at where VAPS penetration rates are to start the year, you're pushing \$40 across our core storage volumes. I feel pretty good about what we're seeing under the hood in VAPS for storage containers.

Operator

Tim Mulrooney, William Blair.

Tim Mulrooney - William Blair & Company L.L.C.

With respect to activations, can you talk about what's embedded in your guidance for 2025? Does it assume a more normalized seasonal pattern, like where we see Dodge starts down sequentially a little bit in the first quarter, but up strong sequentially in the second quarter? I think last year, you said square footage starts are historically up 26% sequentially in the second quarter. Is that what you're assuming here? Or are you haircutting that in the guide?

Matt Jacobsen

Yeah, I think generally, we're assuming a more normal seasonality, Tim. This is Matt speaking. So yes, I think it's more normal than we would have seen last year. Last year did feel a little abnormal. But we'll see how that kind of plays out here a bit more over the next couple of months and how Q2 ticks up.

Tim Boswell

I would just add, Tim, this is Tim Boswell, activations are down but consistent with what we forecasted to start the year, right? So we did embed some of this in the guidance ranges that we put together. And we are seeing strong sequential increases in net order rates going from December into February, now that in the case of containers are showing year-over-year growth.

And in the case of modulars are continue to be aligned with our with our forecast. So -- and I agree with Matt's assessment. I think the sequential cadence is pretty consistent with what we would expect in a normal year.

Tim Mulrooney - William Blair & Company L.L.C.

Okay. And one more for me. It looks like you reduced the share count by about 3% in 2024, which is below what we've seen over the last few years with no buybacks in December or year to date. Was there any reason for no buybacks more recently? And would you expect buybacks to pick up relative to what you did in 2024?

Matt Jacobsen

I think on the buybacks -- I mean, we'll give a bit more kind of flavor on capital allocation here at the Investor Day is really an update. But there's been no change to our capital allocation portfolio or sorry, our policy there and kind of our approach. So we'll continue to look at all options to return value to shareholders and manage leverage, et cetera.

Brad Soultz

Yeah, this is Brad. I'll just add. It remains a powerful lever for return value to shareholders. For reasons we've discussed on earlier calls, we were out of the market a bit last year. So I think this is no major change in our capital allocation framework.

We'll continue to prioritize organic M&A to the extent it's there and the pipeline looks good. And that still leaves about half the capital return to shareholders. The new dividend is about 10% of our free cash flow. So it's not either/or here, it's just another avenue.

Operator

Sherif El-Sabbahy, Bank of America.

Sherif El-Sabbahy - Bank of America Securities

I just wanted to ask checking on free cash flow. For 2025, is that something where you expect to see free cash flow margin expand on a year-over-year basis? Or is that margin going to remain consistent year over year?

Matt Jacobsen

Yeah. I think the history, this is Matt. I think the two kind of changes as we look year over year are really the two items I hit in my prepared comments. At the midpoint of our guide, we do have an increase of about \$30 million in our net CapEx.

And then as we move from '24 to '25, we will be a partial taxpayer in 2025 and we do expect cash taxes in 2025 to be about \$30 million higher than they were in 2024. So I'd say, those are really the two changes. That will result in a slight reduction in the free cash flow margin versus what we saw in 2025, but still well within the range that we've kind of -- that we've put out there.

Operator

Steven Ramsey, Thompson Research Group.

Steven Ramsey - Thompson Research Group, LLC

Wanted to think about the FLEX product with storage and the outlook, if I heard correctly, the outlook for increased retail remodels in 2025. Do you expect that customer set to take up this product? And if so, would that boost the delivered rate through '25 and '26 should that demand come through?

Tim Boswell

Hi, Steven, this is Tim. Two different questions there. So the first is related to remodeling activity among some of the larger big-box retailers that we serve. And we have expected that deferred activity to pick up in 2025 was always the year that we had circled albeit in pencil. But we are seeing between 3,000 to 5,000 remodel related container orders coming through the system, and those will play out through the course of the year. So it's nice to see that activity coming back and coming back to us.

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Your second question around FLEX units relates to the modular side of the portfolio. So these are our panelized, stackable office units that are becoming -- now over 8% of the unit on rent portfolio is in FLEX units and those units on rent are up, I think are up about 30% year over year.

In my comments there as it relates to the impact of that mix shift on the AMR that we report, those are just smaller 8-foot by 20-foot units, so they tend to dilute a little bit the per unit modular pricing in VAPS, but they're higher return on capital and higher price per square foot. And more versatile and simply a better mousetrap for our customers. So that really is the only modular fleet category where we're adding stock fleet, and I expect that mix will continue to shift gradually in the favor of FLEX over the course of the next five years.

Steven Ramsey - Thompson Research Group, LLC

Okay. Helpful. And then I wanted to think about Delivery and Installation revenue, been declining for six straight quarters, but the easing comps and non-res starts in square footage, at least in Q4, looking better. What I'm getting at, do you expect D&I revenue to start showing year-over-year growth at some point in 2025?

Matt Jacobsen

Yeah. This is Matt. I'll address that one. I think there's a few things there, and some of them are definitely positive items with returns actually reducing. So when we either deliver a unit or return a unit, there's D&I revenue associated with that. And so as you look at some of the year-over-year comps the last couple of quarters, part of the reason for the reductions in D&I revenue has been fewer returns, which is a good thing from a recurring leasing revenue standpoint.

I do think -- we still do expect returns to be down in 2025 versus 2024. So that will continue to be a little bit of a headwind as we -- especially in the first probably half of the year, as we're looking at our D&I revenues, but overall positive for recurring lease revenue.

Operator

Manav Patnaik, Barclays.

Ronan Kennedy - Barclays Bank PLC

This is Ronan Kennedy on for Manav. If I'm not mistaken, I think you had referenced customers being more optimistic with greater political certainty, but also reference caution on hire for longer interest rates and potential tariff implications. So can we unpack both aspects of that statement with regards to customer optimism to see what they're saying in your conversations with them, but also regarding potential political fiscal policy, tariffs immigration and deportation on the business and outlook and what's contemplated for the guide?

Tim Boswell

Ronan, it's Tim. There's a lot there, some of which is related, some of which is not. But I'll start with the what we're hearing from customers and seeing in the market. Obviously, the third-party data points as it relates to core construction activity continue to be mixed. You've got an ABI that dropped down to 45 in the last reading. So it's been a bit bipolar in recent months since the election, much like the electorate. So that's one data point that's out there.

You also have contractor backlogs that ticked up slightly sequentially since the end of December. And if you look under the hood there, backlogs are increasing more among the larger contractors, which is perfectly consistent with what we see in the mix of our customer portfolio and our product portfolio.

As you look across like the other end markets in our business that are performing well versus those that are not education was the largest revenue grower for us in 2024. And I think we've got a great vertical sector penetration opportunity there that we're targeting, both with traditional classrooms and to FLEX product. Utility is probably not surprising. We're seeing interesting activity there, year-over-year revenue growth, and expect that would continue based on the requirements for our grid infrastructure in the country. So probably consistent with what you would expect just reading the newspaper headlines.

As it relates to government activity and tariffs and immigration, I mean, there are a lot of puts and takes here as it relates to immigration. Construction employment still remains really, really high in the country, and immigration enforcement becomes a headwind to construction employment. I could see that causing delays in both project starts and completions, which we've seen before in terms of other supply chain constraints. And you could make a similar hypothesis around the effect of tariffs on building supplies and things of that nature.

That said, there could be potential demand-related opportunities related to immigration support. We've done that in the past in terms of border wall construction, et cetera. And as it relates to tariff activity, it's hard to predict the long-term impact of those if it results in a reshoring of activity and more domestic investment, that's obviously good for us.

It could tighten the container market in time if it reduces supply coming from China. So that could be a benefit on the container side of the business. But it's really too soon to say how all of those things play out.

I think you definitely left the election cycle with more optimism around the US business cycle at the end of the year. But I'd say there's also a fair amount of uncertainty out there right now related to all these different policy decisions that are being made and to be made.

Ronan Kennedy - Barclays Bank PLC

That's very helpful. Thank you for covering all aspects of that question. And then I think you had referenced or it was referenced on the call the demand in terms of -- or from mega projects is consistent or stable. Can I just confirm that and see if you could contextualize kind of the volume contributions from mega in '24 and what the expectation is for '25?

Tim Boswell

I really can't quantify it that way other than to say it still remains a very prominent theme when we look at demand activity across our portfolio. And it's pervasive across geographies, honestly, even up into Canada in some cases. So we don't see any change in the cadence of those projects. We're disproportionately positioned to win those projects.

And as you think about the relative performance of the products within our portfolio, complex business, FLEX units remain rock solid. We're weaker in the transactional product lines like single-wide mobile offices and ground level offices and containers and that's been consistent now for at least a year.

Operator

Andrew Wittmann, Baird.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Great. I wanted to ask a question that's been kind of touched on, but maybe ask it a little bit more directly. In your guidance or in your outlook, when do you expect a modular units on rent to inflect into positive territory? Maybe what's assumed at the midpoint? And does the low end of your guidance assume that they'll remain negative for the year? Just want to kind of understand when there might be an inflection on UOR for modular?

Matt Jacobsen

Yeah. Andy, I think the short answer is, obviously, we don't know exactly what the end markets are going to provide for this year. At the midpoint of our guide, we're basically assuming that the headwinds are going to subside as we move through the year. And that could mean that you're crossing maybe later in the year, but we just don't know yet is really the truth.

So at the high end of the range, you're probably moving that forward. And if activity takes up, you could get there sooner at the low end of the range, maybe it doesn't happen at all. We don't know. So the guidance kind of reflects the bands around those different outcomes.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Okay. That's helpful. Then I guess just thinking of an answer to this one, but for a while, your storage business, AMR was benefiting from a mix change with the cold in there. I think as of the fourth quarter, the large effect from the mix is now out. Is that right? Is that, I guess, 5% AMR year over year, basically kind of a like for like now?

Tim Boswell

Yes, more or less. I think as we go forward, cold will continue to increase in the overall mix of our storage products. So there still is that slight benefit in the year, but you are like for like, as in that we had cold storage at the end of 2023. So as we look at that 5% that's up year over year, that mix shift is accounting for most of that, but our container AMRs are steady.

Operator

Brent Thielman, D.A. Davidson.

Brent Thielman - D.A. Davidson & Co

I guess a quick question. Just I mean the modular exit rate in terms of units on rent and utilization. I guess it was a little more surprising to us as opposed to storage. And think I'm just trying to understand what might be an anomaly in there? What might possibly be due to mix with the shift to FLEX just simply the state of the union and the market right now, especially as we're thinking about this into 2025 would be helpful?

Tim Boswell

This is Tim. So I think the only real change there from our perspective was just the activation levels between the end of Q3 and the end of Q4 and that in and of itself has resulted in kind of the lower units on rent starting point, what really matters from us going forward is what's that activity level that we see today. And at least quarter to date, we're seeing modular activity levels that are in line with what we forecast albeit slightly down year over year. So, so far, what we're seeing is consistent with the plan that Matt laid out.

Brent Thielman - D.A. Davidson & Co

Okay. And then I guess, just given we've seen the expansion in rate within storage moderate here into year-end, I'm just trying to understand, as you look to the guidance for 2025, I want to get a handle just what's factored in for rate and storage as opposed to modular where you're clearly seeing good penetration in VAPs and core rate growth for that matter?

Matt Jacobsen

Yes. Andy, this is Matt. I'll take that one. I mean as we look at storage, we're seeing some of those same things in storage. Tim mentioned on VAPS for storage that will continue to contribute to the AMR. I think I would say our assumptions on the pace of growth in the core rate on containers. Our assumptions there are much subdued from what they would have been two or three years ago. But we've seen steady rates since Q2 of last year and a small

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increase in that as we've gone over time. So I think a modest increase is kind of what our base case would say with a little bit more coming from VAPS.

Operator

Phil Ng, Jefferies.

Philip Ng - Jefferies LLC

Congrats, Tim and Matt, in your new roles. I guess you guys kind of pointed out 2024 was a busy year in terms of integrating the sales force. So execution has been a little more mixed. And you talked about how you have these tools for the sales force. It sounds like you're looking to cross-sell and go after some of these enterprise accounts.

Are you kind of realigning KPIs for the sales force to kind of simulate these actions? And I guess, Tim, in your new COO role, what are some of the new focus that you'll be really hammering to drive performance there?

Tim Boswell

Yes. I mean the first one is commercial execution, right? And absolutely, we're realigning both performance expectations and incentives to an extent across the sales roles. -- and also taking a hard look at our sales management layer, right? And there's going to be accountability at all levels.

We've got better tools from a productivity standpoint. And also from a performance visibility standpoint than we've ever had, and we intend to use them. In terms of how we're approaching the year from an overall sales organization standpoint, I do believe there is the opportunity for productivity improvements that probably gets you some upside within the range that we're talking about.

As Matt talked about, because we've got the reorganization done and the system platform in place, I do think there is the potential to add maybe on the low end, 5% to the sales organization and upwards into the high teens through the course of the year if markets are supportive. So this is a key area where I think top to bottom in the organization, we know we can execute better, and that's both within the core and across some of the new product lines that we've introduced, which is also a focus.

Then I talked about field operations and shared services. Within shared services, order to cash process and some of these back office processes have been a customer experience and customer satisfaction detractor for some time. We know it. We see it in the survey data. And because some of this foundational work is done, we've elevated that as an enterprise-level priority.

And I think there's a satisfaction and retention opportunity there. There's a working capital opportunity there. There's a P&L benefit there. Then I talked about human capital and performance management. So those are 3 broad categories that I'm quite focused on in the first half of the year.

Philip Ng - Jefferies LLC

And then maybe for you, Matt, your guidance for '25. Can you give us a little more color on how -- what's baked in, in terms of AMR growth, whether it's modular or storage? I think at least last quarter, you guys were talking about potentially mid-single-digit AMR growth on '25 for modular, maybe low single-digit on storage. Are those still within scope? Or are you thinking about it a little differently given the demand backdrop?

Matt Jacobsen

Yes. I think at the midpoint, Phil, that's right. I think you could go a little bit higher in that to get to the -- when you start going to the higher end of the range, some of that accelerates a little bit quicker. And obviously, the lower end of the range if it didn't go quite that way. But that would be our base case. I think it's still pretty consistent with what we would have thought a year ago. We haven't really had any surprises from a rate perspective here since we spoke last quarter.

Philip Ng - Jefferies LLC

And rate in terms of delivery units for storage has been pretty steady to up. Is that what you commented earlier? I just want to make sure on the storage side because demand has been much weaker there. My comments were kind of on the AMR. I was talking about AMR, Phil, as we progress kind of from Q3 to now and how that's changed.

It's been pretty consistent with what we said. And then on the storage side, I mentioned it a little bit earlier, if I heard your question right. The delivered rates on storage have been stable since Q2 of last year and increasing modestly. And then the VAPs are kind of helping to increase that a little bit more.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - Deutsche Bank

Great. Tim, you mentioned the enterprise accounts, and I know you said we haven't really talked about this too much. Curious, can you give us a bit more color maybe what's the sizing of these accounts relative to the overall portfolio? And just help us appreciate the opportunity there a little bit more.

Tim Boswell

Yes. And we'll talk about this in 2 weeks' time in more detail. But our largest customer here is no more than 1.5% of revenue. And this is the blessing and the curse of the portfolio, right, because it's such a fragmented and diversified portfolio. It doesn't really move very quickly one way or the other, which is why it's so resilient and stable.

Our top 200 customers generate about \$500 million of revenue, just to give you a ballpark sense, about 20% of the total, heavily weighted towards all of the largest general contractors in North America as well as many of the largest retailers.

But we do have blue-chip names across every major industry vertical that you would find in the U.S. economy. What we haven't had historically is a vertically aligned business development layer that's selling across our footprint. The vast majority of our selling resources, of which we have about 550 in the company are geographically aligned selling within a territory defined by local ZIP codes, right? So when you've got customers that are working across all geographies, first of all, we're almost the only game in town.

And second of all, we've got a unique value proposition that we can take to those customers.

So I think we've got a wallet share opportunity in those enterprise accounts that we already have. And we absolutely have an opportunity to add to that portfolio. So that's what I'm talking about, and that's one of the initiatives that we're resourcing around this year.

Faiza Alwy - Deutsche Bank

Great. And then, Matt, a question for you. You mentioned the quarterly cadence a little bit and that the first quarter EBITDA margins will be modestly lower. Just to avoid confusion, I'm wondering if you could be a little bit more specific around the range for the first quarter EBITDA margins?

Matt Jacobsen

Yes, sure. I mean I think somewhere -- our midpoint of our guide is probably somewhere in 100 basis points or so as we have a little bit of those headwinds coming here into the first quarter and as we're adding some of the sales headcount that we're talking about. So that's about the range. Obviously, that's -- could be a little better, it could be, but that's where we've set it.

Operator

I'm showing no further questions in the queue at this time. I would now like to turn the call back over to Charlie Wohlhuter for any closing remarks.

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Charlie Wohlhuter

Thank you, Cherie. Thank you all for your interest in WillScot today. If you have any additional questions after today's call, please contact me. Thank you, and have a great day.

Operator

This concludes today's program. Thank you all for participating. You may now disconnect.