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TRANSCRIPT

Q4 2021 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

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Nick Girardi, Sr. Director of Treasury and Investor Relations

MEETING PARTICIPANTS

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Brent Thielman, D.A. Davidson & Co.

Courtney Yakavonis, Morgan Stanley

Ronan Kennedy, Barclays Bank PLC

Kevin McVeigh, Credit Suisse

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TRANSCRIPT

Operator

Welcome to the Fourth Quarter 2021 WillScot Mobile Mini Earnings Conference Call. My name is Roel, and I will be your operator for today's call. Please note that this conference is being recorded.

Now I would like to turn over the call to Nick Girardi, Senior Director of Treasury and Investor Relations. Nick, you may begin.

Nick Girardi

Good morning, and welcome to the WillScot Mobile Mini Fourth Quarter 2021 Earnings Call. Participants on today's call include Brad Soultz, Chief Executive Officer; and Tim Boswell, President and Chief Financial Officer. Today's presentation material may be found on the Investor Relations section of the WillScot Mobile Mini website.

Slide 2 contains our safe harbor statement. 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 statement in our presentation and our filings with the SEC.

One other item to note before I pass the mic to Brad. Going forward and based on feedback from the investment and analyst community, we will be moving our press release dates to Wednesday afternoons after market close and our conference calls to Thursday mornings, the following day. We typically target our earnings release 30 days after our quarter close and 60 days after our year-end close, and we'll continue to notify you of these dates approximately 2 weeks in advance via press release.

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

Brad Soultz

Thanks, Nick. Good morning, everyone, and thank you for joining us today. I'm Brad Soultz, CEO of WillScot Mobile Mini.

Turning to Slide 5. We are a category of one, and we proved it yet again this year with excellent operating and financial results. Consistent with our ready-to-work value proposition, we extended our market leadership by executing on idiosyncratic growth initiatives with our 2 industry-leading brands, generating $1.9 billion of revenue, $740 million of adjusted EBITDA and over $300 million of free cash flow in 2021. This strong performance gave us full optionality for capital allocation.

We returned $364 million to our shareholders via our $1 billion share repurchase authorization, reducing our economic share count by about 4% relative to the end of 2020. We acquired 7 leading regional and local modular and storage companies for $147 million, and we invested in our organic operations with $237 million of net CapEx. Proportionately, we allocated our capital spending about 50% to share repurchases, 20% to M&A and 30% to net CapEx, which is in line with the framework we presented at our inaugural Investor Day in November.

In support of our financial metrics, we achieved several key strategic initiatives this year as well. In May, we migrated the legacy WillScot operations onto legacy Mobile Mini's world-class ERP system. It was a labor of many nights and weekends to make this transition a success, both before and after implementation. The combined ERP is enabling the $50 million of cost synergies from the WillScot Mobile Mini merger, which we are now harvesting. It opened the door to better inventory management, harmonization of our CRM platforms and deployment of stronger business intelligence and data science capabilities, all of which are priorities in 2022 and present the next phase of optimization for our unique operating platform. And finally, we can even more seamlessly integrate acquisitions, which furthers our strategy to compound robust organic growth with accretive M&A.

Now about 10 months after go-live, I'm pleased to repeat my comments from our second quarter call. We're one of the few companies to use the terms “on time, successful, and SAP” in the same sentence. And speaking of M&A, we were busy in the second half of the year with 7 tuck-in acquisitions. We added 15,700 storage units and about 5,800 modular units to our North America fleet as well as over 100 employees to our high-performing organization, primarily in the field.

Tim will spend more time here in his remarks, but suffice to say that we know we are the best owner and operator of modular and storage assets in the markets we serve and are delighted with how immediately our new colleagues are embracing and extending our value proposition to the benefit of both new and existing customers. In addition to the new employees who joined our team via acquisitions, we expanded our team within our existing footprint. We're investing in our human capital across our organization.

Operationally, we are focused on career development, particularly for skilled trades and commercial truck drivers in our branch locations as well as our diversity and inclusion initiatives at all levels. From a corporate perspective, we are targeting expertise in operations, sales, marketing, data analytics, and M&A to support our strategic growth initiatives.

Our ESG program, which we deployed over the course of 2021 supports all of these efforts. Our products are inherently sustainable, and we are focused on reducing emissions and waste. We promote safety and inclusion and diversity because it's the right thing to do and for the benefit of our employees, our customers and the communities within which we work. Our governance efforts are focused on risk management and improving Board diversity, and we engaged with owners of over 30% of our shares outstanding in 2021 on ESG matters. And we are committed to continue this engagement going forward.

In 2022, we'll remain tactically focused on leveraging the growth initiatives that we highlighted in our Investor Day in November in order to drive substantial value creation for all stakeholders for years to come. Value-Added Products and Services, or VAPS, will continue to anchor our unique value proposition. We'll continue to expand our offering in Modular, and we'll roll out our initial offering for portable storage units. As always, our offering is based on robust customer research and demand. Our entire team is laser-focused on rate optimization, which you'll see in our Q4 results across all segments.

In 2022, I see particular opportunities as we've harmonized CRMs, leverage our unrivaled transaction database and build out our account management and vertical strategies. Complementing these changes, our data analytics are becoming ever more sophisticated allowing us to target opportunities relentlessly and surgically at a local level while leveraging our national footprint and scale and supporting our market penetration objectives. Our M&A pipeline remains robust, so look for us to stay active in that space.

And we are continuing to experience robust demand across the diverse end markets that we serve. Earlier this month, we gathered over 250 of our top storage and modular leaders for a business update and to ascertain that our human capital remains laser-focused on the highest priority growth initiatives. Their enthusiasm for both the commercial and operating momentum with which we have entered 2022, and the long-term growth was flat out infectious. I continue to be humbled by the caliber of the team we've assembled and have full confidence in their ability to continue to execute at the highest levels.

Now 2022 will be yet another transformative year for WillScot Mobile Mini. But frankly, we're kind of used to that by now. We are progressing towards our $500 million free cash flow run rate milestone in the second half of the year and leading into 2023. As Tim characterized, it's a matter of when, not if, we eclipse the $1 billion EBITDA milestone. And our aspirations are for greater than that. We want to thank you again for another great quarter. We thank our employees and thank our customers for their continued support.

Now turning to Slide 13. Our organic -- our portfolio of largely idiosyncratic growth levers altogether represent $1 billion of potential revenue growth. The anchor to that revenue growth stems from the continuation and expansion of the VAPS playbook, which we've been executing for decades and flow through to EBITDA at 75% to 80%. Over the last 12 months, our North America Modular segment achieved VAPS delivered rate of $393, up 26% year-over-year. VAPS has been a differentiator for our customers and relative to our competition, and there's not an end in sight.

The convergence of the entire North America portfolio to this rate represents $150 million of organic revenue growth opportunity over 3 years. Further achievement of the $600 per unit per month milestone as laid out in November, represents yet another $200 million of revenue and a very predictable and durable growth opportunity. We see a clear path to this milestone via a thoughtful introduction of new products, increased penetration, rate optimization, and inventory management.

As mentioned, we're also in the process of rolling out VAPS for our storage branches. By the end of 2022, every storage branch will have a VAPS offer for a ground-level office, representing another $50 million of revenue opportunity. And I'm extremely excited about the initial customer interest in our VAPS offering for portable storage units, which represents another $50 million of incremental revenue, which will be piloted and launched in 2022.

Altogether, VAPS alone represents $0.5 billion of revenue growth. Now rate optimization is another key growth lever that goes hand-in-hand with VAPS. For the third consecutive quarter, North America Modular average monthly rental rates increased by about 20% year-over-year. Consistent with our prior quarters, roughly 40% of that increase came from the continued VAPS penetration with the remainder from core pricing. This represents a 12% CAGR since 2017.

In North America Storage, average monthly rental rates for portable storage units increased 9% year-over-year, which is the largest increase on record. We are focusing on rates with new activations, product positioning and aligning commercial best practices across the organization. We see continued opportunities for rate optimization across the portfolio of legacy acquired assets as we extend the deployment of our technology and tools. And we are extremely well positioned to benefit from the current macroeconomic backdrop of strong end markets, coupled with continued supply chain constraints and our unrivaled market leadership position.

We're equally confident in the additional growth associated with expanded market penetration, logistics, and M&A. This portfolio of growth is real, largely in our control, and we are investing financial and human capital with purpose accordingly.

With that, I'll pass the call over to Tim.

Tim Boswell

Thank you, Brad, and good morning, everyone. Page 21 presents a high-level summary of the quarter. Q4 caps off an exciting year and reconfirms all of the near-term and longer-term expectations for this business that we shared on November 8. We reinvest where we see opportunities to compound returns. Our business is demonstrating extraordinary commercial momentum, and we are reinvesting aggressively both organically and in acquisitions.

At $1.9 billion of revenue and $740 million of adjusted EBITDA, we exceeded our original guidance ranges by about 8% and 6%, respectively, for the year for revenue and adjusted EBITDA. And our run rate exiting Q4 gives us a high degree of confidence in our 2022 outlook. And we're generating great returns. We delivered a 12% return on invested capital for 2021, and returns are accelerating while we're growing the business.

So the combination of predictable growth and cash flows and consistent high returns strengthens our reinvestment appetite. And we're reinvesting in 4 key ways. First, as Brad mentioned, we completed 7 acquisitions in the second half of 2021, representing $147 million of enterprise value. Combined, these acquisitions contributed approximately $8 million of revenue in 2021 and were modestly dilutive to our margins in the fourth quarter. Based on the rapid and seamless integrations and our focus on acquiring standardized modular and storage fleet, these are extremely low-risk, high-return investments, and we will continue to pursue these types of transactions.

Secondly, organic capital investment totaled $237 million for the year, which was at the high end of our range and weighted towards Q4, which is a bit unusual from a seasonality standpoint, but reflects elevated demand and utilization levels in many segments, extraordinary VAPS growth, and some proactive purchases to navigate any potential supply chain constraints heading into 2022 and which are not a concern given that we already own and operate the largest fleet asset base in the industry.

Thirdly, we reinvested heavily in our people and will continue to do so. We've implemented 3 broad compensation increases in the last 12 months. Variable compensation was up $7 million in Q4 relative to our prior expectation. We launched several career development programs, and we're hiring specific skills in key areas that are directly aligned with our growth initiatives. Together, this represents a best-in-class holistic human capital strategy focused on recruiting, retaining, and developing top talent, which will be the #1 determinant of our success over the next 3 to 5 years.

These investments are about adding new skills and capabilities that will help us grow the business. Validating this focus, the caliber of talent that we're attracting to the company has never been higher. And lastly, we reinvested in our own stock, repurchasing $364 million worth of shares over the last 12 months, representing approximately a 4% reduction of WillScot's economic shares outstanding, and it's an incredible value based on where the portfolio is headed.

So overall, the theme coming out of Q4 is that we love the portfolio of growth opportunities we talked to you about in November. We're reinvesting behind those opportunities aggressively and with confidence, and the results are compounding predictably and powerfully.

Page 22 provides a bit more detail on the fourth quarter at the segment level. Both revenue and adjusted EBITDA increased 18% year-over-year, and we saw strong growth in execution in all 4 segments. Importantly, in the bottom right chart, total revenues are also 18% above 2019 levels, so you can see the extraordinary resilience of the portfolio through the pandemic shock, the improved revenue mix with over 75% of revenue now coming from reoccurring leasing, as well as the obvious upward trajectory.

Q4 is typically the strongest quarter from both an EBITDA and a margin standpoint as direct variable costs slow down in the Modular business and seasonal retail demand picks up in the Storage business, and this year was no different. Margins expanded 200 basis points sequentially from Q3 and our full year margin of 39.1% was slightly above what we showed you at Investor Day.

EBITDA margins have expanded every year since we went public, and we expect that trend to continue in 2022. EBITDA margin for the fourth quarter of 40.8% was down 30 basis points year-over-year, primarily due to temporary acquisition dilution and the related execution resources as well as the human capital investments that I mentioned.

Variable compensation, in particular, in Q4 was approximately $7 million higher than our prior estimates for the quarter simply driven by the fact that we outperformed our targets for revenue, EBITDA, and new contractual lease revenue. Because our lease revenue is so stable, margins can fluctuate in a given period when we make discrete investment decisions to drive growth like we did in Q4.

And while we're not immune from inflationary pressures like labor costs or fuel, for example, our adjusted gross profit percentage expanded by 70 basis points for the year; EBITDA margins expanded by 30 basis points; net income increased by 113%; and return on invested capital was up 180 basis points in the quarter and over 200 basis points for the year. So profitability expanded at all levels, consistent with our long-term trend, and we expect this trend to continue in 2022 and beyond, given the nature of our growth portfolio and our ability to drive rate. Overall, these are great results. The entire team is aligned and benefiting through our reward structure, and we're carrying this commercial momentum into 2022.

Turning to Page 23. This momentum is translating into record cash generation. In the upper left chart, cash from operations was up 14%, both year-over-year and sequentially and despite some working capital headwinds in the year related to the SAP cutover. As I mentioned earlier, we are reinvesting organically at the top end of our capital guidance range for the year, though it is a bit unusual for us to ramp CapEx in the fourth quarter as you see in the bottom left chart. That said, the investments are purely demand-driven, supporting deliveries in the quarter and positioning for a robust market in 2022.

We experienced some timing disruptions in the year such that investments planned for Q2 and Q3 in some cases arrived in Q4. And as we experienced those delays, we pulled forward some investment for 2022. And we're also rolling out our value-added products inventory in the storage branches, as Brad mentioned, all of which make Q4 look a little higher than normal.

Importantly, even at this investment level, net book value for rental equipment, excluding acquisitions, was flat year-over-year. So we are being disciplined with the fleet that we have, and we're obviously driving higher returns from that employed capital. In the bottom right chart, free cash flow margin was 16% over the last 12 months. This metric will fluctuate from quarter-to-quarter based on CapEx timing, but should trend back to 20% in 2022 as we track to our $500 million free cash flow run rate milestone in the second half of the year heading into 2023.

Quickly on Page 24. In Q4, we reduced leverage to 3.6x while supporting $97 million of capital investments, $91 million invested in 4 acquisitions in the quarter, and $43 million of share repurchases. We have over $700 million of capacity on our ABL revolver. We will continue to balance the timing to reach our 3 to 3.5x leverage range with compelling opportunities for acquisitions, including our own stock, as well as the visibility we have into our free cash flow growth.

Reinforcing our approach to capital allocation, I'll turn to Page 25. As we talked about in November and as illustrated in the left-hand chart, over the long term, it is reasonable to expect about 25% of our available capital to be allocated to net capital expenditures. Similarly, we can realistically invest 25% of available capital through our tuck-in acquisition pipeline. These amounts can fluctuate in a given quarter like we saw in Q4, given CapEx is highly discretionary and the timing of acquisitions is unpredictable by its nature. But these are realistic targets over time, which together, imply approximately 50% of our capital over time is available for share repurchases, again, assuming our 3 to 3.5x leverage range.

The right-hand pie chart shows this recipe for 2021. We generated almost $900 million of capital at constant leverage using the same framework we introduced at Investor Day. Given that we were above our target leverage range, we deployed $150 million towards deleveraging, or about 15% of our available capital to bring leverage down to 3.6x. We invested $237 million or about 25% in organic net CapEx, we invested $147 million or about 15% in 7 acquisitions, and we allocated the remainder of $364 million or about 40% to share repurchases. So relative to our long-term capital allocation framework, 2021 was right in line and with some incremental capital dedicated towards deleveraging. Again, this may fluctuate a bit in any given quarter, however, we'll continue to use this view to show how we're deploying your capital.

Turning to Page 26. No changes to the 2022 outlook that we presented at Investor Day, other than just a higher degree of confidence knowing now how we finished up the year. While we're not changing the guidance yet, based on how we finished 2021 and entered 2022, we are likely tracking towards the higher end of our revenue range of $1.925 billion to $2.025 billion and more towards the midpoint of our adjusted EBITDA range of $810 million to $850 million. That combination would imply adjusted EBITDA margins expanding to the lower end of our original range, but still up approximately 200 basis points year-over-year.

Similar to how we entered last year and based on our historical seasonality, I'd expect margins to contract sequentially by approximately 200 basis points in Q1 as our business begins to ramp and then margin should expand sequentially and steadily each quarter thereafter, such that we are up approximately 200 basis points for the year. That's our base case right now for how the year could unfold. With revenue trending to the higher end of our range, I'd also expect net capital expenditures to trend to the higher end of our $225 million to $275 million range. And similar to 2021, even at the top half of this range, we're not expanding the rental net book value, so driving growth, margin expansion and returns without expanding the balance sheet.

Lastly, this guidance is purely organic. Any acquisition activity would be incremental, and we'll update the guidance accordingly as those transactions become known. The acquisition pipeline is very active. And operationally, we've demonstrated the ability to integrate multiple transactions per quarter seamlessly, so this has been and will always be part of our growth strategy.

Finally, on Page 27, before handing it back to Brad, I'm incredibly excited about 2022 and advancing all of the key growth initiatives that we discussed in November. Our organic growth, compounded by acquisitions creates clear line of sight towards the milestones we introduced. Whether it's $1 billion of adjusted EBITDA or $650 million of free cash flow, it's simply a matter of when, not if we achieve those objectives. And we'll continue to leverage our capital allocation framework to maximize value creation as we grow.

Across the company in 2021, our team achieved what we refer to as our trifecta of unit on rent growth, VAPS growth, and rate growth. These are all now compounding together as we enter 2022. We're planning for each of them to grow meaningfully and achieve the trifecta again this year which means our run rate is accelerating. And as such, we're setting our sights on 2023 and beyond as we consider the value creation potential from this unique and powerful business.

Brad, back to you.

Brad Soultz

Thanks, Tim. 2021 was a great year, but I expect 2022 to be even better. We have the strategy, the team, the assets, and the solutions in place to delight our customers and drive substantial value creation for all stakeholders for years to come. I wish all of you listening today continued safety and good health. This concludes our prepared remarks.

Operator, would you please open the line for questions?

Operator

Your first question is from the line of Andy Wittmann from Baird.

Andrew Wittmann – Robert W. Baird & Co. Incorporated

I don't have a lot here today, but I just thought maybe, Brad, you could talk about some of the investments that you're making to support the growth. And how -- I guess you kind of talked about how it was one of the factors for the margin performance in the quarter. But can you just talk about what's maybe different about the ones you're making today from what you've normally done in the past and what the outlook for these types of investments is as the year progresses?

Brad Soultz

Yes, I think, Andy, as we mentioned, part of the margin pressure, if you will, was rewarding appropriately the team that just delivered outstanding results. But as I mentioned in the Investor Day, if there was one concern we had with respect to how fast we continue to accelerate the growth, it's our ability to scale human capital commensurate with what we've experienced and clearly, the $1 billion of incremental opportunity we see.

So as I mentioned in the earlier comments, significant investments in our team, our M&A team, that's been -- thus far integrated 7 acquisitions over the course of effectively a quarter; our ESG platform, with a particular focus on diversity and inclusion; recruiting the right talent; data analytics to harvest was effectively half of the historical transactions in this market space and be even more surgical and specific in targeting local initiatives; sales and marketing; sophistication and capacity. So it's really all put in place to facilitate and accelerate that growth that we talked about in Investor Day.

Andrew Wittmann – Robert W. Baird & Co. Incorporated

Got it. And then I guess I would just -- for a follow-up question here, I wanted to ask about some of the dynamics on orders and returns. You mentioned in your press release that the return rates are actually down pretty significantly. So the average unit, I guess, is staying out a little bit longer. Can you talk about what you've seen on the return rates and what you expect to see here in -- plus in your '22 guidance and also how the order book is trending here for the quarter and as we move into 2Q?

Tim Boswell

Andy, this is Tim. So I think the comment that we made in the press release and again in the presentation, was specific to Modular return rates. And they're down substantially about 11% relative to 2019 levels. So if you think about just the cadence of portfolio churn, especially in the Modular business, where you've got that 35-month average lease duration. The portfolio of units on rent has obviously come down a bit over the past couple of years. And with that, the return rate comes down a bit.

Delivery rates, on the other hand, were up 4% year-over-year throughout 2021, and we're expecting increases of at least that level through the course of 2022. So this is just the function of natural, predictable portfolio churn, which points us to a unit on rent inflection here in the first half of 2022.

And then on the Storage side of the business, our unit on rent portfolio, the unit at the end of the year was up over 30% year-over-year. So it's all systems go there. Organic delivery rates are up about 6% as we called out in the presentation, and we're adding to that portfolio through acquisition. Pricing is trending stronger than frankly it ever has in the Storage business. So both the organic and the inorganic trajectory in Storage is really exciting.

Operator

Your next question is from the line of Courtney Yakavonis from Morgan Stanley.

Courtney Yakavonis – Morgan Stanley

If we could maybe just go back to the comments on the dilutive impact of the acquisitions that you did in the second half, I think you said it was about $8 million in sales, $147 million enterprise value. Can you just give us a sense of how dilutive those were in the fourth quarter or in the second half? And just help us understand the $8 million of sales when you're integrating your new systems and better pricing, what should that grow to in 2022?

And are there any synergies associated with it that should be showing up fairly quickly? Just trying to pair the comments about sales being at the high end of your guidance versus EBITDA at the midpoint and how quickly those margins can come up to the system.

Tim Boswell

Courtney, this is Tim. It's a good question. And we didn't quite get a full quarter of revenue from those acquisitions through the course of Q4 based on how they were timed. But in terms of the dilutive impact, we ballpark it around about 100 basis points in the quarter. And then the other kind of margin contributor in Q4 was the $7 million of variable compensation expense that I called out in my remarks.

There are other headcount category adds like Brad was articulating that are more kind of longer term and strategic in nature. But if I had to call out 2 items in Q4 specifically, it would be about 100 bps from acquisitions and about that same amount -- a little above that amount, about 130 basis points from the variable compensation expense relative to what we would have been expecting back in the Q3 time frame.

I think the best way to think about the contribution of the acquisitions in 2022 is to go back to the Investor Day. I mean the 4 that we had highlighted in November were acquired at around 8x multiples. And in some cases, there is a bit of an upfront diligence and integration effort that goes into that, and we did staff up in Q4 and Q3 to accommodate the volume that we expect to acquire at a regular cadence. But I think that multiple range is reasonably indicative of what we see in the tuck-in pipeline, both in Q4 and prospectively.

Courtney Yakavonis – Morgan Stanley

Great. And if I could just follow up on the comments about the additional head count, I think you said some of those in the M&A team or the other investments in human capital you're making. How should we be thinking about the run rate for SG&A? I think your stock-based comp is included in that, so some of that should be resetting next year. But how should we be thinking about that line item for 2022?

Tim Boswell

Yes, if you think about the puts and takes for 2022, SG&A is one where we're going to be very, very careful going forward. And you've got a couple of different factors going on. We are realizing synergies from the Mobile Mini transaction. Those are on track with the timing and targets that we had established. That said, we are reinvesting in other new areas and new capabilities as you point out.

So I can rattle off a couple. Marketing and data analytics is one where it's kind of a new capability that neither WillScot nor Mobile Mini had the same level of sophistication historically. Product management, if you think about the extraordinary growth that we're seeing in value-added products and services, and now some product differentiation that we're introducing in the Storage business, bringing in kind of a more sophisticated product management view is absolutely necessary to achieve our objectives.

Operations excellence, especially in the Storage business, if you think about units on rent growing 30% year-over-year, in the pace of acquisitions that we expect we can execute in that business, that's another function. Corporate development is helping to drive that cadence as well. And then the ESG platform. So those are a couple of, I'd say, functional areas where we're making fairly discrete investments.

And then we're in a pretty robust market environment now as well. So with sales head count is probably going to be one of the bigger variables that we can throttle up or down through the course of the year, strictly depending on demand.

So those are the types of things that we're looking at. And again, as we continue to demonstrate the ability to drive the organic and inorganic growth, it does open up some latitude to put in the infrastructure to support further growth.

Operator

Your next question is from the line of Manav Patnaik from Barclays.

Ronan Kennedy – Barclays Bank PLC

This is actually Ronan Kennedy on for Manav. If I may just unpack and as a follow-up on the M&A question from Courtney. Understood the plan is to continue to stay active, being acquisitive, acquiring, quickly integrating accretive tuck-ins. Any change to the expected adjusted EBITDA contribution from M&A as part of the portfolio of 5 levers to achieve that $1 billion in EBITDA growth?

And then I think around the time of Investor Day, at a more specific level, leveraging the CRM for the zip code level analysis of growth opportunities, what opportunities do you see for unit acquisitions, respectively, both in Modular and Storage? I think in Modular, if I'm not mistaken, it was maybe 1% to 3% above market volume growth there and a much larger opportunity in Storage given the current size or current market share. If you could just talk about that, please.

Tim Boswell

Yes, this is Tim. And actually, both of your questions around acquisition contribution and surgical local market targeting are related to the $200 million market penetration opportunity that we quantified for folks at Investor Day. And that opportunity was more weighted towards the Storage business because it includes some potential around tuck-in acquisitions. And that's exactly what you saw us do in the second half of 2021.

And also, as I called out, the percentage of overall available capital that we're allocating to acquisitions is in line with what we quantified at Investor Day. And based on the pipeline that we see today, I think that's a realistic and supportable range. So no, I wouldn't change the expectations that we set around acquisition contribution. I would just reiterate that some of that tuck-in activity was assumed and included in the market penetration assumptions.

Your second question around data and analytics as it relates to sales and marketing and territory planning, Brad mentioned a company-wide meeting we just hosted for our top 250 leaders. That was exactly the purpose of the meeting, is to start to roll out those analytics, to push them out to our local sales and marketing teams and to begin to leverage that data advantage here in 2022, but it's early stages. And we are moving through the course of 2022 and implementing a new CRM for the combined company, which will build upon this combined data set and facilitate those market penetration objectives. But I think that kind of low single-digit volume growth assumption that you articulated for Modular is a good starting point for 2022.

Ronan Kennedy – Barclays Bank PLC

Okay. And a follow-up, if I may. What would likely areas -- I think it had been discussed, potentially fencing and sanitation as adjacencies that you could see yourselves potentially being -- or acquiring in the space. Would that still be potentially likely? And what is it about the economics there that's appealing?

Brad Soultz

Yes, this is Brad. I'd put that in the category of we're participating in all of those segments today, kind of every day. It is kind of a portfolio of opportunities beyond Modular, turnkey Modular and turnkey Storage. So yes, we're active as a participant in those adjacent markets today. And it does provide longer-term opportunities for us to look at, whether it's adding to our VAPS portfolio, extending to other hard assets that are long life in nature, et cetera.

So it's a place we're participating today and certainly presents some longer-term potential opportunities for further growth. Having said all that, the $1 billion of incremental revenue opportunities that we talked about in the Investor Day doesn't really include any of that. So we'll remain laser-focused on delivering what we've already got teed up.

As I mentioned with that leadership meeting, it was a little bit to celebrate. It was a lot of excitement and enthusiasm around the current momentum and the long-term growth. And so we want to make sure we're laser focused with the human capital and the highest priority of growth levers.

Tim Boswell

Your comment around sanitation is actually a fantastic example of how a new perspective around product positioning can help drive the business. Over 15% of our modular units already have toilet facilities in them. So we are one of the larger providers of sanitation services on temporary work sites nationwide. We haven't necessarily positioned ourselves in that way historically or captured the full value of the service that we're actually providing -- already providing to the customer. So this is a perfect example of where more of a product management lens on top of the services that we're providing can be very, very impactful.

Operator

Your next question is from the line of Scott Schneeberger from Oppenheimer.

Scott Schneeberger – Oppenheimer & Co. Inc.

Two kind of themes for my questions. First one, in Storage, it's kind of a 2-parter. Obviously, you guys have been quite assertive across the business, in the entire business in pricing. But we saw a fourth quarter of accelerating pricing in North American Storage, just curious, just if you could suss out market versus company-specific drivers. Obviously, we have some inflation, but you also have fairly high utilization there, so able to command it. But just, if you could take us a level deeper into where that can go, where you expect that to go.

Brad Soultz

Yes, Scott, I'll start and Tim can jump in. I think as you've noticed before, prior to the merger, the Storage pricing for containers themselves had been relatively flat. Even before we were beginning to see the more aggressive levels of inflation, we started moving rates there. And that was simply application of best practices and policies that were tried and proven on Modular, laid over onto the Storage platform.

So we were gaining traction well ahead of -- and that was in all geographies, in the U.K. as well as in the U.S. So we're very pleased with the 9% we achieved in the last quarter, and we think there's years of incremental potential. And I think you can look across the line to the Modular kind of historic performance and have a fair degree of confidence in that.

Tim Boswell

Scott, this is another one where I think about the product management capability that we're layering in. We have a totally differentiated product and capability under our Mobile Mini brand. So with our logistics infrastructure and our fleet really anytime, any quantity, anywhere in the United States, Mobile Mini can deliver you a container, right? We also have multiple tiers of products within the fleet. We've got a standard container just like every other competitor in the market. We also have patented tricams. So we've got other premium features on our products and the ability to roll out value-added products within the storage fleet.

So this is another very good example of how taking a more sophisticated product management lens to services that have been provided for a long time can allow the business to capture rate. And then longer term, as we get into the new CRM, then we're in a position to introduce more sophisticated segmentation and technology, which, obviously, we've seen the ability for that to help contribute to rate performance on the Modular business. That's a next phase of opportunity as we wrap up 2022 and head into 2023. So just like in Modular, it's a combination of factors that are allowing us to demonstrate rate performance in Storage. And I think that's sustainable.

Scott Schneeberger – Oppenheimer & Co. Inc.

Sounds good. I have one -- a quick follow-up on Storage, if I could and then one other topic if possible. But on Slide 9, you mentioned under commercial/industrial, retail and wholesale trade down year-over-year but up sequentially, reflecting intentional mix shift away from seasonal given broad-based end market strength. I assume that's speaking Storage. And for those of us who tracked Mobile Mini a long time, they do a very large seasonal business. Just curious, are you moving away from that and moving those containers into longer term? Just what was the -- what's behind that statement?

Brad Soultz

We certainly shifted a bit away, Scott, and that was purposeful as we were experiencing higher utilization looking into the year. So we did do a bit fewer, 5% to 10%. I would say less, fewer seasonal containers -- we can follow up off-line with a bit more precision, just given we'd prefer to have those containers on rent for longer duration in other segments of the market. But I don't want you to characterize that as we are moving away from. It's an important aspect of the portfolio. They're important customers we'll continue to serve well. Matt just clarified, we were down actually about 15% on the seasonal specific aspect of Storage containers.

Scott Schneeberger – Oppenheimer & Co. Inc.

Understood and logical. And again, if I could squeeze one more in. Just -- this is over on CapEx now. I think the first question did a great job covering OpEx. But specifically on Modular refurbishments, that seemed to be a sizable spend. How much of that is pull forward as opposed to next year? And you have very low utilization in North American Modular and you've done a great job managing the refurb, so you don't have to buy new. Could you just speak a little bit behind what was occurring there, the elevated level, specifically on refurbs?

Tim Boswell

Yes, Scott, this is Tim. Refurbishment activity typically follows delivery activity, and Q4, historically, is a slower season. Because of the market environment that we're in and heading into 2022, we did kind of maintain the refurbishment and production activity within our branches through the course of Q4 at a more elevated level. And what this means is we actually refurbished more equipment than we ended up delivering such that we've got over a 20% increase in available ready inventory heading into 2022. And similar to some of the other CapEx pull forward, this was more of a proactive step to say, hey, we think 2022 is going to be a pretty robust market environment.

Given our fleet size and our lower utilization level around 70%, we are not dependent on any supply chain this year to deliver our outlook. We control the supply chain. We control the refurbishment activity with in-house labor and materials. We've got the idle inventory. So this was really just a decision to say, hey, it is a bit of an uncertain supply chain environment. We have an advantage with the largest fleet in the market. We're the largest marginal supplier of both Modulars and Storage equipment everywhere we operate.

So that's a little bit of what you saw in Modular CapEx spend in Q4. That said, there were fleet additions in our Storage segments and in Tank & Pump in Q4, just given the elevated utilization levels. And then I mentioned value-added products as well. I mean the growth trajectory there is tremendous, and we are rolling that offering out in the Mobile Mini branch network as well, at least for ground-level offices initially. And I'd expect as we get into the second half of the year, we're talking about Storage value-added products inventory getting out into the Mobile Mini branch network.

So overall CapEx spend for the year, right at the top end of our guidance range and 25% of our available capital, so actually in line in many respects. Flat fleet net book value, as I indicated, excluding acquisitions. So again, you're seeing growth, margin expansion from a stable asset base, which is a good formula.

Operator

Your next question is from the line of Kevin McVeigh from Credit Suisse.

Kevin McVeigh – Credit Suisse

Congrats. I guess, Tim or Brad, on the 2022 outlook, can you remind us just what the impact of kind of the fuel and labor is as you're thinking about just the margin impact on the business? And then, Tim, can you remind us if there's an ability to maybe capture some fuel surcharge, just given the recent spike in energy?

Tim Boswell

Kevin, it's a great question. And we'll start with fuel. And this impacts our delivery and installation revenue cost and margin, right? That's where we've got exposure to fuel prices. And we're seeing it. Absolutely, those costs are up in 2021, and I'd expect they actually stay elevated or perhaps even accelerate here in 2022. And we are spending a lot of time on delivery and installation pricing and on the revenue side of the equation to ensure that, that margin is rock solid in 2022.

This historically has been a pass-through to our customers, and it's up to us to continue to manage it in a more sophisticated manner. So we've got the exposure but I actually don't see it as a big margin risk in the year. And frankly, we've never been in an environment that it's easier to justify delivery and installation rate increases, and that's really where the team is very, very focused at the moment. But it is one of those exposure areas that's outside of our control on the cost side, although I don't really have a margin concern at the end of the day.

And then labor, I mean we talked a lot about it on this call. There's labor inflation impacting every operator in North America. I think we have a couple of advantages in that we do have other efficiency offsets in the form of the Mobile Mini synergies. And I'd expect that those expand as we get deeper into SAP and deeper into our CRM project later this year. And we are making some strategic human capital investments like I talked about, but nothing that gives me concern about our bottom line EBITDA expansion for the year in our guidance. 200 basis points or so is a reasonable expectation based on what I know right now. And that just continues a pretty long-term trend of margin expansion since 2017 when we first started talking.

Kevin McVeigh – Credit Suisse

No, listen, I think the fact that you folks are able to source the candidates and maintain them tells you what you're able to do internally. And then I guess, we haven't really talked about Tank & Pump or the European business much. Any thoughts? It sounds like there's been some expansion in terms of capacity on the Tank side. But obviously, any thoughts on expansion in Europe, Ukraine, unfortunately, the events there notwithstanding, but just any thoughts strategically on those 2 assets?

Brad Soultz

Yes, I'll take the U.K. one quickly. Tim and I were just over there. That's an outstanding business. It's hitting on all cylinders. There are opportunities to expand there via M&A as well as -- it's interesting, the portfolio of products and services over there are primarily storage containers and ground-level offices, to use North America language. We have very few of the kind of more traditional modular panelized product. So a great team, outstanding performance by almost any financial and operating KPI and certainly, opportunities to grow that, both organically and inorganically, if we chose to do so.

Tim Boswell

And then on Tank & Pump, Kevin, revenues in the quarter are up 18% year-over-year, adjusted EBITDA is up 27% year-over-year. So the performance of that team and the momentum in that business is outstanding. They're far exceeding any of the competition into which we've got performance insights. So I couldn't be happier with the trajectory of that business. And if you think about end market exposures there, with oil north of $100 a barrel and probably not coming down anytime soon, we don't have a big upstream exposure in that business. It's probably less than 5% of our overall end market exposure. But it's certainly a supportive end market environment in that business for the foreseeable future.

And look, we're on a near maximum OEC utilization in that business. So we are going to be investing growth capital in the Tank & Pump business this year. And the team is doing the exact right thing with it, they're putting it to work. And as long as that's the case, and the results are there, we'll continue to support the business.

Operator

Your next question is from the line of Brent Thielman from Davidson.

Brent Thielman – D.A. Davidson & Co.

Brad, Tim, congrats on the trifecta, by the way. Could you -- I'm sorry if I missed this in the commentary, but did you comment on your expectations for units on rent for North American Modular and Storage for 2022, just implicit in the revenue guidance you've given?

Tim Boswell

Yes, we have. This is Tim, Brent. We called out that we expect the year-over-year Modular units on rent to inflect positively in the first half of the year. And I'd be targeting kind of low single-digit average unit on rent growth for the year. So 1%, 2% range is probably a reasonable place to start. But look, we haven't given you specific guidance on every leasing KPI for the year. The fact of the matter is the year always ends up being a little bit different, but we are unique in that we have the ability to manage volume, pricing and value-added products and services. And now we've got all of those levers across all of our segments, which gives us great optionality and different ways to win. And that's really one of the key takeaways from our meeting in November.

Brent Thielman – D.A. Davidson & Co.

Yes. Okay. And then the results in preceding quarters, I think, had been at least partially impacted by this -- by the rebound in short-term kind of events-driven rentals, which, I think, it helped the rate comparisons to some degree. Is that as much a factor this quarter? Or can we kind of look at these year-on-year comparisons and rate as more apples-to-apples? Brad, I was also thinking about the -- I guess, the lower contributions to seasonal as well. So if there's any way to unpack that, that would be helpful.

Tim Boswell

Yes. It's -- on the Storage business, I'd say not so much in Q4. First of all, Q4 of 2020, delivery volumes were actually getting back closer to normal levels. So that quarter was less disruptive. Certainly, in our Canadian business, there's some Q4 seasonal event activity. But I wouldn't call out seasonal as a big mix driver in Q4 on either side of the business.

Brad Soultz

No, not like it was in Q2. In Q3 of last year versus the prior year.

Brent Thielman – D.A. Davidson & Co.

Okay. And then just last one for me. Tim, maybe just some comments on working capital expectations for '22 that's embedded in the cash flow guidance just given the headwind you saw here in '21.

Tim Boswell

Yes. I think more or less neutral is the right expectation for 2022. As we've experienced in each of our larger transactions, when you're cutting $1 billion of revenue from JD Edwards over to SAP, there are going to be different areas of disruption. Fortunately, none that really impacted our overall results and guidance for the year. So I think that, all things considered, was an extremely successful cutover. There was a little bit of accounts payable disruption sequentially between a few of the quarters such that there was some catch-up in Q4 on accounts payable.

And then for the year, accounts receivable, you saw a bit of a build in Q2 and Q3 in AR. But AR was flat from Q3 to Q4 as revenue grew, so DSOs have implicitly came down a bit in Q4, which is great, suggesting those are stabilizing. But for the year, probably AR is the one minor headwind that we had from a working capital standpoint related to the SAP movement. And I don't expect that to continue in 2022.

Operator

Your next question is from the line of Steven Ramsey from Thompson Research Group.

Steven Ramsey – Thompson Research Group, LLC

I wanted to think a little longer term on the long-term revenue CAGR outlook of 5% to 10%, ended FY '21 at 6% and then the high side of FY '22 at 7-ish percent. I guess what is your confidence at this juncture you move to the high end of that long-term guidance growth range? Is it primarily driven by M&A or the trifecta factors working especially well? Or the internal drivers on Slide 13 that really need to come through strongly to move that growth rate up?

Tim Boswell

Steven, it's Tim. All I can really say right now is that we're tracking towards the higher end of what we expected originally for 2022. And that is based on everything that you just mentioned, the leasing fundamentals, the rollout of value-added -- well, really the expansion of value-added products in Modular and the initial rollout of value-added products in Storage. That's all consistent with our expectations that we talked about back in November. The M&A pipeline has been active, obviously, in 2021, and I'm pretty encouraged by what I see in the first half of 2022. And all of those things together are taking us to the higher end of the original revenue guidance range.

And if you start at the higher end of that range, this business is a compounder, right? So the run rate that you exit '22 with means that you're on stronger footing heading into 2023. So I do think there's an opportunity to move to that higher end of the range. But it's only been 3 months since we gave you the range, and we're still within the original revenue guidance range at this point.

Steven Ramsey – Thompson Research Group, LLC

Sure. Right. Okay. And then I wanted to just confirm some of the cash flow dynamics. Operating cash flow conversion of EBITDA, much higher in '21 than '20. Can you share a little bit more how this looks in '22 or the key building blocks to that conversion moving up from the low 70% range to an even higher range this year or next year?

Tim Boswell

Yes. I mean I think the building blocks are basically EBITDA growing a lot faster than CapEx and interest costs flat to down. Those are going to be the 3 biggest drivers of kind of operating leverage in our free cash flow, if you will, as you look into 2022. And frankly, every period beyond that, I think we'll have probably a similar dynamic. And we tried to show how capital accumulates and free cash flow builds in that dynamic over a multiyear period when we were together in November. So I think it's really just those 3 building blocks.

We've given you the EBITDA range. We've given you the CapEx range which, obviously, is not growing at the same pace as EBITDA. And interest costs should be slightly down. I think we had cash interest of kind of $102 million or $103 million in our expectation for this year. And also the integration headwinds from the second half of 2020, and really throughout the course of 2021, the integration and restructuring costs, which we include outside of adjusted EBITDA will start to taper off significantly through the course of 2022. So that's a fourth lever. I think between those 4 items, you'll see some leverage out of free cash flow.

Operator

Your last question is from the line of Phil Ng from Jefferies.

Philip Ng – Jefferies LLC

A clarification question for you, Tim. Great, you're on track to hit your $500 million free cash flow target by back half of this year. But looking at Slide 11, if I take the numbers you had there, it looks like you're implying a $300 million free cash flow number for 2022, but you also mentioned a 20% free cash flow margin target this year, which is close to a $400 million number. Can you kind of flesh that out? I just want to make sure we're thinking about free cash flow right this year?

Tim Boswell

Yes. I think we're looking at 2 slightly different definitions here. So the definition of operating free cash flow on that page is simply EBITDA less net CapEx. So this is going to be a bit confusing, right? So that is not cash flow from operations, right? So apologies for that confusion. But because we couldn't have -- we didn't have clean, true free cash flow numbers historically for Mobile Mini over this 13-year period. We just used the simplistic EBITDA less net CapEx definition there. And then we're showing that CapEx again, which is repetitive.

My comments around $500 million of run rate free cash flow in the second half of the year is true cash flow from operations. You saw that up 14% year-over-year in Q4. So that's trending in a very encouraging direction. Less cash flow from investing, excluding acquisitions. So I appreciate that definition on that page is a little bit different, but no change to our second half expectations in terms of the targets we put out there.

Philip Ng – Jefferies LLC

Got it. So the 20% free cash flow margin number that you called out earlier in the Q&A is probably a better way to think about it. Is that right, Tim?

Tim Boswell

Correct.

Brad Soultz

Correct. Yes.

Philip Ng – Jefferies LLC

Okay. Great. And then organic units on rent were quite strong in North American Storage. I think it was up about 10%. What's driving that strength? And appreciating it's a seasonally busy quarter in the fourth quarter for North

American Storage, your utilization rates were actually quite high. So I just wanted to get some color on how much bandwidth do you still have to grow this year? And what's a good way to think about units on rent?

Brad Soultz

Yes, as we mentioned, part of that growth was the return of store remodels. I think we talked about on the second or third quarter call. And then as we -- let's put it this way, I don't see constraints with respect to the storage fleet and the growth opportunities. And as we noted before, of the 7 acquisitions, that we've made, we added about 16,000 containers to the Mobile Mini platform. That's on top of the WillScot legacy units that we rolled over. And as we've characterized that pipeline remains robust. And I would expect to see a similar mix. So we think of these acquisitions as accretive in kind of all dimensions and not to mention the fact they're a great source of fleet to fund that continued growth.

Philip Ng – Jefferies LLC

Okay. And sorry, one last one for you, Brad. Now that you have the ERP implementation behind you, any update on how to think about synergies as it relates to Mini, whether it's on the cost side or any commercial initiatives?

Brad Soultz

Yes. It was an absolute enabler. We're already harvesting the $50 million of cost synergies that we had identified back when we announced the merger, right? And that was almost 2 years ago, we announced the merger. That's when we also identified the $500 million free cash flow target. And I sit here today with a high degree of confidence of achieving both of those despite a pandemic in the middle of that process.

So well on track to $50 million. I mean the more exciting part are all of the operating commercial synergies kind of beyond the $50 million, if you will. And that's everything from logistics efficiency, capital efficiency, inventory optimization. And as we're focused right now, we're converging the CRM platform. So you'll recall, Mini and WillScot both had very mature Salesforce.com CRM platforms. The WillScot platform had the pricing technology connected to it. So our IT resources, if you will, are laser focused now on converging those 2 CRMs and all the ancillary capabilities. So what we're seeing now is pretty interesting market convergence just happening. We've characterized this, phone a friend in the field. When we get these CRMs converged, that combined with the analytics that we're already deploying across the historical transaction data, you'll just see that further accelerate.

I think it's important for everyone to note that these investments in incremental capital, human capital here, they've been in flight, if you will, throughout the course of the year. We've talked about adding ESG, and we've talked about adding data analytics capability. They're fully contemplated in our forward guidance and absolutely accelerants towards the new $1 billion milestone of EBITDA that we put forth and sustained 20% to 30% free cash flow target. So couldn't be happier with where we are and where we're headed.

Operator

We have now reached the end of today's call. I will now turn the call back over to Nick.

Nick Girardi

Thank you, Roel. Thank you all for your interest in WillScot Mobile Mini. If you have additional questions after today's call, please contact me. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect.