TRANSCRIPT

4Q 2020 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

February 26, 2021, at 10 a.m. ET

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Tim Boswell, Chief Financial Officer

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TRANSCRIPT

Operator

Welcome to the Fourth Quarter 2020 WillScot Mobile Mini Earnings Conference Call. My name is Sia, and I will be the operator for today's call. Please note that this conference is being recorded. I will now turn the call over to Nick Girardi, Director of Treasury and Investor Relations. Nick, you may begin.

Nick Girardi

Good morning, and welcome to the WillScot Mobile Mini fourth quarter earnings call. Participants on today's call include Brad Soultz, Chief Executive Officer; Kelly Williams, President and Chief Operating Officer; and Tim Boswell, 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 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. 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. As you saw in our press release yesterday, WillScot Mobile Mini had a tremendous and transformational 2020. Our team rose to a set of challenges unlike any we've tackled before, and I'm proud of and grateful for their efforts. From our safe and rapid response to the COVID-19 pandemic to our transformational merger between WillScot and Mobile Mini, our business, portfolio, and team demonstrated their resilience and ability to create value for all stakeholders, most importantly of which our customers.

Now before discussing earnings and on behalf of the entire WillScot Mobile Mini Board, I'd like to start by thanking Kelly Williams for many contributions he's made as Mobile Mini's CEO and WillScot Mobile Mini's COO. Kelly has decided to transition from our company in July. Kelly has built an incredible enterprise in Mobile Mini, and he was instrumental in planning and executing our integration. His impact will be felt for many years to come. I speak for everyone at WillScot Mobile Mini when I express our gratitude for his leadership and partnership, and I wish him the best of luck as he pursues the next phase of his personal and professional journey.

Now turning to Page 5 of our presentation. As you know, we are a leading business services provider specializing in innovative, flexible workspace and portable storage solutions. We serve diverse end markets across all sectors of the economy from a network of over 275 branch locations and additional drop lots in North America and U.K. The business attributes listed here constitute a formula for sustained growth and returns, and we see clear evidence of each one in our fourth quarter results which were outstanding.

First, leasing revenues increased by 4% year-over-year on a pro forma basis in our North America Modular and Storage segments, illustrating the durability of our revenue streams. This was driven by a 13% year-over-year pricing and value-added products growth in the Modular segment, illustrating the expanding value proposition that we offer our customers.

Adjusted EBITDA of $180 million increased 8% and adjusted EBITDA margin of 41% expanded 580 basis points versus prior year on a pro forma basis. Our sequential progression from the third quarter was exceptional with a 190 basis points increase in adjusted EBITDA margin, all underpinned by continued VAPS penetration, core price increases and stable units on rent.

For the full year 2020, we generated $646 million of pro forma adjusted EBITDA, an impressive achievement given the unprecedented operating environment. We also generated $87 million of free cash flow and a 20% free cash flow margin in the fourth quarter, well on our way to our target of $500 million of annual run rate free cash flow by the second half of 2022.

Now despite the pandemic and the major integration effort that is underway, our financial results have accelerated, and this is entirely due to the commitment and determination of the combined WillScot Mobile Mini team. You have kept one another safe. You've executed at the highest level. You've always kept the customer first and are truly a best-in-class organization.

Now successful as 2020 was, I'm even more excited for our future. New order rates, pricing and value-added products penetration continue to trend favorably across the portfolio, and we expect to deliver 6% revenue and 8% adjusted EBITDA growth organically at the midpoint of our 2021 guidance. Tim will discuss guidance in detail later, but the key drivers of our business, as well as our strategy, are unchanged.

Volumes are stable and expected to improve over the course of 2021. We have powerful tailwinds from pricing and value-added products. The benefit of M&A continues to flow to our bottom line, and we have an incredible opportunity to drive long-term growth and value creation for years to come simply by building upon the best practices that are already in place at WillScot Mobile Mini.

Page 11 begins to frame the opportunities that we see internally. Our portfolio of multiyear growth levels -- levers continues to expand. As premised in the merger announcement, we continue to optimize pricing across our fleet as we work to implement dynamic pricing, customer segmentation, and contract standardization across our segments.

VAPS penetration continues to grow in the Modular segment with a 13% increase in the last 12 months delivered VAPS rate versus those of the prior year. We have also now begun to implement VAPS in the legacy Mobile Mini ground-level offices and storage fleet.

Through the course of the pandemic, our team has effectively offset the non-residential headwinds by leveraging our unique value proposition to capture incremental demand across our diverse end markets as well as geographies. As well as we began cross-selling and sharing leads across our storage and modular platforms. The combined talent and expertise of this sales force is absolutely one of our biggest competitive advantages.

The expanding application of technology is helping us maximize cash flow, creating operational efficiencies and opportunities to further reduce cost. We are well on our way to integrating the legacy WillScot and Mobile Mini back-office infrastructure, which supports our cost synergies and back-office efficiencies. Our system migration is on track for the first half of this year, and we have a growing list of operational improvement opportunities which will continue to contribute to margin expansion in 2021 and future years.

We will continue to deploy capital strategically. We use a rolling 90-day zero-based capital allocation process, which helps us react quickly to changes in customer demand, which you saw fully on display in the second and third quarter of last year. Based upon the demand we see today, our guidance implies that we intend to reinvest in growth in 2022. Our scale and organic initiatives enable us to drive value, and our successful M&A track record gives us confidence to continue to pursue accretive acquisitions.

Finally, we'll continue to reduce leverage and return capital to shareholders. We reduced leverage to 3.8 turns in the fourth quarter, well on our way to a targeted range of 3 to 3.5 by the end of 2021. Our $250 million share repurchase authorization is in place, which we used in the fourth quarter to opportunistically repurchase $35 million of warrants and share equivalents.

Now moving to Slide 12. Leveraging our strong core values and the inherently sustainable value proposition in our temporary modular and storage solutions, we are developing our ESG road map. Our Chief Human Resource Officer, Hezron Lopez, is leading our ESG planning efforts in partnership with a recent addition to our team, Jamie Bohan. She's our Vice President of ESG. Our Board of Directors is actively engaged in this process, and we'll share key focus areas in our 2021 proxy and a more comprehensive road map by this time next year. Our

ESG strategy will align with our core values and our business strategy to drive both value and sustainability. Stay tuned for more to come over the next year.

Turning to Page 14. Despite ongoing nonresidential headwinds, during the fourth quarter, we saw a 3% increase in year-over-year deliveries in our Modular segment and only a 5% decrease in our monthly deliveries in the Storage segment. Modular utilization was stable sequentially, and storage utilization increased year-over-year.

Looking ahead, we expect modest sequential unit on rent growth across the portfolio as we continue to offset the nonresidential construction headwinds by serving our customers' needs for additional space to accommodate screening and social distancing across our diverse end markets as well as leveraging new opportunities such as the support of vaccination distribution, return to schools across all of our geographies. Expected modest improvements in nonresidential construction would result in modest year-over-year volume growth by the end of the year. Our branch network is ramping and staffed to support this demand even as our corporate resources are laser-focused on integration.

We have strong and sustainable tailwinds as pricing accelerated across both Modular and Storage segments, along with increased VAPS penetration. We've delivered the 13th consecutive quarter of double-digit modular price increases with a 13% year-over-year in the fourth quarter. In our North America Storage segment, rental rates increased 3%, marking the 32nd consecutive quarter of year-over-year rental rate increases. And our U.K. segment continues to achieve outstanding results with an 18% year-over-year price increase. These fundamental improvements, underpinned by the outstanding financial results in the fourth quarter, form the foundation of our outlook heading into 2021, which Tim will further address. With that, I'll hand it over to Tim.

Tim Boswell

Thank you, Brad, and good morning, everyone. Turning to Page 19. Our 2020 results were exceptional, showing yet again resilience and accelerating earnings potential in our business. I'll touch on a few key highlights from the fourth quarter results.

Leasing revenues for the North America Modular and Storage segments increased 4% year-over-year versus 2019 on a pro forma basis, driven by price increases, increased VAPS penetration, storage volume growth and stabilizing volumes in Modular. Amidst a pandemic and an unprecedented GDP contraction, this is a remarkable validation of the durability of our lease portfolio.

This organic growth translated into 8% adjusted EBITDA growth with $180 million of adjusted EBITDA in the quarter. And our adjusted EBITDA margin of 41.1% set a new company record, expanding 580 basis points versus 2019 on a pro forma basis.

We generated $87.4 million of free cash flow and a 20% free cash flow margin in the quarter. This puts us on approximately $350 million free cash flow run rate for 2021. Between completion of the integration, execution of synergies, continued deleveraging, and organic growth, we have a simple playbook to achieve our $500 million run rate free cash flow milestone by the second half of 2022.

We reduced leverage to 3.8x our pro forma last 12 months EBITDA and are easily on track to achieve our 3 to 3.5x target by year-end 2021. And I'm very pleased to see that our GAAP net income and earnings per share metrics are coming into focus with solid profitability for the year as well as in our last 3 reported quarters.

With those outstanding results in mind, I'm excited to share our 2021 guidance of $675 million to $715 million of adjusted EBITDA, which represents between 5% and 10% year-over-year growth and will put us on a trajectory for another great year in 2022.

Moving to Page 20. I'll point out a few nuances in the quarter. Revenue of $438 million increased 5% sequentially from the third quarter and was flat versus prior year on a pro forma basis. If you break this down, leasing revenue increased $11.4 million or 4% on a pro forma basis and was up year-over-year in all of our Modular and Storage segments. Delivery and installation and sales revenues were down 2% and 30%, respectively, resulting in the flat consolidated top line, again, a pro forma view. But the strength in leasing revenues is very encouraging and is the foundation for our 2021 outlook.

Modular units on rent in the North America Modular segment declined only 50 basis points sequentially from Q3, which is stronger than our typical seasonal progression from Q3 to Q4, and pricing and value-added products inflected sharply with a 12.9% increase in the North America Modular segment. Storage segment volumes increased year-over-year, although pricing was flat in North America, with strong increases in the U.K., as Brad mentioned. And that's an area we will focus on in 2021.

Again, solid 8% EBITDA growth, record margins up 580 basis points. And in the bottom right chart, you see a very strong free cash flow quarter even with a $13 million increase in fleet investment and approximately $12 million of integration-related costs.

Page 21 goes into more detail regarding our cash flows. Our cash from operations continues to grow, approaching $130 million and a 4% sequential increase from the third quarter once you adjust for the merger transaction costs.

Cash used in investing activities has been in a consistent range. I'll note that these numbers are not pro forma so the year-over-year increase in the fourth quarter is simply attributable to the inclusion of Mobile Mini as well as $5 million of IT investments to support the integration.

Most importantly, in the bottom right chart, I'll highlight a dramatic expansion of our free cash flow margin. While the fourth quarter is always a higher margin quarter, we're seeing 20% flow-through to free cash flow since the merger closed if you adjust for the transaction costs incurred in the third quarter. I'll caution this margin will fluctuate quarter-to-quarter as we flex our capital expenditures. However, over the long term, integration costs will go away, synergies will flow through and you can see the cash flow potential that this business is capable of generating.

In the fourth quarter, we repaid $52 million of debt and repurchased $35 million of warrants and share equivalents, so this cash flow profile clearly gives us optionality from a capital allocation standpoint.

I won't belabor Page 22. All the same factors that are driving margins and free cash flow will drive GAAP net income and EPS. I will note, from a modeling perspective, pretax income, our GAAP tax rate and our share count are all stabilizing so we can start to be more precise with these estimates, and I expect these metrics to ramp significantly.

Turning to Page 23. There have been no changes to our debt structure other than our rapid deleveraging trajectory. We finished 2020 with 3.8 turns of leverage and over $1 billion of liquidity in our asset-backed revolver. Our weighted average cost of debt is approximately 4.1%, which implies an annual cash interest run rate of approximately $104 million. We are easily on track to achieve less than 3.5x leverage by the end of 2021, which gives us ample balance sheet capacity. Our debt structure is extremely flexible with ample liquidity and no maturities until 2025, and we'll continue to be opportunistic in further optimization of the structure.

Now to the 2021 outlook on Page 24. We're set up for a great year in 2021. At the midpoint of our guidance, we expect to deliver 6% organic revenue growth and 8% adjusted EBITDA growth, with approximately 50% flow-through of revenue to adjusted EBITDA.

We're cautiously optimistic on the market backdrop and are assuming a strong GDP growth with a modest 2% to 3% recovery in nonresidential construction square footage starts, albeit well below 2019 levels. This market assumption supports 3% to 5% year-over-year delivery growth across our segments, which would translate into modular unit on rent growth on a year-over-year basis by the end of 2021 and continued year-over-year storage growth in volume.

These delivery volume improvements would be strongest in the second and third quarters, which would drive increases in variable costs and capex relative to prior year, and it would increase our mix of lower-margin delivery and installation revenues in those quarters. So we would expect margins to actually contract both sequentially and year-over-year in Q2 and perhaps in Q3 if this demand picture holds up. That said, margins should then increase normally into the fourth quarter as variable costs normalize, ending the year with margins 100 to 200 basis points above the record margin we just achieved in the fourth quarter of 2020.

Also due to this volume assumption, we expect net capital expenditures to range between $180 million to $220 million as we fund VAPS growth, modular fleet refurbishment and new fleet in select products and markets. Of course, these investments are entirely demand driven and we can flex the range up or down as we did in 2020 if the demand environment changes.

So, there could be larger-than-normal margin fluctuation based on our demand assumptions as we progress through the year, but this would imply a welcome improvement in the market backdrop. As volume rebuilds and synergies flow through in the second half, margins will stabilize, and our overall run rate will be on a solid upward trajectory into 2022.

Page 25 provides an EBITDA bridge for the year that illustrates how we get to our '21 guidance range. We obviously have massive tailwinds from pricing and value-added products that are driving the business, primarily within our North America Modular segment. Our modular pricing and value-added products assumptions for 2021 are consistent with what we've discussed previously, though we do see upside more so in 2022 as we apply some of these practices across the portfolio.

Our current outlook suggests that contribution from volume could inflect through the course of 2021. Modular volumes are down 3.7% to start the year, representing a near-term headwind. Based on an improved demand outlook, we would easily invest an additional $20 million of variable costs relative to last year, primarily in the second and third quarters, which will begin rebuilding volumes. And by the end of 2021, we could be in a position where volumes are contributing favorably to year-over-year revenue growth. Ironically, if volumes are stronger than we expect, this variable cost headwind could be greater in 2021 but would result in an even stronger revenue run rate heading into 2022. The reverse would be true if delivery volumes softened like they did last year.

Lastly, we see synergy realization as we expected. Approximately $10 million of remaining ModSpace synergies should build through the course of the year. And we continue to see the Mobile Mini synergies building in the third and fourth quarters as planned. We are expecting some cost inflation in areas like occupancy expenses and employee comp and benefits, but overall, this outlook for 2021 is in line with what we were forecasting back in the second quarter of last year as we were closing the Mobile Mini merger, so no surprises from our perspective.

Lastly, on Page 26, our capital allocation framework is unchanged, and I believe our remarks today have been consistent with this framework. Our free cash flow is clear, as is our deleveraging trajectory. We plan to invest in organic growth opportunities supported by what currently feels like a strengthening market backdrop. We are monitoring M&A opportunities and don't have any major balance sheet or operational constraints. And we repurchased $35 million of share equivalents opportunistically in the fourth quarter.

As I turn it back to Brad, I'd like to thank the entire WillScot Mobile Mini team for their perseverance and great results in 2020. Your hard work has transformed the company and puts us on an exciting trajectory not just for 2021 but for years to come. Brad?

Brad Soultz

Thanks, Tim. Now turning to Slide 27. Our scale, technological sophistication, and commercial position all support the powerful levers we have to create value for years to come at any point in the cycle.

Exiting 2020, our pricing momentum has continued with a large portfolio of opportunities that we are excited to execute. VAPS in both Modular and Storage represent significant further growth opportunities. Our sales team is already working together to cross-sell, a natural result of the end market and customer overlap between our segments in North America, the complementary nature of our business, and the culture and values alignment of our team.

We have about $60 million of synergies remaining to execute from this merger and prior acquisitions, and our strong track record makes us confident we can deliver on this expectation. We are thoughtful and deliberate as we consider our capital allocation, and we'll continue to prioritize growth, deleveraging and share repurchases.

Now moving to Slide 28. Our management team is in place to drive our long-term goals and harness the combined expertise of the legacy WillScot and Mobile Mini organizations. We are aligned on our core values and prepared to continue to deliver excellence in 2021 and beyond.

As always, thank you to our team for supporting our company and our customers. I also 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

And our first question will come from Ross Gilardi with Bank of America.

Ross Gilardi – Bank of America

I just wanted to ask about the $500 million free cash flow target and just like longer term, how to think about a conversion rate. And then if I take your EBITDA guidance for '21, add a little growth in '22, it would seem to imply EBITDA to free cash conversion of somewhere in the neighborhood of 65% to 70%. Is that a fair way to look at it going forward? I think you said $500 million run rate by the middle of 2022. I'm just trying to think a bit more on a conversion rate on a long-term basis.

Tim Boswell

Ross, this is Tim. Look, as the portfolio stabilizes, we'll be able to dial that in. But I think you're heading in the right direction, okay? So take Q4 as an example. We did, call it, $180 million of EBITDA and $87 million of free cash flow. That's almost 50% conversion that is burdened with, call it, $12 million of integration-related expenses. So, you can take that conversion rate a little bit higher. But it's also a higher margin quarter typically, but it's illustrative of where the business is going.

So, to your point, as we roll the business and the portfolio forward with some organic growth, driven by pricing and value-added products, those items are going to flow through to EBITDA and frankly, cash flow at north of 80%. And then the only other variable is to what extent are we reinvesting in the business in capex, right? And I do want to highlight that they can fluctuate quarter-to-quarter. Typically, Q4 and Q1 would be a little lighter. If we're in a normal seasonal pattern, we would dial that up with some fleet refurbishment in Q2 and Q3. So, I'll pause there. I think you've got evidence of what's possible in Q4 and some, I think, very logical reasons to believe that, that can go higher.

Ross Gilardi – Bank of America

What are the one-timers, Tim, on free cash flow that go away -- from 2020 that go away in 2021?

Tim Boswell

We've called out the integration expenses. I think in last quarter's call, I said that would be between $10 million and $15 million per quarter. We definitely realized that in Q4. A portion of that, about $5 million, is being capitalized in our IT expenses, but that is still a cash headwind that we incurred, and we'll continue to incur through Q2. And then I'd expect that to begin to taper down as we get to the end of 2021.

Ross Gilardi – Bank of America

Okay. So, you'll have $10 million to $20 million per quarter of integration for 2 quarters next year, so you'll have sort of $20 million to $40 million of integration expense that drops off on a full year basis in '21. Is that what you're saying?

Tim Boswell

Yes, on a full year basis. Yes, that's right.

Ross Gilardi - Bank of America

Yes. Okay. And then just the last one. On your bridge, you show net synergies of $5 million to $15 million in 2021 for EBITDA, but you talked about on one of your first few slides about $60 million of cost synergies left to execute. I'm just wondering what's the gross synergy number baked into the '21 outlook. And can you give us a little bit better sense of the buckets for the $60 million longer term and the timing for achieving that?

Tim Boswell

Yes. Well, let me just say what is building during the course of the year. We've got about $10 million of ModSpace synergies that we'll build through the course of the year, so call it $5 million of full year contribution in the P&L. But based on the WillScot and Mobile Mini merger, we always said that about 30% of the $50 million of cost synergies would begin building 12 months post-closing. So, 30% of $50 million is $15 million. $15 million divided by 4 is $3.75 million, so $3.75 million of incremental uplift in Q3 and growing thereafter to about 80% contribution -- or synergy realization by Q3 of 2022.

So those are the synergy components. I think like any business, we do have some other inflationary factors in the business. Occupancy expenses, some employee comp and benefits are some things that I would point to. But for simplicity's sake, we just presented kind of a net for purposes of the bridge.

Ross Gilardi - Bank of America

Okay. But I -- we can take it offline if the math -- there's too many puts and takes on the math. But I'm just -- like on an absolute dollar basis, is it possible just to say what the gross synergy number baked into the '21 outlook is, the gross number, not the net number?

Tim Boswell

Yes, call it $20 million zip code.

Operator

The next question is from Scott Schneeberger with Oppenheimer.

Scott Schneeberger - Oppenheimer

I would like to ask about the sustainability of the double-digit rental rate growth in North America Modular as well as the high single-digit-plus rental rate for GLOs and storage? Clearly driving the business nicely. Is this -- throughout '21, is this sustainable, particularly in North America Modular, and potentially beyond?

Brad Soultz

Yes. The double-digit rate growth, as we said for several calls now, we think, is sustainable certainly next year and I think for years to come. I mean if you just look under the hood of the composition, you've got 40% of that coming from VAPS growth. The VAPS rates were up again on new deliveries 13% year-over-year. We were at $311. We've always talked about $400 is our internal target, and we continue to make great progress in that direction on the modular side. And the balance is kind of that same spread, if you will, on the core pricing. So, if rates were ever going to be stressed, it would have been after a shock such as the pandemic. And you've just seen the beauty in the platform here, continuing to perform right through that. And it's kind of the same story on Storage, as we spoke about in the last call. 32 quarters of consecutive double-digit rate growth under the hood, that is outstanding growth on GLOs, ground-level offices.

Tim Boswell

Positive rate growth.

Brad Soultz

Positive rate growth, I'm sorry, on the ground-level offices and pretty stable rates on the Storage side. So as we began to implement the commercial practices that we've used in Modular and we're seeing effective in the ground-level office, we're seeing effective in the U.K., we think there's further upside on the storage side of the platform.

Scott Schneeberger - Oppenheimer

Tim, looking at the EBITDA guidance, and then you've mentioned earlier an implied 50% flow-through. What's an achievable status-quo incremental margin flow-through for the business in a normalized time potentially? And how is your feeling about the high end of the guidance range? What could tip you above that in 2021 on the EBITDA range?

Tim Boswell

Okay. I mean if you want to think about a normalized flow-through to EBITDA, we are calling, by the end of the year, we'll have margins up easily 100 basis points. I called out the variable cost headwind in the business of approximately $20 million. That's over 100 basis points of margin headwind right there. So, if you just take the midpoint of the guidance, round numbers, $100 million of revenue growth, $50 million of EBITDA growth, you've got $20 million of headwind there, maybe $10 [million] of that's a little above normal, let's say. So, it's easy to get to 60-plus percent flow-through on the portfolio in a stabilized environment.

Scott Schneeberger - Oppenheimer

And the high end of the guidance range, what would be factors that could get you above there or at -- put you up at the high end in this coming year? Would it require infrastructure build? What are some of the things that you look at to be big drivers up or down in that range?

Brad Soultz

Yes. Scott, we'd really need to see strong demand in the first half of the year is effectively where we're at. So we've been offsetting this nonresi headwind with outperformance in other markets -- or other end markets and some new opportunities. So as those headwinds ease if that occurs in the first half, that's going to push us to the top side of the range. The infrastructure, we think, is a great medium and long-term stimulus. But even if it was announced today, it's not going to drive much new construction, if you will, yet this year.

Tim Boswell

I think widespread pricing improvement broadly across the portfolio is another lever that takes you higher more quickly. The irony with infrastructure is if that materializes in Q4, just to make an example, and we're investing to support that volume, it could actually depress margin and EBITDA in the year, right? That's just how the business works. That would obviously be a fantastic scenario to be in because we'd be building the portfolio for 2022 and 2023. But as you know, the portfolio doesn't move that quickly. So we're very, very comfortable with the range that we've put forth.

Operator

The next question is from Kevin McVeigh with Credit Suisse.

Kevin McVeigh - Credit Suisse

Brad or Tim, in the slides, it looks like you framed $125 million of VAPS and then another $35 million with GLOs. Is the GLOs part of that $125 million or would that be in addition to that? So is it...

Brad Soultz

It's in addition to that.

Kevin McVeigh - Credit Suisse

So it would be about $160 million, Brad, all in. Is that right?

Brad Soultz

Yes. And then just keep in mind we're really just getting started implementing the VAPS in the GLOs. So if you think about the 3-year trajectory on that, it will be fairly modest here in the next couple of quarters and then really begin to build.

Kevin McVeigh - Credit Suisse

Got it. That's helpful. And then, this $350 million of free cash flow in 2021, it puts $500 million in focus, Tim. Is there upside to that number? I mean obviously, the gating factor will be the investments in capex, things like that. But any puts and takes as you think about that $500 million? Because it seems like you're closing in on that even a lot faster than what we would have thought.

Tim Boswell

Yes. In terms of the $350 million, it's a good midpoint to center on. The same responses I just made in terms of EBITDA upside would apply to the free cash flow number and then, of course, any fluctuation in capital expenditures. It's easy to make that number go up. Our capex is almost entirely discretionary even over the medium term. But I think based on the growth profile that we see right now, the investment levels that we expect, that's a good point to center on. And really, it would just be anything that takes EBITDA to the top end of the range or any moderation in CapEx in the short term would cause that to flex up.

Operator

The next question is from Courtney Yakavonis with Morgan Stanley.

Courtney Yakavonis - Morgan Stanley

Just wanted to follow up a little bit on that comment on infrastructure potentially depressing EBITDA in the areas you build out the portfolio. Can you just -- is that sales force? Is that capex on building out the fleet? Can you just help us understand that comment a little bit more? And would that be impacting more of the 2022 EBITDA versus '21? And then also, can you just give us a sense of what types of infrastructure projects would be most impactful for your portfolio? I think historically, you've talked about roads not necessarily being something you guys have a huge exposure to.

Tim Boswell

Courtney, this is Tim. I'll start, and Brad will come back to your specific kind of infrastructure sector question. But my comments around infrastructure's impact on the P&L applies to any volume shock, right, whether it's infrastructure or something else. So if we take Q2 of last year, for example, we had a demand shock going down, going negatively, right? And given the flexibility in the variable cost structure in the business, we pulled out a lot of direct labor and a lot of maintenance expenses across both the modular and the storage platforms, right?

So now if you get a shock going the other direction, you do incur some of those maintenance expenses to make more deliveries. That's a great thing. And just the way the P&L works is those maintenance expenses are recognized when the work is performed. And then that investment then builds your lease revenue, which grows over time. So there's really nothing unique about infrastructure in that regard. It's simply whenever you have a big volume movement one way or the other, it can have a short-term impact on margins as there's more maintenance costs in the branch network. Brad, do you want to talk about the...

Brad Soultz

Yes. The short answer is all infrastructure helps us from a legacy modular perspective. It's factual that roads and bridges and such were less consumers of large modular offices, but storage and ground-level offices are on every road construction project I drive by. So we're excited for all.

Courtney Yakavonis - Morgan Stanley

Okay. Great. And then I think you've historically talked about some of the benefits -- or some of the offsets from the declines in non-resi from COVID. And appreciated the comments about the high versus low end of guidance really being more growth in the first half of the year. So can you -- do you have any sense at this point, A, just how to quantify how much of the demand in 2020 was offset by some of these more temporary COVID projects? And do you have any sense at this point about the longevity of -- or when some of those projects could come off of rent?

Brad Soultz

Again, this is Brad. It's hard to be too precise, but I'd answer you in kind of 2 veins. I would think about any incremental demand we're seeing for COVID, whether it's testing or vaccine distribution, that's kind of a volume offset to all the event business we've historically done. And they're both, in the grand scheme of things, relatively small, right? They're not needle movers. If you look at the whole portfolio and use Modular as an example, fourth quarter of last year, new deliveries were up over the prior year despite all these nonresidential headwinds, and that's what really excites us. It's every other end market, whether it's their need for additional space per person, their need for screening on the job site or just new buildings are needed, are new end markets. We've got a vast sales team across 275 of the largest MSAs throughout North America and the U.K. that are always mining for new opportunities. So it's that -- the resilience in the portfolio that puts us in a place where we're offsetting this nonresidential headwind. I can't predict when it will come back. When it does, I think it creates a quite interesting volume opportunity for us.

Tim Boswell

Courtney, we haven't seen any change in our average lease duration. So we monitor this pretty closely, what is the average duration that we're getting on a contractual basis, what's the average duration of units that are coming back to our branches and what's the overall duration of the portfolio, right? So we look at it a bunch of different ways, and we just haven't really seen any material change in those numbers.

Courtney Yakavonis - Morgan Stanley

Okay. Great. And then just lastly, on the guidance bridge for 2021, you guys called out the synergies and pricing. But have -- is there any -- are you starting to see any benefit from cross-sell opportunities? Or can you quantify that at any point? I think you've talked about the historical customer overlap between the legacy customers and overlapping with some of your storage customers, but has that been a needle mover at this point?

Brad Soultz

It's starting to be, Courtney, again, the kind of the systems integration and automation which will make the transactional aspect of that a lot easier. But it started effectively the day we closed the merger, and it's most apparent on these big projects. We teamed up for support of the Super Bowl like we never would have been able to do before. These large vaccination rollout schemes, we're absolutely leveraging both teams and sales forces. So it's happening very naturally and quickly at the top of the stack, if you will, of larger projects. And as we kind of prosecute the course of this year, get the ERPs cut over, start to automate more and more of the cross-leads and cross-selling, we're just going to continue to see more of that. I mean think about that as one of the key drivers to lift, if you will, the storage market share, which is around 25% now, up more in line with our office share, call it, around 45%. We've got this internal engine, if you will, of leads. We just need to marry them up and capture and make sure we're providing both storage and office.

Operator

The next question is from Philip Ng with Jefferies.

Phil Ng - Jefferies

With some of the best practices you're implementing in the VAPS rollout for Storage, how are you thinking about AMR growth in 2021? Is it kind of more in line with that 3% cadence we've seen the last few years? And then from a longer-term opportunity, how should we think about that algorithm going forward?

Brad Soultz

Yes. I think for next year, kind of that 3% rate on the storage side is a good bogey. I mean as you start to deliver new products at higher rates, right, it takes a while for that to roll through the portfolio.

Phil Ng - Jefferies

And then any longer-term targets that we should think about? Is this like a mid-single-digit grower going forward with some of the good stuff you guys are implementing?

Brad Soultz

Well, we've quantified the VAPS opportunity in GLOs, right? But let us do our work, and we'll come back to you with more specifics probably in the second half of the year as we really understand and quantify. You guys know we do our work. We make sure we roll it out in a methodical way. Getting the supply chain right on all of this, it sounds easy, but it's extremely complicated. So we'll lay this out and come back to you and talk about both the opportunity as well as the time it will take to achieve that.

Phil Ng - Jefferies

Got it. And then we're hearing tight container market conditions. Has that had an impact on pricing for you guys? And is that an opportunity to pick up some share just given your scale?

Tim Boswell

Yes. Phil, this is Tim. I'd say it's a net benefit in the short term. We're active in that market every day obviously. And I mentioned in my remarks we are making some targeted new fleet investments, some of which are containers, and we are able to land a fleet in Q2 and Q3. So it is definitely -- there are short-term constraints, but it's not an impediment to our growth even in the relatively short term. It doesn't hurt right now. We are probably the largest marginal supplier of inland containers in the U.S. And certainly, there's some modest benefit to that, but I wouldn't make too much out of it.

Phil Ng - Jefferies

And on that similar vein, Brad and Tim, I mean, we're hearing higher logistics and transportation costs and certain bottlenecks for some of the other companies we cover. Do you guys pass that through? And then from an opportunity for growth, just given your branch density and scale, how are you guys positioned in that backdrop?

Brad Soultz

Yes. This is the logistics side, and you've seen margins continue to expand in that space. We've mentioned before we think there's a real opportunity for the company to leverage each other's best practices as well as truck fleet and drive both top line growth on the logistics side. As well as we've mentioned there's pretty significant in-sourcing opportunities on the bottom line, particularly on the modular side. So it's another one of those unique levers in this portfolio.

Operator

The next question is from Stanley Elliott with Stifel.

Stanley Elliott - Stifel

When we're thinking about the VAPS piece, and so much has changed over this past year, have you been able to introduce new sorts of products within the portfolio to the point where maybe kind of the initial target that we've talked about on VAPS might actually be a bigger pie on a go-forward basis?

Brad Soultz

Yes. We've always qualified, if you will, the $400 million target VAPS value delivered per month as supportable with the existing VAPS fleet. Our first and foremost endeavor is to get everyone to that $400 level, and we've got a significant portion of our reps now already writing complete MSAs writing that kind of $400 level. We do implement new products all the time. Probably most notably this year, we've been rolling out more like a cubicle solution, if you will. It's more focused -- or well suited, if you will, for large complexes. So yes, we'll keep our entire team focused on getting the $400 with what we have, and we'll obviously continue to implement new VAPS not just in office, as we alluded to before, and storage.

Stanley Elliott - Stifel

In the guidance, you mentioned that it was organic. You're tracking very well against your free cash flow targets and also kind of to where you want to be from a leverage perspective. Is M&A kind of realistic opportunity here? Or any sort of portfolio shifting when we think about kind of how this 2021 might unfold?

Brad Soultz

Yes. M&A is absolutely realistic now.

Tim Boswell

Yes. It's always been part of the growth strategy for both companies. I mean Mobile Mini was a steady acquirer over the last 2 years, more tuck-in acquisitions. And WillScot, obviously, we've seen M&A to be highly accretive. So as I mentioned in my remarks, there are no financial or operational constraints, and it is difficult to predict the timing though. Those tend to be fairly opportunistic.

Brad Soultz

And the beauty is we don't have to do anything to deliver an outstanding trajectory.

Operator

The next question is from Brent Thielman with D.A. Davidson.

Brent Thielman - D.A. Davidson

Congrats on a great quarter, great year. I want to follow up on one of the prior questions that was more around the storage side of the business and some of the supply constraints in the industry. I heard something similar on the modular building side, just the cost of material, steel, lumber moving up. And I wonder -- I don't think that's an issue for you, obviously, because you've got a large fleet, big balance sheet, but I wonder if that's a constraint for some of the smaller industry participants and another lever for rate over the near term.

Tim Boswell

Yes. Brent, it's Tim. And yes, we'd agree with you. We monitor all of the domestic manufacturers and have a good pulse for how busy they are. And you're right, we're sitting around 70% modular utilization. And one of the things we've always said is that we would much rather take an older unit, refurbish it in-house. That is a core competency of WillScot that I don't think we advertise quite as much. It's a big competitive advantage to be able to manage these units not over a 10- or 15-year life, but like a 20- to 30-year life, and we do that because of our in-house expertise and refurbishment capability. We've got enough idle inventory to grow the business for several years before we need to go out and do any large-scale domestic modular fleet purchases. And we do have international sources of supply for our flex product. We do bring those in flat pack and containers. And that's the most innovative modular solution in the marketplace right now. So I think that's actually a net positive for the overall supply-demand balance in the market, and we're happy to see it.

Brent Thielman - D.A. Davidson

Okay. And then on -- sure. Go ahead, sorry.

Kelly Williams

I might add, Brent -- yes, just real quick. I think the other advantage I think that we've touched on historically is obviously scale. So I mean when you talk about a smaller competitor, our ability to reposition assets -- as Tim mentioned, we want to repair first, but our ability to reposition and take advantage of scale is such a huge differentiator when it comes to some of these smaller competitors.

Tim Boswell

Absolutely.

Brent Thielman - D.A. Davidson

Yes. And second question, I want to come back to Slide 15 just because, on the modular side of the business, it's such a massive change in terms of the trend in deliveries up 3% versus down mid-teens in the preceding quarter. I just want to get a better understanding, obviously it's an improvement in the storage side, but why you may have not seen that same trend on that side of the business.

Tim Boswell

Excluding the seasonal units is one caveat there, so we're trying to just zero in on the core. And I wouldn't read too much into it, Brent. I mean Storage had a fantastic Q4. I mean actual unit on rent volumes were up year-over-year. It was over a 15% sequential increase from Q3 into Q4 when you include the seasonal units, so no concern there. If you looked at the order numbers last quarter, you would have seen the reverse and asked, "Okay, why is Modular lagging a little bit?" I think the punch line here is both are seeing improvements, right? So I wouldn't get too lost in the relative percentages. The punch line is coming out of Q4, we've seen sequential improvements and are probably a little more optimistic about the market backdrop today than we would have been 90 days ago.

Kelly Williams

I might just add, too, on the storage side, you've got -- there is a significant amount of business that you're looking at to prior year that was – that were the retail remodels, and that's extremely high-volume, short-duration rentals. That is why, although you see the decline in activations, you see the improvement year-over-year in units on rent. So you've got a lot of units that didn't go on rent, but you also have a lot of units that didn't come back. So that duration that we have on the storage side is very, very similar to the modular side. So when you look at it from an overall basis, it's -- excluding seasonal, it's actually very much in line with what we would have anticipated.

Brad Soultz

I would just add. We do expect as we look forward that remodel business. We think it's just pushing out. It's absolutely just a deferral. So we're active with all of our large customers in support of their remodels whenever they're ready to go.

Operator

The next question is from Sam England with Berenberg.

Sam England - Berenberg

On the first one, I was just wondering if you could give us a sense for the delta between the current pricing that you're achieving and the pricing on legacy units coming back off rent on the modular side, if you exclude that. I was just wondering -- trying to get an idea of the pricing convergence opportunity.

Brad Soultz

Yes. Sam, just high level, it's going to be very similar to the convergence opportunity we've highlighted on the VAPS slide, right? That VAPS growth is driving 40%, 50% of the double-digit rate growth. The core pricing is driving the balance. There's a bit of portfolio on rent pricing optimization we do. It's a play in that as well, but the biggest driver will be core rates on new units delivered.

Sam England - Berenberg

Okay. Great. Got it. And then the next one, can you talk a bit about progress with national accounts? And particularly, have you had any early success on cross-selling with national accounts where there was an overlap between you and Mini?

Brad Soultz

Yes. I mentioned a couple before, like the large event, the Super Bowl, the response to the large retailers as well as some other general contractors in support of COVID. We're just really getting organized, Sam, to be frank, to really -- we need to go back and spend time. We're investing in a voice of the customer survey. We're going to spend time with some of our large GCs to really understand how we can provide more and more full turnkey, everything they need day 1 on the job, everything that will stay there for 3 years and everything we can pick up and bring back at the end of the duration. So we're not missing any opportunities. This is all just longer-term upside.

Sam England - Berenberg

Okay. Great. And then maybe just one more quick one. I'm sorry if you mentioned it, but I just wondered if you've seen any impact from the adverse weather recently and over the course of Q1?

Brad Soultz

Yes. Yes, absolutely, we have. You'll see -- again, keep in mind -- you can think of a hurricane as well, right, in the past. These events don't move the needle at the top of the house. But certainly -- I mean first and foremost, all of our employees are safe through this. We haven't lost any fleet or branches. But we absolutely have short-term volume disruptions in any one of these events, typically followed by a period of volume opportunities, volume increases and supportive rates. So I'm just most satisfied right now that we've got everyone safe.

Operator

The next question is from Andy Wittmann with Baird.

Andy Wittmann - Baird

The delivery information I thought was really helpful, and that gives us great context. Of course, since we didn't have order data this quarter, I thought I would ask about the order book. And you guys have referenced it, but I was just wondering, Tim, maybe if you could just talk about the status of the order book in the 2 primary segments as well as the experience that you had in the quarter on returns. I think in the third quarter, you mentioned that return activity was way down, something like 19%. And I was wondering if you could address what you saw in the fourth quarter on that front.

Tim Boswell

Yes. I'll start there, Andy, and then go back to the order outlook. It obviously informs our overall outlook for the year. But in terms of return activity, that year-over-year decline moderated pretty significantly in Q4. We were -- return activity was down, call it, mid-single digits across the business, so normalizing a bit, I think, as we head into 2021. Obviously, those big return declines in Q2, Q3 really did help mitigate some of the unit on rent impact that we could have seen from the delivery shock in Q2. So that is one of the ways that the portfolio is almost self-insulating in a way.

In terms of order activity, we didn't put it in the deck. We probably won't going forward just because there is more noise there than there is in deliveries. When a delivery goes out, you know it's going to be a unit on rent, right? So it's very difficult to argue with that. But we're seeing strong year-over-year increases, right, starting the year. And that is what is kind of informing our 3% to 5% delivery growth assumption across the business for 2021. We always try to ground our forecast as well as our capital allocation in the new demand leading indicators that we see. So sitting here today, it's, call it, low mid-single digits year-over-year order growth heading into the year. We're using that data to inform our outlook for the year.

Operator

The final question is from Sean Wondrack with Deutsche Bank.

Sean Wondrack - Deutsche Bank

Great job both operationally and on the M&A side on what was a very difficult year. Just in terms of M&A, are you seeing any larger-scale opportunities out there, whether it's on the storage side or other, for the right businesses where you would contemplate maybe a transaction where you could potentially see a short-term increase in net leverage before trending back to your target, given that your free cash flow generation is now accelerating?

Brad Soultz

Yes. Sean, obviously, we don't comment on the strategy of ourself or our competitors. As we've said before, we've got the capacity and capability to continue to pursue accretive M&A. It's also factual that given our scale on the storage side, targets -- the largest targets would be like 1/7 our size on the storage side; and on the modular office side like, say, 1/5 our size. So there's nothing of the magnitude of WillScot and Mobile Mini coming together to completely transform the industry. So watch the space. We've got the capability and capacity to do it. We also have a very busy book, if you will, right now, to just get these 2 companies seamlessly integrated and start unlocking all the value drivers we were starting to highlight earlier in my prepared comments.

Operator

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

Nick Girardi

Thank you, Thea. 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.