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TRANSCRIPT

Q4 2023 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

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Tim Boswell, President & Chief Financial Officer

Nick Girardi, Sr. Director of Treasury and Investor Relations

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Timothy Mulrooney, William Blair & Company L.L.C.

TRANSCRIPT

Operator

Welcome to the Fourth Quarter 2023 WillScot Mobile Mini Earnings Conference Call. My name is Amy, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

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

Nick Girardi

Good afternoon and good evening, and welcome to the WillScot Mobile Mini Fourth Quarter 2023 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. Slides 2 and 3 contain 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 statements 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 afternoon, everyone, and thank you for joining us today. I'm Brad Soultz, CEO of WillScot Mobile Mini.

Starting on Slide 6. 2023 was a record year for our company. We built a platform to deliver consistent, predictable compounding returns, irrespective of market conditions, and the strength of that platform was abundantly clear. We are ahead of expectations financially, eclipsing $1 billion of adjusted EBITDA faster than we expected. We delivered $577 million of free cash flow, which is $3 free cash flow per share, return on invested capital of 18%, and we grew earnings per share from continuing ops by 35% to $1.69. All of these metrics are company records. These compounding returns, along with our clear line of sight to continued growth, sets us up for years of long-term value creation.

In 2023, we continued to invest in our portfolio for the long-term benefit of our customers, team and shareholders. We upgraded and harmonized our CRM system, which provides a world-class IT platform upon which we can easily scale our offering and integrate acquired businesses. We continued our history of innovation, expanding our VAPS offering and establishing market leadership positions in climate-controlled storage and clearspan structures. We now offer our

customers over 129 million square foot of comprehensive temporary space solutions. And as the only pure-play provider, we're excited to continue to expand and reinvent this space for years to come.

As we begin 2024, our strategy is unchanged. We safely and frugally grow leasing and service revenues by driving VAPS rate and volumes underpinned by investments in best-in-class technology and our team to consistently improve the customer experience. We see immediate and significant tailwinds from VAPS rate and margins continuing into 2024. We also see continued opportunities to expand our solutions offering through programmatic tuck-in M&A, in addition to our previously announced definitive agreement to acquire McGrath. And we will continue to invest in capabilities to differentiate our portfolio of space solutions.

Just a few highlights. First, we're making new investments in both human capital and digital tools. I'm particularly excited about our plans to improve our digital customer experience with enhanced field service and dispatch tools while upgrading our Web presence with state-of-the-art customer portal and introducing more sophisticated demand generation tools.

Second, we'll continue investing in innovation, especially in the value-added products, and continue to scale our existing offering. Our proprietary PRORACK system is rolling out across 30 markets as we enter 2024. And some of you may have seen our solar prototype at the World of Concrete Convention, which we are now testing with customers and expect to place in the market in 2024. And we're introducing our proprietary ramp system for storage containers beginning in Q1, all of which give us opportunities to build on our lease revenues by providing a more comprehensive solution to our customers.

And third, the build-outs of our climate-controlled storage and clearspan structures platforms are well underway. Each of these businesses have exciting multiyear growth prospects. In order to further accelerate our growth initiatives and improve customer service, we've recently unified our go-to-market approach, consolidating our legacy WillScot and Mobile Mini branches and sales teams into a single field leadership structure that is responsible for maximizing local market penetration of all of our space solutions. This new structure gives us a single team that's accountable to our customers in each geographical market, allows us to present our whole full suite of solutions to our customers all of the time and allows us to leverage operational resources such as drivers, technicians and real estate to support all of our solutions in that given market, all while providing increased career development and growth opportunities for our team.

Now turning to Page 11. As we complete 2023, it's important to reflect on the growth of our portfolio. Investors sometimes ask me if I'm concerned about cyclicality in the economy and the potential impact on our business. The reality is we've operated like a duck on water through highly volatile market conditions over the last 5 years. 2019 was the last time there wasn't a major macro event occurring. And even then, we were busy integrating the ModSpace acquisition. And while nonresidential starts on both a dollar and per square foot basis slowed significantly in 2023, the modular quoting growth that we discussed in Q3 began converting into net orders and activations over the last 3 months and are now at levels above the same period the prior year. And this has given us confidence in our outlook, which Tim will discuss later.

In this graphic, we've indexed our lease revenue, GDP and nonresidential square foot starts to Q1 of 2019. At that time, we were generating approximately $1 billion of lease revenue over the prior 12 months on a pro forma basis. Over the next 5 years, leasing revenue grew 80% to $1.8 billion, all while improving ROIC 1,000 bps to 18%. Despite

macro movements that are outside of our control, our leasing and service revenue is recurring, predictable and growing and shows zero volatility. That's because of strategy and the $1 billion of idiosyncratic growth levers at our disposal, along with the value of the average 3-year lease duration.

Now turning to Page 18. Our strategy drives accelerated growth, differentiated positioning and undisputed category leadership with demonstrated world-class execution and capital allocation. We're excited about how the recently announced definitive agreement to acquire McGrath RentCorp will further accelerate our growth and extend our value proposition to new customers, all complementary to the extraordinary opportunity already within our existing platform.

As a reminder to how a size of this transaction can further accelerate our growth, let's look back to our performance following the WillScot Mobile Mini merger. At the time of the transaction closing, we were doing around $620 million of LTM EBITDA. Since then, we've divested more EBITDA than we've acquired, and we just delivered over $1 billion of EBITDA, up approximately 70% since 2023.

Given our performance in 2023, we increased our near-term 2024 and 2026 operating ranges on a few of our key metrics. Notably, we believe we can achieve adjusted EBITDA margin between 45% and 50% and return on invested capital between 15% to 20%. We also believe we can achieve over $700 million of free cash flow within this 3-year horizon. These milestones are achievable irrespective of the announced McGrath acquisition, which itself would be accretive to cash earnings in year 1.

Our investor value proposition is simple. Our financial performance is predictable and growing due to our $1 billion of idiosyncratic growth levers, all governed by 3-year lease durations. We can enter new markets from a position of strength and with clear market leadership, which creates more value for our customers and increases our total addressable market. And most importantly, we generate a lot of cash, which we invest to maximize sustainable returns in our business and drive value for our shareholders.

With that, I'll hand it over to Tim.

Tim Boswell

Thank you, Brad, and good afternoon, everyone.

Page 23 shows a high-level summary of the quarter. 2023 was the strongest year in our company's history. And despite some market headwinds, we are carrying momentum into 2024, which supports another year of record financial performance.

Our commercial KPIs were mixed throughout the year, with rates generally offsetting volume declines, which were in line with contraction of nonresidential construction starts square footage plus the retail headwinds we've discussed in our storage segment. Nonetheless, leasing revenues grew by 5% year-over-year in Q4, with growth obviously being stronger in the modular segment.

Margins continue to be a bright spot heading into 2024 with a record 47% adjusted EBITDA margin in the quarter. We continue to see strong operating leverage on both our leasing costs and SG&A expenses which we expect to

continue into 2024. And with the stronger margins and lower capital expenditures in 2023, the business is cash flowing nicely with a 24% free cash flow margin for the year in the middle of our target operating range.

Strong cash flows and returns give us confidence to deploy capital in other areas. We invested $562 million in 8 acquisitions through the course of the year, including our climate-controlled storage and clearspan structures platforms, which you can see pictured throughout the deck. And we repurchased 18.5 million shares for $811 million during 2023, reducing our share count by 8.6% over the last 12 months. Return on invested capital of 18% continues to climb within our near-term operating range of 15% to 20%. And our leverage of 3.3x net debt to adjusted EBITDA is comfortably inside our target range of 3.0 to 3.5x.

So overall, it was an excellent year financially and the business has never been stronger from a profitability and capital efficiency standpoint. Volumes underperformed our plans consistently during the year, so those are a headwind in our run rate and an area of focus for the team. But regardless, our trajectory supports another year of strong EBITDA, free cash flow and margin growth, which you see in our guidance and which reflects the extraordinary resilience of our business model.

Page 24 lays out revenue and adjusted EBITDA for the quarter. Let's start with total revenues, which were up 4% in Q4 with some nuances between segments and revenue streams, which are worth noting.

I mentioned the leasing revenues were up 5% on a consolidated basis. Leasing revenues were up 10% in the modular segment and down 2% in storage due to the much stronger retail contribution in storage in 2022. The slower retail season also drove a 3% year-over-year decline in our consolidated transportation revenues in Q4, again, all confined to the storage segment. 15% growth in our sales contribution helped to offset some of those headwinds. And I expect that new and used sales are an area where we have some additional opportunity in 2024.

Margins continue to be a long-term tailwind driven by increased pricing and value-added products penetration as well as operating and scale efficiencies that we discussed previously. Q4 margins expanded across all revenue line items with the exception of delivery and installation, and overall EBITDA margins increased by 160 basis points to 47%, which was an all-time high. Margins will compress sequentially from Q4 into Q1 and likely compress year-over-year in Q1 as maintenance and delivery volumes pick up based on the modular activity that we're seeing and Brad referenced. Our longer-term trajectory is, however, quite attractive, and we're expecting another year of margin expansion overall for 2024, and we increased our near-term annual operating range to 45% to 50% to reflect that.

Overall, the growth in margin expansion in Q4 drove EBITDA up by 7% to $288 million in the quarter, with growth being consistent across both segments. And it was an exceptional year for earnings growth with earnings per share from continuing operations up 35% and free cash flow per share of $3.04 up 104% versus 2022, and we see this compounding continuing into 2024 and beyond.

Moving to Page 25. We continue to see very healthy net cash flows from operating activities and expect that cash flow will continue to compound predictably into 2024 based on our outlook.

Net CapEx was at maintenance levels in 2023, down approximately 50% year-over-year. Obviously, volumes were the biggest driver of the capital expenditure reduction, although we also continue to benefit from more efficient work order spending and moderating inflation, both of which I expect we will sustain as volumes return. As I noted on the

Q3 call, net CapEx did increase sequentially from Q3 into Q4 due to growth investments primarily in our climate-controlled storage platform.

Overall, free cash flow increased approximately 35% year-over-year to $166 million in the quarter, and free cash flow margin increased to 27% in Q4. Over the last 12 months, we generated $577 million of free cash flow and a $3.04 of free cash flow per share, both company records, and free cash flow margin increased to 24% in the middle of our target operating range. Based on our outlook for 2024, we're set up for another year of strong free cash flow per share growth with a best-in-class margin profile, so this continues to be a differentiating feature of our business model, particularly as we scale. We see multiple pathways to $700 million of free cash flow as we roll forward our model into 2025 and 2026, so we're quite comfortable eclipsing the $4 of free cash flow per share milestone over the horizon and before incorporating McGrath.

Turning to Page 26. We maintained leverage sequentially from Q3 to Q4 at 3.3x net debt to last 12 months adjusted EBITDA, which is comfortably inside our target range. As I've said previously, we can easily deleverage by approximately 1 turn per year when we so choose. So we're comfortable at this level and intend to flex leverage upwards opportunistically for the McGrath acquisition and then deleverage again back into our target range.

In January 2024, we executed another floating to fixed SOFR swap for $500 million of notional value at a fixed rate of 3.7% for a 1-month term SOFR. We incorporated this transaction here to present the most current view of our cash interest costs and weighted average pretax cost of debt. As of December 31 and inclusive of all swaps, our pretax weighted average interest rate was approximately 5.9%. Our annualized cash interest was approximately $212 million, and our debt structure was approximately 77% fixed and 23% floating rate. We have approximately $1.2 billion of liquidity in our ABL revolver, which gives us ample flexibility to fund our capital allocation priorities. And as a reminder, as part of the McGrath acquisition, we have commitments from our bank group to upsize our ABL revolver to a $4.45 billion facility size and include McGrath's assets in our borrowing base at closing, which will continue to give us excess availability in that facility.

Overall, we have abundant liquidity and a flexible capital structure, and we're obviously taking advantage of that strength to undertake the highly synergistic combination with McGrath.

Page 27 shows our capital allocation framework and our performance over the last 12 months. We generated $1.7 billion of capital on a leverage-neutral basis in the year, inclusive of the U.K. divestiture. Our capital allocation in Q4 and for 2023 was consistent with our framework. We invested $185 million of net CapEx in 2023, which approximates net maintenance levels. We invested $562 million in M&A while expanding our solutions and total addressable market, and we invested $811 million in share repurchases, resulting in an 8.6% reduction in economic shares outstanding over the last 12 months.

Again, we create shareholder value by generating sustainable growth and returns over time. And you can see this in our annual free cash flow up 75% year-over-year, free cash flow per share and earnings per share from continuing operations up 104% and 35%, respectively, our return on invested capital up 230 basis points for the year to 18%.

Lastly, before turning it back to Brad, Page 28 shows our outlook for 2024. While we are navigating some headwinds, we fully intend to build upon all of the record financial metrics that we achieved in 2023 and deliver a compelling run rate heading into 2025. Our view of the macro environment for 2024 has become more cautious since the last quarter given the contraction in Q4 nonresidential construction square footage starts. We are seeing continued tailwinds from

larger-scale projects within our industrial and manufacturing end markets for which we are uniquely well positioned to compete. We also expect continued headwinds related to smaller projects and end markets such as commercial office and warehousing. However, we do see a scenario where those segments stabilize if the interest rate cycle turns through the course of 2024.

With this backdrop, our base case is for mid-single-digit delivery volume growth year-over-year, which would cause average units on rent to inflect positively in the second half of the year. Delivery activity across our modular fleet through February is encouraging and exceeding this growth expectation, whereas the year-over-year retail headwind in storage is still rolling off through Q1, so storage delivery volumes have not yet turned the corner. So we're taking a cautious approach with respect to volumes at this point in the year, and I think the risks and opportunities are balanced across those solutions.

Pricing remains strong across all product lines. So we're continuing to benefit from that $200 million tailwind in our guidance. And similarly, value-added products are continuing to grow both on an absolute and a delivered basis. Year-to-date, our delivered rates on value-added products are up year-over-year across all product lines. Value-added products in the storage segment continue to build consistently as penetration levels increase, and delivered value-added products rates in the modular segment year-to-date are in line with historical highs, so an encouraging start to the year. These base case assumptions for our leasing KPIs, combined with approximately a $75 million incremental benefit from acquisitions that were completed in 2023, support the midpoint of our revenue range and roughly 8% total revenue growth for the year.

From a timing standpoint, we expect to see a normal seasonal revenue contraction from Q4 into Q1 and then a steady sequential revenue build as we progress through the year. So I'd expect total revenue growth to be a bit lower in the first half of the year and higher in the second half with 8% overall revenue growth for the year at the midpoint.

In terms of margins, we're expecting another strong year of margin expansion with approximately a 50 basis point increase in EBITDA margins for the year, at the midpoint of our guidance ranges. I'd expect margins to contract both sequentially and year-over-year in the first quarter and then expand as we progress through the year, assuming we have a stronger ramp in delivery volumes than we saw in 2023. The net result should be a normal seasonal contraction of EBITDA from Q4 into Q1 sequentially followed by a consistent sequential EBITDA growth through the course of the year. EBITDA would be up approximately 10% year-over-year, at the midpoint of the guidance for the full year. And similar to revenues, I'd expect that growth to be stronger in the second half of the year relative to the first.

Capital expenditures should normalize relative to the extremes of the past 2 years based on our demand assumptions with increases in fleet purchases from newer product categories, increases in modular refurbishments and limited fleet investment in the storage category, resulting in approximately $275 million of net CapEx, at the midpoint, which would be up approximately $90 million or nearly 50% year-over-year. And with approximately $212 million of run rate cash interest costs, the guidance implies another year of solid free cash flow growth, which will compound meaningfully on a per share basis.

As is our practice, the guidance does not assume any contribution from new acquisitions such as McGrath, and we will update the guidance quarterly to incorporate transactions that have closed.

As another housekeeping matter, given our field realignment in January, we expect to transition to a single reportable segment beginning with Q1 2024 reporting, which is a better reflection of how we operate the business. Assuming we make this change, we will continue to disclose all of our operating KPIs with the same level of detail and will provide historical data for comparability on our website. We are continuing to finalize this approach with our auditors.

Over the past 6 years since going public, our company has transformed at a pace that is unprecedented in our peer group, and we expect this transformation to continue as we execute our plans for 2024 while introducing the compounding benefits of McGrath. I'm extremely proud of the results delivered by our team in 2023 and have confidence that recent investments in our organization structure, our technology and our product offering will allow us to deliver another record year in 2024 while accelerating our run rate into 2025.

With that, Brad, I'll hand it back to you.

Brad Soultz

Thanks, Tim. Thank you to our customers for their continued business. Thank you to our team for delivering the best financial year in company history and our safest ever, and thank you to our shareholders for their trust with their capital. I look forward to another strong performance in 2024. 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

(Operator Instructions) And our first question comes from Tim Mulrooney with William Blair.

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

I wanted to make sure I understood the portable storage rate growth. I saw on the slides that about half of the total increase was driven by your recent cold storage acquisitions. Just to be clear, does that mean that core organic average storage rates were up about, I don't know, 10% year-over-year, excluding acquisitions?

Tim Boswell

Tim, for purposes of Q4, that is correct. It does conceal the fact that the seasonal storage business, which is at a significantly higher average rental rate typically, made up a lower mix of Q4 storage pricing. So if we kind of strip out the mix effect of seasonal retail storage pricing, and that seasonal retail pricing was roughly flat year-over-year in Q4 and just comprised a lower mix of our total, the core storage average rental rate would have been up about 20% year-over-year. So still very strong average rental rate performance in the core storage business diluted a bit by a

lower mix of seasonal retail volume in Q4 and then inflated a bit by the addition of the cold storage platform for a full quarter in Q4.

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

Got it. That's helpful. Taking all of that into account, can you talk a little bit about what your expectation is for rate growth in portable storage this year?

Tim Boswell

Yes. I think we're going to roll into Q1 with just stripping out cold storage with core storage rental rates that continue to be up high double digits. Maybe not the full 20% that we saw in Q4, that probably starts to taper down a bit as we go through the year, but high teens is my expectation as we enter 2024 for storage, excluding the cold storage business.

Operator

Our next question comes from the line of Manav Patnaik with Barclays.

Ronan Kennedy - Barclays Bank PLC

This is Ronan Kennedy on for Manav. As a follow-up to Tim's question, which covered off on the pricing aspect of storage, can you just recap for store units ex the acquisitions that were announced, recap the unit decline and what the drivers of those were for both 4Q and for full year?

Tim Boswell

Yes. Ronan, this is Tim. I'll just focus on the 4Q components. And average units on rent were down about 35,000 units versus prior year. And you can think of that as roughly half attributable to our retail clientele, some of that seasonal, some of that related to remodels or other use cases within the retail segment. And the other unit on rent component is attributable to kind of core construction, commercial and industrial clientele and is, through the course of the year, tracked with the overall market decline to nonresidential square footage, which were down about 18% overall for the year. So overall, those are the two primary drivers of the storage volumes.

Ronan Kennedy - Barclays Bank PLC

Got it. And then just on the overall demand or, I guess, demand overall and more specifically by kind of your end markets. I know you had said you've seen -- gotten more cautious from a macro standpoint given what happened to

non-resi starts, some continued headwinds or tailwinds in industrial, manufacturing headwinds in commercial office and warehousing. Any other segments to call out? And then if you can give us some insight into kind of your leading indicators that you typically touch on such as the quoting volumes and what you're seeing broadly from, say, quote-to-close lead time, project elongation or delays, that type of thing, for some insights on the demand picture.

Tim Boswell

Yes, it's just an interesting one. And as Brad mentioned in his prepared remarks, we started to see year-over-year quoting growth in the modular business in the mid- to high single digits as far back as our Q3 call. And what we're starting to see now year-to-date to start the year is year-over-year net order growth that actually exceeds that level, approaching double digits in our modular business, excluding the ground-level offices. So we are seeing that quote growth that we saw in Q4 converting into activations in our modular business to start the year in -- year-to-date through February. And that's giving us some reason for optimism as it relates to the demand environment that we're heading into given that we usually see a seasonal build in activations as we go from January to February, into March and April. So the signs there in the modular business are pretty encouraging and, frankly, exceed our base case assumption so far, which are centered around mid-single-digit delivery volume growth for the year.

As I said in my remarks, the storage business isn't quite there yet. We're still experiencing runoff from the seasonal retail demand in Q4. And on a year-over-year basis, that seasonal contribution was still fairly pronounced if we look at Q1 2023. So I think we still have a headwind there in the storage volumes for purposes of Q1. But I think we're running a bit ahead of that in terms of our modular volumes which, again, I think we've got a balanced outlook when we take both segments into account heading into 2024.

Operator

Our next question comes from the line of Seth Weber with Wells Fargo.

Seth Weber - Wells Fargo Securities, LLC

I guess, Tim, I heard your comments about first quarter margin being down year-to-year. I guess my question is, do you need volumes to flip positive to inflect positively, for margin comps to be up year-over-year for the rest of the year? Or do you think margin comps could turn positive in the second quarter even without volumes turning positive?

Tim Boswell

Very much the latter, Seth. Absolutely, margins can inflect, frankly, even quicker without the activation growth. And it is the activation growth in our business when we incur maintenance expenses. As we're performing maintenance activities, those units then go on rent and build our lease revenue run rate. So we're actually incurring more of those upfront maintenance expenses in the business right now in Q1 to support the activations in the modular business that

Brad was talking about. That creates a short-term pressure, especially when you look at it on a year-over-year basis. And your comparison last year was pretty light in terms of the activation and the maintenance volumes.

So this actually is a good thing and a positive indicator because you're getting stronger activation activity, you're supporting that activity with more maintenance investment. The short-term implication is that you'll get a quarter or so of margin compression, but then that compression kind of reverses itself as you progress through the year. If, for whatever reason, activation volumes were to slow, margins would bounce back even faster. So it's a positive sign that we're seeing in the business. That said, it's early, it's year-to-date, middle of February. And the true seasonal build in the business typically starts to take place in the second half of March going into April.

A similar phenomenon, if you went back to our sequential progression from Q4 2021 into Q1 of 2022, we had the same exact dynamic where the business was rebounding pretty significantly coming out of the pandemic. Year-over-year activations in the first half of 2022 exceeded prior year levels. And we incurred more maintenance as a result, tighter margins as a result. But I think at the time, I described that as being kind of like a coiled spring. The margin then just pops back as lease revenues kind of stabilize through the rest of the year.

Seth Weber - Wells Fargo Securities, LLC

Yes. Super helpful. And then I think I heard discussion around consolidating sales force and stuff like that. Is there any -- are you making any changes to comp structure or anything from an incentive perspective with respect to cross-selling or selling adjacencies? Or anything that we should be aware of, just how you're addressing this more consolidated sales force?

Brad Soultz

Yes, Seth, it's Brad. That's something we're really excited about, and I would characterize it as a little more evolutionary than revolutionary. We effectively operated the Mini sales team focused on storage and ground-level offices and the WillScot side by side; very complementary, very collaborative. But if you'll recall, they were running 2 separate CRMs up until early last year. So the combination of the CRMs has afforded us the ability to make this shift, if you will. So every geographical end market has 1 P&L, covers all products, which is particularly important as we add climate control, clearspan and other products. So we've aligned, similar as to the past, every territory, if you will. Think of it as a band of ZIP codes. We would have had 2 sales reps covering it, 1 more storage focus, 1 more modular. That's now 1 person accountable for the whole territory. Think about the territories probably got a bit smaller with a massive team behind to support inside sales activity.

And then as I mentioned in my prepared comments, a pretty significant investment this year in demand acceleration creation tools as well as the whole digital platform to further accelerate that. So we're super excited. The change went very, very well in the field. Again, think of it as more evolutionary. But it does put us in a great spot to accelerate cross-sell modular and storage and add all these new great products.

Operator

Our next question comes from the line of Andy Wittmann with Baird.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Yes. Great. I thought I would -- it looks like -- judging from your slides here, it looks like you reclassified the way you guys are talking about spot VAPS in the modular segment. Before it was just modular in modular, now it's modular and GLO in modular. So Tim, I was just hoping you could shed some light on this just for comparison purposes as to how that spot VAPS metric has been trending. If you could kind of give us that number on the old basis to modular-modular basis, if you will. I see the comment here that AMR, I guess, is down 7% on the old basis. But I think that's the total AMR, not just the spot VAPS, so I thought I would ask for a clarification on that.

Tim Boswell

Yes. Through February, if you look at the VAPS delivered rate as reported, as we would have historically, you're north of $480. So as I said in my prepared remarks, we're back to kind of all-time high levels, if you were to go back and look at that delivered metric relative to how we used to report this. As I mentioned in my remarks, Andy, we are very likely moving to a single segment. So this dynamic where you've got modular product in the modular segment and modular product in storage kind of goes away. And we'll look at the modular fleet, and we'll operate the modular fleet more importantly, as a single combined asset class, and that's how we're going to market.

When you include the ground-level offices, obviously, penetration has been growing very rapidly across that asset class for some time now, quite consistently. And based on some of the changes we made systematically and in the quoting process through the course of the second half of last year, we're seeing very good VAPS attachment rates, if you were to look at it through the lens of the prior reporting methodology.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Got it. Okay. That's helpful. And then I guess just a follow-up, a question that's been asked plenty of times before but I think worth asking again given that the demand environment is still dynamic and even changing a little bit per your earlier comments. I thought I'd ask just on your rate sensitivity, if you could talk about that. Has the changed demand at all affected your ability for what I'd call raw price?

Tim Boswell

No, it hasn't. I believe one of the first questions was breaking down the price performance in our core container category, excluding cold storage, and those rates were up approximately 20% year-over-year in Q4. So that's a good indication of the momentum that we are carrying into 2024. And then if I look at the spot rate spreads in our modular products, we still got a favorable spread of around 29%, so that hasn't contracted meaningfully. And our ground-level

office spread is approximately 22%, so that continues to be quite indicative of a powerful tailwind across the modular products. So feeling good about the rate environment going into 2024, and we haven't changed our approach.

Operator

Our next question comes from the line of Scott Schneeberger with Oppenheimer.

Scott Schneeberger - Oppenheimer & Co. Inc.

Tim, could you address what the contribution is from climate control and clearspan in your 2024 guidance, kind of what that contribution is, and then what everything else is at the high end or the low end or midpoint or however you want to address it, kind of a bridge of what price, what volume is in the 2024 guidance?

Tim Boswell

Okay. I don't know that I'm going to bridge every metric here, but I will say, if we look at all of our acquisitions in 2023, we invested about $562 million. There's about -- that was for about $70 million of acquired EBITDA, which implies about an 8x blended purchase multiple. And about $35 million of that acquired EBITDA has yet to flow through our numbers. So in terms of the incremental EBITDA lift that we expect to get in 2024, $35 million of that will be coming from just the rollover of acquisitions that we've already executed. And then the remaining, call it, $65 million of EBITDA growth to get to the midpoint of our guidance, would be coming from other organic levers in the business. I mentioned 50 basis points of margin expansion at the midpoint. I mentioned volumes likely inflecting somewhere in the second half of the year, so likely flat to down on average if you look at the year as a whole. And then you can infer the pricing and value-added products are driving the rest of the growth to get us to the EBITDA midpoint for 2024.

Scott Schneeberger - Oppenheimer & Co. Inc.

I appreciate that. And then for a follow-up, just there've been plenty of questions on storage and retail, but I'm going to add on to this. How are you thinking about the retail and the bounce-back? We've heard from Walmart remodeling nearly 1,000 stores globally, 650 in the U.S. It seems like there's going to be a lot of activity there. There's some very easy comps. We have your guidance, but I'm just curious how you're thinking about the retail component here as we move through 2024.

Tim Boswell

We haven't baked in a significant rebound from that vertical in our guidance. If we look at kind of first half delivery expectations for storage, for example, very modest despite the comps that we're looking back to in 2023. We have assumed that delivery volumes then begin to grow a bit more in the second half of the year, but it would not assume a

dramatic increase in remodels or seasonal activity. So we've taken a cautious view as it relates to those volumes. We're aware of the 1 data point that you referenced. We're also aware of some others that may not begin that store remodel activity until 2025. So we're trying to be balanced about that outlook, and the outlook isn't predicated on a strong recovery there.

Operator

Our next question comes from the line of Faiza Alwy with Deutsche Bank.

Faiza Alwy - Deutsche Bank

So Tim, I wanted to follow up on your macro comments around being incrementally cautious. So on the one hand, I'm hearing you talk about some optimism on the modular side, and then we were just talking about retail and how it doesn't seem like things got incrementally worse because we knew sort of the issues around remodeling getting pushed out. So I'm just curious like where -- like what's changed from a macro perspective in the last few months that's leading you to be incrementally cautious?

Tim Boswell

You're right, Faiza. There are mixed indicators out there, right? The newest data point that we have is the fourth quarter nonresidential construction square footage, which was down 29% year-over-year. So that's a big drop, right? It was down 18% for the year, with Q4 being the softest quarter. Now those overall square footage levels are still kind of in line or above 2018 and 2019 levels. So this is still a healthy operating environment, it's just that we're coming off of a 2022 that was pretty extraordinary and set some all-time highs, right? And we saw that impact in our Q4 storage volumes, excluding retail.

I agree with your point that the retail assumptions are not materially worse than we would have talked about in Q3, they're just rolling over a bit later just because there was some contribution from that demand in Q1 2023. So from a year-over-year perspective, that headwind will kind of ease as we get into Q2, specific to the storage segment. And then contrast that with what we're seeing with modular demand to start the year. Again, we're seeing good conversion of the quoting activity that we were seeing in Q4, and we're seeing strong year-over-year growth in net orders and activations. Now if we sustain that at mid-single-digit growth levels through the course of this year, we're going to inflect units on rent, and we're going to have a pretty compelling trajectory going into 2025. But it's just the end of February, and that normal seasonal build in our business starts to become a lot clearer as we get into the second half of March and April.

Faiza Alwy - Deutsche Bank

Okay. Understood. And then I don't think the question around sort of modular pricing has been asked yet. I'm just curious, it feels like the rental rate, like just the growth in pricing has been decelerating through the course of the year, right? In the first half, we were up 17%. It's a little bit less in 4Q. Curious if there was a mix impact there and what that might be and then how we should think about modular pricing in '24.

Tim Boswell

Yes. As I mentioned a minute ago, one place I typically look is just the spread that we're seeing between our delivered spot rates and the average rental rates, right? And right now, if we exclude ground-level offices, that spread is about 29%. And if we isolate ground-level offices, that spread is about 22%, right? So those are very healthy spreads going into 2024. And a simple way to think about that is, if you've got a 3-year average lease duration, divide that spread by 3, so you can get roughly 10% annual growth just by holding the current spot rates that we're seeing in the business. So that remains a very powerful tailwind as we enter 2024, and that is our base case assumption across the modular products, inclusive of GLOs.

Operator

Our next question comes from the line of Steven Ramsey with Thompson Research.

Steven Ramsey - Thompson Research Group, LLC

So modular activations and orders trending up to start the year. Can you clarify on storage, if you exclude the holiday runoff and if you exclude retail remodel kind of storage onto construction, industrial type job sites, is that trend pacing behind where modular is to start the year? And maybe this gets to how cross-selling is happening in this period of modular activations moving up kind of in real time.

Tim Boswell

I'll focus more on our outlook, Steve, it's just probably the better place to go. We've assumed that activations in the core storage business are relatively flat for purposes of Q1 and Q2 and then start building as we get into the second half of the year. That's mostly a function of the comps being easier as we get into the second half of the year. I wouldn't say that we've embedded assumptions specific to greater cross-selling, although I think that's definitely an opportunity. I think there's opportunity within our enterprise account portfolio, for sure, to the earlier question around store remodels as well as other non-retail related customers. But it's more a function of kind of what we see to start the year and making sure that we're taking a balanced approach with those assumptions across the portfolio given the non-res activity that we just saw in Q4.

Steven Ramsey - Thompson Research Group, LLC

Okay. Got you. And then on the CapEx range, thinking about the midpoint $50 million higher year-over-year, how much of that is tied to the revenue range? Basically, do you foresee having to invest to the high end of CapEx for the year to reach the high end of revenue?

Tim Boswell

Look, CapEx is demand-driven. And just to clarify, if we did about $185 million of net CapEx in 2023, the midpoint is about $90 million higher than that or about a 50% increase. So this is a significant increase, although very much centered on where we would have pointed to in terms of our long-term kind of normalized annual CapEx requirement. If you assume there's around $180 million of maintenance CapEx spend in the business, this does imply growth investments to support modular refurbishments as well as growth investments to support primarily the climate-controlled storage platform that we introduced.

I think it is -- depending on where the growth to get you to the higher end of the range comes from, it may or may not require incremental CapEx. If we got surprised to the upside in terms of storage demand, well, we've got plenty of excess capacity. Those assets don't require refurbishment, and you could capture that incremental storage demand without a meaningful increase in CapEx above this midpoint. If that demand came more from the modular side of the business, I fully expect we'd be investing incremental refurbishment dollars in order to get there. The only area in the business where we need new fleet would be across the new 2 new platforms, right? And that will be purely demand-driven as those assets get absorbed into the market. We can feed more inventory into the branch network. That obviously is a very good thing and would support our run rate going into 2025.

So I think we can grow with a lot less CapEx on the storage side based on how we're positioned right now and normal modular refurbishment activity. We reassess every 90 days using our zero-based capital allocation process and no change in that from my perspective.

Operator

Our next question comes from the line of Philip Ng with Jefferies.

Philip Ng - Jefferies LLC

Encouraging to see modular activations and net orders up year-over-year. Any end markets that stand out that's driving the pickup in activity? And when we look at modular versus storage, trends obviously have diverged a bit even at the start of the year. Outside of retail, anything else that's driving some of that divergence from your perspective?

Brad Soultz

I'd say, Phil, that modular is pretty broad-based. I mean, obviously, with the decline we experienced in non-resi construction, we're winning in infrastructure, other large onshoring, reshoring, et cetera. And it is pretty broad-based geographically and by end market, so quite encouraged by that. And as Tim mentioned in his prepared remarks, we just haven't seen the storage volumes turn yet accordingly.

Philip Ng - Jefferies LLC

And Brad, the uptick has been more on some of these mega projects infrastructure that you're seeing on the modular side in terms of activity?

Brad Soultz

Maybe a bit biased to that, but it's been pretty broad-based. I mean including ground-level offices and modular, the activations over the last 3 months are up low single digits. And excluding ground-level offices, they're up more than that. So as Tim said, it's encouraging. It's early. So it's one that we'll watch and we're prepared to invest if that demand continues.

Philip Ng - Jefferies LLC

Okay. Tim, I guess your guidance for the full year, if I heard you correctly, I mean, at least you're seeing some green shoots on modular. So your base case for units on rent inflecting there seems more than reasonable. But what if the retail doesn't come back and kind of languishes here? And you don't see that pick up perhaps in the back half, I don't know if that's what you're baking in for storage, how meaningful is that to your ability to kind of hit the midpoint of your full year EBITDA? It still seems like you got enough levers on price mix, but any context would be helpful.

Tim Boswell

To your point, we have so many levers in this business to offset what I would characterize -- in your question, there's a relatively minor headwind, if that's what we're faced with, is a no storage retail recovery in the second half of the year. We've got pricing levers, value-added products levers, margin levers. I don't view that as a significant concern relative to the midpoint of the guidance given that we've taken a pretty conservative approach for the year as it relates to storage volumes.

So look, as has been our history, we're trying to put forth numbers that we believe we can deliver. In order to get to the upside of this range, I think more has to go right, you probably need some of that storage end market recovery in a more significant way. Maybe some tuck-in M&A helps get you to the top end of the range, maybe stronger margin performance than we're expecting is an upside lever to get you to the top end of the range. But we've got multiple ways to win that I think get us to the midpoint.

Operator

Our next question comes from the line of Brent Thielman with D.A. Davidson.

Brent Thielman - D.A. Davidson & Co.

Just a couple quick ones for me. Tim, I was hoping you could just level set us on interest expense expectations for 2024, just obviously, pre-McGrath. And then my second question, is there anything that precludes you from continuing with the buyback while we wait for the McGrath closure?

Tim Boswell

Yes. So on your first question, it's actually a good one. As we state in the materials, we're on about a $212 million cash interest run rate, inclusive of the swaps that we executed in January. That does not include about another $12 million or so of non-cash deferred financing fees that are amortizing through the P&L. And I know some analysts out there are missing that, especially as you look at the Q4 numbers, right? So you got to take the cash interest, add another $12 million and you should be, at least on our current run rate, around $225 million of GAAP interest expense for the year, divide that by 4 for the current quarterly run rate. What we do with the debt balance as we progress through the year, obviously, there are different scenarios there that we'll adjust for. But that's the right baseline as you think about where we're at heading into Q1.

We did pause the buyback in the middle of Q4 when we got to the point of having material nonpublic information relating to the possibility of a McGrath transaction, right? So the buyback has been on hold since that time. And as long as we have material, nonpublic information, then we will not be in the repurchase market, but that can change here as we release earnings obviously and as the transaction progresses. So it's kind of a period-by-period determination as to whether or not we should be in the market from a repurchase standpoint.

Brent Thielman - D.A. Davidson & Co.

Okay. Understood. I thought of one other, if I could. Just you talked a lot about the end markets, especially retail non-res here. I think I'm more interested in I guess some of the other things you're doing internally that can move the needle on volume, without obviously wanting to sacrifice the higher lease rates you've earned here. I've heard you mention consolidating branches, sales forces, et cetera. But anything we can think of as sort of share capture initiatives irregardless of what these markets afford you over the next 12 months?

Tim Boswell

Yes, there are quite a few, Brent. I mean the field realignment is very meaningful. We've got a single general manager now responsible for every geographic market that we serve, a single leader and team that's accountable to our customers and responsible for presenting all of our solutions at every opportunity to all of our customers, right?

So that is a structural change that supports cross-selling. It is enabled by the consolidation of our CRM. Not only did we consolidate the CRM, we launched an algorithm-enabled opportunity prioritization tool for our sales reps, which takes some of the guesswork out of what is the next best opportunity that a sales rep should be working.

And those recommendations are tailored to our sales reps based on their role, whether they're responsible for a territory or maybe they're responsible for a certain product category. We are supporting that. We're in the early stages of supporting that with much more sophisticated digital marketing tools, which we're starting to pilot here in Q1 and going into Q2. And we've got opportunities in enterprise accounts and vertical business development. So there's a fairly long list of things, in my opinion, that have the potential to drive volumes irrespective of markets, but they're also relatively early stage. So we haven't assumed any benefit of those in our assumptions for the first half of the year, but they're all quite logical and potentially impactful both individually and collectively. So I'm really excited about those investments and those changes in our structure that we made through the course of 2023. And frankly, we're getting a little bit impatient. We want to see the production that comes out of those investments. That's what we're excited to see here in 2024.

Operator

Our next question comes from Angel Castillo with Morgan Stanley.

Angel Castillo - Morgan Stanley

Just a quick one, I just wanted to make sure, I guess, I understood correctly. It sounds like -- just looking at the slides, I guess, the average VAPS rate was down $274 for modular from $277. And I guess, as I recall from the third quarter, it sounded like you had seen kind of a strong inflection in your delivered rates. So just kind of trying to understand the bridge to that fourth quarter decline. And then as we think about the comments in the slides that talked about an LTM delivery rate that's expected, or I guess it's down 7%, and won't really inflect that until kind of the second – or the middle part of 2024. So just trying to understand that and bridge it to the $480 number that you talked about earlier.

Tim Boswell

Right. The $480 is the delivered rate that we've achieved through the course of February so far, and I think that was more like $450 or so in the month of January, so ramping up significantly relative to where we were performing in the second half of the year. And assuming we sustain those levels, which are in line with the historically, our historical highs going back to 2022, that LTM rate as reported under kind of prior quarter's methodology would inflect in that kind of Q2 time frame. So I think it's just a reflection of you need more of that performance under kind of today's penetration rate to flow back into the LTM and offset some of those weaker periods post the CRM cutover in Q2 of last year.

Angel Castillo - Morgan Stanley

Got it. So I guess for the current VAPS rate of $274, was that just essentially the flow-through of the CRM still kind of impacting?

Tim Boswell

Yes, the $274 was up 8% year-over-year, right? And so that's going to be a reflection of the increasing low penetration primarily in that number. And that's probably the biggest driver.

Angel Castillo - Morgan Stanley

Got it. And maybe just a quick housekeeping one. Just in terms of the sequential step-up in new and rental unit sales for the fourth quarter, could you just give us a little bit more color on that and also your expectations for 2024?

Tim Boswell

Yes. It's probably two drivers, primarily. Given where fleet utilization levels are at, all else equal, we'll be a bit more opportunistic with some of the rental fleet sales. One of the acquisitions that we executed, I want to say it was the August time frame of last year, has some niche manufacturing capabilities, serving primarily the education market on the West Coast. And the full quarter contribution of that business is flowing into the new sales revenue line for purposes of Q4. So I think that kind of Q4 mix is probably a reasonable indicator of how we're operating going into 2024. Sales are inherently a little bit lumpier in terms of when they fall, so that mix could fluctuate over the course of a given quarter overall for the year. Like I said in my prepared remarks, I think there's some growth opportunity across new and used sales for purposes of 2024.

Operator

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

Nick Girardi

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

Operator

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