



TRANSCRIPT

Q3 2025 Earnings Conference Call

WillScot Holdings Corp. (Nasdaq: WSC)

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WILLSCOT PARTICIPANTS

Worthing Jackman, Executive Chairman

Brad Soultz, Chief Executive Officer

Tim Boswell, President & Chief Operating Officer

Matt Jacobsen, Chief Financial Officer

Charlie Wohlhuter, Senior Director Investor Relations

MEETING PARTICIPANTS

Andrew Wittmann, Robert W. Baird & Co. Incorporated

Angel Castillo, Morgan Stanley

Kyle Menges, Citi

Phil Ng, Jefferies LLC

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Scott Schneeberger, Oppenheimer & Co. Inc.

Timothy Mulrooney, William Blair & Company LLC

TRANSCRIPT

Operator

Welcome to the third-quarter 2025 WillScot Earnings conference call. My name is Gary, and I will be your operator for today's call. (Operator Instructions) Please note that this conference is being recorded.

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

Charlie Wohlhuter

All right. Thank you, Gary. Good afternoon, everyone, and welcome to the WillScot third-quarter 2025 earnings call. Participants on today's call include Brad Soultz, Chief Executive Officer; Tim Boswell, President and Chief Operating Officer; Matt Jacobsen, Chief Financial Officer; and Worthing Jackman, Executive Chairman.

Today's presentation material may be found on our Investor Relations website at investors.willscot.com. Before we begin, I'd like to direct your attention to slide 2 containing our Safe Harbor statements. We will be making forward-looking statements during the presentation in 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 comments made on today's call. 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, it's my pleasure to turn the call over to our Executive Chairman, Worthing Jackman.

Worthing Jackman

Thank you, Charlie. Good afternoon. We appreciate you joining us for today's call, where we will discuss the current operating environment and strategic priorities, third-quarter results, and our updated outlook for 2025.

As many of you know, I joined the WillScot Board about a year ago, became Chairman this past June, and was named Executive Chairman in early September upon our announcement that Tim will be succeeding Brad as CEO effective January 1. My expanded role has been designed both to assist Tim and the senior leadership team in achieving our strategic plan, returning to growth, and driving shareholder value creation.

With ongoing cyclical headwinds and an intense competitive environment, we must compete differently and execute better to drive growth. With a focus on returning to growth, we expect that a mix shift in revenue to more differentiated, higher value offerings should create more consistent and predictable results while also reducing variability from more commoditized or transactional lines of business, such as dry storage.

When revenue inflects back to positive growth, adjusted EBITDA growth should outpace top-line growth. We see the ability to drive adjusted EBITDA margins above 45% as units on rent trends begin to improve given the associated

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high incremental flow-through. That is in addition to initiatives underway to optimize our platform outlined at our investor day in March.

There are multiple aspects of our optimization plan, a new component of which is evaluating our branch network and fleet storage acreage needs following the integration last year of WillScot and Mobile Mini's field sales and operations teams. We see opportunity to reduce our real estate footprint and related expenses, along with eliminating excess fleet, which Matt will review in his remarks.

Together with continuing efforts to streamline corporate support functions and drive a more decentralized operating model, we see a pathway to help accelerate margin improvement. We believe we have the right strategy and team in place. But to earn credibility and build momentum, we must increase accountability across the organization and deliver on our commitments.

The company has fallen short over the last two years to deliver against expectations that it set and takes full responsibility. Guidance is a key focus for me. Management's previous approach relative to expectations exposed the company if activations didn't materialize when expected, and market demand was less than anticipated.

Competition increased on more transactional lines of business where sales effectiveness and execution issues arose. I believe that expectations should be set against outcomes under our control, providing cushion to either exceed guidance or absorb the unknowns, and more importantly, to minimize the risk of surprising investors.

Going forward, we'll be taking a more conservative approach to guidance to minimize the risk of negative surprises versus communicated expectations. It's important to emphasize, however, that our internal plan and incentive comp targets will always hold us accountable to deliver results above this more conservative guidance approach.

With that, I'd like to pass the call over to Brad for some brief remarks on this, his final earnings call. Matt and Tim will then review our current operating environment, third-quarter results, our updated outlook, and strategic priorities before heading into Q&A. Brad?

Brad Soultz

Great. Thanks, Worthing. I'd like to underscore Worthing's comments and emphasize that we're fully aligned to deliver on our commitments and to drive profitability and returns higher. Accountability is paramount, and I firmly believe we have aligned the organization, and the team is well prepared to execute on our strategy.

Tim has been by my side throughout the evolution of the company, and he knows this company and this industry through and through. I have immense trust in his leadership and excited for what is to come. With the leadership we have in place and a well-defined strategic plan, I'm more confident than ever in our ability to achieve our top-line growth, operational excellence, and profitability goals.

With that, I'll turn it over to Matt for a review of our third-quarter financial performance.

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Matt Jacobsen

Thanks, Brad. Before I jump in, I just wanted to thank you for your leadership over the last 10 years and for all you've done for the company and for me, both professionally and personally. On behalf of the finance team, we wish you the best in your future endeavors.

As noted in our earnings release, third-quarter 2025 financial results were mixed. We delivered strong cash flow, and leasing revenues were stable sequentially from Q2 to Q3 across both our modular and storage portfolio with favorable rate and mix offsetting volume headwinds.

Looking at the results, revenue for the quarter was \$567 million, down \$34 million year over year, driven primarily by increased accounts receivable cleanup of approximately \$20 million in the quarter as we continue to accelerate improvements in our order-to-cash process. And lower delivery and installation revenues related to our large project with the LA Rams in the prior year that we discussed in the Q2 call.

This accounts receivable clean up overshadowed what would otherwise have been a sequential quarter stability in our leasing revenues, which I'll jump into here shortly. Sales in new and rental units increased 10% year over year. Our ability to take out variable costs in the business supported a 42.9% margin on adjusted EBITDA of \$243 million for the quarter, which was up 60 basis points sequentially from the second quarter.

Slide 5 is a new slide that takes a deeper look at leasing revenue trends with and without the impact of write-offs related to our order-to-cash improvement initiatives. In total, leasing revenues were \$434 million in the quarter, a 5% year-over-year decline. However, Q3 year-over-year leasing revenues excluding write-offs were only down 1.3% year over year. This clean up is driving a bit of noise in the top-line results.

The key takeaway here, however, is the underlying product leasing revenue across each of our modular, portable storage, and VAPS portfolios were stable sequentially. On a year-over-year basis, the 1.3% decline excluding write-offs is a result of favorable rate and mix, largely offsetting volume declines.

VAPS revenues were flat year-over-year despite volume headwinds. Within the storage portfolio, rate and mix improvements of 10% partially mitigated a 14% volume headwind. Within the modular portfolio, average monthly rates improved 5%, largely offsetting a 6% decline in volume.

As you know, the sequential stability in leasing revenues is important since our revenue growth in this business is a factor of sequential trends that compound over time. We expect the year-over-year impact of the clean up efforts around accounts receivable to decrease as we get into 2026.

Importantly, the clean up work we've completed this year of aged receivables had largely already been reserved through the provision for credit losses in SG&A in prior years. And we're beginning to see real improvements in our collections experience, such as the net impact to EBITDA of write-offs and our bad debt within SG&A is a \$4.3 million positive impact to adjusted EBITDA year over year.

Adjusted free cash flow in the quarter was \$122 million, representing a 22% margin or \$0.67 per share. Year to date, adjusted free cash flow was \$397 million at a 23% margin. Free cash flow has remained stable through the recent revenue contraction, providing continued flexibility to reinvest in our business, further strengthen our balance sheet, and pursue M&A opportunities as they present themselves.

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We've invested about \$206 million in net capex year to date or about a 16% increase over the prior year. This mainly reflects investments in high-demand categories such as Flex, Complexes, and continued fleet refurbishment, along with investment in our newer product categories.

During the quarter, we paid down \$84 million in borrowings and returned \$21 million to shareholders through both repurchases and our dividend distribution program. On October 16, we amended and extended our ABL Credit Facility, reducing our estimated annual cash borrowing costs by approximately \$5 million, based on current debt levels and extending the maturity through October 16, 2030.

The new agreement reflects the quality of our borrowing base, enhances our financial flexibility, locks in more favorable rates and terms, and positions us to continue funding organic investments and targeted M&A opportunities.

Once again, I'd like to thank our lending group for the long-standing commitment, support, and outsized commitments, which facilitated a successful process. After the amendment, we have no debt maturities until 2028 and ample optionality to fund our capital allocation priorities.

Before we move on to our updated outlook, as Worthing mentioned earlier this year, we began reviewing several of our real estate positions on a property-by-property basis as leases have expired with the intention of reducing our real estate footprint while maintaining market coverage. Over the past several years, our real estate costs have increased by 10% or more per year as long-term leases renewed at current market rates and as we've added additional properties through M&A and to store idle fleet.

To facilitate these exits, we've identified certain surplus fleet for disposal. For the nine months ended September 30, 2025, we had identified fleet with a net book value of \$27 million for disposal and accelerated the depreciation on these units, essentially reducing the net book value to 0 or to a nominal scrap value. You would have seen this in our increased depreciation in the second and third quarter primarily.

Over the past few months, we've expanded these efforts into a multi-year network optimization plan aimed at enhancing operational efficiency and reducing structural costs. This effort builds on the integration of our field sales and operations teams last year and includes a strategic review of our network, including our total real estate footprint.

As part of this initiative, we expect to continue to identify fleet for disposal to facilitate real estate exits while ensuring we maintain sufficient supply to meet future demand. And we estimate the net book value of rental fleet units that could be disposed as part of this optimization plan to be in the range of \$250 million to \$350 million.

This plan could reduce leased acreage by more than 20% and avoid between \$20 million to \$30 million of annual real estate and facility cost increases over the next three to five years, reducing our annual real estate cost increases from over 10% per year to mid-single digits. To the extent we finalize the multi-year network optimization plan by the end of 2025 and that plan is approved by our Board of Directors, we may accelerate the recognition of the \$250 million to \$350 million of incremental depreciation expense into 2025 as a non-cash restructuring charge.

Now, turning to our updated outlook for 2025, we have revised full-year guidance to reflect the current operating environment and our updated, more conservative approach, as Worthing laid out in his opening comments. This outlook includes expectations on near-term demand and units on rent levels, factoring in the absence of a typical seasonal uplift as well as further progress on order-to-cash improvement initiatives and a slower-than-expected ramp within ClearSpan and Perimeter Solutions.

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For Q4 2025, we expect revenue of approximately \$545 million and adjusted EBITDA of approximately \$250 million. We believe this outlook is conservative and provides sufficient cushion to meet or exceed those levels while establishing an initial baseline for 2026. For the full-year 2025, this results in revenue of approximately \$2.26 billion, adjusted EBITDA of roughly \$970 million, and adjusted free cash flow of approximately \$475 million, inclusive of about \$275 million of net capex.

With that, I'd like to pass it over to Tim to discuss our areas of focus looking ahead.

Tim Boswell

Thanks, Matt, and good afternoon, everyone. Before opening the call for Q&A, I would like to elaborate more on WillScot's strategic priorities to better position us for growth, increase margins and returns, and ultimately drive shareholder value as we transition into 2026.

First is reestablishing organic growth in the business through our local market initiatives, enterprise accounts, and our adjacency offerings. Historically, approximately 80% of our revenue is derived locally, and improving performance starts with ensuring consistent sales coverage across the network, then driving productivity.

Following last year's sales reorganization, we have implemented best-in-class sales enablement tools and consistent sales coverage and sales leadership such that we have a simplified structure with clear accountability for performance heading into 2026.

Our focus on enterprise accounts and new industry verticals continues to show great traction. We rebuilt and strengthened this team in Q2 and expect that enterprise accounts revenue in the second half will be up approximately 5% year over year, despite the seasonal storage headwind that Matt described.

Data center and power generation infrastructure are very active subsectors for us right now across the United States. With expansion of existing relationships and more intentional focus on our non-construction verticals, we expect that our enterprise portfolio will carry a mid- to high single-digit growth rate into 2026.

Value-added products and our newer product line additions remain compelling organic growth levers for us. VAPS revenues are up 5% year over year on a per-unit basis on modular units and approximately 22% on storage units. Climate-controlled storage units on rent were up 44% year over year at the end of October. Flex units were up 30% year over year, and we expect our Perimeter and ClearSpan offerings will continue ramping into 2026.

So as Worthing mentioned, there are some positive signs and a favorable mix shift within the portfolio and a significant amount of operating leverage in our traditional offerings and local markets when those stabilize and recover. This leads to our second area of focus, which is operational excellence in improving the customer experience.

Continuous improvement is central to our culture, and we collect extensive customer feedback that tells us where we can improve service levels. Billing and collections have been great examples that we introduced at the March Investor Day. Through the course of the year, our shared services team has made meaningful gains through enhanced quality control and faster response times.

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These efforts have resulted in a roughly 10% year-over-year decline in day sales outstanding to the low 70s, very strong cash flow performance, and meaningfully improved customer satisfaction scores. We expect further improvements in the order-to-cash process resulting in continued working capital reductions and reduced bad debt and write-off expenses heading into 2026.

Our network optimization initiative that Matt described is another example where we see an opportunity to reduce operating costs and increase efficiency in our network and fleet and move towards our 45% to 50% EBITDA margin range. Importantly, both of these opportunities were contingent on completing our integration of field operations last year.

Combined with our ongoing focus on improvements to our transportation and logistics function, I expect that we will continue to find these types of synergies as we work to optimize the platform and focus on the customer experience.

Developing human capital is a third pillar, which transcends every part of our operations. I've spent a significant portion of my time this year getting to know our talent at all levels in the organization. I am incredibly humbled and impressed by the quality of our team.

But we need more depth and stronger development pathways for our people. And we have been inserting external talent strategically in the areas where we need to operate differently. The structure to scale is in place, and driving this talent evolution over the next several years is a personal passion of mine and a critical ingredient for sustainable growth, as well as our employee experience and culture.

And as we all know, sustainable growth and returns correlate with shareholder value creation. We're strengthening our ROIC focus across the organization and see multiple balance sheet and asset optimization opportunities across working capital, our fleet, and our real estate footprint, to name a few. We will continue to focus on reducing leverage into our updated leverage range over time.

As Matt mentioned, that will include an increased allocation of capital to absolute debt reduction as we re-reflect towards growth. But we do not feel constrained from pursuing high-return investments in the business given the strength of our cash flows.

Together, these initiatives represent our path to strengthen our financial position and deliver sustainable, higher returns. The platform that we have built under Brad's leadership is stronger and better positioned to compete in the market today than at any point in our history. We intend to execute with a high degree of urgency and accountability. And I believe we have the team to deliver on our growth ambitions and drive shareholder value.

Lastly, I'd like to take a moment to thank Brad for his partnership over the nearly 12 years that we have worked together. It has truly been a pleasure working alongside you and learning from your leadership. Your guidance, your integrity, your collaborative spirit, and your unwavering commitment to excellence have made a lasting impact on me, the broader team, and the company.

I'm honored and humbled to lead our team in pursuit of the highest standards that you've set and that inspire us all to be better every day. And I know that I and so many others in the company will continue to draw upon your leadership lessons as we chart the path forward for WillScot. Thank you, Brad, and on behalf of the company, the best wishes to you and your family.

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

Operator

(Operator Instructions) Tim Mulrooney, William Blair.

Tim Mulrooney - William Blair Capital Partners - Equity Analyst

Yeah, good afternoon. First, I just want to say farewell to Brad. It's been a pleasure working with you these last few years, Brad, on your next chapter.

Brad Soultz

Thank you.

Tim Mulrooney - William Blair Capital Partners - Equity Analyst

You bet. So on the revenue outlook, I just wanted to ask about the lower top top-line outlook.

This year, if we set aside the seasonal retail headwind that you telegraphed earlier in the quarter, what other parts of the business underperformed relative to your revised guidance that you gave on the second quarter call?

Were there any other end markets or regions that you'd characterize as being a bit surprising on the softer side relative to where you were sitting a few months ago?

Tim Boswell

Hi, Tim. This is Tim Boswell. I'll take that one. Certainly, the seasonal storage component is one of the biggest contributors, circa \$20 million or so of revenue relative to our original expectations. There's about another \$20 million across the write-off activity that Matt talked about. And that's important because those are all out-of-period adjustments to kind of aged accounts.

On that page 5 in the presentation, which we can go back to, when you strip that impact out, you actually see very solid sequential stability of those lease revenue streams. So those are the two biggest components.

The only other pieces I'd call out relative to the guidance coming out of Q2 would be the Canadian market. That's roughly \$130 million of total revenue for us. That economy has been hit hard since Q2, I think, for obvious reasons related to the trade posture here in the US. So we have seen a slowing in our Canadian market.

And the ramping of our ClearSpan and Perimeter businesses are still quite attractive in terms of the market opportunities that we see, but ramping slower into Q4 than we anticipated. As Worthing mentioned, we have built in

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some conservatism into this outlook so that we are exceeding these expectations going forward, so that is not an insignificant part of the overall message here.

But certainly, the write-off activity accelerated. I am really happy with where the portfolio is from a clean up standpoint. And while it does create some noise in the top line, the customer experience side of that is really important for us. That is the area where we have probably gotten the most negative feedback in terms of NPS and customer satisfaction historically.

And we definitely see that temperature coming down as we go into 2026, which is an important part of our strategy going forward to drive the customer experience positively.

Tim Mulrooney - William Blair Capital Partners - Equity Analyst

Okay. Thanks, Tim. That's a lot of helpful additional color with the write-offs. And I hadn't given enough consideration to the Canada dynamic as well, though I probably should have. That's good color. Maybe sticking on this policy point, I wanted to ask about any potential impacts that you're seeing on your business from the federal government shutdowns.

I know it's a smaller piece to your overall revenue stream. But I thought I'd ask because I know you've talked about government and other verticals tied to government like military, maybe education as being a growth vertical for your business moving forward.

Tim Boswell

Yeah. Good news, bad news. They are growth verticals going forward, I guess, is the positive piece. As part of our enterprise portfolio, we have added dedicated resources to go after government opportunities at the federal, state, and local levels, both in the US and Canada.

Good news is that's not a huge part of our business today. We have seen negligible disruption across the either unit-on-rent portfolio today or the payment side of things, which is also important. So no material impact sitting here today and still enthusiastic about the ability to penetrate those sectors better going forward.

Operator

Andy Wittmann, Baird.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Excuse me. Thanks for taking my questions. I wanted to ask about the fleet review that is ongoing here and sounds at least possible, if not likely, to be more explicitly defined by the end of the fourth quarter. But this \$250 million to

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\$350 million of fleet, basically write-down or impairment or scrap here. Do you think that this is actual scrap, like it's going to the junkyard because you mentioned the press release kind of tired, old, been sitting?

Or do these get sold off and maybe wind up in your same markets as discounted units? I'm just kind of curious as to what the final disposition of this is going to be. And you talked about the book value here. I did some quick math. It looks like that's about 4% of your net book value.

Is it fair to think that this would be then probably less than 4% of your fleet because these are kind of below average unit price? Maybe you could just comment on some of that, please.

Matt Jacobsen

Yeah. Sure, Andy. This is Matt. I'll hit your questions. We do sell our fleet in the normal course of business as rental unit sales, as you know. What we kind of view this is as excess fleet that we've got. The intent there is to dispose and scrap of it.

As we look at the percentages, though, it's more than the 4% that you're talking about, kind of at the middle of that range. You're getting closer to probably 10% of kind of total, but it's excess fleet, right? The whole point here is we've got adequate fleet to service our customers in the market and to grow in the future.

And this is fleet that today we're paying to store on some excess acreage. And there are other indirect costs and things around that that we can optimize. We're taking action now to review this with the board, obviously.

As you said, we'll give more of an update once that continues a bit more. It is probably more about 10% kind of around that midpoint. It's a big thing, but I think it's something that we should do. We know that there's cost savings associated to this in the future.

Tim Boswell

Andy, this is Tim. The only thing I'd add is if you look at that chart in the deck that looks at non-res starts and the cycle that we've been through here, we're sitting here today in a position where non-res square footage starts are off about 30% from the peak and appear to be stabilizing in line with 2017 or 2018 levels.

So if you can think about the ramp of the company up through 2022 and 2023, we've got enough idle fleet in the business to support growth prospectively over the next couple of years, and we can do that. We can eliminate some of this excess, reduce the related real estate, still have adequate market coverage, still have adequate idle inventory to drive the business more efficiently. This is about tightening things up, moving back towards the 45% to 50% EBITDA margin range and allowing our team in the field to operate more efficiently.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Yeah. That's clear. I remember, obviously, Mobile Mini had a similar type of scale write-down when they did a kind of a clean up like this. That was a very good thing probably a decade ago.

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Okay. Just for my follow-up question, I wanted to kind of ask about the fundamental trends in the business. It's often asked how your order book and your activations have evolved during the course of the quarter. Maybe, Tim or Matt, you could talk about that just to maybe give us a flavor of where we are in this kind of bottoming process. It's been elusive, and so I thought just getting kind of your latest thoughts on it would be helpful.

Tim Boswell

Yeah, Andy, this is Tim. It has been elusive. I won't deny that. If you look at the modular order book sitting here today, it's actually now down about 1% year over year relative to the pending order book in early November last year.

We actually converted a fair amount of it over the last 1.5 or 2 months, such that activations in modular have been up low single digits over the last month. I'm optimistic that we'll see growth of similar magnitude in November.

So I view that as stable. It's good to see the order book converting, but I certainly wouldn't call that a victory or overall change in the trajectory of the business. I think that's the conversion of the order book that we've been hoping to see through the course of the year.

Storage is still quite weak, right? No real change in the trajectory of the traditional storage business. On the climate-controlled storage business, all signs are flashing green with orders and activations up circa 60% year over year. That initiative continues to show great traction. Modular is stable and consistent with what we've been seeing all year and continued weakness across the traditional storage business.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Okay, great, those are helpful. I have more but I'll pass it on. Thank you.

Matt Jacobsen

Thanks, Andy.

Operator

Angel Castillo, Morgan Stanley.

Angel Castillo - Morgan Stanley

Hi, good evening, and thanks for taking my question. Brad, I guess, first, just to start out, it's been a pleasure working with you and wish you all the best in a new chapter. And Worthing, welcome and looking forward to working with you in your new role.

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I actually had a question for you. I guess I wanted to go back to your opening remarks. It just wasn't entirely clear to me, I guess, as you commented on the operational strategy or some of the changes that you're talking about here, whether this was indicative of kind of continuation of the initiatives the company laid out at Investor Day or whether based on what you've seen so far since taking over as Chairman, understanding that it's only been a couple of months.

But just whether you believe that there's anything kind of incremental or more meaningful changes required, whether it's at a portfolio level or operational strategy than what's maybe already been laid out at Investor Day.

Worthing Jackman

Sure. Well, again, my remarks endorsed the initiatives that the company laid out at the Investor Day but then went on to expand that portfolio of initiatives to include the asset optimization and network optimization that Matt and Tim referred to, and that's laid out in the press release.

The company has also, since that Investor Day, made structural changes within the sales organization, within the field to help bring more decentralization and accountability to the field. I'd tell you the energy level I've seen throughout the organization has been fantastic.

We've talked about green shoots in the past. I know people hate to hear green shoots. But I think today, you heard a lot about all the good things happening with regard to activations and rate, et cetera. But what I also found when I came here was just kind of a dark cloud of the impact that declines in traditional storage has over the business because it's basically masking all the good things that have been happening.

I look back over about a three-year period, and the company has probably taken a \$150 million hit, EBITDA hit from that more commoditized or transactional side of the business, but obviously has not fallen that much. They've clawed back about half of that through growth in other areas.

And when we talk about this mix shift in the portfolio to more differentiated, higher value-added products and the success around enterprise accounts, et cetera. I mean it's truly a shift in the book that will insulate us going forward once this whole runout finishes on traditional storage to have a different higher margin, more predictable business, more defensible business.

We're probably in the sixth or seventh inning of the decline in traditional storage that has -- we're 70% or 80% of the way through that. Once we get that behind us, obviously, what's happening beneath the surface, so to speak, will come to the time.

Angel Castillo - Morgan Stanley

That's very helpful. And maybe just related to the disposals. Tim, you talked about, I think, 10% of the fleet essentially being reviewed here for potential disposal.

At the Investor Day, I think you had identified \$600 million of kind of potential revenue growth that you could achieve, I think, at 20% of kind of new fleet cost, thanks to kind of your refurbishment capabilities overall. Is that still the right

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number? Or do these disposals imply a smaller opportunity kind of at that lower 20% of cost and kind of future growth?

Just kind of any implications of that to CapEx? Is there a requirement then if you grow? How does that change, I guess, the algorithm around the required CapEx to grow beyond this point? If you could touch on that, that would be helpful.

Tim Boswell

Good question, Angel. And no, we would not dispose of any fleet that we thought would constrain us and constrain our ability to grow in the future. So we view this disposal as purely targeting surplus that we do not need over the next several years that allows us to tighten up both the branch network and the fleet without compromising ability to service customers either with product or with proximity to customer in our real estate footprint.

No, I don't think this materially changes that concept at all. We still absolutely have the lowest marginal cost in the industry. If we want to activate older fleet through our refurbishment process, we've got the capability to do so. I think that capability is differentiated. To the extent we're adding new fleet, which we are in certain pockets today, tends to be allocated more towards our complexes and flex, which are performing great.

We obviously did a small regional acquisition in climate-controlled storage this year and got some excess capacity through that acquisition, which we are deploying. So that's how we're thinking about fleet investments going forward, and I don't see the disposal here as changing that narrative whatsoever.

Angel Castillo - Morgan Stanley

Very helpful, thank you.

Operator

Kyle Menges, Citi

Kyle Menges - Citi

Thank you. It'd be helpful to hear just trends you're seeing with local and regional customers, especially as you're looking into 2026. In your view, what do you think you need to see really in the markets to see some recovery within those local and regional accounts?

Tim Boswell

Hi, Kyle. This is Tim. I'll start and anybody else can jump here and jump in. Nice to meet you. We really haven't seen any change in market trends at the local level. As I mentioned in my remarks, our enterprise portfolio is going to be up approximately 5% year-over-year total revenue in the second half of the year.

That implies that the rest of that local market and regional exposure continues to be down. And I don't have any indicators right now, whether you look at the Architectural Billing Index or other third-party indicators that says that that underlying market trend is changing at the local level.

I think what is changing, if you think about our structure is the stability of our field-based sales organization. Worthing just alluded to some structural changes we've made there in terms of how the sales leadership function is organized.

We've also added over 10% to the field sales organization through the course of this year, and there is a natural ramp time in those resources. So I've got some optimism that we'll see greater productivity out of those resources as we go into 2026.

We've got our team in town in Scottsdale this week for budget meetings. And the message is irrespective of changes in those local market conditions. We know we weren't performing optimally over the last 18 months, and there's an opportunity here to outperform ourselves at the local level. And that's the challenge that we're pushing down to our local market teams as we go into 2026, and we're not sitting here holding our breath waiting for the market to rebound.

Kyle Menges - Citi

Got it. That's helpful. On the enterprise customer side, good to hear that you're expecting those customers to grow mid- to high single digits next year. I'm curious what your sense is. Is that growth in line with the market, maybe a little bit below or above? Would love to hear that.

And then my understanding is enterprise customers would have greater VAPS penetration. I am curious, though. It seems like maybe competition is heating up with others coming out with offerings that are comparable to your VAPS offerings in this space, just your confidence in maintaining market share with VAPS as well with the enterprise customers. Thank you.

Tim Boswell

This is another area where I think outperforming ourselves is step number one. This is a function that looking back over the last five years, just given the relative size of our company had been relatively immature. And going into really Q2 of this year, we took a step back, put some of our best field-based leadership into this function, reorganized the team by industry vertical across five or six high potential verticals, construction being the largest today.

But historically, we've never intentionally gone into federal government, which I talked about earlier. Retail, we've had some presence, but not with a lot of intentionality. Professional services, energy and industrial or other sectors where

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we see opportunities to grow our penetration in those markets. So step one is let's outperform our historical baseline, and we're absolutely doing that.

Your comment around value-added products and propensity to consume those at the enterprise level, I would just broaden and make a more general statement that when we're having enterprise-level RFPs, the ability to bundle not just value-added products, but climate controlled ClearSpan, Perimeter, and all aspects of this broader space solution offering that we're putting together is pretty attractive, right?

So I think it's cross-selling those products within the enterprise, not just value-added products is a big part of the opportunity that we see going forward.

Operator

Phil Ng, Jefferies.

Phil Ng - Jefferies LLC

Hey, guys. Well, Brad, thank you. I appreciate your partnership over the years. Tim, congratulations to the new role. And Worthing, looking forward to working with you.

I guess from a high level, you guys talked about how you want to shift your portfolio away from more commodity products to differentiated offerings, driving more of a decentralized model. Does that require a meaningful step-up in CapEx and SG&A?

There was an element of holding management more accountable and you're kind of rebuilding the field-based structural changes. Are you realigned the KPI and incentive comp and having a higher portion of your comp tied to variable, especially on the sales side of things?

Tim Boswell

Okay. I'll start, and anybody else who would like to jump in, please do so. So we had a question a minute ago about, hey, does this fleet disposal change -- fundamentally change the capital requirements in the business going forward? No, I don't think it does.

I think the mix of that CapEx has absolutely changed. And that process started probably a year, 1.5 years ago. So I don't see a significant change in the overall magnitude of CapEx requirements in the business. I think the mix of where that capital is going is likely to be very different than it would have been over the last five years in some of the categories that I mentioned.

Actually, see an SG&A opportunity in the business, not an incremental add, especially as we look across our corporate functions. And some of that efficiency, I think, is supported by the fact that we've completed a lot of the integration activities that were related to the Mobile Mini acquisition now almost five years ago. So I don't really see any fundamental changes to the cost structure or the CapEx requirements in the business based on those comments.

Phil Ng - Jefferies LLC

Incentive comp and variable comp?

Tim Boswell

So we have always had a significant portion of our annual bonus plan that is tied to forward-looking revenue metrics in our business. As you're well aware, this is a sequentially compounding business. Every period, we should be incentivized to put more units on rent at higher prices with more value-added products and services to drive that forward-looking lease revenue stream.

And that's roughly about 30% of our annual short-term incentive bonus plan. We will tweak that calculation methodology a little bit to be more closely aligned with the metrics that our sales force is compensated based on. And I think that's extremely healthy, but that's really a refinement rather than a significant change, Phil.

Phil Ng - Jefferies LLC

Okay. Super. And then in your prepared remarks, you mentioned reestablishing organic growth. What are like the one or two things you want to call out that will help accelerate that? Is there a big shift in terms of your go-to-market strategy?

And if I heard you correctly, a pivot to some of these different end markets. How are you going to tackle that? Historically, there's been a big focus on M&A and AMR growth. Is there more of a pivot now towards organic growth on the volume side and just a big shift in terms of what markets you're going to really go after now?

Tim Boswell

Absolutely more of an emphasis on the organic volume side across all product lines. And in some cases, as Worthing alluded to, I think we need to compete a little bit differently, leveraging our service infrastructure and customer service capabilities in some of those more commoditized product lines where maybe the product itself isn't as differentiated.

But through our scale and capabilities, we can actually offer a differentiated experience to the customer. So that's absolutely a big focus within the company right now in terms of ease of doing business, speed of delivery and consistency of execution across all our product lines. But I think it becomes even more important in some of those legacy more commoditized lines.

Meanwhile, we are allocating capital and resources to grow in some of those more differentiated product lines like complexes, flex, climate controlled, et cetera, all the stuff that we've been talking about. So that's one of the three kind of commercial go-to-market pillars.

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A second would be everything that we've done in the field-based sales organization. I mentioned we've added over 10% to that population through the course of this year. That population is ramping up from a productivity standpoint in many cases, and we would expect to see benefits from that going into 2026.

And then the enterprise portfolio is the place where I'd say we are tapping into new verticals with more intentionality than we have in the past and also being more strategic with existing relationships and growing wallet share and deepening partnerships with existing contractors, especially in the construction vertical. So we've got three pillars to that go-to-market strategy across adjacencies, the field sales force and enterprise, and we're pushing hard across all three.

Phil Ng - Jefferies LLC

I really appreciate the color, Tim, and that sounds like an excellent playbook.

Operator

Manav Patnaik, Barclays.

Ronan Kennedy - Barclays Bank PLC

Hi. This is Ronan Kennedy on for Manav. As far as the rental footprint and fleet optimization and the ongoing evaluation as to whether you will do the further acceleration of the recognition of depreciation expense. I know we've talked about potential impacts on CapEx structure requirements and mix. But is there any potential change and lessons learned around capacity and utilization management into this initiative and out of it going forward?

Matt Jacobsen

Ronan, thanks this is Matt. Thanks for the question here. I think for us, it's kind of where we're at right now with the acreage that we've got and the fleet that we have. I mean, I think, we're always trying to manage the fleet, and we spend a lot of time planning the amount of CapEx and maintenance that needs to go into the fleet. And none of that has changed because of this.

As we're just at a point where, as Tim spoke about, we're off about 30% from peak levels. And we have excess fleet that we need to get cleaned up right now, and now it's time to do it. So I think markets are going to ebb and flow over time. You always have to keep an eye on these things, but just kind of a point of where we are right now.

Ronan Kennedy - Barclays Bank PLC

Okay. And then just if you could shed some further light with regards to the changed approach and guiding. Obviously, there's an element if you are going to have that less transactional subject to the volatility around activations, et cetera.

But was there anything else from philosophy or process or perhaps even anchoring to leading indicators that had good historical correlation, but has changed given the length and severity of the decline in non-resi or intensifying competition? How should we think about that?

Matt Jacobsen

No, I think it's just -- this is Matt again. It's just a change in approach, right? We want to make sure that we're setting guidance out there that's got a little bit of cushion to it so that we can beat it. That's really what it is. We've had some times where we haven't met those expectations, pretty quite a few here in the last couple of years, and we want to turn that around. That's it.

Worthing Jackman

Yeah. I'd also add -- it's Worthing. You mentioned a protracted decline. I think the historical approach basically set a range of expectations that could materialize based on whether it be execution, the competitive environment or recovery in the markets, in the end markets. And I think the decision now is just to make sure we're not making bets on things we don't control.

And so let's let a lot of things be upside. Let's make sure we're guiding conservatively. But I think also going into it, look, the company has spent the last couple of months tightening up how they forecast the business. And I think you look at -- Matt, you didn't cover it, but I think you look at the October results and activations and units on rent.

I mean every metric that we forecasted for the month, we met or exceeded. And so it's just nice to see the effort the team has made throughout the organization to try to tighten down the forecasting to not try to call a turn and to keep a lot of things that are out of our control as upside.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - Oppenheimer & Co. Inc.

Thanks very much. Good afternoon. Brad, I really enjoyed working with you, best wishes. I guess for the first question, it's going to play off of Ronan's discussion there on guidance. I know you're not going to provide 2026 guidance right now. We're not going to get that until probably February.

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However, with the trends you're seeing here into the end of the year across the primary asset classes, how should we think about volume and price on modulars and storage as we enter next year? And what type of influence would that have just kind of starting out next year as an endpoint of '25 into '26?

Tim Boswell

Hey, Scott, it's Tim. I'll give you my current view of the playing field here. And as I said a minute ago, I don't see anything sitting here right now in the third-party leading indicators that says that we found stability. I mean you track the ABI as closely as anyone and most recent reading was around 43%, which is pretty soft, and it's been that way for three years, right?

You have seen some slowing in the rate of decline of non-res square footage starts, which is encouraging. And that's definitely a precursor to a bottom, but there's nothing that says that that has actually occurred yet.

As I look across the portfolio right now, spot rates across most of our modular product line are really solid. Ground level offices are really the only category where we've made some strategic decisions to soften our pricing stance. But I see stability or opportunity across much of our modular portfolio going into 2026.

Storage, I mentioned earlier; order book, if I exclude seasonal orders right now is down about 6%. So you've still got that mid- to high single-digit volume decline implicit in the current storage order book as we're going into 2026. And I've seen continued softening in the rate environment for traditional storage, and that's not just us. I think that's fairly well documented across the industry at this point.

So definitely some mixed trends as I look at the leasing KPIs across the legacy kind of product line. Climate-controlled storage, I mentioned, volumes, rates, value-added products associated with them are all trending very strongly. So that's a place where I think we can make some luck going into 2026.

And overall, if you just think about the volume trajectory in the business, we're trending down year over year across traditional modular and storage. If we were to see an inflection there, you're probably looking at the second half of the year sometime, but we don't have any crystal ball, and some of that's going to be dependent on the market environment.

So as you well know, we typically give our full year guidance on the Q4 call. The reason for that is, at that point, you typically have better leading indicators and visibility for the US construction cycle, which tends to ramp up as you go from March and April into Q2. And we'll stick to that practice in terms of providing the formal guidance.

Scott Schneeberger - Oppenheimer & Co. Inc.

Thanks, Tim. I appreciate all that color. It's helpful. And prompts a few follow-ups, but I'll ask them later in a follow-up. I wanted to ask another question just on the optimization of the footprint and the assets. I guess on the assets portion of it, what -- are we going to see it more in modular? Are we going to see it more in traditional storage?

I know it's a little bit of everything, but can you give us a sense of where you're really going to focus in on? And this feels like it could potentially be a first step. Is this a tip of the iceberg, the \$250 million, \$350 million or -- and it could

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be more as you go because you do have a few years of utilization potential to grow into and you'll be coming at it from one angle. It just feels like there could be a little bit more. So what assets and what made you decide upon this size right now?

Tim Boswell

Scott, I'd say -- this is Tim, and then Matt, jump in. We've actually approached this more from the real estate side of things, right? And the priority number one here is reduce operating costs and inefficiency in the system. And as you accumulate surplus fleet, you get drop lots and things like that and industrial real estate is expensive.

So what we've looked at are actionable real estate opportunities over the next couple of years where you actually have an actionable ability to reduce those costs. And where we see those cost reduction opportunities if we see surplus fleet associated with those locations that we can dispose of in order to take advantage of that savings, that's kind of the lens that we've used to approach this.

Absolutely, yes, we'll keep an eye on changes in overall market activity. If markets ramped up, maybe you want to dispose less, although we're at pretty low utilization levels right now. If markets continue to decline, you might take a different approach. But we're using actionable real estate cost reduction as the guiding light in this initiative.

Matt Jacobsen

Yes, Scott, this is Matt. The only thing I would add is that we started this really kind of beginning of the year and did some property-by-property analysis, and you've seen us do some of these throughout the year. Given where we're -- what we've seen, we saw the opportunity to kind of look at all of this at once, everything we kind of see in the next three or four years to really try and pull it all together and have a multiyear plan. So that's what you're seeing right now.

From an asset perspective, I mean, think of this, it's very tied to forward-looking demand. Complexes and Flex and these newer products are high-demand products and differentiated products. It's not those, right? It's more going to be around the transactional type things where we've seen a real reduction in demand over the last few years as non-res has come down and the local smaller local projects have done.

So it's some storage containers. It's going to be some single units, those single, smaller units typically, but any single. So it's not these differentiated products. It's stuff that we have ample supply of, and we know we can still meet the demand that we need to meet with remaining fleet.

Scott Schneeberger - Oppenheimer & Co. Inc.

Got it. Thanks, guys. It's real estate first that you're going. And then when you're at a selected location, you're then assessing the assets at that location. That's the order process.

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Tim Boswell

That's correct.

Operator

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

Brad Soultz

This is Brad. I'll take the closing here. First, I'd just like to say I'm proud of and humbled to have been part of this fantastic team as we've navigated the initial chapters of this young and great company.

In closing, I'd like to thank my family, our customers, shareholders, all of you on this phone and most importantly, this team for the support over the years. I remain an invested and excited supporter of this company for the long future. Thanks.

Operator

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