



TRANSCRIPT

Q1 2026 Earnings Conference Call
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Steven Ramsey, Thompson Research Group, LLC

TRANSCRIPT

Operator

Welcome to the First Quarter 2026 WillScot Earnings Conference Call. My name is Cherie, and I'll be your operator for today's call. At this time, all participants are in a listen only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded. I will now turn the call over to Charlie Wohlhuter. Charlie, you may begin.

Charlie Wohlhuter

Thank you very much, Cherie. Good afternoon, everyone, and welcome to our first quarter 2026 earnings call. With me in the room today are Worthing Jackman, our Executive Chairman; Tim Boswell, President and Chief Executive Officer; and Matt Jacobson, Chief Financial Officer. Presentation material may be found on our Investor Relations website at investors.willscott.com.

Today's call will contain various operating results on both a reported and adjusted basis. Adjusted results exclude special items that affect comparisons with reported results. Descriptions of these non-GAAP financial measures and reconciliations to the most comparable GAAP financial measures are included in today's presentation material, also, unless otherwise stated, we're comparing results to the same period in 2025. Before we begin, I'd like to direct your attention to Slide 2 containing 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 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. And now it's my pleasure to turn the call over to our President and Chief Executive Officer, Tim Boswell.

Tim Boswell

Thank you, Charlie, and good afternoon, everyone. We appreciate you joining us on today's call for a discussion of the operating environment, our strategic priorities, first-quarter 2026 results and our improving outlook for the remainder of the year. As you saw with our results this afternoon, we delivered a solid first quarter and I'd like to thank the team for their continued focus on consistent execution on behalf of our customers, our shareholders and for one another.

The operating environment remains uneven, though we continue to see encouraging internal leading indicators across the business; and we remain focused on executing the commercial, field and central operating priorities that are within our control and support our return to organic growth and long-term shareholder value creation. Matt will go

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into more detail regarding the first-quarter financials. Though if I zoom out, all metrics are consistent with the progression towards organic top-line growth, which continues to be our focus for the second-half of 2026.

Modular activations were up year-over-year for the second consecutive quarter and total activations were up 10% year-over-year in Q1 and increased across all product lines. Leasing and services revenue grew modestly by \$2 million year-over-year, which is a step-in the right direction. But within that, delivery and installation revenues were up 12% year-over-year. This is evidence that our order backlogs, which have been growing for several quarters now, are converting as expected, which is a good leading indicator for future leasing revenues.

Adjusted EBITDA of \$211 million in the quarter exceeded our outlook and while adjusted EBITDA margin was lower than we planned, the compression was volume-driven with rental costs up 9% and commissions up 33% year-over-year, respectively.

So those line items combined with a higher mix of delivery revenue represent short-term margin headwinds, but they are the type of headwinds associated with lease revenue inflection which again aligns with our objective for the year and is included in the increased guidance driven by top-line growth. Even with those investments and increased capital expenditures in Q1, adjusted free-cash flow was \$116 million, representing a 21% margin on total revenue.

So we continue to see best-in-class free-cash flow conversion and strong returns on capital, which is a fundamental strength of our business. That gives us flexibility with capital allocation, and we remain balanced in Q1. We returned \$20 million to shareholders through share repurchases and our quarterly cash dividend, while reducing \$76 million in debt balances. And based on the increased activity levels, which are driving the guidance raise, I expect there will also be greater opportunities to reinvest organically in the business.

Altogether, I'm happy with the results to start the year, though mostly focused on advancing the strategic initiatives that are within our control and critical to our positioning in the market for the long-term. First, from a commercial perspective, both our customer value proposition and competitive positioning have never been stronger. And we're finding this stride at a moment when the mix of market activity is skewing towards larger, more complex projects where our capabilities are disproportionately strong.

From World Cup scale logistics to data center builds, power generation, manufacturing and other critical infrastructure projects, we are supporting some of the most important work in the North American economy. These projects align extremely well with our value proposition, coordinating detailed requirements at a large scale on unforgiving timelines with dependable execution right from the start.

These differentiated capabilities are resonating with our most sophisticated customers. Enterprise accounts revenue increased 12% year-over-year in the first quarter, which is higher than the growth rate we expected for the full year. Order and activation trends strengthened throughout the quarter with the current pending order book for enterprise accounts up over 25% year-over-year, excluding the World Cup. This provides increased visibility into the second-half of the year. And overall, this is a healthier revenue mix with growing exposure to larger, higher-quality and longer duration projects that tend to draw from our full product offering and capabilities.

While that is a real bright spot, we still see opportunity to execute more consistently across the entire organization. Our new regional sales management layer gives us the right leadership and oversight model in the field for improved alignment at the territory, account and product levels. And after four months under this structure, we're seeing newly

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activated revenue in-line with our budgeted sales quotas and an over 30% year-over-year increase in commission payouts. And that is despite a continued 6% year-over-year decline of non-residential construction starts square footage and continued contraction of the Architectural Billings Index in the quarter.

So while we have not seen stabilization across all of our local markets, the favorable mix of end-market activity combined with better internal execution are providing commercial momentum. Operationally, I'm very proud of how our field and central teams are executing across multiple priorities. We are on-track with our network optimization efforts, including real estate and fleet dispositions while simultaneously supporting elevated activity levels and fleet investments in high-demand product categories.

We are increasing work order volumes to drive unit availability and reduce lead times, the ability to reactivate large volumes of vital equipment quickly and cost-effectively in a rising demand environment is a significant competitive advantage, while we also make meaningful and deliberate new fleet investments to further differentiate our offering long term. And we mobilized this capacity with in-house expertise better than anyone in the industry.

Continuing to develop these capabilities, we are rolling out enhanced to dispatch and route optimization tools across the field. These tools are improving utilization of our drivers and trucking fleet as well as our service and setup teams, reducing average miles per route and enhancing the customer experience through more effective omnichannel communication. And we are focused on improving service levels across all customer touch points to improve the experience and ease of doing business, while reducing our cost to serve.

And we're doing all of this safely. Our recordable incident rate dropped below 0.5 for the last three months. That is exceptional performance, and that's a direct result of disciplined execution and a strong safety culture across the organization. So thank you again and great work by our team. The common denominator in delivering successful outcomes is our people. WillScot was again recertified as a Great Place to Work for the fourth consecutive year, which is a designation based entirely on independent employee feedback and a reflection of our company culture. Engagement compounds, when we execute at a high level and engaged teams, deliver better results for customers and for shareholders.

Looking out through 2026, we remain cautious around local market demand, but believe we are better positioned than ever to win when these markets stabilize and return to growth. Meanwhile, our other commercial strategies to develop enterprise accounts, new verticals and our differentiated offerings all show strong momentum. And we expect that our multi-year operational improvement roadmap will continue to be a source of both differentiated execution capabilities and structural margin expansion over time. Our focus is clear, execute on initiatives within our control, strengthen our competitive positioning serve our customers exceptionally well, be a great place to work and drive long-term shareholder value.

I'll now turn the call over to Matt to go into more detail on Q1 and our outlook. Matt?

Matt Jacobsen

Thanks, Tim. Starting with the quarter, our first-quarter results exceeded our expectations entering the year despite continued softness across certain end market, as Tim noted.

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Beginning on Slide 4, total revenue for the quarter was \$549 million, modestly lower year-over-year due to lower sales activity, but ahead of our outlook. Importantly, leasing and services revenue was up year-over-year by \$2 million or about 0.5% due to the strong growth in delivery and installation revenues on increased activation volumes and large complex activity in the quarter.

Breaking this down a bit further, leasing revenue totaled \$426 million, down approximately 2% year-over-year, reflecting ongoing pressure in local markets with container unit on rent volumes driving the majority of the overall decline. Pricing and product mix continued to offset a portion of the volume impacts and VAPS revenue in the quarter ticked up modestly year-over-year in absolute dollars and rose 50 basis points year over year to 17.7% of total revenue.

In contrast, delivery and installation revenue increased more than 12% year-over-year to \$100 million. Large project demand is driving solid activation growth. Modular unit activations exceeded our internal expectations and increased 8% year-over-year in Q1, marking the second consecutive quarter of year-over-year activation growth. This is a testament to the hard work at all levels of the company, executing against our strategic plans and a positive indication of the continued improving commercial demand that we're seeing even despite some continued end-market softness.

As Tim mentioned, we believe that our ability to execute on large projects is a competitive advantage and we're seeing continued increased activity levels on these types of projects, proving our position as a solutions provider of choice in the industry. Based on where we stand today, coupled with our activation activity and the pending order book, we now have increased conviction around leasing revenue inflecting to year-over-year growth at some point in the second half of 2026.

Adjusted EBITDA for the quarter was \$211 million with an adjusted EBITDA margin of 38.5%. Margins were down year-over-year, largely due to higher variable costs and increased delivery and installation activity. Importantly, this margin pressure stems from the gross margin line, reflecting unit preparation costs associated with increased volumes, which is common in a period where we're increasing activations and working towards leasing revenue and an eventual unit on rent inflection.

The large project activity we're seeing typically comes with long durations and solid returns. But there is a timing element around revenue recognition and cost absorption. While that affects margins in the near-term, these activations increase fleet utilization and support leasing revenue run-rates in subsequent periods. So very much a positive for units on rent and the underlying business trends.

Importantly, we continue to see opportunities for efficiency gains through operational initiatives that Tim mentioned, and we expect to see positive operating leverage in the business as we return to growth. Adjusted net income in the quarter was \$39 million and adjusted diluted earnings per share was \$0.21. The impacts of lower container unit on rent volumes, lower sales and increased unit preparation costs year-over-year in the quarter were partially offset by lower SG&A, depreciation and interest expense alongside a lower share count from repurchases. Overall, we're encouraged by the quality of activity in the quarter and the implications that it has on the remainder of the year.

Turning to cash-flow on Slide 6. The business continues to generate strong and predictable cash flows and we're reinvesting more of those cash flows into driving growth in the business. Net cash provided by operating activities was \$191 million in the quarter, which included approximately \$14 million of costs associated with network optimization and executive transition costs.

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Given our strong large project demand, we reinvested \$89 million of net CapEx in the quarter, which increased about 40% year-over-year. Adjusted free-cash flow generated in the quarter was \$116 million at a 21% margin. This equates to adjusted free-cash flow per share of \$0.64 at our current share count or \$2.54 over the last 12 months.

The decrease in adjusted free-cash flow year-over-year was entirely due to increased net CapEx investment to support fleet growth in higher-value product categories and the project demand pipeline. These are value-accretive investments, which has strong returns and position us well for future growth. Free-cash flow in the period supported a \$76 million reduction of our outstanding debt and funded \$20 million of returns to shareholders through our quarterly dividend and share repurchase programs.

From a balance sheet perspective on Slide 8, we ended the quarter with net-debt of \$3.5 billion and leverage of 3.7 times. Our debt maturity profile remains favorable with no maturities until August of 2028; and our weighted-average cash interest-rate is approximately 5.7%, with roughly 90% of our debt effectively fixed, inclusive of our interest rate swaps. We have approximately \$1.5 billion of availability under our ABL facility, so ample liquidity with a flexible governance structure.

Now on to Slide 9. Based on our first-quarter performance and our current order book visibility, we are raising our full-year 2026 outlook. We now expect revenue of approximately \$2.25 billion, adjusted EBITDA of approximately \$915 million, and net CapEx of approximately \$325 million. As we discussed in the prior two quarters, our conservative approach to our outlook is unchanged and does not assume a recovery in the local market.

We continue to drive internal plans and compensation targets for the year that exceed the increased revenue and EBITDA guidance we laid out today. The increase in revenue and adjusted EBITDA reflects stronger-than-expected project activity and improved visibility into the middle of the year. Our large-scale modular project pipeline is giving us more confidence that leasing revenues can inflect year-over-year at some point in the second half of 2026, which is now implied in the current outlook.

Looking into Q2, we believe total revenues for the quarter will increase about 7% sequentially from Q1 2026 to approximately \$585 million in Q2 of 2026, driven by higher leasing and delivery and installation revenues. Given the size of large project pipeline, we expect to incur additional unit prep costs in Q2. Additionally, increased delivery and installation revenue mix, including that, which is related to our support of the World Cup event will provide sequential margin pressure. Increasing leasing revenue should offset a good portion of these headwinds, but we expect Q2 margins to be pressured by about 30 basis points sequentially from Q1. As a result, we expect adjusted EBITDA of approximately \$223 million in Q2.

As Tim mentioned, serving these types of projects is part of our unique value proposition that differentiates us with a full suite of capabilities to serve our customers. Again, these are all strong investments with solid return profiles. In conjunction with this spend, our increase in net CapEx reflects higher investment in select product categories tied to those projects. Local demand remains stable, but we remain cautious about this segment of the market. As such, we believe the targeted investments in higher-return opportunities is the right approach to maximize long-term value. Looking at a few other items for Q2, we expect depreciation and amortization expense in the period to be approximately \$100 million. Interest expense to be about \$54 million, and our effective tax-rate to be around 27%.

To wrap up, Q1 was a strong start to the year and reinforces our confidence in the durability of our business model. We're investing to support growth and growing demand in high-quality opportunities, maintaining balance sheet

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strength and returning capital to shareholders, all while positioning the company for improved performance as we move through the year.

With that, I'll turn it back to Tim.

Tim Boswell

Thanks, Matt. We've all put in a lot of hard work over the last few years to integrate and reposition our business in a challenging market backdrop, but those efforts have put us in a position today to execute at a higher level, capture new market opportunities and deliver on expectations. And our team is committed to continuing to raise the bar and performance standards while executing in the right way, consistent with our values. All of that makes me really proud to be part of the WillScot team.

I believe that our business has never been better positioned to compete and win than we are today. And I'm confident that together we can deliver on our commitments for sustainable long-term growth and value creation. Thanks again to our team for the strong start to the year. This concludes our prepared remarks.

I'll turn it back to the operator for Q&A.

Operator

Thank you. (Operator Instruction) Due to time restraints, we ask that you please limit yourself to one question and one follow-up question. Please standby while we compile the Q&A roster. And our first question will come from the line of Scott Schneeberger with Oppenheimer. Your line is open.

Scott Schneeberger - Oppenheimer & Co. Inc.

Thanks very much. Good afternoon. I guess let's start out please with some discussion about the guidance and the back-half of the year. Leasing revenue growth inflection now is what you're anticipating for the second half of '26. Could you talk about kind of the – I guess, Tim, for you, the couple or three things that maybe could put you there earlier and what would be going right, things we would look for? And then on the flip side, what would be the things that have you nervous about achieving that? And I'll come back with a follow-up. Thanks.

Tim Boswell

Okay, Scott, good afternoon. As we said in our remarks, we haven't assumed any real improvement in local market activity, nor have we assumed any continued erosion of that activity, right? So that's a variable that's outside of our control. As I think about what's been working to date in the business, activations were up 12% year-over-year in Q1 across the business.

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The sales org size is up about 10% year-over-year across the business. But much of that activation growth is being driven by the enterprise accounts portfolio. So we haven't necessarily seen the full productivity expectation that we think we can get out of the local field sales org. So that's a variable that we're still working on and there is a market element to that.

I'm very, very confident in the enterprise accounts strategy in backlog. There are some really exciting things going on out there in the economy and we tend to -- our win rates tend to improve as those project sizes go up, right? So we're really holding our own there.

We have seen some examples of delays in project starts. That's not uncommon for some of these very large projects, again, outside of our control. We quite like it when they get delayed after they start. That works in our favor. So those are some things that we're watching. But at this point, the team is huddling weekly on sourcing supply for some of these major opportunities, and a lot of that is building up in the back-half of the year.

Scott Schneeberger - Oppenheimer & Co. Inc.

Great. Thanks. I guess the appropriate follow-up to that is, Matt, thanks for the for the second-quarter outlook. And I believe I heard 30 basis points quarter-over-quarter down on -- a few drivers that would be dilutive in the second quarter. Is that -- are they going to persist into the third or when we speak of back-half by midyear, should those dilutive impacts of the World Cup otherwise is -- are we going to really see a bit of a hockey-stick turn in the back-half? How should we think about the margins? Obviously, we can back into looking at the full year and get into it, but just kind of the cadence of the third and the fourth. Thanks.

Matt Jacobsen

Yes, Scott, thanks for the question. I think we'll see a bit of dilution into the second quarter sequentially. But as we generally do, I would not expect to see that as we go into Q3 and Q4. Q2, even without the World Cup, is generally one of our higher -- you start to really build the activation volumes, but you're also incurring more of the upfront get ready costs.

That's a pretty normal phenomenon. It's exasperated a little bit this year by the large project activity and some of the World Cup impacts, which also impact D&I margins given there's a lot of activity moving around those units. But exiting Q2, I would not expect that to persist. In fact, I think we would see some pretty good expansion and probably even more than we would have seen last year as we go into the third quarter coming out of what would be a little bit lower of a Q2 than we would generally expect.

Scott Schneeberger - Oppenheimer & Co. Inc.

Great. Thanks. Appreciate it.

Operator

Thank you. One moment for our next question. And that will come from the line of Andrew Wittmann with Baird. Your line is open.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Yeah, great. Excuse me, thanks for taking my question, guys. I guess maybe let's talk about rate a little bit, AMRs here. Tim, maybe you could just address kind of what you're seeing there. Obviously, in modular, up slightly year-over-year, but it looks like sequentially the rates were down a little bit. Is that reflective of enterprise customer mix because VAPS was up here. So I guess I'm kind of focusing in a little bit on the base pricing. I'm just trying to get a sense of what's out there competitively and what it means for the rates that you're able to achieve in that modular business. Thanks.

Tim Boswell

Yeah, Andy, I wouldn't attribute any of it to enterprise accounts. We tend to get pretty strong -- have a pretty strong value proposition when you're working with those more sophisticated customers and their purchasing criteria, in many cases, tend to skew away from price towards dependability, execution, service elements, those types of things, which again all works in our favor. If I look across just market pricing on new contracts, it's kind of varies a bit by product category.

We've had pressures on the ground level office product line for some time. That feels like it's stabilizing, but still down quite significantly from the peak. And then in contrast, you've got the complex business and Flex where we're seeing actually pretty good price momentum. There is a little bit of a mix headwind from Flex just given those are smaller format units, but a higher return on capital and higher priced from a per square-foot basis. So no real concerns sitting here today from a rate perspective and we've got some real pockets of strength where I think we can continue to push here as we progress through the year.

Matt Jacobsen

Yeah, and the Q4 phenomenon to Q1 isn't an unusual one as well. We do see some variability there as you go from Q4 to Q1.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Yeah. No, definitely there's always a little bit of that. I just wanted to drill into this quarter specifically, but fair point, Matt. Just and then my follow-up, I guess is on the margins. I just want to get a sense here, maybe, Matt, you can help us, 240 year-over-year. We heard the factors. Can you just give us some like relative positioning as to what were the bigger factors here?

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Obviously, when you've got the top line negative deleverage is probably one of the bigger ones. But I'm just curious, you know, the mix effect to the -- I heard things like getting units prepped, so repair and maintenance costs. And these are good things like you made the case, but just want to try to understand the order of magnitude is how these things are flowing through. And do any of these subside at all as the year progresses in terms of the way you're looking at the year evolving? Thanks.

Matt Jacobsen

Sure. No, I think that's right. These are -- we do look at these generally as good things, most of them, right? We're happy to be, you know, getting more units ready, decreasing our response time to customers as incremental demand has been coming. So you know that impact, if we look at the first quarter and we look at the 8% increase in modular activations, that increase to ready cost and the commissions, kind of the increase in variable cost is about 150 basis points, 160 basis points of margin compression, Andy. So it is a real impact.

I think we expect to see that continue a bit in the second quarter. And then I think as we get into the later quarters in the year, it will be subsiding a little bit based on what we know today. Obviously, the demand picture could be a little bit different. And then the other big piece is D&I revenue. I mean, we mentioned it a couple of times that mix, you know the -- over \$10 million or 12% increase in D&I revenue, it is a lower margin revenue line for us than the overall blended EBITDA margins.

So that is a bit of an impact. That's worth another 50 bps or so. So there's a few things there, in addition to just our container unit on rent volume being down. We talked in Q4 about that \$50 million headwind for the year, obviously impacting overall margins giving the reduction in containers that are on rent kind of in the first quarter versus what was there a year ago. So those are the main drivers there.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

That's a great answer. Thank you for clarifying that. Have a good evening.

Matt Jacobsen

Thanks, Andy.

Operator

One moment for our next question. And that will come from the line of Kyle Menges with Citigroup. Your line is open.

Kyle Menges - Citi

Great. Good evening, guys. I know you mentioned that enterprise account order book was up 25% ex-World Cup. Maybe I missed it, but I'm curious just what the total order book growth looks like and maybe through April as well and ex-enterprise accounts too.

Tim Boswell

Yes, this is Tim. So overall pending orders in modular are up 14% year over year. So pretty strong across the board and up 7% for storage. And within that, you've got pending orders for climate controlled, which are up like 100% year over year. So kind of across the board, seeing pretty good performance there. Order rates, it's a little bit different. The pending orders are those orders that have accumulated and not yet delivered.

If I just look at the order rates week to week, in modular, they're up kind of mid-single digits for non-enterprise customers year over year and they are down year over year about that same magnitude in storage when you take out enterprise accounts. So we're seeing better performance across all customer segments in the modular order activity relative to storage, where storage is more weighted towards that enterprise performance and some larger RFP wins, but that's consistent with what we talked about a couple of months ago.

Kyle Menges - Citi

Yeah. That's helpful. And then as a follow-up to that, good to hear about your increased conviction in seeing leasing revenues inflect at some point in the second half. I am curious just what sort of year-over-year orders growth you would actually need to see, say, in like May through the rest of this year to actually see that second half leasing revenue inflection come to fruition?

Matt Jacobsen

Yeah, there's two sides of it, right. There's also the returning units. But I think based on the activity levels we've seen, this is now our second quarter in a row of modular activation growth. And I would have said, I think at year end, I would have said you get year-over-year activation growth for a few quarters, you start to get to a point where you get that leasing revenue inflection and then another quarter or two after that, you've got a chance probably to drive the actual volume inflection.

So I think it's really just based on our current rates and what we're seeing on activations gives us good visibility into at least into the middle of the summer. We'll continue to monitor it from there. But in Q4, we would have said we were looking at early '27 for that leasing revenue inflection. And based on what we've seen so far, we've kind of pulled that forward a quarter or so. So we're happy with that. We're still driving to accelerate that even more. But that's what we're seeing right now, Kyle.

Kyle Menges - Citi

Good to hear. Thank you.

Operator

Thank you. One moment for our next question. And that will come from the line of Steven Ramsey with Thompson Research Group. Your line is open.

Steven Ramsey - Thompson Research Group, LLC

Hi, good evening or good afternoon. Wanted to continue that thought process there. Good to hear the activation story. Can you talk about the returned units side of things, maybe more on the modular side, if the return units level year to date is coming in as expected and how it's impacting the guide.

Matt Jacobsen

Yeah, we've definitely seen -- we've seen over time those -- the returns subsiding, probably a little bit more significant over the last few years, obviously in storage as you've seen the units on rent, the change in units on rent and there being fewer units on rent, less to return. But we've been seeing the same in modular. And we did -- we had -- the first quarter was a pretty good start for us from a unit-on-rent perspective kind of within the quarter.

It's the best that we've had since 2022, some modest increases from kind of the end of Q4 into the end of March, but very encouraging. And we want to see that continue. And what that means is that our activations obviously in the first quarter exceeded the amount of returns that we had in both products, both for modular and for our storage units. So it's been a trend that we do expect to continue until we see the activations increase even more and some of those projects start coming back, but there is some long duration in a lot of these projects that we're seeing that are driving the activity.

Tim Boswell

Only thing I'd add, Steven, is that the return activity is pretty much right in line with our original plans for the year. So we haven't been surprised one way or another from the return side of the equation. They are down modestly year over year, but we modeled and expected that just based on our historical experience. So the variable that's changed here is on the delivery side.

Steven Ramsey - Thompson Research Group, LLC

Okay. Helpful color. And then secondly, VAPS leasing revenue edged up a bit in the quarter. You've been just under \$400 million the last two years on VAPS leasing revenue. Do you expect this particular line to be a grower this year?

Tim Boswell

Yes, we do. I think there's more work we have to do here. I'm not 100% satisfied with the penetration levels that we're achieving currently on new contracts, kind of varies by product, but quite a few of the product lines are off their peak from a couple of years ago and that is on our plate to turn around here.

But even with that, we still have kind of a healthy spread versus the AMRs that we're reporting, inclusive of value-added products. And so we'll expect to grow that line during 2026 with opportunity to perform better internally on the attachment rates. And I would just add that we've got some new product introductions this year as well in the form of perimeter solutions, which are going to be contributing to the VAPS revenue line along with some of the other newer fleet categories. So really, there's pretty good momentum across all those new product introductions.

Steven Ramsey - Thompson Research Group, LLC

Great to hear. Thanks.

Operator

Thank you. One moment for our next question. And that will come from the line of Angel Castillo with Morgan Stanley. Your line is open.

Angel Castillo - Morgan Stanley

Hi, good evening and thanks for taking my question. I just wanted to go back, I guess, to unpack the mega project or maybe the shift in mix that we're seeing a little bit more. I guess it sounds like the enterprise accounts are doing well, but just trying to understand a little bit more like why is there more of a timing impact, I guess, than we've seen in the past as we think about these projects in terms of prep?

Is it the type of products they're acquiring? Is the location more remote or just curious if we could unpack that a little bit more? And then I guess as we think about D&I, is the shift in that ahead of -- as well the projects and maybe more of the lead time, is that due to more inflation that we're seeing in D&I or again location? I guess I'm a little surprised at how much that's leading versus kind of historical trend.

Tim Boswell

Well, let me start, Angel, this is Tim, on the first part of your question as it relates to the timing of mega projects and how that can flow through the P&L. And Matt can maybe follow up on anything I missed as it relates to the D&I side of things. The only thing unique about the larger projects, we have small, medium, large and mega is kind of how we think about the market segmentation is you typically have longer lead time and there is typically a more involved setup and installation component on some of these larger projects.

But at the end of the day, they're no different than the rest of our modular deliveries where you recognize a variable cost when the work is performed in advance of a unit being put on rent and you recognize the delivery and installation revenue and margin as that work is performed at the beginning of a rental and then you recognize the rental revenue thereafter. So we're not seeing anything different there. It's just that, that delivery and installation element is picking up pretty rapidly, up 12% year-over-year in the first quarter and the rental revenues associated that will enjoy for the next three to four years on average based on the size of these projects. And that's just how these things work.

As you look at the composition of market activity and you cover this as well as anybody so you already know, the overall volume of projects that we're tracking is flat. But when we look at the large and mega segments, they're up like 30% year over year. And then within that, data centers are up 70% year over year. So there is a very meaningful mix-shift in terms of the composition of market activity and that actually lends itself well to our value proposition because when it comes to the more sophisticated requirements that these customers have, we are disproportionately well positioned to serve them and to win the project. So that's what we're seeing and a lot of that does then flow into the enterprise book of business.

Matt Jacobsen

Yeah. I think Tim hit on the D&I piece, but it's really just the D&I revenue as a mix of total revenue that's driving margin down. It's not that anything has really changed with that. So that 12% increase in revenue, it's just at a lower margin than our overall blended margin. And that's why it's depressing the Q1 and we expect it to do the same in Q2 with all this increased activity.

Angel Castillo - Morgan Stanley

That's very helpful. Thank you. And then I was hoping we could also talk about the CapEx a little bit more and just unpack that. It sounds like you're kind of following where the demand is going and making some investments there and kind of I don't know if it's specifically kind of what products. If you could kind of talk about like where within your VAPS are you maybe deploying more capital that you weren't anticipating and maybe what are the kind of needs? Is it something with mega projects or data centers that there's just different products that you're having to deploy more capital for? And as we think about, I guess, going forward, is this kind of higher percentage of -- the percentage of sales a better approach to kind of how we should think about CapEx going forward or is this more of kind of a one-time step-up? Just trying to understand.

Tim Boswell

Angel, it's always demand-driven, right? So if you look back over recent history, I think we've been as low as \$200 million of annual net CapEx and as high as, I think, \$360 million if you go back to 2022, which is pretty robust market environment, right? So we're going to follow the demand here. In terms of where the incremental CapEx is going, it's largely going into our complex modular business, which is -- tends to be pretty highly utilized and also tends to be associated with larger projects.

So the market mix is shifting towards mega and large. That's been driving disproportionate demand in our larger complex fleet for some time now. We are investing behind that, inclusive of Flex and then there are other smaller categories like perimeter solutions and clearspan as well, but the majority is going to be going into the modular business.

Matt Jacobsen

That is a combination of new fleet and refurbishment, right? It's both about 60% in Q1 was kind of on the new fleet piece and the other 30% of the year-over-year growth was in the refurbishment side of things. So we're hitting it from both sides.

Angel Castillo - Morgan Stanley

Amazing. Thank you.

Operator

Thank you. One moment for our next question. That will come from the line of Josh Chan with UBS. Your line is open.

Joshua Chan, UBS Securities

Good afternoon. Thanks for taking my questions. I guess on local, I know that you're not embedding any improvement or change in the market, but are you seeing anything on the ground that suggests that that market is moving one way or another?

Matt Jacobsen

I think we've seen it be more stable. So it's not -- doesn't seem to be moving a whole lot. The pace of decline has reduced and it's been relatively stable. I mean, I think Tim's comments on containers are a good example of one area where it was down a little bit, but on the modular side, we're kind of seeing that local market be stable.

Tim Boswell

Yeah, Josh. I mean, we're still adding to the sales force, right? So that in and of itself should be an indicator that we think there's opportunity out in the market. But the data is the data, right? And if you look at non-res square footage, it's still down 6%, right? So we have beefed up the enterprise organization. And I think if the mix of market activity continues to shift, we'll shift how we allocate our sales coverage resources.

Joshua Chan, UBS Securities

Sure. Sure, that makes a lot of sense. Thank you. And then on the on the rate growth, I guess the base rate growth, what's embedded in your guidance in terms of how much year-over-year rate growth you get in 2026?

Matt Jacobsen

Yeah. So I think for -- I'll talk maybe specific to the second quarter. I would expect for modular, for example, we were just under 3% here in the first quarter. You may see that decelerate a little bit in the second quarter and a lot of that be driven by some of the smaller units we're putting out for the World Cup. So a little bit of a kind of project nuance there that we'll see in the second quarter. And then from there, I think we would generally expect it to have opportunities to increase from there.

We do see opportunities within our Flex and our complex equipment. But in reality, we do continue to see a little bit of a pressure on ground level offices and some of the smaller equipment. So I think at the guide, it's probably a little bit conservative on the pricing side. And if we do better than that, that would provide additional upside, but that's what we kind of see right now.

Joshua Chan, UBS Securities

Sure. That sounds great. And thanks for the color and congrats on a good quarter.

Matt Jacobsen

Yeah, thank you.

Operator

Thank you. One moment for our next question. And that will come from the line of Philip Ng with Jefferies. Your line is open.

Maggie Miller - Jefferies LLC

Hey, guys. This is Maggie on for Phil. I just wanted to go back to the now expectations for a leasing revenue inflection in the back-half. Maybe if you could talk about what trends you're seeing in modular versus storage and how each segment is contributing to that inflection? And then I guess similarly, how we should think about the volume recovery piece versus AMR contribution to that inflection?

Matt Jacobsen

Yeah, that's -- yeah, I can definitely do that, Maggie. So I think for us, the opportunity is definitely in the modular side. We are facing the \$50 million -- coming into the year, the \$50 million headwind on storage. So for us to get year-over-year inflection on storage, you probably have a little bit further to go on that due to that volume headwind that we started with. But on the modular side, if you rewind a quarter ago, we were off 5% on volume. We're now off 3% on volume. So we're starting to eat into that year-over-year volume headwind.

And as we do that, the rate and VAPs tailwind that we've had will shine through and that's where we start to get the inflection in modular. So you'll get modular inflection before you get total inflection. But that's really what's driving the inflection is the modular side of the business and although the headwind on storage is still declining, which is good.

Maggie Miller - Jefferies LLC

Okay, got it. And then switching gears a little bit, it looks like you've disposed about 40,000 units in the quarter. And I'm assuming that's part of your network optimization initiative. How do you see that potential that disposition activity the next few quarters? Is this kind of a one and done or you have more to do? And then is the primary benefit from that in the savings on real estate or carrying costs or is there a potential cash inflow opportunity as you start disposing of some of these underutilized assets?

Matt Jacobsen

Sure. So from a fleet perspective, our reported fleet numbers, we would have -- when we took the restructuring charge in Q4, we would have taken those units out of our fleet. So in the Q4 earnings deck, we would have provided kind of pro-forma utilization for Q4 had those units not been in our fleet the entire quarter. So there was really no change in what we would call our fleet count in the first quarter. It was more that if you're looking at averages, the reported average from Q4 wasn't fully burdened by that reduction.

So if you go back and look at the pro-forma, that might help. But physically, we did start destructing some of those -- many of those units as we work to get out of these properties in the first quarter; but from a reported kind of fleet count perspective, there was really no change. From a benefit perspective, clearly, the real estate benefit we talked about last quarter, you know, to help kind of control some of the increases that we would otherwise expect over the next few years.

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But it's interesting. Every day, we're seeing other benefits around some of this, whether it's property insurance costs, whether it's some of the indirect costs of just having multiple locations in a market. So I think we'll continue to see, you know, and discover new benefits of just kind of operating in a more optimized way in each of our markets.

Maggie Miller - Jefferies LLC

Okay, got it. That's helpful. Thank you.

Operator

Thank you. (Operator Instructions) Our next question will come from the line of Faiza Alwy with Deutsche Bank. Your line is open.

Faiza Alwy - Deutsche Bank

Yes. Hi, thank you. Tim, you answered my real question in response to another question, which was around data center growth. I think on the last call, you talked about potential increase in the data center vertical of 50%, and I think you said 70% of this quarter. So help me think through like do you have an updated estimate for how to think about growth in this vertical this year into 2027, because it feels like we're just starting and activity seems to be accelerating?

Tim Boswell

Faiza, I would agree with how you just ended the question. It does feel like the activity levels have accelerated. And just to clarify some of the metrics I gave you, I still think we're on track to kind of deliver new activated revenue this year. That's up 50% year over year in the data center vertical. My comment, a few questions ago, was around -- if I look at our CRM database, we map out all of the projects around North America that the sales org is positioned to chase. And when I look in kind of the large and mega project segment, the volume of those data center projects is up 70% year over year.

The real interesting thing though is they still only represent about 25% of the large and mega projects that we're going after. So it's important. It's grown tremendously, but we're seeing large projects across pretty much every vertical I can name. And that's what's really exciting is not just the pace of the data center activity, but the overall volume and diversity of the project activity that we're going after. That would include power generation that oftentimes is associated with data center activity, a lot of technical manufacturing, pharmaceutical and some large-scale stadium and special event projects. As you know, we touch virtually every sector in the economy and we're seeing activity in a lot of different areas.

Faiza Alwy - Deutsche Bank

Okay. That is very helpful. And then I guess just the discrepancy between how you're doing on the enterprise accounts and the larger mega projects versus what you're seeing on the small project and the local market side, like is that because you're devoting more sales resources to your largest customers, which I know is part of your strategy, or is it just that general macro activity is just stronger and you are well positioned to play in that large mega space?

Tim Boswell

It's a combination of the above. We're certainly more mature from an operational standpoint. In our field-based sales organization, that's how the business has traditionally always gone to market. So the investments that we made less than a year ago, I would remind you. In the enterprise accounts team, it represents a new focus and initiative for the company. And certainly the structure and strategy that we've put around five or six key industry verticals is absolutely showing traction.

So there is an internal kind of strategy element that I think is playing out. There is a market activity mix element that we just talked about that is playing out. And there are our own competitive strengths and capabilities as an operator that I think are playing out and make us more likely to be successful on some of these larger, more demanding situations. So it's a combination of those factors.

Faiza Alwy - Deutsche Bank

Got it. Thank you.

Operator

Thank you. I'm showing no further questions in the queue at this time. I would now like to turn the call over to Mr. Tim Boswell for any closing remarks.

Tim Boswell

Thanks, everybody for your interest and your support of the team here at WillScot. To the WillScot team, thanks again for a strong quarter and the focus on clear and clean execution as we round out 2026.

Operator

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