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TRANSCRIPT

Q1 2021 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

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TRANSCRIPT

Operator

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

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

Nick Girardi

Good morning, and welcome to the WillScot Mobile Mini First Quarter Earnings call. Participants on today's call include Brad Soultz, Chief Executive Officer; and Tim Boswell, Chief Financial Officer.

Today's presentation material may be found on the Investor Relations section of the WillScot Mobile Mini website.

Slide 2 contains our safe harbor statement. We will be making forward-looking statements during the presentation and our Q&A session. Our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control. As a result, our actual results may differ materially from today's comments. For a more complete description of the factors that could cause actual results to differ and other possible risks, please refer to the safe harbor statement in our presentation and our filings with the SEC.

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

Brad Soultz

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

First of all, I'd like to thank the entire WillScot Mobile Mini team for yet again delivering another outstanding quarter, while at the same time, making significant progress towards the key integration milestones that will unlock the full potential of the merger, driving shareholder value for years to come. Due to our strong performance in the first quarter, and strengthening commercial KPIs, we're raising our full year 2021 guidance midpoints for revenue, Adjusted EBITDA and net capex.

While Tim and I will go into further detail during our call, suffice it to say that we're extremely excited about the future as demand is increasing across our diversified end markets, and our team continues to rise to the challenge to deliver ever-increasing and exceptional value to our customers.

Turning to Page 5 of our presentation. I would like to highlight the 8 unique characteristics inherent in our platform and the associated exemplification apparent in our Q1 performance. First, as a reminder, we are a fast-growing leading business services provider, specializing in innovative flexible workspace and portable storage solutions. We are the #1 provider within this sector and are 5x our next largest competitor.

Our position is underpinned by a vast fleet position across 275 branches in North America and U.K., which yields compelling unit economics of greater than 25% unlevered IRR. Q1 leasing revenues in our North American Modular and Storage segments were up 6% compared to this time last year on a pro forma basis, which provides great forward visibility based upon this foundation of steady and predictable reoccurring lease revenues, given average lease durations of nearly 3 years.

Our demand is robust and accelerating with North American unit on rent and deliveries, accelerating in March headed into the second quarter, where we serve 15 sectors across a diverse group of end markets and geography. Our team continues to deliver unique and expanding value to our customers. As we expand best practices across our portfolio, we benefit from tailwinds associated with powerful idiosyncratic organic revenue growth levers, 3 of which are worth taking a moment to highlight, both given their magnitude and our Q1 progress.

First, rental rates. Average monthly rental rates in our North American Modular segment were up 13% year-over-year, marking our 14th consecutive quarter of double-digit growth. We also realized notable pricing traction in North America Storage and the U.K., with average monthly rates up 5% and 26% year-over-year, respectively.

North America Storage's 5% increase marks the 33rd consecutive quarter of year-over-year rental rate increases for this segment and is the highest increase in the last 13 quarters. We expect our unique value proposition, contract harmonization and migration to technology-enabled pricing more broadly across the portfolio will support these trajectories for years to come.

The second is VAPS. North America Modular VAPS penetration continued to accelerate, driving nearly half of the aforementioned 13% average monthly rental rate growth. The team achieved an average monthly rental rate of $337 on units delivered over the last 12 months, which is a 22% year-over-year increase and an 8% sequential increase.

Simply holding this LTM penetration level for the next 3 years represents $145 million tailwind. As we continue our trajectory towards achieving and eclipsing our long-term goal of $400, this tailwind expands and extends. I'm also pleased to confirm that we began extending the VAPS offering to our Mobile Mini ground level office customers, which once fully deployed, represents an incremental $50 million [of revenue] opportunity.

We believe there is a third meaningful VAPS opportunity associated with the storage containers, which we're just beginning to size, utilizing our proven playbook. And third is cross-sell. Albeit a bit manual process until our systems are fully integrated, our teams have begun to cross-sell storage along with modular leads and vice versa.

While 80% of our customers require both storage and office, we currently have only a 40% customer overlap. We delivered $65 million of cost synergies from 10 acquisitions over the last 10 years. Based upon this track record, we're extremely confident in delivering an incremental $55 million that has been identified and staged for execution.

Our unique scale and technology and tandem continues to drive efficiencies. Our first quarter 2021 Adjusted EBITDA was $164 million, which represents a 350 basis points expansion relative to the first quarter of 2020. Core pricing, VAPS penetration and synergy execution continue to drive our profitability and growth.

Beyond the identified cost synergies, we have a growing list of operational improvement opportunities which will contribute to continued margin expansion in years to come. And finally, we are thoughtful and deliberate as we consider our capital allocation and will continue to prioritize growth, deleveraging, and share repurchases.

We generated $91 million of free cash flow at a 21% free cash flow margin in the quarter by fully funding all organic growth, onetime integration costs and repurchasing $82 million of securities. We reduced leverage to 3.7x, well on our way towards achieving our long-term target of 3 to 3.5x by the end of 2021. This trajectory is expected to yield $500 million annual free cash flow run rate by the second half of 2022.

Turning to Page 8. We profile our 15 discrete end markets, which we bucket into construction, commercial, industrial, energy, natural resources and government institutions. While there have not been any material shifts in our end markets profile, we would note that Architectural Billing Index, or ABI, was released at 55 in March, which is the second straight month with a measurement above 50. Which if continued, could be expected to support growth in 2022 and beyond.

We're also monitoring the composition of the infrastructure legislation that could further underpin and extend this momentum.

Page 11 reflects our multiyear portfolio of growth opportunities. While I've touched on the majority of these previously, I would like to expand upon the cross-selling opportunity as well as highlight our progress with system integration as an enabler for acceleration of value creation more broadly.

As mentioned before, our teams have begun to cross-sell modular to storage and vice versa. For context, at announcement of the merger between WillScot and Mobile Mini, we believe that we had a 45% market share in modular and a 25% market share in storage, while we believe 80% of our customers actually require both.

All in, almost 3,000 units have gone on rent as a result of our cross selling efforts. This started with our merger in Q3 of 2020. And while that's not a large number when compared to the 220,000 units on rent in North America, it's easy to see how we'll continue to get some volume uplift over time as we further automate and hone these tactics.

Our cross selling efforts, among other growth levers will be accelerated by our ERP migration, which is on track to occur in the second quarter of 2021. We've completed all testing and are in the final stages of data preparation before moving our North American Modular segment onto the legacy Mobile Mini's best-in-class SAP.

While no ERP integration is easy, I'm incredibly proud and grateful for the team for their great efforts and long hours to support this critical value enabler. Once the migration is complete, we'll begin to accelerate the execution of the $50 million of cost synergies premised in the merger between WillScot and Mobile Mini.

Moving to Slide 14, which depicts examples of the varied uses of our standardized fleet across our diverse end markets. As I discussed earlier, demand is improving across our end markets. In North American Modular, our deliveries increased 0.4% year-over-year in the first quarter. It's important to note that March 2021 deliveries increased 8% relative to March 2020 and 4% relative to March 2019.

Although average units on rent decreased slightly sequentially as expected, period end units in March increased modestly relative to December, which contributed positively to our lease run rate. In the North America Storage segment, we saw a small decrease of 1% year-over-year deliveries. The same timing dynamic realized in Modular, however, existed in Storage.

March 2021 was our strongest core delivery month since June of 2019. Although average units on rent came down relative to their seasonal peak in Q4, as expected, they're up 1% year-over-year. These positive trending commercial KPIs in both of our major segments are a bit earlier than we expected and is one of the fundamental drivers for the increase in our 2021 guidance.

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

Tim Boswell

Thank you, Brad, and good morning, everyone. Page 19 summarizes some of the financial highlights from the first quarter, which overall was a good start to the year and positions us well for the remainder of 2021.

Leasing revenues increased 6% year-over-year on a pro forma basis, driven by continued pricing performance in all of our segments, VAPS penetration in our North American Modular segment, and the overall resilience of our lease portfolio through the course of the pandemic. We generated $164 million of Adjusted EBITDA at a 38.5% margin, and our flow through of revenue growth to Adjusted EBITDA was over 75% which is reflective of the operating leverage we have in the business, heading into what could be a pretty interesting growth environment.

We generated $91 million of free cash flow and a 21% free cash flow margin, which is consistent with the $350 million free cash flow run rate we spoke about last quarter and well on our way to achieving our milestone of $500 million of run rate free cash flow by the second half of 2022.

We reduced leverage to 3.7x, mostly through EBITDA growth this quarter as we opportunistically repurchased $82 million of common stock and warrants. Leverage would have been below 3.6x without the repurchases. So we're clearly comfortable hitting our 3 to 3.5x target leverage range by the end of the year and can be flexible to fund opportunities as they present themselves.

As Brad discussed, we progressed our ERP migration, with cutover scheduled to occur this quarter. It has been absolutely humbling to watch the organization coalesce around this project, whether legacy Mobile Mini or legacy WillScot, in our branch locations or in our shared service centers, literally, everyone is working together to make this cutover successful.

And that gets me incredibly excited about what we can all accomplish when we get past this milestone and refocus all of this organizational horsepower on growing our business.

Page 20 highlights the strong financial metrics that we achieved in the quarter. We generated $425 million of revenue, an increase of $19 million year-over-year on a pro forma basis. Sequentially, revenue declined by $13 million, which simply reflects the normal seasonality, primarily in our Storage segment.

You can see this in the bottom left chart and I would just highlight there that you really don't see any impact of the pandemic on our lease revenues over the last 12 months. Our lease revenues were up year-over-year every quarter last year and again in Q1, and there aren't many leasing companies that can say that. This is just further evidence that we have an incredibly resilient and differentiated reoccurring revenue model, which is on a solid growth trajectory heading into the remainder of the year and 2022 as markets recover.

In the top right chart, Adjusted EBITDA was $164 million, with a 38.5% margin. Again, 75% of revenue growth flowed through to Adjusted EBITDA, which resulted in 170 basis points of margin expansion year-over-year on a pro forma basis. Our Q1 EBITDA margin was in line with what we discussed on our last call, and I would expect it to be flat or slightly down sequentially and also down year-over-year in Q2 as activity levels increase.

And then margins should expand sequentially through the remainder of the year. So really no change in the margin trajectory, we expect this year relative to what we discussed on our last call. Rather, as we exited March heading into Q2, volumes, pricing and value-added products were all contributing to an accelerating lease revenue run rate which is really what gives us confidence in the increased guidance ranges for the year.

Our cash flow metrics on Page 21 have been very consistent since the merger closed. As Brad discussed previously, the fundamentals of organic lease revenue growth, margin expansion from price increases and VAPS penetration as well as synergy realization, all continue to contribute to strong cash flow.

Net cash from investing activities was $31 million in Q1, with the majority of Capex going to refurbishments and conversions as we drew capacity from our existing fleet. And we continued contracting our fleet net book value slightly in Q1. So we are being very disciplined with the balance sheet, even heading into this growth market given the capacity we have available.

Free cash flow margin remained strong at 21%. While this metric can fluctuate due to timing of capital expenditures, especially in busier quarters, we believe that it is sustainable at this level long-term and has upside, especially heading into 2022 and 2023 with greater synergy capture and reduced integration costs.

Integration costs totaled $14 million in the quarter. So it's easy to see our free cash flow run rate pushing north of $400 million as those costs subside. Turning to Page 22. In what was an otherwise straightforward quarter operationally, the SEC came out with a statement on April 12 right after the quarter ended, which introduced new interpretations of the accounting guidance for warrant structures that are common in special purpose acquisition corporations. The SEC's perspective is that most SPAC warrants should be presented as liabilities on the balance sheet and mark-to-market each period. So we are restating our prior audited financial statements in order to conform retroactively with the SEC's statement.

The preliminary earnings release that we provided as a range for this noncash mark-to-market impact on net income, which is valued using Black-Scholes and primarily a function of our stock price movement. It falls below operating income and has nothing to do with our actual business operations.

This change does not impact any of our key operating metrics, any of our GAAP metrics above operating income, or any of our non-GAAP metrics. It also does not impact our capital structure in any way, such as our net debt or leverage, the covenants in our debt facilities, or our economic share count.

Both the earnings release and the 8-K that we published yesterday provide further details and we'll file the amended 10-K and our 10-Q in a week or so. And I think the punchline here is that this doesn't change the way we think about the business in any way and will continue to be as transparent as possible about how the business is performing.

As a reminder, all of our outstanding warrants expire in November 2022.

Getting back to the business on Page 23, we made some tactical adjustments to our debt structure this quarter. And redeemed $65 million of our 6.125% senior notes due 2025, taking principal of outstanding down from $650 million to $585 million and refinancing that balance to our APL at a rate of about 2%.

Our weighted average cost of debt is now 4%, with approximately $100 million of annual cash interest. Additionally, we opportunistically repurchased 2.75 million common shares for $74 million in a secondary offering by TDR Capital, and separately, repurchased $8 million of warrants and other common stock, returning a total of $82 million to our shareholders in the quarter.

Confidence in our outlook allows us to be opportunistic with these types of transactions. Leverage declined to 3.7x our pro forma last 12 months Adjusted EBITDA of $660 million. We're quite comfortable that we'll be at or below our 3.5x leverage range by year-end. We have ample liquidity, no near-term maturities, and plenty of flexibility with which to operate the business.

Our updated outlook is on Page 24. Based on our strong first quarter results, progress with our integration and the improving macroeconomic outlook, we're increasing our guidance ranges for the year slightly. Our new revenue midpoint of $1.79 billion and Adjusted EBITDA midpoint of $705 million are increases of 2.3% and 1.4%, respectively, from the midpoints of our prior ranges.

And relative to our 2020 results, the new ranges suggest 6% to 11% revenue growth and 7% to 11% EBITDA growth for the year. The only meaningful change relative to our initial forecast is that demand is accelerating a bit earlier than we expected on our last call. And we're seeing that dynamic across all 4 segments.

The improvement is coming from a balanced mix of volumes, pricing, and value-added products. These compound nicely together, so this is exactly what we want to see. And specific to our Modular segment, we continue to see a 30% spread between the total rental rate inclusive of VAPS on our new contracts relative to the overall portfolio, which is a very powerful tailwind that compounds quite nicely with volume growth and gives us confidence in the next several years.

Similar to what we discussed in Q4, the margin expansion at the midpoint of our ranges relative to last year will appear a bit muted. That's entirely driven by variable costs to activate units and a higher mix of delivery and installation revenues, which are obviously both volume-driven. This means that our run rate is building through the course of this year.

Meanwhile, there's no change to our cost synergy assumptions, which will continue to build in the second half of the year based on our progress with the integration. So we will expect that year-over-year margin expansion will be strongest in Q4 and up 100 to 200 basis points heading into 2022. This margin progression is very consistent with our original guidance, but with stronger lease revenues across all segments, driving the higher ranges.

Net Capex, of course, will be demand driven. And since demand is trending higher, we've increased the capex range to a midpoint of $210 million. Even at these higher ranges, capex would still be below our annual depreciation. So we're being quite disciplined with the fleet.

Overall, we think we're on track for a great year, and the strengthening macro environment gets us pretty excited about what we can achieve in 2022 and 2023, which in turn has implications for capital allocation. Our capital allocation framework on Page 25 is unchanged. However, based on the current trajectory of the business and our confidence looking out into 2022 and 2023, the board has proactively expanded our share repurchase authorization to $500 million, of which approximately $370 million remain available.

We're still on track and committed to our 3 to 3.5x leverage range by year-end. And will, of course, continue to be acquisitive. However, given the forward visibility into our free cash flow and clear organic growth levers, we are confident we can fund all of the above priorities while accelerating repurchases as we grow.

Before I turn it back to Brad, I want to extend a thank you to our entire team again for a successful quarter and the incredible organization-wide effort that is ongoing to execute our migration to SAP. I know that many of you are working both day and night shifts to ensure the success of this project, and I sincerely appreciate your hard work, energy, and dedication. Brad?

Brad Soultz

Thanks, Tim. I, as well, I'm extremely proud of our Q1 accomplishment. The WillScot Mobile Mini team is unparalleled and continues to raise the bar, which will further compound returns, driving shareholder value creation for years to come.

I also wish all of you listening today, continued safety and good health. This concludes our prepared remarks.

Operator, would you please open the line for questions.

Operator

And your first question is from Kevin McVeigh of Crédit Suisse.

Kevin McVeigh – Crédit Suisse

Congratulations on the results. Brad or Tim, it looks like the increase of VAPS, the market opportunity for the VAPS. And if I have the math right, it looks like you increased the amount per unit, but the number of units came down. Maybe just help us understand that a little bit. And then within the context of that, I just want to make sure -- I know the VAPS is $145 million was -- you framed it. Is the GLO opportunity in $35 million in addition to the $145 million or $180 million total? Just can you maybe understand that a little bit?

Tim Boswell

Yes, Kevin, this is Tim. And Page 10 lays out the current state of affairs as it relates to VAPS, and we're incredibly excited, frankly, about the trajectory that we're on. And mind you, this is through a pandemic and through a pretty complex integration.

The organization has continued to drive both core pricing and value-added products. I think it was a year ago, when we talked about having approximately a 30% spread between the rates in VAPS that we're achieving on new contracts relative to the overall portfolio. We've continued to drive the average rental rate through the course of every quarter last year, and we've maintained that spread.

So you can assume that pricing on new contracts as well as the pricing or the penetration of value-added products has kept pace or more than kept pace in the case of value-added products.

But on Page 10, you see the rate achieved on our most recent contract is up 22% year-over-year. So incredible progress there. And the overall average monthly rate on all units is up 25% year-over-year. So you see a pretty good parity between the growth rate on new contracts and the overall portfolio.

And that's all just on the North America Modular segment. To your point, there is another $35 million of EBITDA opportunity. We believe, over time, on the GLOs, which fall within the North America Storage segment. And as Brad mentioned, there's a third opportunity that we're exploring, which would be the introduction of value-added products on storage containers.

So look, this is going to be a multi-year long-term strategic driver for this business, and there are probably opportunities to expand it beyond what we know today.

Kevin McVeigh – Crédit Suisse

That's great. And then just real quick, obviously, the storage pricing just continues to really be encouraging there and improved. Is that the VAPS? Is that the capacity, the ERP? Just any thoughts as we're thinking about that against a wonderful outcome.

Brad Soultz

Yes, Kevin, there's really no VAPS included in that improvement. It's driven by, again, that continued progress with the GLO pricing and then early work on the pricing of core containers themselves.

Tim Boswell

And I just highlighted in the United Kingdom, for example, we're getting just tremendous price performance in that business under our leadership team there. Utilization levels are pushing close to 90% and the price improvement just in the last 3 quarters across that business is really remarkable.

And I think it's sustainable. And based on when we see results like that, we also allocate capital. And that's an area where we're happy to continue expanding our fleet.

Operator

Our next question is from Andy Wittmann of Baird.

Andy Wittmann - Baird

I guess, I wanted to just talk a little bit about some of the business trends in March and coming out of March. And was hoping that you could frame the discussion of that in terms of -- you mentioned some of the order book on the Modular side. I don't think you gave the March deliveries over the 2019 level in Storage.

So I'd be curious to see how that trended. And then I guess more generally, Brad, if you could talk about kind of how the order book and delivery book, if that's converging to more normalized levels. During the depths of COVID, as we all probably recall, orders were great, but some of the deliveries were slowing. Is that gap in timing or the difference between order and delivery starting to narrow here in March, April?

Brad Soultz

Yes. And Kevin -- or I'm sorry, Andrew, this is Brad. Very little of my commentary, if any, related to order book. I referenced unit on rent and delivery. So the March deliveries in Storage were at the highest level since, I think, June of 2019. So extremely strong.

The order books, in general, are very robust. And yes, indeed, the timing with respect to when orders materializes deliveries are starting to improve. And then that's in both segments.

Andy Wittmann - Baird

Got it. Okay. That's helpful. And then I'm just hoping you could just talk a little bit more, maybe this one is for Tim, on the SAP cutover. I just – if you could talk a little bit about the testing that you've done so far about the more specific timing that you're looking at?

What are some of the key things that you're trying to mitigate in terms of risk in terms of your operations? I think just having a little bit more detail, so we all go into the second quarter cutover, a little bit more eyes wide open would be helpful for everyone's edification.

Tim Boswell

Sure. And happy to. This is probably the biggest operational initiative that we have ongoing in the company. And it's been ongoing even since before the merger closed a year ago. So the planning and the foundation for this, we started putting in place before the merger closed.

We have got a very deep cross-functional leadership team from both the WillScot and Mobile Mini legacy organizations, working very well together, and that's both at the corporate level. And this extends all the way down into the WillScot branch network.

So if you can think about the employee population, north of 4,000 people that will be trained and the reporting that's in place. And all of this has been really our primary focus over the course of the last 9 months. We've had a very structured integration management office and project management structure in place. That core team meets daily to monitor the progress of all key work streams.

We meet weekly every Friday morning, except when we're doing earnings calls, with the steering committee to monitor the progress of key milestones. And that's been ongoing again now for almost a year, and we're to a point today where we're ready to execute the cutover.

So we are in the final stages of data testing. As Brad mentioned, there is an organizational wide training effort going on right now. And we are incredibly excited about some of the operational benefits that will extend into the legacy WillScot organization after this cutover. If I reflect on some of the things that the Mobile Mini organization does really well and has for some time, some of the operational efficiencies that they've been able to draw are directly related to the insight they've been able to get from SAP.

So we'll have better real-time data visibility, better reporting, better long-term process in place for things like inventory management of VAPS. I can't overstate the amount of organizational effort that's gone into this. But I'm incredibly excited about the operational benefits that will extend once we complete the cutover in Q2.

And as I mentioned in my remarks, I get incredibly excited about what else can we execute now that we've demonstrated the ability of these teams to work together. If we refocus all of that energy on value-added products for portable storage containers, as an example, or going deeper into all of our different end markets.

So it's a big deal. We've got a lot of employees on the phone listening. So thank you once again. And let's stay focused and execute at an extremely high level as we have over the course of the last 12 months.

Operator

Our next question is from Scott Schneeberger, Oppenheimer.

Scott Schneeberger - Oppenheimer

Curious if we could just speak on core spot rates in -- from the modular aspects here heading into the seasonal upswing. What are you seeing? And how assertive are you with pricing at 12.9%, obviously very strong again. And you've said that's something you can sustain for a few years hence.

So just curious what -- a little bit more on what you're seeing with the seasonal uptick and the openness of customers to take price?

Brad Soultz

Yes, Scott, this is Brad. As I mentioned, we've achieved double-digit rate growth on the North American Modular now for basically 3 years. And we think we can extend that double-digit rate growth both with the combination of core pricing and VAPS.

As we've said on prior calls, VAPS will drive 40% to 50% of that mix with core pricing driving the balance. As Tim mentioned, core spot delivered rates for both -- including VAPS and core pricing are up 30% above the average. We've disclosed the absolute value associated with VAPS.

But again, we don't get too deep into core pricing. But there's been no back off. I mean, that was 1 of the probably questions with respect to the platform heading into an existential stock shock if we would see pullback or pressure and core pricing would not, right?

We went into the pandemic with a 30% spread. We come out of the pandemic with a 30% spread. Meanwhile, we've been harvesting aspects of that spread every quarter as we move through this. So we feel quite good. And I think the other pleasing attribute to our Q1 performance was we saw the U.K. really start to move pricing actually a quarter or 2 ago.

And now we've begun to see that same acceleration in North America Storage, albeit still manual. This is before we've really harmonized contracts and deployed the algorithmic-based pricing tools that we have in place across the North American modular VAPS aspect of the revenues.

Scott Schneeberger - Oppenheimer

Thanks, Brad. Appreciate that color. Tim, I guess for you, free cash flow, very, very strong in the first quarter. I did notice there was some benefit on proceeds of sale of property, plant and equipment. I'm assuming that some real estate sales, redundant real estate sales left over from the ModSpace transaction. Could you just speak to the contribution you expect from incremental sales over the course of 2021 and 2022 as it extends that along and just how we should think about that in accordance with your ambitious yet seemingly achievable free cash flow targets.

Tim Boswell

Yes. Certainly longer term, selling real estate is not going to be a core driver of our $500 million of free cash flow, and that's a milestone that is intended to be eclipsed. I would just remind folks. So again, it was about $11 million of core real estate sales in Q1. That's a little higher than normal. If you went back to probably, what, 2019, in early 2020, you would have seen some elevated levels in that magnitude on the legacy WillScot business, stemming from our integration with ModSpace.

You may recall that ModSpace had over $100 million of net book value held in real estate assets. And to the extent those locations were redundant, we were exiting those through the course of 2019 and 2020. Mobile Mini and WillScot legacy as a general rule of thumb are not in the business of owning real estate. So to the extent we evaluate a market or an MSA and we've got an owned property and we can consolidate operations, we of course try to free up that capital and redeploy it in fleet or more productive uses.

So $11 million is a little higher. It will fluctuate but in this case, you're also offsetting $14 million of integration costs. So net-net, I think $90 million is a very good number. And again, confident in our ability to drive that going into next year.

Operator

Our next question is from Ross Gilardi of Bank of America.

Ross Gilardi – Bank of America

Look, WillScot has been very vocal about its continued interest in ongoing M&A. And I'm wondering if the boost in your share repurchase authorization, in any way, was meant to signal a shift in prioritization away from M&A towards shareholder returns?

Brad Soultz

Absolutely not. It's just given the free cash flow profile, frankly, that we've already demonstrated and our confidence in achieving this $500 million [free cash flow] and eclipsing. It's kind of an all of the above. First priority is always take advantage of organic growth and accretive M&A. I mean, we don't comment per se on the strategy of others, but we know what we do very well. We're very happy with the geographies we're in, and we'll continue to fund growth, both in office and storage, primarily through M&A, beyond the organic levers that I've already mentioned.

Tim Boswell

Ross, this is Tim. I just think about the timing. We introduced the original authorization in the middle of a pandemic before even starting our integration with a fair amount of uncertainty. Because we think we've got a very predictable cash flow profile. So what's changed? Our macro environment's changed. We're further along in the integration, and we're able to look out to several years in this business model.

So it's an all of the above. We've got plenty of capacity for continued tuck-in, regional M&A, larger scale M&A, as well as supporting the repurchase authorization.

Ross Gilardi – Bank of America

Can you guys comment at all about URI bidding for the General Finance, how do you feel about URI being further into your business with General Finance even -- fit with your portfolio, given the Australian-New Zealand footprint? Anything you care to comment there?

Brad Soultz

No. URI is a valued customer and vendor, and we would welcome them as a competitor. I don't really have any angst with respect to that. And as I just mentioned before, we know what we do very well. We have an abundance of leverage inherent in the platform we have already. And we will always stay focused on doing what we do well, where we do it.

We have a great position in the U.K. and North America. And I've said consistently over the last 3 years, little interest to expand geography beyond that.

Ross Gilardi – Bank of America

Can you just comment a little bit more on what's driving the positive developments in the U.K.?

Tim Boswell

I think it's great leadership and a very assertive commercial posture by that team. And an overall tight market environment. I mean you look at GDP forecast for the U.K. coming out of the Brexit and the lockdowns for both 2021 and 2022. You're in what, the 5% to 6% range.

Pretty tight market from both a container as well as accommodation units. We are looking at expanding our presence there. And in some cases, those are coming at a higher price point. So there's a bit of a mix element there. But really, it comes down to leadership in our commercial posture and a really supportive set of end markets there.

Operator

Our next question is from Stanley Elliott of Stifel.

Stanley Elliott - Stifel

It's a pretty interesting talking about an interesting growth environment. When we think about all of the stimulus discussions. I mean, we're looking at potentially several years of pretty substantial construction spending. Does the industry have enough fleet out there ready to capitalize on that? And is it reasonable to think that we're looking at -- I mean, you guys have long duration contracts to begin with, but just being able to layer that in at a much higher level?

Brad Soultz

Yes. I think the industry is well supplied. If you look at our North American Modular segment, we've got at least 10% of expansion opportunity with the fleet we have. And Storage is a bit tighter, but it's easy to acquire storage units. As we've looked at competitors through the various M&A opportunities over time, we've tended to find that we'll be 200 to 300 basis points above the competition.

So I'm not really worried about supply constraints as these markets expand. And I think your read is right. The ABI is a positive indicator with respect to what we could expect from non-resi, especially 6, 9, 12 months out. And the infrastructure, depending on how and when it materializes, would just further underpin and extend that. So I think those are things we're watching more for 2022 than for 2021, but they're all quite exciting.

Tim Boswell

Stan, this is Tim. I would just add, if you think about what that means for our financial profile going into the next several years. I mentioned in my remarks that even as we elevate capital spending this year, potentially, we're actually slightly contracting the fleet net book value. And we're able to do this because of the scale in our branch network. We execute in-house, in our branch network, thousands and thousands of refurbishments every year. And we do it very cost effectively, we can refurbish 3 existing units for less than the cost of 1 new. So that's 1 of the reasons we like buying other companies and use fleet because we have the core competency to maintain that equipment at scale over a 20 or 30-year life.

And that is a significant competitive advantage in the modular business specifically. And one that if we are faced with the macroeconomic tailwinds that you suggest, we'll be able to execute that again at scale in-house, maintain kind of the balance sheet around where it is today. And we can do that for a couple of years before we have to start thinking about how to introduce new supply into this market.

Stanley Elliott - Stifel

Great. And then in terms of the VAPS piece, I mean, talking about rolling it out to storage or other applications. I'm assuming you guys are incubating test cases in various markets. Would love to get a little context around that. And in particular, how quickly you could roll that out on a national level once you find a couple of products that you feel really good about.

Brad Soultz

Yes. I would just think of the VAPS opportunity with respect to Mobile Mini in 2 tranches. The first is kind of that $50 million of revenue opportunity or $35 million of EBITDA. That's simply applying the furniture that we already have in the WillScot systems to the Mobile Mini ground level offices.

So that's straightforward. That's being piloted in the U.S. It's deployed in the multiple branches right now and will accelerate through this year. I wouldn't think of it as driving rates per se at the top level in 2021. What we're really looking at is where can we be as we head into 2022 and begin to harvest that opportunity.

The second opportunity is to implement a VAPS portfolio, if you will, for storage containers themselves. If you look at how customers use these containers, over their 30-month average lease duration, they're building wood and shelves, plywood often, work benches, stringing lights, et cetera.

We think there's a pretty exciting opportunity to just basically replay the WillScot playbook that was initially focused on office to storage. That's going to take a bit more time, right? So we're sizing that up, as I mentioned in my prepared comments. And I think we are doing some VAPS, if you will, for storage today, but it's very tactical and fragmented. I think we can get more organized and really begin to progress on that journey in 2022.

Operator

Our next question is from Phil Ng of Jeffries.

Phil Ng - Jeffries

The U.K. storage business, first push might not have been a great fit from a core standpoint, just given the lack of synergies, but the business is obviously putting up really strong results and you're putting capital behind it. Do you see it as a better longer-term fit now that you've owned it for a little bit now under WillScot?

Tim Boswell

So I'd answer it this way. It's exactly what we do here in North America. It's the same business. And when we look at the portfolio, we think about, okay, where can we add value as owners, and that's one where I think we're just beginning to scratch the surface in terms of the performance that can come out of that entity.

So we love what we see, where we see results, we'll reinvest, and that's what we're doing in the U.K. right now.

Phil Ng - Jeffries

Excellent. And then, Tim, the free cash flow generation certainly was really strong in 1Q, even accounting for some of net real estate sales. Typically, it builds over the course of the year. I think last quarter, you were kind of implying maybe $350 million free cash flow this year. How are you thinking about that now for 2021? And does that give you confidence to kind of have a bigger appetite for buybacks this year?

Tim Boswell

Let me put it this way. So I think the free cash flow profile as a rule of thumb kind of mirrors some of the same margin fluctuation that you would see in the business because it is volume-driven. So it wouldn't surprise me if capex ticked up in Q2 and Q3, for example.

And then you would expect Q4 to be a higher both margin and free cash flow quarter. So there is some nuance as you progress through the year sequentially. And yes, very comfortable with that $350 million run rate. And whether it's this year or heading into next year, there's certainly upside, and this is consistent with our progression towards that $500 million free cash flow run rate that we expect towards the end of next year.

Phil Ng - Jeffries

What about on the buyback?

Tim Boswell

On the buyback? Yes, well, we expanded it. And it's for the reasons I mentioned, when we introduced the original buyback, we just closed the merger. We were in the middle of the pandemic. So there were some elements of uncertainty even then. And we're further along. I think we've got a very good view of where the macro backdrop is headed for the next couple of years.

We've seen three quarters now of the prolific cash generation in the portfolio. And we're poised to execute our SAP, kind of. So all these things factor into our thinking from a capital allocation standpoint.

Operator

Our next question is from Kathryn Thompson of Thompson Research.

Kathryn Thompson – Thompson Research Group

Supply chain has been a big focus along the construction value chain and with so many businesses in the U.S. and you potentially could be a pretty significant beneficiary. How have you sized up the opportunity in terms of puts and takes of how this impacts your business, not only now, but structurally as we look forward?

Tim Boswell

Kathryn, this is Tim. I'll start. At the simplest level, I break down our top line. It's volume price and value-added products and services. And I think we've got a playbook in place for the latter two that have been demonstrating very consistent and very strong results. And we've got unique visibility in those to look out several years. So if we're faced with the type of increases in non-resi activity that you're alluding to, it's only supportive of those trends. And in the case of value-added products and services, there are opportunities to expand the scope of that offering.

What gets me really excited is what we can do with volumes potentially in that environment. We've always kind of targeted that low single-digit volume growth range because it compounds very nicely with what we're doing on the pricing and value-added products side of things. And we think we're in an environment right now where we can deliver that. If it accelerates, then, of course, we can participate in that growth.

And to Stanley's question, if we're participating in that growth, well, I don't think we see the same supply chain constraints that maybe you see in other sectors of the economy because we have 10 points of utilization available in the fleet that we own today. And we've got the in-house refurbishment capability to put those assets to work.

So look, we'll see what happens here from a legislative standpoint. But even absent that, the backdrop that we see right now is quite robust. We're excited with where we are as a business to take advantage of it. And we think we'll even be better positioned once we get through the SAP cutover here.

Kathryn Thompson – Thompson Research Group

One clarification. And if you addressed this, apologies if I missed. But the impact of the Texas freeze, any meaningful impact to you guys?

Tim Boswell

Yes. As we talked about in the -- talking about the operating environment. January and February from a delivery standpoint, those were a little choppier. It was really once we got into March, I think you probably had some impact from the Texas freeze, for example. But it was really the March activity levels that picked up heading here into April as well as our ongoing reforecast process that we go through as a business down to the branch level. That gave us confidence in the change in outlook.

So yes, there was definitely some disruption early in the quarter. And as you would expect, typically, things, at least on the non-resi side of the equation, tend to pick up second half of Q1, heading into Q2 and Q3. And the interesting thing about this portfolio, and I think back to Hurricane Harvey, for example, as an example, that impacted Texas specifically. It's a very big deal for that market in terms of the supply and demand implications, but it was like 1% of our unit on rent portfolio.

So while these are significant events in the scope of our portfolio, they're not all that material.

Kathryn Thompson – Thompson Research Group

Okay. That's helpful. And a final clarification on Capex. How much of the capex is for refurbishment for new units?

Brad Soultz

Yes. As a general rule of thumb, Kathryn, I think you can assume about half of the capex budget is going to go into refurbishment and conversion of existing assets. And then about 25% would be going into value-added products, and the remaining 25% would be going into new assets. And these are targeted purchases for very specific product and market combinations where we don't see other alternatives to supply that market.

And then if you step back, as I said, in Q1, we did slightly contract the fleet net book value. So even when we're buying a new asset, it's probably just replacing another asset that reached the end of its life. So we're not expanding the fleet. We're just managing that fleet composition. And overall, we're tightening things up a little bit.

Kathryn Thompson – Thompson Research Group

Okay. So no real change in the mix versus prior trends?

Tim Boswell

That's correct.

Operator

Our next question is from Sam England of Berenberg.

Sam England – Berenberg

The first one, I just wondered if you're seeing an opportunity to use more third-party rentals to complement the VAPS offering going forward, especially as you look to expand on the Storage side?

Brad Soultz

Yes. There's an aspect of the modular VAPS that is absolutely third-party services. An example would be fencing, panelized fencing, toilets, some generators here and there. So it's been kind of a steady part of that portfolio. We've just focused all of our leverage [or] management horsepower on growing the owned assets aspect of that.

Mobile Mini, if you'll recall, also had a managed service aspect of their business, which was that same kind of lease and release of services. So we think it's a very interesting complement to what we do. We are laser-focused on providing turnkey, fully VAP-ed modular office and storage to all customers, right? And I view that managed services as an incremental service opportunity.

So yes, it's an interesting aspect of our business. We're just laser-focused on making sure the first thing we do is deliver office and storage to every job site, and we fully furnish both.

Sam England – Berenberg

Great. And then the follow-up, I was just wondering if you're seeing any attractive markets outside of the construction space at the moment where you could expand over the next year or 2, particularly thinking around things like education, health care events, the more sort of pandemic affected sort of sectors?

Brad Soultz

Yes. And I think the answer is yes, and it's across almost everything you mentioned, right? We mentioned in the last call we're achieving these delivery rates and this unit on rent stability despite what's been a pretty significant nonresidential headwind in North America.

So we've seen gains across the sectors. And Tim did mention about 25% of our capital goes into new fleet. That's very focused on new specific assets. A great example are those that are on the front page of our investor deck.

And these products can help us serve dense markets. We can stack these end to end and side to side as much as you would like. That's a significant focus although it's a modest aspect of our new capital. So we think we can expand the products, both the core assets themselves and the VAPS that can take us into new aspects of all those markets.

Operator

Our final question today comes from Sameer Kalucha of Deutsche Bank.

Sameer Kalucha – Deutsche Bank

Just a quick one. So on the VAPS front, you have talked about an internal target of $400. I'm just wondering what are the levers to get there? And what would be the way to take it even higher? I don't know if you have like higher numbers in mind.

Brad Soultz

We do have higher numbers in mind. Yes, in simple terms, think of the $337 average over the deliveries in the last 12 months. That's across a vast set of territories in the U.S. and Canada and Mexico. We've got territories in even full cities that are already operating at $400.

So you've got a distribution where several of the reps, 20% to 30% or more are already above that $400. So we know it's achievable. It's the social proof is in our house, if you will. And so what we're always doing is lifting the tail, if you will.

Meanwhile, when we set the $400 target, it was based upon the portfolio we had at that time, achieving an 80% penetration, if you will, making sure we were delivering 80% of our units fully furnished with the offering we had at the time. That's been the primary driver as we've increased to $337. Mind you, the sequential lift was 8%. So you can do the math and understand our actual delivered rates are even north of that. So we've got reps that do it consistently. We've got full areas that do it consistently. We are also excited about eclipsing that, if you will, as we've extended the VAPS portfolio to include, like, I would say, social distance friendly cubicles with higher walls, as an example, more data packages, et cetera.

So we're always striking that balance of make sure we finish what we started. Which is get furniture penetration to 80%. That will yield the $400. And then as we add more VAPS to the portfolio, if you will, that needs to provide incremental value.

All right. I just want to thank everyone for joining us today. And again, a big thanks to the WillScot Mobile Mini team. A tremendous set of accomplishments in Q1. We look forward to talking to you folks in about 90 days.

Nick Girardi

Thank you all for your interest in WillScot Mobile Mini. If you have any additional questions after today's call, please contact me. Thank you. Operator, you may now end the call.

Operator

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