



TRANSCRIPT

Q4 2025 Earnings Conference Call

WillScot Holdings Corp. (Nasdaq: WSC)

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Steven Ramsey, Thompson Research Group, LLC

TRANSCRIPT

Operator

Welcome to the fourth-quarter 2025 WillScot earnings conference call. My name is Sherry, and I will be your operator for today's call.

(Operator Instructions)

Please note that this conference is being recorded. I will now turn the call over to Charlie Wohlhuter. Charlie, you may begin.

Charlie Wohlhuter

All right. Thank you, Sherry, and good afternoon, everyone, and welcome to our fourth-quarter and year-end 2025 earnings call. With me in the room today are Worthing Jackman, Executive Chairman; Tim Boswell, President and Chief Executive Officer; and Matt Jacobsen, Chief Financial Officer. Today's presentation materials may be found in our Investor Relations website at investors.willscott.com.

Before we begin, I'd like to direct your attention to slide number 2, containing our safe harbor statements. 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 new Chief Executive Officer, Tim Boswell.

Tim Boswell

Thank you, Charlie, and good afternoon, everybody. We appreciate you joining us on today's call for a discussion of the operating environment, our strategic priorities, our fourth quarter 2025 results and our outlook for 2026. I'd like to begin by saying that I'm grateful for and humbled by the opportunity to lead and support this remarkable company and its people on our next chapter of evolution, after spending considerable time across our operations in 2025 and as I approach my 14th anniversary with the company. I'm very excited about how we're positioned in the market, our talent level, the alignment of our team around priorities and our culture and values that define how we show up every day for our customers and for one another.

Today, our business is emerging from a period of rapid transformation with an opportunity to set a new standard of performance in our industry through focused execution of our strategy. As we will discuss today, we are beginning to see momentum from our commercial initiatives to improve local market execution, develop our enterprise accounts and industry verticals and expand our more differentiated value-added offerings.

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We're backing this up with the strongest operational capabilities in the industry. Dependable execution is at the core of our right from the start value proposition, and we are executing a multiyear continuous improvement road map to further improve both our customer experience and our margins. This is a simple formula that builds upon the already outstanding financial characteristics of our business that include industry-leading free cash flow conversion and strong returns on capital. And while we have not assumed any turnaround for purposes of our guidance, we do see encouraging signs of progress across the business and the entire organization is aligned to drive a return to growth and shareholder value creation. This obviously starts with stabilizing the top line. Matt will cover the details of our Q4 results. The total revenue was down 2% year over year in the quarter, excluding write-offs with the decline nearly all attributable to lower seasonal storage demand from one customer. Revenue from modular products was effectively flat year over year.

So the lease portfolio is stabilizing as a result of our initiatives despite the continued contraction of nonresidential square footage starts in Q4. Adjusted EBITDA of \$250 million in the quarter was right on top of our guidance, although the 44% margin was a bit lower driven by the revenue mix and some SG&A items. Cash generation remains strong with \$91 million of adjusted free cash flow in the quarter, and we returned \$30 million to shareholders through share repurchases and our quarterly cash dividend, while reducing \$41 million of debt balances.

Capital allocation was balanced as we manage leverage prudently and prioritize opportunities with the strongest returns. And overall, there were no surprises in the quarter from my perspective, which is important as our team focuses on getting back to more consistent and dependable execution for shareholders. Looking ahead to 2026. Our initial guidance is intentionally conservative consistent with the approach that we articulated after the third quarter and does not assume any improvement in business trends. Our internal plans and compensation targets comfortably exceed this outlook, although the market backdrop remains mixed, and we think the conservatism is prudent given our recent trends.

That said, our top priority is returning the business to steady organic growth, and we believe there is a path to deliver positive organic revenue growth inflection in the second half of the year. And we're seeing early results from our initiatives that if sustained, would get us there.

First, entering 2026, sales staffing is up 13% year over year and with greater tenure, stronger sentiment and lower turnover across the sales organization. In Q4, we strengthened our regional sales management layer so that we have consistent oversight and accountability at the local level, clearly aligned incentives, and improved sales enablement systems. We absolutely have a productivity tailwind from this team, and I'm very happy with the changes that we've implemented.

Second, enterprise accounts is accelerating with our focus on developing existing accounts and underpenetrated industry verticals. Enterprise account revenue was up 7% year over year for the full year in 2025 and up 10% year over year in Q4 excluding one large seasonal container customer. We expect to carry this momentum through 2026, delivering mid- to high single-digit revenue growth from the enterprise portfolio.

And third, our expanded offering and focus on the customer experience absolutely complement these efforts, giving us more ways to win on every opportunity and in some cases, opening new opportunities that we may not have pursued historically. This is all consistent with what we shared in Q3, although we are a bit further along with the implementation and with clear visibility into the impact on our leading indicators.

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From an order perspective, our modular pending order book is up 17% year over year, with a significant impact from large RFP wins in the enterprise accounts portfolio, which are often tied to large project demand such as data centers, power generation and large-scale manufacturing. This excludes demand related to the upcoming World Cup, which we expect will be an additional 2,000 units of demand in Q2 and Q3, albeit on short duration. If we exclude all enterprise account activity, modular pending orders are up 5% year over year, so we are seeing increasing order volumes across customer segments and across all product lines within our modular offering. This is on the heels of 3% year-over-year activation growth in the fourth quarter on our modular products and with strong order growth continuing into January and February.

We've also seen order rates on our portable storage product lines, up 11% year over year over the last 13 weeks, with that growth all coming from RFP wins within enterprise accounts, including some shorter-duration retail store remodels. So it is good to see growth in the storage order rates, but it is not yet as broad-based as we are seeing in modular.

So it is early in the year, though our commercial team is well organized and with the significant order backlog, we are increasingly focused on operational readiness to support demand and have three key initiatives in flight across our field and centralized operations.

First, as Matt will discuss, we are advancing our network optimization plan, following approval by the Board of Directors in December. This will allow us to exit surplus real estate positions and idle fleet while maintaining full service and coverage capabilities in all markets that we serve.

Second, heading into Q2, we will be rolling out our enhanced scheduling and route optimization platform, which we expect will improve our dispatch function and transportation margins as well as customer service.

And third, we're continuing to make improvements across our support center operations, resulting in accelerated cash collections, reduced days sales outstanding and significant improvements in Net Promoter Scores related to our invoicing and customer service functions. We prioritized each of these initiatives to improve efficiency and the customer experience. And these will be sources of operating leverage when activity levels pick up across the network and reasons we're confident in our longer-term target range for EBITDA margins.

Before I turn the floor over to Matt. I'd like to thank the entire WillScot team again for their support through our recent leadership transition. Over the last several months, we have worked hard and collaboratively to align on our strategic priorities. And we have a shared understanding that our success will be defined by disciplined execution that delivers consistent, repeatable results across the organization. The initiatives we have in motion from strengthening our go-to-market strategy, to continuous improvement of our operations, create a pathway back to sustainable organic growth and shareholder value creation, which is our focus. Matt?

Matt Jacobsen

Thanks, Tim. I'll get into the details shortly, but overall, results in the year were in line or better than we had guided. In the fourth quarter, total revenue was \$566 million and adjusted EBITDA was \$250 million representing a margin of 44.2%. Revenues in the quarter came in a bit better than we had expected, but were down \$38 million or 6% versus the prior year quarter. Excluding the cleanup of out-of-period AR that we discussed last quarter, revenues were down

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approximately \$12 million or 2% year over year, the majority of which was driven by the reduction in our seasonal retail container volumes with one customer.

While higher sales and delivery and return activity supported revenue performance above our guide, the shift in revenue mix weighed on consolidated margins by about 50 basis points versus our expectations. We also incurred elevated levels of health insurance costs in the fourth quarter, which compressed margins by another 60 basis points and reduced the favorability to our guide from an EBITDA perspective. For the full year 2025, total revenue was \$2.28 billion and adjusted EBITDA was \$971 million at a margin of 42.6%. So overall, we ended up the year a little better than we had guided and our focus on operational discipline and cost control as we position the business to support a growing order book in early 2026.

If we look a little bit closer at our leasing revenue on slide 5, we can see the underlying stability in our leasing revenues. Here, you can see our performance with and without write-off activity. Write-off activity within leasing revenue was flat sequentially and at approximately \$25 million, but up approximately \$19 million versus the prior year quarter. However, our modular space leasing revenues in the quarter were essentially flat to prior year, which when combined with improved activity levels and the growing order book, as Tim highlighted, indicates lease revenue stabilization in our largest product class and the opportunity to drive revenue inflection in the second half of 2026.

Portable storage leasing revenue was down approximately \$10 million from the prior year as expected driven by lower volumes and end-of-year seasonal storage business, partially offset by a modest sequential increase driven by our climate controlled storage offering. And VAPS revenue in the quarter was essentially flat in absolute dollars, both year over year and sequentially. With increasing VAPS penetration, which was up by 100 basis points year over year to 17.8% of total revenue or 17.4% for fiscal year 2025.

Turning to slide 6. In the fourth quarter, adjusted free cash flow was \$91 million, representing a 16.1% margin and \$0.50 per share. For the full year 2025, adjusted free cash flow totaled \$489 million and exceeded our guidance of \$475 million, representing a 21.4% margin and \$2.70 per share. Consistent free cash flow conversion continues to be a unique strength of our business and has demonstrated remarkable resilience as the lease portfolio positions for inflection.

As shown on slide 7, for the full year, net CapEx totaled \$273 million, up 17% compared to fiscal year 2024. While we estimate approximately \$200 million of our CapEx is for maintenance CapEx, we've been investing above maintenance levels to service large project demand with our FLEX product, additional complexes and also in our newer product categories to support growth where customer demand is strong. We will continue to prioritize demand-driven investments in the more differentiated, higher-value products. We also opportunistically allocated \$145 million towards acquisitions, paid down \$146 million in borrowings and returned \$151 million to shareholders through both repurchases and our quarterly dividend distribution program in 2025. We will continue to take a balanced approach to allocating capital by managing leverage while being opportunistic with share repurchases and potential acquisitions.

Moving to slide 8. We ended 2025 with total debt of under \$3.6 billion with a leverage ratio of 3.6 times. During the quarter, we amended and extended the maturity of our ABL credit facility to October of 2030 and use some of our availability to redeem \$50 million of our 2031 notes, which carry the highest interest rate in our debt stack. Our next maturity is not for another 2.5 years, and we have sufficient flexibility and liquidity to fund our capital allocation priorities.

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Slide 9 is new and provides an overview of our network optimization plan, which was approved by the Board of Directors on December 18. As leases expire over the next four years, and we exit approximately 25% of our leased acreage, we expect to realize between \$25 million and \$30 million of annual real estate cost savings. Said another way, the annual growth rate of our occupancy costs should decline to a mid-single-digit average growth rate over the period, versus the 10% plus that we've been seeing over the last several years, helping support achievement of our EBITDA margin target range.

As part of this plan, we recognized a noncash restructuring charge of \$302 million from accelerated depreciation on our rental equipment in the fourth quarter that reduced the net book value on approximately 53,000 units to salvage value, which is approximately \$10 million. The move aligns with our strategy of shifting the portfolio towards higher-value offerings as presented at our Investor Day last March. In turn, stronger unit economics of our overall portfolio will support improved margins and ROIC, while still preserving sufficient capital to meet demand in all product categories.

With regards to the optics of our utilization rates, the average size of our entire fleet over the quarter does not fully reflect the network optimization plan since we recognized the accelerated depreciation on the units in December. Therefore, you will not see the entire impact on our utilization until the first quarter of 2026, but we have provided a pro forma view in the appendix, which shows that our utilization for both modular space and portable storage products increases by over 700 basis points after removing these units from the fleet.

As we ramp up our network optimization initiative, we will also begin to incur cash costs related to rental equipment disposals and fleet relocation costs about \$60 million over the next several years with an estimated \$35 million in 2026. From a presentation perspective, fleet disposal costs will be included in restructuring expense and both fleet disposal costs and fleet relocation expenses will be added back as we present adjusted EBITDA, adjusted net income and adjusted free cash flow. The related salvage value for recycling containers and estimated real estate proceeds in future years will partially offset these cash implementation costs, but will have limited impact on earnings.

And finally, on slide 10 is our 2026 outlook for revenue of approximately \$2.175 billion and adjusted EBITDA of \$900 million. As we spoke about in the third quarter, relative to the \$971 million of adjusted EBITDA in 2025, we're entering the year with an approximately \$50 million headwind in our traditional storage business. Our outlook of \$900 million is a conservative view relative to our current run rate beginning the year and does not include benefits from ongoing internal initiatives that have sustained could drive year-over-year leasing revenue growth at some point in the second half of the year, and place us on a growth trajectory into 2027.

As Tim mentioned, we're driving internal plans and compensation targets that would inflect revenue in the second half of the year and comfortably exceed the revenue and EBITDA guidance. For modeling purposes, the first quarter is the slowest period of the year for activations, and we will incur increased variable rental costs for the spring activation period as seen the sequential progression of our adjusted EBITDA margins. Based on where we're starting the year, we would guide to approximately \$515 million of revenue for the first quarter and adjusted EBITDA of approximately \$200 million. Beyond the first quarter, we anticipate revenue to increase sequentially by 7% or 8% into Q2 as we support our highest logistics activity quarter, including the beginning of the World Cup.

For net CapEx, we expect to invest about \$275 million in 2026. Our net CapEx plan maintains the same strategic approach, prioritizing high-value and differentiated product categories and will be slightly front-half weighted to

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support demand. Approximately 70% of our net CapEx will be split evenly between normal modular refurbishments and new fleet purchases of differentiated product categories such as FLEX and complexes to support large project requirements. 25% directed towards continued VAPS investment and the remaining 5% towards infrastructure.

Clearly, the \$275 million net CapEx guide implies that we're investing into growth opportunities that are not fully reflected in our revenue and EBITDA guidance. As we progress through the year, we will adjust investment levels to reflect the demand environment. Though based on what we're seeing right now, we expect to invest at this annualized level in the first half of the year. Further down the P&L, we expect total depreciation and amortization to be approximately \$400 million for 2026 or approximately \$100 million per quarter. About \$310 million related to rental equipment and the remaining \$90 million includes approximately \$40 million of amortization expense and \$50 million of other depreciation related to infrastructure. Based on current debt balances, we would expect interest expense to be approximately \$215 million for 2026 including approximately \$9 million of noncash expense. And just as a reminder, the cash timing of bond interest payments is concentrated more in Q2 and Q4.

And finally, regarding taxes. Our effective tax rate remains approximately 26%, but cash taxes will remain isolated to state and local levels as they were in 2025 as we do expect our NOLs to shield us at the federal level in 2026. Based on current projections, we expect to become a full federal cash taxpayer in 2027.

So in summary, the end of 2025 finished up as expected, and our outlook for '26 as we sit here today, is a conservative view relative to our run rate entering the year, if the positive commercial momentum that we're seeing today continues, we believe we could see year-over-year leasing revenue growth at some point in the second half of the year, which would drive us comfortably above our current outlook. Our internal team is fully aligned on inflecting revenue in the business and returning to growth. Back to you, Tim.

Tim Boswell

Thank you, Matt, and thanks again to our entire team who are aligned and focused on delivering results. and delivering them in the right way, consistent with our values. WillScot is uniquely positioned in the marketplace with opportunities for growth that only we can execute, given our differentiated capabilities and without constraints given our outstanding financial profile. I'm incredibly excited about our prospects in 2026 and beyond. And I see clear alignment between the strength of our culture, the execution of our strategy, the growth of our business and long-term shareholder value creation. This concludes our prepared remarks. I will now turn it back to the operator to open the line for Q&A.

Operator

Andrew Wittmann, Baird.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

So I guess I just wanted to kind of guess check in on the order book. I mean, Tim, you gave some pretty decent stats here about orders kind of returning you kind of hedged the comment that it's kind of early here. You got to see if this holds. Are you seeing anything seasonally that maybe accelerated some of the orders that maybe they're running above trend? Or what are some of the other factors, I guess, that would lead you to believe that maybe this is good, but maybe it's not sustainable here because obviously, the guidance is much lower. So I thought maybe you could just elaborate on that, please.

Tim Boswell

Yes. As you know, Andy, and good to talk to you, the seasonal activity usually picks up as we move deeper into Q1 and early Q2. So in a normal year, we still wouldn't have seen kind of the typical impact of that seasonal increase in construction activity in the lower 48 states in particular. What I did call out is a number of larger RFP wins in our enterprise accounts portfolio. And that is a very big driver here of the momentum we're seeing in the business. As you will recall, we reorganized that team back in Q2 of last year, added some leadership depth across the team and organized it across five key industry verticals, and we're seeing traction really across all of those with construction being the greatest.

If I unpack what's going on in the construction vertical, data centers, not surprisingly, are popping up all over the United States, and we are present on many of those. And as we look at data center activity, specifically in contractual written revenue, we expect that subvertical could be up 50% year over year in 2026. So we don't see that slowing down. So overall, the modular book is building earlier in the year than we would typically see and with a strong bias towards enterprise accounts. We do have the World Cup coming up. We try to keep that separate from the stats that we gave you just because that will be kind of a one and done deal at least this year until we get to the Olympics, but really encouraged by what we're seeing through the enterprise account team.

And then the other important commercial strategy has been on dialing in our local market execution. And we made a number of structural changes through the second half of last year that I'm very pleased with. I think we're getting good momentum across the local sales org as well. We're seeing that in some of the more transactional product lines within Modular, which are also up from an order standpoint, not so much yet in storage, but those changes are fairly recent and the early trends are encouraging. So a little too soon to extrapolate all of that across the rest of the year, especially not knowing how the typical construction season is going to build, but I'm happy with the progress year to date.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Got it. That's helpful. I guess for my follow-up, I wanted to ask about VAPS as well. Tim, I mean, you've talked about kind of trying to go to market a little bit differently there that maybe the last year wasn't totally up to your standards. It looks like there's a little bit better momentum coming out here. I guess my question is, is that true? Have you made changes -- and do you believe that they're benefiting on the VAPs? Or obviously, you're still not to your target levels,

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but just starting to get a little momentum there. So I just -- I wanted to give you an opportunity to talk about that and let us know what you're doing there and seeing there on that initiative?

Tim Boswell

You're right that the penetration level is measured in terms of percentage of revenue of the lease revenue book, and those are slightly increasing. I'd say that's more of a function of the mix shift and the traction that we're seeing in the modular portfolio than it is improvement in terms of penetration on a per unit basis, which as you'll recall, is how we used to look at it. I still think we have some opportunity and work to do there. And as I think about our commercial initiatives in the first half of 2026, we made some changes to the regional sales leadership structure at the local level across the network and modular VAPS penetration in furniture, in particular, is a very high priority for that team as we kind of get back to the best practices that we knew were working a couple of years ago.

So I still put that in the opportunity column, Andy, and -- the only other thing I'd add there is the offering is continuing to expand. Fencing and perimeter solutions is set for a nationwide rollout this year. So we are going to have a tailwind across that solution set in addition to the traditional offering where we've got a further penetration opportunity just across all the volume that we're delivering.

Operator

Angel Castillo, Morgan Stanley.

Angel Castillo - Morgan Stanley

Tim, I appreciate all the color. I guess, just trying to make sure I understand this because as we think about maybe a second half inflection point here, I guess I'm not entirely following why we're seeing modular orders on the nonenterprise build or rise 5% year over year, but you're also talking about, I think, some perhaps maybe you're seeing some backlog build that's a little further out or earlier than normal. But why wouldn't we see some of this reflect itself at least in 2Q and see more of a ramp up there? Is it just -- is this a factor of more mega project than local? Or why wouldn't we see that, I guess, that nonenterprise piece as well showing up earlier?

Tim Boswell

Well, as you look at the pending order book that we have today, we do expect a sizable portion of that to convert in the first half of the year. What we're not doing is extrapolating these activity levels deep into Q2 and the second half of the year, just given it's early in that traditional construction season when activity would typically build. So the early signs are indeed encouraging. The majority of that order book activity should deliver in the first half. Lead times have not changed dramatically as I look across the portfolio. There is a heavy mix of mega project activity, as I mentioned,

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data center power gen, manufacturing, really across all geographies, but we're just not prepared today to extrapolate that into the second half of the year.

Angel Castillo - Morgan Stanley

Understood. And then sorry if I missed this, but I guess did you say what your 2026 free cash flow guide is? And just curious if you didn't, what that is and what the free cash flow margin kind of implied, -- just help us bridge the puts and takes as we think about next year's or I guess, this year's free cash flow versus last year?

Matt Jacobsen

Yes. Angel, I can take that one. I mean, we've kind of included most of the most of the components there. But our math would say around \$415 million of adjusted free cash flow. So just one thing to note there, we do expect, like I said, to incur roughly \$35 million to implement our network optimization plan. That would be excluded from that \$415 million. So think of that as kind of an adjustment to get back to an adjusted free cash flow -- but really, between interest and the different pieces there, that's about where we're ending up. So pretty resilient, honestly, and kind of looking at how the business has performed over the last few years in a macro decline. And as we start to get to that inflection point, the free cash flow has been really resilient.

Tim Boswell

Only thing I'd add to that is just the CapEx guide, given the activity levels that we're seeing right now in the first half of the year, we do expect to be investing at that \$275 million net CapEx annualized level. We'll, of course, revisit that weekly is kind of our practice based on the demand that we're seeing. If we see these levels continuing. I expect we hit that \$275 level for the year. If things slow down, we'll obviously pull it back and you'd see that free cash flow margin pop back up north of 20% versus where it sits in the current guidance. So we'll continue to take a demand-driven approach to the net CapEx.

Operator

Steven Ramsey, Thompson Research Group.

Steven Ramsey - Thompson Research Group, LLC

I wanted to see if you could parse out the enterprise forecast of the mid-single to high single-digit growth for 2026. And if the pricing contribution in enterprise is similar to the modular segment displayed in 2025, that points to volume being an equal contributor to the enterprise revenue growth. So maybe you can parse just the drivers of enterprise revenue.

Tim Boswell

Steven, I think this is an easy one. It's really volume driven, right? We don't see significant pricing differences as we segment across enterprise and other customers. We take a dynamic approach to pricing. We look at customer characteristics and project characteristics and all those good things. But at the end of the day, you don't see significant price or VAPS penetration differences between the enterprise accounts, especially in modular versus other customer segments.

So the growth in that segment is volume-driven, and that's a function of going deeper with customers where we already have relationships, but maybe didn't have as robust of an account strategy as well as the vertical business development strategy. And as you know, we touch every sector within the North American economy.

Historically, we've been very organized around construction and we're taking that same focused approach and applying it to four or five other key industry verticals that we talked about at the Investor Day, where we know we've got great marquee accounts, great value proposition and opportunities to grow with our existing offering.

Steven Ramsey - Thompson Research Group, LLC

Okay. That's helpful color. And then I wanted to think about the sales staffing and the measurements you gave on numbers of better 10-year maturation, et cetera. And how that connects to the better order and activation trends coming in on a lag? How much of the activation and order growth is the maturing staffing and seeing more and capturing more opportunities versus the mega projects being better?

Tim Boswell

I'd say it's earlier in terms of the impact of the field sales organization. Some of the changes that we put in place at the end of 2024 are just kind of taking hold now. We've completed our first month of the year from a commission standpoint and exceeded the targets that we had deployed across the field sales organization. So that's a good start for the year and bodes well for earning potential across our sales organization. So that's a good thing. As I look at the objective metrics, staffing up 13%, turnover is -- or at least voluntary turnover is half of what it would have been back in the middle of 2024 when we were experiencing peak disruption from the field reorganization we measure employee sentiment across all categories quarterly, and that is a driver of performance, whether you're in a sales role or any other role, and we're seeing improvements there.

So all of those are either quantitative or qualitative indicators that tell me we've got tailwinds across that team. We have made systematic improvements from a sales enablement standpoint in our sales HQ. This is our CRM system where we're taking a more prescriptive approach to prioritizing opportunities and next best actions for sales reps through our CRM as well as through phone routing and other things. So sitting here today, we really don't have any other changes that we're contemplating for the field sales organization. I feel like that work is done. The team is in place. The leadership is in line. The incentives are consistent across really all sales roles, which has been a long time coming. And I'm happy with the positioning and it's time to let them run.

Operator

Kyle Menges, Citigroup.

Kyle Menges - Citi

I was hoping if you could just talk about the positive rate you're seeing in portable storage. So and just maybe what's driving some of that? And talk a little bit about how you're balancing rate versus market share within portable storage?

Tim Boswell

Okay, I'll start. Matt, I'll probably miss some details, so you can jump in. If you look at the as reported average rate up 9% year over year that we report in the investor presentation that is almost entirely mix driven by rapid growth within our cold storage offering. If I think about traditional storage, those spot rates have bottomed over the last couple of quarters, it feels like and are off significantly from where they would have been back at the peak in the middle of 2023.

So I think we've digested that headwind, and that's included in the \$50 million revenue headwind that Matt referenced for the traditional storage business. So I think that is behind us at this point. The favorable mix shift is driving that growth in AMR. Our order book cold storage sitting here right now is up 105% year over year. So that's performing quite well and has an added benefit of taking us into sectors and customers where we really didn't have a hook previously.

A good example of that would be third-party logistics, warehousing and distribution. We've had customers in that sector forever, but not with a targeted strategy. The flexible cold storage offering is really attractive across those 3PLs, warehousing and distribution and retail. And it's allowing us to then pull other more traditional parts of our offering into those types of customers. So really happy with how that's performing. It's a good example of how we're repositioning the portfolio towards higher value-added solutions. Higher value-added solutions allow us to capture that value and pricing, and that's what you're seeing in the storage AMR.

Matt Jacobsen

Yes. Not much to add there other than the containers, if you look at them, by themselves are up about 1% year over year. So we're continuing to get impact of all the different pricing levers that we have, but it's been relatively -- it's been very stable, which is not a bad thing, but makes contributing to the overall increase.

Kyle Menges - Citi

Helpful. And then a follow-up question on AI and just how you're leveraging AI internally. And in your prepared remarks, I think you said that efforts you're making around minimizing logistics costs, I think, some efforts around

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collections as well. I mean, you seem like areas that would be ripe for AI implementation. So curious what you're doing today and if you're exploring just any use cases for AI internally in the future?

Tim Boswell

We are indeed, first and foremost. We hope everybody just keeps spending on AI and building data centers. It's probably the most impactful thing that we see in the business right now. We've been stepping into this area for a couple of years now. We started with AI tools in our branches and video monitoring of movements within our branches for safety purposes. Our pricing optimization platform is AI-based. Internally, we have developed a sales call coaching model that is AI-enabled.

And just to dig in on that one a little bit. This is a tool that can review all of our sales call transcripts. It's got a scoring rubric, whereby it can identify sales calls that could have been improved in some way. It helps our sales coaches, diagnose very quickly, which reps need coaching on what topics and be a lot more efficient with how we spend that sales manager resources time right. So there are a host of ways that we can deploy these tools in the back office.

That said, we don't need to jump straight to being cutting edge on all things, right? There's still a lot of basic blocking and tackling in the back office, where we're seeing traction on collections and customer service, the old-fashioned way, which I think can drive real margin improvement in the business. But I completely agree with you. There are aspects of our sales model, aspects of our customer service model, employee training, where AI is very relevant, and we are very open to those opportunities.

Operator

Tim Mulrooney, William Blair.

Luke McFadden - William Blair & Company L.L.C.

This is Luke McFadden on for Tim. Can you provide some insight into how conversations with your local customer set have been trending recently? I know things like interest rates, tariffs, building costs, and headwinds for that customer cohort this past year, is sentiment or confidence in the outlook for 2026 improving at all with that customer set?

Tim Boswell

The best barometer there is the feedback that we're getting from our local general managers and our local sales team. And going back to November when we had those teams in for budgeting and I've been out on the road recently, meeting with the teams for early updates in 2026. And that sentiment and that energy level is notably improved relative to where we would have been last year. I can't say that's all customer or market driven. A lot of that is being better organized internally and with better structure and accountability in place relative to how we entered last year. So I think that's probably the bigger driver of the two.

Luke McFadden - William Blair & Company L.L.C.

That's helpful color. And as my follow-up, I know one of your ongoing commercial priorities has been to do improve and do a better job winning subcontracted business. And the large projects where you work closely with the prime GC. Can you provide an update on your progress there around winning that subcontractor work?

Tim Boswell

Yes. This is pretty exciting, actually. Back in -- it was early Q4, we introduced a kind of a rewards program and referral program for our larger general contractors. And this is a way to partner with our largest contractors and provide our customers with an incentive to help bundle more of that subcontractor activity with us. It has huge benefits to the primary general contractors because they get more control and visibility and uniformity, frankly, across all of the subs coming on to the job site. And from our perspective, obviously, it's almost like an indirect sales channel that allows us to capture that activity more efficiently than targeting every subcontractor individually.

So very encouraged with the early performance of that program. And if you think about our focus on local sales market execution, one thing that we had gotten away from over the last couple of years is having true account ownership at the local level. So what we've done is gone across every territory in North America Obviously, every ZIP code rolls into one of our territory sales reps. And within those ZIP codes, we've got top accounts for which that territory sales rep is personally accountable for.

So I think historically, we've done a good job targeting construction project activity through our various systems. What we got away from was just that ongoing account management and relationship development at the local level. And we've absolutely reemphasized that later in Q4 and going into 2026. And I think that's a really important ingredient for the effectiveness of the local sales organization. And it mimics that account focus and that account strategy that we've put in place at the enterprise level. So we're trying to do it at both ends of the spectrum.

Operator

Manav Patnaik, Barclays.

Ronan Kennedy - Barclays Bank PLC

This is Ronan Kennedy on for Manav. Are you helping with the underlying volume and price assumptions for the respective segments for 1Q and/or full year '26. And can you comment on if and how conservatism such as I think what was discussed in Andy and others question as to not extrapolating order book conversion or not including any impact of commercial initiatives specifically impacting those assumptions and the opportunity for upside there?

Matt Jacobsen

Ronan, thanks for the question. I'll try and capture that here. I mean, I think as we look at our pricing and volume assumptions and kind of what's in our guide and what we think is opportunity kind of above our guide if the trends continue. Is that kind of what you were what you were kind of trying to get after?

Ronan Kennedy - Barclays Bank PLC

Yes, yes. And if you're able to help with how to think fundamentally about volume and price, where that's been taken back, respectively, by conservatism and the potential upside?

Matt Jacobsen

Yes. No, I think as we look at our guide and we think about volume and price, I mean, you -- as we said in our opening comments, the guide that we've provided is kind of a continuation of recent trends, right? And those trends have been having some volume pressures, obviously, on the storage side of the business, we're starting the year with about a \$50 million kind of headwinds. So we're not assuming that, that picks up and starts to reverse. On the modular side, that's been a bit more stable, right?

We showed in Q4, modular leasing revenues were basically flat year over year, and we're kind of starting from a standpoint of that being the starting point for -- at least from a revenue perspective, not volume, but revenue starting point for the year and that kind of continuing forward. And if these trends that we're seeing recently are sustained for a couple of quarters, you start to then get to a point where you're getting closer and closer to some potential volume inflection.

That won't happen in two quarters, but you're moving in that direction. And that's ultimately what we're all focused on is driving internal volume growth, doing that smartly, not at the expensive price, but driving consistency there as well. So we're just -- we're being conservative in the guide because it's only 1.5 months in. And this is what we know today, but we know that can also change as things go forward, and we'll be watching it closely and give you guys an update here in a few months.

Ronan Kennedy - Barclays Bank PLC

Got it. And if I may, as a follow-up, can I ask -- are you helping with how to think about -- and I know, Matt, you just alluded to, it's only so far into the year, cognizant of that time frame. But going back to last March and the strategic -- or the initiatives and the targets rolled out for the three- to five-year horizon.

I would say things haven't necessarily played out as anticipated, certainly from a market demand dynamic standpoint, then you had the 3Q 25 introduction of further strategic initiatives, prioritization of some optimization initiative and a fundamental shift to the more conservative approach to forecasting and guiding. Is there a way to think about the

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three- to five-year targets in light of all that? Or is it -- look, they're three to five years and there's still plenty of time, and that's why it was three to five years? Or just interested in your thoughts on that, please.

Tim Boswell

Ronan, I'll take this one. And I think you ended in pretty much the right place. Obviously, we didn't finish 2025 where we would have hoped back in March of 2025. And so you can think of the starting point to get to those longer-term revenue and EBITDA targets is obviously lower. And the implication there is it may take more time to get there. So look at the outer end of that range. In terms of our strategic initiatives, the only thing that's new relative to where we were in March is the network optimization initiative.

And that was a function of, hey, we see the market bottoming in a place that's lower than we anticipated, which means we've got an opportunity to optimize both fleet and real estate. So that's a -- that was a new one relative to where we would have been not quite a year ago, but the focus on local market execution has -- in terms of the changes that we've implemented has played out very much with what I -- how I would have planned about a year ago. enterprise accounts, the same. The focus on the value-added offering, the same. I mentioned in my prepared remarks, the focus operationally on route optimization and scheduling.

We talked about that in March a year ago. We talked about optimization of back-office processes, and we're making progress across all those things. The reality is you can't really see the impact of that -- those margin-oriented initiatives because they're being offset in 2025 by the natural negative operating leverage in the business in this environment. So in my prepared remarks, I alluded to the fact that these are structural improvements to the business and the margin profile and margin potential in the business that we expect will manifest themselves when we get volume back -- flowing back through all the branches. I like what I see sitting here in mid-February from a volume standpoint, but in order to get that impact, it has to be sustained and that's why we're taking a cautious approach to the guidance.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - Deutsche Bank

I wanted to follow up first just on the conservatism comments again. I just want to make sure I'm understanding -- so as you're talking about revenue inflection in the back half, is that included in the guide as of right now? Or are you essentially saying that if current trends sustain then that's where we will be.

Matt Jacobsen

It's more the latter there, Faiza. Thanks for the question. I think we're seeing some good commercial indicators right now, but don't know that those will sustain themselves to get us to a point where we would see second half inflection for sure. So our conservative guide is based on the run rate coming out of last year based on kind of where that would play out. So if we do see a sustained consistent year-over-year improvement in the commercial activity, that would be above our current guide. And that's where we see that there could be a potential for inflection in the second half of the year, but that's not included in our guidance.

Faiza Alwy - Deutsche Bank

Perfect. And then I have to ask about data centers since we've been sounding so positive on that for good reason, I'm sure. Maybe help us think through like what percentage of the business is that vertical at this point. I suspect it's small, but maybe you can give us some background on like what's that RFP process like as you think about those RFPs, like what has been your win rates there? And what -- essentially, I'm trying to figure out what the competitive dynamics are there? Because I think a lot of us believe in that, that activity continuing. So any additional perspective there would be helpful.

Tim Boswell

Yes, I'm not going to have a precise quantification of this for you, Faiza, but I'll give you maybe a way to think about it. And first and foremost, I'd say, from our perspective, this activity is picking up. not slowing down, at least that's been our experience here from Q4 coming into Q1. And as I said in either in response to an earlier question, we measure the new contractual revenue that we write in any given period. This is number of units times the price, times the duration is the total project value. And we think that the data center sub-vertical could increase by 50% or so on that metric in 2026. So that's a meaningful increase, but you're talking about less than 5% of our overall revenue at the end of the day. So it's a very important and kind of unique change in the demand environment.

We are absolutely taking advantage of it. I can think of data center projects from Des Moines to Milwaukee, Lubbock in Abilene, Texas, Indianapolis, Jackson, Mississippi, Chicago, Reno is on fire, Northern Virginia. So it's everywhere, right? I can't quote you the win rate off the top of my head, but we're on all of those projects. There are situations I'm thinking about Micron, not a data center, but related to that supply chain where we'll have hundreds of units, but actually can't supply the entire demand across that project, and it's fundamentally changing the nature of the Boise market for the next 10 years probably.

So this is a very significant change as I reflect back to other changes like this in the business, like when the business was bottoming coming out of the GFC, we had a very significant increase in oil and gas activity in 2011, '12, '13, which really led the reinflexion of the nonres market coming out of the GFC. This feels a little similar to that, but I haven't seen anything quite like this since that time.

Operator

Philip Ng, Jefferies.

Phil Ng - Jefferies LLC

I think in your prepared remarks, you talked about non-resi square footage starts were down about 6% in '25 and about 12% for the quarter. Is there a good way to think about the typical lag of that number to your units on rent because you're calling out pretty encouraging orders. I know it's very early to start the year. So just curious what kind of end market assumptions are you kind of baking into your outlook for this year?

Tim Boswell

It's a good question, Phil. This is Tim. And our activation volumes typically align with project starts, right? So the encouraging thing from my perspective is we're seeing meaningful activation and order growth in a declining starts environment. And that's a bit unusual in our business. To me, that means two things. We're outperforming that metric as an organization I think that's got a couple of pieces to it. One, the local sales organization is better organized today than it would have been a year ago to the enterprise efforts and the mix of that activity is working in our favor because we are disproportionately well positioned to serve the needs of these larger industrial projects.

In the case of some of these things like this large soccer tournament that's coming up, I'm not sure anybody could do exactly what we're doing for the customer. That's just a function of our unique capabilities and our unique value proposition. And I think the way we're organized right now, we're better positioned to take advantage of that.

Phil Ng - Jefferies LLC

That's helpful, Tim. I guess, kind of dig a little deeper on that. Can you remind us like what percent of your business is actually tied to backlogs. I'm not as clear how good of a leading indicator is that in terms of leasing revenue, just overall, it just be helpful to kind of get a little more color on that. And have you seen your units on rent, I guess, deflect like your order book, at least through early February?

Tim Boswell

Yes. On that latter point, I mean, we had a modest increase in modular unit on rent in January, which is seasonally unusual. We haven't seen that in storage. Orders lead to activations; it's the basic sales funnel and the order book that we see right now supports activation growth leading into Q2. And if that's sustained, typically for a couple of quarters, you get unit on rent inflection, and that's been the goal here for some time. And we're not making that assumption in the guidance to Faiza's question a minute ago, but if sustained these activation levels and order levels would support it later in the year.

Operator

Scott Schneeberger, Oppenheimer.

Daniel Hultberg - Oppenheimer & Co. Inc.

It's [Daniel] on for Scott. Could you please provide the bridge from the EBITDA 2025 to the guide for 2026. I know you have the storage headwind, but the other components are you able to quantify that?

Matt Jacobsen

Yes, Daniel, that is the biggest component. It's really a \$50 million kind of headwind that we're facing. And then if everything else, we've provided some conservatism to that point, which then brings us down to the \$900 million. Really, that's the main thing, right? So obviously, if our commercial activity sustains like we've seen recently, we would go -- we would do better than that. And that's what we're driving to internally as a team. That's what all of our compensation is based on. But that's really the main brick in the bridge.

Daniel Hultberg - Oppenheimer & Co. Inc.

Okay. So there's a lot of real swing factors in that range that could put you higher and lower?

Matt Jacobsen

I mean, there's obviously other opportunities and risks, but it really does boil down to that storage headwind.

Daniel Hultberg - Oppenheimer & Co. Inc.

And on M&A, last year in the second quarter, '25, you had a pretty big M&A spend. Will there be a trickle through to EBITDA growth in '26 from that? And the level of M&A spend you had in '25 and in '24, is that a good way to think about it going forward?

Tim Boswell

It's a good question. You can assume that the impact of those acquisitions are fully in our run rate exiting 2025. So I don't expect anything incremental for purposes of 2026 that we haven't already talked about. I think it's a reasonable M&A level to assume, but we don't really give M&A guidance given it's difficult to predict the timing and probability of those transactions. I would just point you back to the capital allocation framework. And over time, I think we've demonstrated that we have been able to deploy that roughly 25% of our available capital into tuck-in acquisitions. --

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nothing imminent to announce sitting here today. But over time, I think that's been a reliable capital allocation framework.

Operator

Thank you. We have now reached the end of today's Q&A. I would now like to turn the call back over to Mr. Tim Boswell for any closing remarks.

Tim Boswell

Thanks, Sherry, and thanks again to the entire WillScot team for your focus and dedication. Thanks to everyone on the phone for attending and for your interest in WillScot. We look forward to following up with many of you here in the coming days and weeks and providing another update after we conclude the first quarter. Thanks very much.

Operator

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