TRANSCRIPT

Q2 2024 Earnings Conference Call

WillScot Holdings Corp. (Nasdaq: WSC)

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Andrew Wittmann, Robert W. Baird & Co. Incorporated

Ronan Kennedy, Barclays Bank PLC

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TRANSCRIPT

Operator

Welcome to the second-quarter 2024 WillScot earnings conference call. My name is Cherie, and I will be your operator for today's call. (Operator Instructions). Please note that this conference is being recorded. I will now turn the call over to Nick Girardi, Senior Director of Treasury and Investor Relations. Nick, you may begin.

Nick Girardi

Good afternoon, and welcome to the WillScot second-quarter 2024 earnings call. Participants on today's call include Brad Soultz, Chief Executive Officer, and Tim Boswell, President and Chief Financial Officer. Today's presentation material may be found on the Investor Relations section of the WillScot website. Slides 2 and 3 contain 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 today's comments. For a more complete description of the factors that could cause actual results to differ and other possible risks, please refer to the safe harbor statements in our presentation and our filings with the SEC. With that, I'll turn the call over to Brad Soultz.

Brad Soultz

Thanks, Nick. Good afternoon, everyone, and thank you for joining us today. I'm Brad Soultz, CEO of WillScot. Starting on slide 17, our team delivered a solid Q2 with financial results that were both in line with our expectation as well as within the three to five year target ranges that we established just two and a half years ago. We continue to say what we'll do and then deliver on those commitments by controlling what we can control and through consistent execution by our great team.

Before I hand the call over to Tim to cover results in more detail, I'll start by providing additional context with respect to the current macro backdrop, and [have reached] strategic initiative update. In Q2, we continued to experience strong demand for larger scale projects namely in the industrial, manufacturing, energy, data center and infrastructure sectors.

These projects more immediately drive demand for our modular product lines, particularly our innovative and proprietary Flex solutions. We expect this demand to stretch well beyond 2025, which is in line with our outlook in prior quarters.

On the other hand, Q2 nonresidential square foot starts were down 14% versus prior year, and only up 1% sequentially versus Q1. This was below our expectation and is driven by fewer starts from smaller-scale commercial construction and more interest rate sensitive projects, which have a more pronounced impact on our storage and smaller modular product lines.

And as a reminder, the nonresidential construction sector represents approximately 40% of our revenues, and we are not forecasting any improvement in this sector for the second half of 2024, and we are managing our business accordingly.

Net of that mixed backdrop, Q2 modular activations were up modestly to prior year. We continue to be pleased with the resilience of our modular portfolio. Q2 storage activations were down 12% versus prior year, although up more than 20% sequentially, and we continue to see storage orders and activations build through July.

Importantly, storage units on rent were stable throughout the second quarter. And while these trends are good outcomes given the mixed market backdrop, the sequential activation growth in storage and modular were slower than we expected. Our Q2 revenues were up 4%, and continued to compound predictably driven by the simple equation of volume times rate, times value-added products penetration, all underpinned by our three-year average lease duration.

In the case of Q2, strong performance in rate and VAPS more than mitigated year-over-year unit on rent headwinds of 3% in modular and 20% in storage. And whilst our second half 2024 outlook is softer and less certain, we expect these volume headwinds to continue to dissipate throughout the balance of the year and be substantially, if not fully abated as we enter 2025.

Unfortunately, we entered second half on a lower revenue trajectory than we expected and are therefore revising our full year outlook accordingly, while maintaining an implied 45% EBITDA margin and free cash flow margins above 20% at the midpoint.

Now turning to slide 11, this is a new page that shows our journey since the July 2020 merger with Mobile Mini. Less than one year after the merger closed, we went live on a harmonized version of SAP and then shifted our focus into combining the two separate instances of salesforce.com, which occurred in 2023.

In Q1 of '24, you recall, we combined our legacy modular and storage sales and operation teams into a single leadership structure organized by geography. This allows us to go to market locally with a single team that can serve our customers across the entire offering of turnkey solutions. We also consolidated and upgraded our field service and dispatch systems, which allow us to better utilize our logistics resources across all product lines, while improving execution, safety and customer communication.

Along the way into this day, we continue to assess our processes and our team to identify which of each and which roles continue to make sense. In this, we are guided by our focus on operational excellence, to safely streamline our operations and modernize our service model. We're recently in Q2 of 2024, now that the systems are in place, we took further action to implement those streamlined processes.

In some cases, those improvements led to meaningful employee cost savings. Such that in early July, we implemented a plan that will result in a 15% reduction in indirect headcount. We believe these savings are durable, and will continue to support margins in the second half of 2024 and beyond.

Commercially, we announced earlier this week that we're consolidating our entire offering under the WillScot brand. We also introduced a new company tagline right from the start, which is our commitment to bring expertise and execution to deliver our space solutions that are right for the project, right for the time line, right from the start.

We also took a moment to celebrate our history as innovators and pioneers in the industry with roots back dating 80 years. I'm particularly proud of the more recent acceleration of our innovation, that while perhaps a bit underappreciated, will certainly drive additional value creation for all stakeholders for years to come. This is an important step in a logical culmination of the time line we just outlined and the harmonization of our go-to-market strategy.

Our single WillScot identity gives us the ability to scale more efficiently, particularly as we've diversified our offering to include clearspan climate controlled storage and other complementary space solutions. And we're backing all this up with an overhaul of our digital customer experience. I'd encourage our customers and investors to check out the new willscott.com to see it for yourself.

We're adding an enhanced customer portal with expanded customer self-service capabilities, and we launched a new digital marketing initiative to modernize how we fill and convert our sales funnel. We designed the entire experience in direct response to feedback that we get from our customers and incorporated best practices from other industries.

These digital tools are in turn directly feeding into our CRM as well as our proprietary sales tool Project One, which we mentioned last quarter. Project One leverages multiple third-party and internally generated data sources to identify developing project opportunities, prioritize the leads and recommend actions to our sales reps.

This gives us a platform to further optimize selling time and conversion and allows us to be more prescriptive recommending the appropriate bundled solutions that are tailored by project type. We're starting to see results from our investment already with early wins in the manufacturing, data center, and education sectors.

I'm proud of the team for their diligent efforts to launch these initiatives. We've prioritized these front-end tools to drive demand for obvious reasons, though we have an equally important road map to reimagine our back-end processes, and ensure that we deliver an unparalleled customer experience in our industry.

And finally, before turning it over to Tim, I'll provide a brief update on our pending acquisition of McGrath. You'll recall in January '24, we announced the exciting transaction. In May, both WillScot and McGrath certified substantial compliance with the FTC's second request for information, which you'll recall was comprehensive in nature.

On July 11, 2024, McGrath shareholders resoundingly approved the transaction, and both parties recently agreed to extend the FTC's review period through September 27 of this year. We continue to work collaboratively with the FTC.

As we discussed in the last earnings call, and frequently over the last corner, we will provide further updates on the review process when we have new news to share via public channels. We will otherwise not be commenting further as the FTC review process continues. We remain extremely excited about the benefits that this transaction will provide for customers, our collective teams, our shareholders, and the communities in which we operate. With that, I'll hand it over to Tim to discuss our Q2 2024 results in more detail.

Tim Boswell

Thank you, Brad, and good evening, everybody. Page 24 shows a high-level summary of the quarter. Across all metrics, revenue, EBITDA margins, free cash flow and ROIC, we're seeing stability despite a soft operating environment. We're obviously disappointed to reduce the guidance for the next two quarters, though the team is

grinding to deliver the best possible result in 2024, while also executing the important longer-term strategic initiatives that Brad highlighted.

2024 is setting up to be a trough year for our markets after nearly a two-year contraction in nonresidential construction starts square footage, yet we are going to have the best year financially in our company's history, and we have a lot of commercial initiatives that Brad talked about, that are positioning us well for 2025.

With over $3 of free cash flow per share over the last 12 months, the business is compounding predictably towards our longer-term targets, which are unchanged. Turning to Page 25, revenue of $605 million was up 4% versus prior year, although a bit lower than we had forecasted internally for the quarter, primarily due to the slower sequential build of volumes versus our forecast.

Versus prior year, leasing revenue was up 2%, driven by pricing and value-added products across all product lines, which continue to offset the volume headwinds. Delivery and installation revenue was down 4% versus prior year, which was entirely due to fewer storage movements, and sales were up 94% versus prior year, although still only 6% of revenue in the quarter, as you can see in the bottom right chart.

Adjusted EBITDA of $264 million was up 1% with a margin of 43.6%. Recall on the Q1 call that we expected margin to be sequentially flat due to revenue mix favoring modular activations, the sequential build of work order spend, and the lower utilization of our trucking fleet. All of those factors impacted the quarter as expected, but we also found offsetting opportunities in branch level operating efficiencies, in-sourcing of maintenance and transportation, and SG&A that drove margins higher than we forecasted.

And as Brad mentioned, following the IT system enhancements that went live in Q1, we were able to realize sizable cost reductions heading into July, that will support margins in the second half of 2024 and into 2025. So we continue to feel quite good about the margin expansion implicit in the guidance as well as the longer-term trajectory. Overall, the sequential revenue build coming out of Q1 was not as strong as we expected, while margins came in a bit better than expected, and both of these trends are carried forward in the guidance for the remainder of the year.

Before moving on, we had some onetime expenses in the quarter that are worth calling out. You can see them all clearly broken out in the EBITDA reconciliation in the appendix. The largest was a $133 million noncash charge due to the impairment of the Mobile Mini trade name resulting from the rebranding that we announced on Monday under the WillScot brand.

Consolidating brands is the logical culmination of our initiatives to simplify how we go to market and the overall customer experience. We attributed approximately $160 million of value to the Mobile Mini trade name in 2020 at the time of acquisition.

After this write-off, the remaining $30 million will amortize over a three-year period, which approximates the time it will take the storage fleet to churn and rebrand over time. Again, this is noncash and allows us to simplify and amplify our marketing efforts going forward, which I'm really excited about.

We also incurred $23 million of expenses related to the ongoing regulatory review of the McGrath acquisition, and I expect we will have approximately $15 million of related costs in both Q3 and Q4. And lastly, we incurred $6 million of restructuring charges, which was primarily severance related to our cost savings initiatives.

I expect that restructuring charges will be minimal in Q3 since those actions were taken largely in Q2 and we have no plans to make further reductions. We back these expenses out of our adjusted financial metrics, resulting in adjusted EBITDA of $264 million, adjusted income from continuing operations of $75 million, and adjusted diluted earnings per share of $0.39.

Moving to page 26, cash flow continues to be a highlight driven by our predictable recurring leasing revenues. Cash from operations dropped sequentially and year-over-year due to transaction-related costs as well as an estimated tax payment in Q2, that was otherwise compounding predictably in line with our lease revenues.

Net CapEx was up 28% year-over-year, driven by modular refurbishments and investments in the climate controlled storage fleet, where units on rent are up approximately 20% in less than one year. These investments were partly offset by a 50% increase in fleet sales in certain underutilized categories. As always, our net CapEx investments are demand-driven, and governed by our 90-day zero-based capital budgeting process.

We generated $121 million of free cash flow at a 20% free cash flow margin during the quarter, and over the last 12 months, we generated a free cash flow margin of 24%, which is in the middle of our medium-term operating range of 20% to 30%. So the business is performing as we would expect in this environment, and we're getting results where it counts with $3.02 of free cash flow per diluted share over the last 12 months.

Turning to page 27, we maintained leverage sequentially from Q1 to Q2 at 3.3 times net debt to the last 12 months adjusted EBITDA, which is comfortably inside our leverage target range of 3.0 times to 3.5 times. As I noted previously, we can easily deleverage by approximately one turn per year when we so choose.

So we are comfortable at this level, and intend to flex leverage upwards upon closing the McGrath acquisition and then deleverage again back into our target range within 12 months post closing. In June, we issued a five-year senior secured note due in 2029 at six and five eighths percent. We used the proceeds to pay down our asset-backed revolver increasing current liquidity to $1.8 billion and with modest interest savings. We have $1.25 billion of floating to fixed swaps outstanding, so our debt structure is approximately 93% fixed and 7% floating, and our weighted average pretax cost of debt is 5.8% as of June 30, 2024.

It is worth noting that the 2025 senior secured notes mature in June of next year. We have ample liquidity in our ABL, so I expect we'll refinance the 2025s either with the ABL capacity. or in the bond market at a time of our choosing and in a way that optimizes our cost of capital.

Lastly, as I've discussed on our last several calls, we also have committed financing and ample liquidity to fund 100% of the cash consideration of the acquisition of McGrath when the transaction closes. So the capital structure is in great shape, and thank you to our bank group and investors for your continued support.

Page 28 shows our capital allocation framework and our performance over the last 12 months, which has been broadly consistent with the framework. We are trending towards our full year 2024 net CapEx range of $260 million to $290 million, up from the $216 million shown here over the last 12 months. So the allocation to organic CapEx should trend back towards target as we progress through the year.

We invested $30 million in two acquisitions during the quarter that were focused on climate controlled storage with $483 million invested in acquisitions over the last 12 months. The majority of the LTM acquisition spend was in Q3 of

last year, setting aside McGrath, that allocation to acquisitions will fall back in line towards our 25% target as we progress through the year.

Last week, we opportunistically repurchased approximately two million shares during the quarter and approximately 4.9% of our share count over the last 12 months. Share repurchases continue to be a highly attractive use of capital as we consider the long-term trajectory of our business.

Last but not least, page 29 shows the updated outlook for 2024. As we discussed relative to the prior quarter, the sequential growth in our commercial KPIs has been slower than we forecasted, particularly volumes in our more transactional product lines.

I think the last time, perhaps the only time we ever reduced the guidance range was during COVID. So this is disappointing, although fortunately, the circumstances are nowhere near as challenging. The business is performing as we would expect, given the duration of this nonres contraction.

We will have our best results ever in what is likely to be a trough year, and we have durable commercial and operational improvements in place that will help us drive results well into 2025 and beyond. So the team is executing on the levers that are within our control, while advancing many of our long-term strategic priorities. And for that, I'm very grateful to the team.

We reduced the outlook to $2.4 billion to $2.5 billion of revenue and $1.085 billion to $1.125 billion of adjusted EBITDA. At the midpoint, the guidance implies approximately 4% growth for the year for both revenue and adjusted EBITDA, with approximately 20 basis points of margin expansion, which we're quite confident in for the reasons we've already discussed. We maintained the midpoint of our capital expenditure guidance for the year, although we tightened the range to $260 million to $290 million. This reflects the reality that we still see attractive opportunities in which to invest.

Modular volumes are holding up well, so we are maintaining refurbishment spend and gradually adding Flex units as a growing share of our fleet. Value-added products revenue is growing across all fleet categories, and our organic plans for climate controlled storage and clearspan are both on track. So we are adding fleet in those categories with meaningful growth in those run rates heading into 2025, and we never planned any CapEx for the traditional storage fleet in 2024, so no change to that plan.

In terms of expectations for the remainder of the year, we continue to expect low to mid-single-digit sequential growth of leasing revenues during each quarter through the end of the year. This implies a stronger run rate heading into 2025, which is always my focus.

Delivery and installation in sales revenue should be sequentially flat through the remainder of the year, with some potential variation based on project timing. I expect margins will increase sequentially by 100 basis points to 150 basis points from Q2 into Q3, in part due to the cost savings initiatives that were implemented heading into July, and then margins should expand meaningfully into Q4 due to normal seasonal factors.

For modeling purposes, please note approximately $15 million of expected regulatory costs in both Q3 and Q4, and approximately $5 million per quarter of additional noncash amortization in Q3 and Q4 related to the Mobile Mini trade name.

So sitting here on August 1, we have a clear view of where the year is headed. Equally, the upside heading into 2025 is starting to take shape, and it should be yet another record year. We're going to market as one company with one team and with the full weight of one iconic brand.

We've made durable improvements to our commercial and operational processes, prioritizing areas where we see long-term opportunity for growth, margin expansion and improved customer experience.

In the short term, our lease revenues and cash flows are resilient against the softer macro backdrop, and we can continue to compound towards all the long-term targets we've established. With that, Brad, I'll hand it back to you.

Brad Soultz

Thanks, Tim. Thank you to our customers for their continued business. Thank you to our team for their focus on safety and customer satisfaction, and thank you to our shareholders for their trust with their capital. I wish all of you listening today continued safety and good health. This concludes our prepared remarks. Operator, would you please open the line for questions?

Operator

(Operator Instructions)

Tim Mulrooney, William Blair.

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

Thanks for taking my questions. So just to simplify things a little bit, you always give a lot of great color, but just on a really simple basis. I think the midpoint of your previous guide was looking for 8% revenue growth for the full year. Now you're looking at 4% at the midpoint. I'm just curious if that decrease in your outlook is more related to volumes or pricing?

Tim Boswell

Tim, this is Tim. It is 100% related to the sequential volume growth in the business. As you know, this is a sequentially compounding business model, right? So really, the vast majority of the adjustment to guidance just reflects that the sequential volume build from Q1 into Q2 was not as strong as we had forecasted, and that just reduces the base on which the business compounds into Q3 and Q4.

And we can talk about volume trends by product lines. It's pretty nuanced. We've had quite a few strong activation quarters for modular and some improving trends on the storage side of the business as well. So we do feel confident with the outlook in the second half of the year here.

And most importantly, as Brad said, the business is getting to the point, in part to just the passage of time and the comps becoming easier getting into the first half of next year, where the business is likely to be kind of -- to not have a volume headwind as we get into 2025. And that is a big sequential change in the outlook going into next year, which we're pretty excited about.

The other part of your question is naturally like how our value-added products and pricing doing. And we continue to expect sequential price increases across the storage fleet through the remainder of the year, and there are a lot of moving pieces there, but value-added products is performing well in storage.

Temperature-controlled is growing as a mix of that fleet, seasonal is likely to contribute as we get into Q3 and Q4. So some good things still happening across the pricing and value-added products, KPIs and the bigger change is just related to the sequential volume build.

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

Okay. Yes. That's really helpful, Tim. Just following up on that pricing question. I think this question hasn't been asked for a couple of quarters, but I'm curious what that spread is between your average modular rate and the LTM rate today.

Curious how that's changed now that we're moving a little further away from that inflationary period, and you've also recently changed in your reporting structure with the ground mobile units now included. So I wanted to level set on that?

Tim Boswell

Yes. The spread is favorable in the 15% to 20% range, Tim. So continues to be quite healthy, and that represents a significant tailwind or insulator for the business as we close out 2024 and head into 2025.

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

Yes, that's promising. Thanks for taking my questions.

Operator

Andrew Wittmann, Baird.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Well, great. Thanks for taking my question. I guess I wanted to kind of build on that last question about the AMR outlook. It's obviously been decelerating in these last couple of quarters. But with the spread it like 15% to 20%, Tim

like you said, should we think about this kind of high single-digit AMR year-over-year rate being the right amount of, I guess, forecast given that you got a 15% to 20% spread, three years to get there. I just want to know if that's kind of the way you're thinking about it? And is the implication of that, that the spot rates on modular are starting to level out?

Tim Boswell

So I think the first inference you made is pretty good in terms of zeroing in on that upper single-digit AMR growth going into next year. Remember, value-added products tapering through the course of the last year is really a bigger driver in terms of the narrowing of that spread relative to the 20%-plus range we were at once we incorporated the ground level office fleet.

So we continue to see very good like-for-like unit level pricing trends in the market. And as you see in one of the earlier slides in the deck, we have gotten to the point in value-added products in modular where we're kind of back to neutral where we were a year ago. So I'd really point to that value-added products inflection through the course of the last 12 months is the bigger contributor to the narrowing of that spread.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Got it. Okay. And then I guess I just want to ask a question on the portable storage side of the business. I guess, specifically, if you could just talk about what your outlook is for the seasonal business to begin with. I know those orders are probably starting to come in, although I know they probably haven't fully come in, but I'm guessing that you're starting to have a little bit better sense of what that's looking like. So if you could comment on that.

And then I heard you mention, Tim, in your response earlier that you think that storage VAPS can be positive for you? When you think about base rates in terms of how that could unfold, it looks like that the AMR in portable storage has been pretty consistent enough for the last couple of quarters. So I didn't know what your expectation was on that one? Thank you.

Tim Boswell

Yes. So let's start with the seasonal business. I'll speak more broadly about sequential unit on rent expectations in storage because some of it is seasonal and some of it is just our broader retail relationships. But order rates today in the business going into the middle of Q3 support sequential unit on rent growth within Q3, and that's across all end markets that we serve. We are having very encouraging conversations specific to the retailers in Q4 demand.

And if you look at the KPI charts last year, we didn't really see that big of a pickup from Q3 into Q4 sequentially. I'd expect we're seeing a pickup this year upwards of 10,000 units probably as we go from Q3 into Q4 based on what we know sitting here right now, though, to your point, we certainly haven't exhausted kind of the order volume that's likely to come from the retail side of the business.

But, I certainly expect we'll see a stronger sequential pickup than we did last year. The second part of your question was related to storage value-added products and services. And again, in the KPI charts -- you see the LTM delivered rate on storage is around $33 per unit per month.

There is some nuance there where we're getting value-added revenue is a bit higher than that level coming from the climate controlled storage fleet. So there's still a pretty healthy spread in value-added products and storage that's going to continue to build through the course of this year and into 2025. We still have that $70 per unit longer-term target on page 20.

And that, as I mentioned to Tim's question, it's going to offset some rate pressure on, say, standard storage containers and is one of the ways that we're going to continue to grow AMR across the combined storage fleet. The increasing contribution of temperature control as a mix of the fleet is going to continue to push that AMR.

And then you've got the seasonal variable going into Q4 as well. So lots of moving pieces in there. But our forecast is for sequential AMR growth in the storage business through the remainder of the year.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Thank you very much.

Operator

Ronan Kennedy, Barclays.

Ronan Kennedy - Barclays Bank PLC

This is Ronan Kennedy on for Manav. Tim, in response to the first question for Tim, you had indicated that you were happy to elaborate on the strong activation trends. I know Brad spoke to Q2 storage activations being down 12% year-over-year, up 20% sequentially.

And I think the materials that indicated modular activations were up 1%. What changed in relation to the commentary on the modular activations building sequentially and year-over-year with a strong order backlog into Q2 with those modular activation rates up 5%. I think the inflection being predicated on that mid-single-digit activation. Can you kind of shed some light on the activations and what's transpired there and the outlook for the remainder of the year?

Tim Boswell

Yes, Ronan, it was kind of a mixed quarter from a modular activation standpoint. So if I just isolate April and May, those activations in modular were up 8% year-over-year, which aligns pretty well with, I think, the commentary that you heard coming out of Q1.

And then June was pretty light relative to last year. And I can't -- you can't ever extrapolate off of one month in this business just because it doesn't move that quickly. And July activations, for example, were up about 3% year-over-year in modular and the backlog going into August is pretty encouraging, although August was our strongest month in 2023.

So you had a little bit of a dip in June following two very strong months in April and May, and it looks like we've kind of bounced back in July. So when you net all of that together for the purposes of Q2, it ends up being a 1% change, but three out of the four months were pretty encouraging.

Ronan Kennedy - Barclays Bank PLC

Okay. And given that you have that three-year lease duration and that it takes several quarters of year-over-year activation growth to cause a positive unit on rent inflection, what are the implications? What does it look like? Or when can we expect that modular inflection?

Tim Boswell

It's certainly possible in Q4 this year. And I think the bigger point from my perspective is kind of no matter what you're going to enter 2025 in a place where you no longer have that significant year-over-year volume headwind, not only just in modular, but also in storage, is kind of our current thinking.

In terms of the sequential growth of the business, that's a very significant improvement relative to how we started 2024. And that's one of the variables that gives us confidence that 2025 is going to be another record growth year.

Ronan Kennedy - Barclays Bank PLC

Okay, thank you. Appreciate it.

Operator

Steven Ramsey, TRG.

Steven Ramsey - Thompson Research Group, LLC

Hi, good evening. To follow on to that expectation that 2025 is a record growth year, can you elaborate on how well prepared the fleet is for that and refurbishment activity now through the end of the year. Is that already happening? Or do you feel like you can get prepared as you get closer to the time?

Tim Boswell

Steven, we can dial up or dial back that refurbishment activity on roughly a two-week lead time, right? So that's one of the beauties of the business is the flexibility we have around controlling the timing of fleet maintenance expenses. And that comment is specific to the modular business where those dollars are greater.

On the storage side of the business, you've got 20 points of idle capacity that will have very little refurbishment or maintenance associated with it. That's worth upwards of $150 million of lease revenue. As that storage capacity gets put back on rent when the cycle turns.

So not worried about needing to plan the maintenance or CapEx side on the modular business. We run this 90-day zero-based capital budgeting process based on the outlook that we have for every branch in the network, and we allocate those maintenance dollars based on the demand outlook that we see. So we do not need to change those processes at all heading into 2025.

Steven Ramsey - Thompson Research Group, LLC

Okay. Helpful. And then thinking about the two-year stack of modular units on rent currently just below 96,000, but 5,000-6,000 gap between the two-year stack. So to get back above the 100,000, I guess, first, is that a 2025 potential outcome? And then secondly, do you need local market activity to come back in a bigger way to get there, or can these internal initiatives get you closer to closing that gap?

Brad Soultz

Steven, it's Brad. I would kind of fall back to our commentary from many of the calls prior. I mean, it's a slow churning fleet. So a unit on rent growth of 2% to 3% in a year is a pretty fantastic outcome. So model that out, to get back to 100,000, you're probably pushing beyond 2025.

Steven Ramsey - Thompson Research Group, LLC

Helpful. Thank you.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - Oppenheimer & Co. Inc.

Thanks very much. Good afternoon. With this new guidance range for the balance of the year, specifically EBITDA won't affect all. What are -- what's going to put you at the high end or the low end? What are the 1 or two or three

drivers? Because Tim, you said to the other Tim's question, you had good visibility, but then it came up after retail and other things. So what are the moving pieces that you're most keen on watching that are going to affect you high end or low end?

Tim Boswell

Well, certainly, the margin trajectory that we've seen coming out of Q2 into the second half of the year. It's important that we maintain that. You will know full well, Scott, that it's very normal to get a 300-plus basis point margin expansion as you go from Q3 into Q4.

And we've taken some very concrete actions, that give us confidence in the expansion from Q2 into Q3. So that's a big driver there. And I'd say we've kind of forecasted modular volumes as sequentially flat through the end of the year. So no heroics and that's frankly how the portfolio has been churning year-to-date. So no real change there.

And we can look at order activity in the storage business today, and with knowledge of retail demand going from Q3 into Q4, we've got a high degree of confidence in meaningful volume improvements in the storage business progressing through the second half of the year. So those are the key variables, and I think we're pretty dialed in at the midpoint.

Scott Schneeberger - Oppenheimer & Co. Inc.

Thanks, I appreciate that. And then for a follow-up. This is a large project versus the small project question. I noticed on Slide 12, the wording is continued multiyear demand from strategic onshore with infrastructure demand beginning in second half '24, it's written pretty definitively. Are you seeing good visibility? Is there a step-up to infrastructure activity that you can see? And if you'd elaborate on that and the pertinence, or persistence is the word I meant to use, of the large projects going forward?

And then the second part of this question is, what's it going to take on the small side? Is it a September rate hike, will that be enough to get things fueled again? Or do you really need multiple of those, and it's just looking like it's moving in the wrong direction and you need a lot more?

Tim Boswell

Yes. To the question around the larger projects, that continues to be a phenomenon. We just went through our forecasting process internally and really across all regions in the United States, those larger project opportunities were the source of upside in the forecast.

So they continue to provide a foundational level of demand in our markets and how we think about it. And no, we don't see a material change one way or the other in terms of the volume and the demand coming from the larger projects.

The more transactional interest rate sensitive side of the market, can only benefit from a rate cut, right? And I can't tell you is 25 basis points enough or does it need to be a full point. But we can go back and track when this contraction in nonresidential construction starts square footage started.

And it was in the second half of 2022, not too long after the rate hike cycle began. So I think cutting is going to provide some marginal benefit to the transactional side of our customer base. And I think we can only assume the more the merrier there. But I don't have a crystal ball to give you a precise correlation.

Scott Schneeberger - Oppenheimer & Co. Inc.

Fair enough. Thanks a lot.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - Deutsche Bank

Yes, hi. Thank you. I wanted to first ask about with these transactional interest rate sensitive projects, I'm curious if you think, are you competitively advantaged or disadvantaged? I mean, are you doing better than the overall market might be because you have a scale advantage or are you finding that these projects, there's more sort of cost pressures maybe folks are going to lower-priced competitors? Just curious what you're seeing in the market out there?

Brad Soultz

Yes. Faiza, it's Brad. I'll start, and Tim can jump in. I think the fact that our modular activations are up modestly despite the fact that nonresi starts are down is a pretty good indication that we're faring quite well in that space. And I think to the earlier commentary, when we see rate cuts begin, right, there's probably a bit of a lag, but we think that will provide further upside as we go ahead. I mean, as I mentioned in my prepared commentary, there's really no change in our outlook with respect to these large projects, right? This is really a simple game as to when the rate cuts as well as other constraints begin to alleviate.

Tim Boswell

Faiza, the only thing I'd add is we've talked a fair bit over the last two quarters about some of the enhancements we're making to digital customer experience. And this transactional side of the market is exactly what we're targeting there.

There is no reason we can't be targeting those customers efficiently using digital channels, converting them, ultimately, we've got a vision to add modest e-commerce capabilities to our customer portal. And for those simpler container transactions or single-wide transactions, there's no reason that we can't use technology as a way to service that end of the market. We're spending a fair amount of time in that area right now.

Faiza Alwy - Deutsche Bank

Great. Thank you. And then I wanted to follow up on you mentioned the cost-cutting plan that would result in a 15% reduction in indirect headcount. So are there some savings that you expect to realize this yea?. And if so, can you quantify those? And then what might the impact be for next year?

Tim Boswell

Yes, Faiza, this is Tim. And I'd put the head count reductions into two categories. One would be normal course that we look at all the time based on volume. And then the second would be the indirect population that Brad talked about, and that was a direct result of the enhancements we've made to the technology platform over the last few years in the underlying business processes.

So those actions we're taking in June, heading into July, we recognized about $6 million of severance in Q2. We think the annualized benefit of those actions is about $40 million. I'd expect that benefit starts to build in Q3 and you get to the full run rate as we go into Q4 with the full year benefit being realized in 2025. So no other plans sitting here today. That's one and done, but it is a meaningful synergy that's been realized in the business.

Faiza Alwy - Deutsche Bank

Okay. Thanks all.

Operator

Philip Ng, Jefferies.

Philip Ng - Jefferies LLC

Hey guys. Tim, I think I heard you use the word 2024 being a trough year a few times. I suspect that's on a unit on rent comment. My question is, unless you expect an inflection in nonres starts, just given how your portfolio churns on average every 3 years, give or take and starts being down for the last few years. Isn't there a possibility that units on rent are flat to down again next year? And just give us some color on why you have a level of confidence units on rent is going to inflect because it's been pretty tough to predict.

Tim Boswell

Yes, Phil, it has. We've also been in a two-year nonres square footage contraction right, where peak to trough square footage is off about 23% relative to the peak. So the modular portfolio has vastly outperformed that, right? And frankly, the storage portfolio has performed kind of in line with that.

The activation activity that we've seen to start the year is up versus prior year, right? And we do see scenarios where that continues through the end of the year. The other piece of the equation is return volume, right? And as the unit on rent portfolio contracts the volume of equipment returning in a given period contracts, right?

So you've got a slightly favorable improvement to the activation side of the equation, and a more meaningful improvement to the return side of the equation, which, if they persist, caused the portfolio to inflect. So that's what's giving us the outlook towards the end of the year. And we'll update that as we progress through 2024.

Philip Ng - Jefferies LLC

Okay. That's helpful. And then if I heard you correctly, Tim, you're expecting a meaningful inflection in units on rent in the second half for storage. How much of that is just seasonal, or maybe some uptick on retail side of things that gives you a little more confidence, give us a little more perspective on what's driving that?

Tim Boswell

Say the larger uptick from Q3 into Q4 is retail generally is how I'd characterize it. I shy away from seasonal a bit, because a lot of those seasonal rentals turn into longer term. But it's primarily those retail conversations that are causing us to anticipate a sequential pickup from Q3 into Q4.

Philip Ng - Jefferies LLC

Okay. And just lastly, on AMR growth, you were kind enough to share some insights on 2024 for modular. How are you thinking about your storage side of things? Because if I look at delivery rates, it's been kind of flat for the last few quarters? Just give us a little perspective of how you think about that, and what's the spread on the storage side of things for spot versus AMR?

Tim Boswell

Yes, you're kind of at a mid-single-digit spread on the storage side of the business, although there are a lot of moving pieces within there. So I think the guidance that we gave to a prior question is what should we expect sequentially as we progress through the year from storage AMR, and I'm expecting sequential growth as we progress into Q3 and Q4, and there are quite a few puts and takes there.

Value-added products and services is a good guy that's going to add to AMR as we progress through the year into 2025. The growing mix of temperature-controlled storage is a good guy as we progress through the year heading into 2025, with significant run rate improvements there in that portfolio for purposes of 2025.

So that continues to be a bright spot and something we're investing behind in a meaningful way. We have been testing lower rates with standard containers. It is a highly competitive market out there. So we are doing targeted elasticity tests on that side.

So that's probably a bad guy as we progress through the year, and then you've got the seasonal contribution as you go into Q4. So it's the mix of all of those things, which is causing us to expect net sequential expansion as we go from Q2 to Q4.

Philip Ng - Jefferies LLC

And then into 2025, do you have good guys be positive year over year here on the AMR side?

Tim Boswell

I think at least two of those more powerful tailwinds in value-added products and temperature-controlled storage are absolutely going to be tailwinds in 2025.

Philip Ng - Jefferies LLC

Okay. Thank you. Appreciate all the color.

Operator

Angel Castillo, Morgan Stanley.

Angel Castillo - Morgan Stanley

Hi, thanks for taking my question. Just wanted to maybe follow up a little bit more on the conversation around pricing. Just you tend to be pretty well attuned to your customers and you do a pretty regular kind of checking in on your markets. So just curious what you're seeing in terms of price sensitivity.

You talked about interest rate sensitivity on more of the transactional products. But just in general, for the spot rate, what are you hearing in terms of price sensitivity kind of right now from your customers across the different end markets?

Brad Soultz

Yes. This is Brad, and Tim can again jump in. I'd say, broadly across the portfolio, we're continuing to see good steady improvement in spot rates for all products, except for the conventional storage, which Tim mentioned, we're being more aggressive in frequent and testing price volume elasticity, and where we can take more volume with rate, we've been doing that. But in a broad sense across the balance of the portfolio, performing in line with expectations.

Angel Castillo - Morgan Stanley

And I guess, maybe just help us understand a little bit, like I typically think of your strategy being more focused on value versus volume. So what's kind of the magnitude of how much you might be testing volume versus more kind of the pricing? And is that just entirely focused on the storage side? Just any incremental color would be helpful.

Brad Soultz

Yes. I mean our approach is always obviously sell value, but not to trade rate for volume, right? So all we're doing here in this environment is testing that more frequently, and I think we mentioned on the last call, we've allowed a bit wider discounting for the kind of standard storage container, if you will. We're still very pleased with the rates we're achieving, provide for a great financial return, and as Tim mentioned, there's a ton of upside here as we really start to layer the VAPS benefit alongside that.

Angel Castillo - Morgan Stanley

Very helpful. Thank you.

Operator

Sean Wondrack, Deutsche Bank.

Sean Wondrack - Deutsche Bank

Hey guys, thanks for all the color today. Very helpful. I was curious, when you think about the scale that you've been able to build over the last few years and sort of the protection within the business, a lot of your competitors being smaller than you, does this sort of increase your ability to maybe do M&A at attractive multiples, whether it's tuck-in or something a little bit larger than that?

And maybe as a follow-up to that, are there any regions or markets that maybe you would enter given that they may be under more pressure than what you guys are seeing?

Brad Soultz

What I'd point to is that we're generally in the markets geographically that we need to be in. And you'll notice our portfolio of M&A activity over the last quarters has been more biased to expanding into new space solutions. And those are, as Tim mentioned, providing great growth opportunities and great outcomes for our customers, because we can service more than just storage and modular.

Tim Boswell

To provide a little more color on those new product lines, blast-resistant over the last couple of years, we've added that capability in a number of new geographies. Temperature-controlled storage is another one where we acquired a great platform in Q3 last year, and we've expanded into really most of our major metropolitan areas already.

The vast majority of those via greenfield and then a couple via acquisition, and then the same with Clearspan. So those are still very nascent platforms with a lot of upside potential as we look into over the next three to five years. So that's probably the only nuance to change in the tuck-in strategy, and that's happened over the last two-plus years.

Sean Wondrack - Deutsche Bank

Great. Thanks very much.

Operator

I'm showing no further questions in the queue at this time. I would now like to turn the call back over to Mr. Nick Girardi for any closing remarks.

Nick Girardi

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

Operator

This concludes today's program. Thank you all for participating. You may now disconnect.