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TRANSCRIPT

Q1 2023 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

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Tim Boswell, President & Chief Financial Officer

Nick Girardi, Sr. Director of Treasury and Investor Relations

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Kevin McVeigh, Credit Suisse

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TRANSCRIPT

Operator

Welcome to the First Quarter 2023 WillScot Mobile Mini Earnings Conference Call. My name is Amy, and I will be your operator for today's call. Please note that this conference is being recorded.

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

Nick Girardi

Good morning, and welcome to the WillScot Mobile Mini First Quarter 2023 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 Mobile Mini website. Slide 2 contains our safe harbor statement.

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

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

Brad Soultz

Thanks, Nick. Good morning, everyone, and thank you for joining us today. I'm Brad Soultz, CEO of WillScot Mobile Mini. WillScot Mobile Mini is a North American leader in innovative and flexible total space solutions. In Q1 of 2023, we continued to execute our idiosyncratic growth levers combined with capital discipline and outstanding operational efficiency, which support our improved 2023 outlook of over $1 billion of adjusted EBITDA.

During the quarter, we grew revenue by 25% and adjusted EBITDA by 47%, driven by strong VAPS penetration and rate optimization. And with a company record of 17% return on invested capital over the last 12 months and a free cash flow margin of 18% in the quarter, we pursued our strategy with smart capital discipline, including acquisitions of up to $80 million and $216 million of share repurchases.

Turning to Slide 16, I'll share a quick growth lever update. Our value-added products initiatives represent over $500 million of $1 billion of idiosyncratic growth levers, and we made great progress across both segments.

Our track record in Modular is proven as well as over the last 10 years we've delivered over an 18% compound annual growth in our VAPS average monthly rates.

We're also beginning to see benefits from VAPS in our Storage Solutions segment. VAPS revenue in this segment in the first quarter was $22 million, up 60% year-over-year, and we believe that this is just the beginning of a differentiated, long in duration and high-growth value driver that is entirely in our control.

Tim will unpack this a bit later in his section. Otherwise, the engineer in me could consume the entire call with my exuberance associated with our basic offering of lights, shelving and pipe racks for portable storage units as well as many new products under development.

Those of you who visited us at CONEXPO in March saw our new premium storage offering which will take this to a whole new level. Based upon robust testing and early customer feedback, we're on track for our planned launch of this premium offering beginning in test markets this summer.

We're following an established playbook that we've developed over the last decade in Modular with exciting results, and our turnkey value proposition is obviously continuing to resonate with our customers.

Now pricing, supported by VAPS, continued to contribute meaningfully to our Q1 2023 results. Our modular products continue to drive an approximate 30% spread between the delivered rates on units over the last 12 months and the average of the portfolio.

Our Storage segment continues to leverage our unique and expansive product offering, our in-house logistics capability, our price management tools and processes, and while still relatively small, a VAPS offering that will drive growth for years to come.

Our confidence in delivering double-digit rate growth across both segments is not grounded in hope. Rather, it's largely embedded in the current spreads we enjoy between spot rates of recently delivered units and our portfolio average, and the spot markets continue to trend favorably. We're a very small spend for our customers, and we've transformed our value proposition to provide more value to them.

We've been delivering double-digit rate growth in Modular for well over 5 years. And while input and equipment costs have increased meaningfully over the last couple of years, they're not the driver for this trajectory. Rather, they will provide support for a continuation.

And as discussed in our 2021 Investor Day, an important milestone in our strategy to improve organic market penetration was the optimization of our 2 disparate customer relationship management, or CRM, systems.

I'm excited to confirm that we achieved that milestone in early February. Our entire team, including 500 sales reps and many more customer service professionals, now have clear visibility into the activity of our more than 85,000 unique customers.

The combined CRM system will serve to further enhance sales productivity and cross-selling with better digital marketing and predictive analytics which will allow us to accelerate cross-selling, and most importantly, provide a seamless and efficient customer experience.

Our team has clearly made demonstratable progress in the first quarter across each of the 5 aspects of our portfolio of the $1 billion of idiosyncratic growth levers, as evident in the continued VAPS price momentum, the successful CRM harmonization, Q1 logistics margins, EBITDA expansion and continued disciplined M&A activity.

This team's execution, underpinned by long lease durations, is the basis for our confidence in our ability to continue to drive growth for years to come, which is certainly not dependent on end market expansions.

Turning back to Slide 10. We provide our turnkey solutions across 15 diverse end markets across all of North America. It is critical to appreciate that units on rent do not move fast in our business, as units on rent are ultimately governed by 3-year lease durations, which correspond to project duration.

End market demand for the actual number of new units and storage units we deploy each month is the only aspect of our portfolio which we do not have full control over.

We do operate a robust zero-based capital allocation process, through which, we systematically and routinely adjust fleet and people investments across our diverse end markets and geographies based on actual demand from new activations every 90 days. It's not a new playbook. Rather, it's what we do, and we are very good at it.

You recall that we took a more cautious approach to our original 2023 volume outlook, citing uncertainty with respect to tightening finance conditions, our customers' labor constraints, ABI indicators, uncertainty with respect to the number of larger retail store remodels, and continued softness in Canada. In short, not a lot has changed.

While our consolidated units on rent in the first quarter were up year-over-year, and there's certainly no new concerns, we now have better visibility in the demand through the next couple of quarters, and it's apparent that our initial caution was both prudent and balanced. We'll stay focused on the top line and bottom-line levers that are within our control and which are substantial.

I would offer the following update considering the underlying macroeconomic factors that influence our demand, as well as relative leading indicators, the most important of which is feedback from our customers.

First, the ABI Index recently turned positive following 5 months below 50. The ABI, as a reminder, has been a good indication of modular activation 9 to 18 months out.

Second, our larger general contractors’ customer backlogs remain robust, although many are facing labor constraints which may slightly impact their ability to complete ongoing projects and start new projects according to original timelines.

And third, consistent with our concerns earlier in the quarter, many of the retail store remodels have been deferred to 2024, such that we expect an approximate 10,000 portable storage unit on rent headwind across the retail sector in Q2 and Q3 of this year versus prior year as well as a corresponding tailwind in 2024.

So while we continue to maintain our balanced outlook with respect to end market demand through the balance of 2023, we're excited about the potential tailwinds associated with onshoring and reshoring, infrastructure projects that we expect to further accelerate heading into 2024 and persist for several years to come.

Large-scale reshoring projects have already been breaking ground across North America, which represent material and long-duration opportunities to deploy our expansive services.

We are actively participating and bidding on multiple billion-dollar projects in sectors such as advanced materials, chemicals, power gen, renewables, electric vehicles, and semiconductors to name a few.

We are uniquely positioned to provide complex value-added total space solutions to our customers with our unrivaled scale, product offering, and capabilities.

Now given this demand outlook, our long lease durations, our differentiated value prop and the $1 billion of idiosyncratic growth levers that are largely under our control, we'll easily eclipse our $1 billion adjusted EBITDA milestone in 2023, and we're on track to achieve all of the long-term financial goals that we established just 18 months ago.

With that, I'll turn the call over to Tim for more detail on the Q1 results and our updated outlook.

Tim Boswell

Thank you, Brad, and good morning, everyone. Page 21 shows a high-level summary of the quarter. Before I jump in, I will remind everyone that the results from the divested Tank and Pump and U.K. Storage segments are reported as discontinued operations in all periods.

I will also point out that in Q1, we transferred approximately 6,000 ground level offices, or GLOs, from our Modular Solutions segment to our Storage Solutions segment. We have consolidated all of our containerized products within the legacy Mobile Mini branch infrastructure, which makes perfect sense, both operationally and commercially.

We updated all historical segment financials and KPIs to reflect this integration. So you'll see some changes in the segment metrics, but the year-over-year comparisons are all meaningful, and it does not change the trajectory of either segment materially and obviously doesn't impact consolidated financial results.

With that said, Q1 2023 was a great quarter. We saw consistent contributions from pricing, value-added products, and volumes and frankly had superb results across all financial metrics.

Modular unit average monthly rate increased 20% year-over-year and portable storage unit average monthly rate was up 30% on a consolidated basis. Rate is one of the areas where we see upside in the remainder of this year, which in turn creates multiyear tailwinds into 2024 and beyond.

Value-added products support our ability to capture rate, differentiate us from our competitors and are an example of the powerful organic growth strategies that we are executing with clear and tangible results.

We updated Page 13 to show the VAPS revenue opportunity across both our Modular segment and our ground level office fleets, which is new disclosure, and details $400 million of highly credible growth across these products. And growth from our recently introduced value-added products for containers will be incremental, bringing us closer to a $500 million prospective opportunity.

If we just look at margin dollars from value-added products in our Storage segment back in 2020, at the time of acquisition, we were generating approximately $22 million annually. That doubled to $47 million in 2022 and will triple to over $65 million in 2023 in our guidance.

As Brad mentioned, our Q1 VAPS revenue in the storage segment of $22 million was up 66% year-over-year. So the rate of change is both impressive and undeniable. This is a clear multiyear growth lever in our Storage segment. It is a clear example of how we add value to our acquisitions. And we are clearly creating incremental value for our new customers in the process.

Back to the financial metrics on Page [21]. They're all incredibly strong. Leasing revenue was up 25% for all of the reasons I just mentioned. Adjusted EBITDA margins were up 650 basis points year-over-year. Free cash flow margins expanding into the high teens and return on invested capital is expanding to record levels, hitting 17% for the quarter, up 570 basis points versus prior year.

We've deleveraged to 3.0x net debt to adjusted EBITDA, and we bought back nearly 10% of our stock in the last 12 months given our confidence in both our short- and long-term outlooks. These results showcase the value of our predictable sequentially compounding reoccurring revenues, our idiosyncratic growth strategy, our cost discipline, and our value-accretive capital allocation framework.

Page 22 lays out revenue and adjusted EBITDA for the quarter. We've already talked about the commercial KPIs which drove revenue up 25% to $565 million. In the bottom-right chart, you can see the normal seasonal decline sequentially from Q4 into Q1, driven by our seasonal retail business.

Leasing revenues will grow sequentially into Q2 and increase sequentially each quarter thereafter, in line with our guidance. Cost management and margin performance have been outstanding and better than we expected to start the year, and we're seeing favorability in 4 key areas that are causing margins to go up both in Q1 and in our guidance.

First, now that we've been in SAP for almost 2 years, we've gotten much better visibility into the work orders and maintenance costs on our modular fleet. We're being more efficient with our spend and more consistent with that spend across our branch network. This is helping both gross margins and CapEx.

Second, input inflation is easing on our maintenance materials. We have not yet seen input deflation, but inflation appears to have peaked in the second half of 2022. I said a year ago that we were incurring significant cost inflation and that the inflationary benefits from our rental rates would roll through the portfolio in time and that is exactly what's happening.

Third, logistics margins have continued to improve and were up 1,200 basis points year-over-year in Q1. The gains are primarily driven by the value-based pricing strategies that we began in 2022 and we still have opportunities on the cost side, such as in-sourcing and route optimization, which we're actively working on and will have benefits in future periods.

And lastly, SG&A is down 270 basis points as a percentage of revenue. So we're getting good operating leverage there. And looking forward, we have opportunity for further efficiencies now that we've consolidated both our ERP and our CRM systems.

Altogether, flow-through of revenue growth to EBITDA was 67% in the quarter, which is great. And most encouragingly, we can see quantifiable impact of our internal initiatives across every line in the P&L, all of which are within our control and give us a clear road map to deliver the guidance for 2023 and our run rate into 2024.

Turning to Page 23. Net cash provided by operating activities increased by 2% year-over-year to $149 million. These numbers are not adjusted for our 2 divestitures. So on a pro forma basis, cash from operating activities is growing significantly faster than 2% and should expand sequentially through the remainder of the year. Said another way, organic growth and acquisitions in our core segments have already replaced the prior year operating cash flows from our divested segments.

I said on our Q3 call last year that capital expenditures would be down through at least Q1 just given the record investment levels in 2022 and the flexibility in our supply chain. At $46 million of net CapEx in Q1, we are basically operating at maintenance levels.

Capital expenditures will, of course, go up into Q2 and Q3, though will be below both prior year levels and our original guidance given both the maintenance efficiencies I mentioned earlier and available capacity in the storage fleet resulting from the deferral of retail store remodels.

The implication, of course, is that this is going to be an outstanding year for free cash flow. Free cash flow of $103 million in Q1 was up 88% year-over-year. And again, that is not adjusted for the divestitures. So the Modular and Storage segments are cash flowing extremely well heading into the remainder of the year. And in the current outlook, free cash flow should be north of $500 million.

Turning to Page 24. We reduced leverage to 3.0x last 12 months adjusted EBITDA from continuing operations in Q1. As we said last quarter, we used the $418 million of U.K. divestiture proceeds to repay our ABL, creating capacity for other capital allocation opportunities. While the divestitures were one-time events, the bottom left chart illustrates the ability of our business to de-lever rapidly when we so choose.

Between free cash generation and predictable growth, we can reduce leverage by approximately a full turn in 12 months, which is one of the reasons we maintain the 3.0 to 3.5x target range. We're obviously at the very low end of that range. We're perfectly comfortable with the debt structure, and we have highly productive areas to deploy capital.

Our weighted average pretax cost of debt is 5.7%. So increased cost of capital has not changed our capital allocation priorities at all. Our debt structure is 60% fixed rate accounting for the swap that we executed in January 2023, which got us back to our targeted fixed and floating mix. And our annualized cash interest run rate is approximately $168 million as of Q1 2023.

So we're at the bottom of our target leverage range. We have $1.1 billion of available liquidity in the ABL plus our internally generated cash flow, which is accelerating, and we have complete flexibility and appetite to pursue our capital allocation priorities.

Page 25 shows our capital allocation framework and our performance over the last 12 months. In the right-hand chart, our LTM capital deployment is very much in line with our framework with the divestitures driving additional deleveraging in the short term.

I expect our results will revert back closer to the framework through the course of the year with no further deleveraging and likely stronger tuck-in acquisition volume.

During Q1, we closed 2 acquisitions for $80 million and expect to maintain or exceed that rate of reinvestment for the remainder of 2023. We also repurchased $216 million of our common stock, reducing our economic share count by 9.6% over the last 12 months, representing an extraordinary return to shareholders.

Given the embedded earnings and cash flow growth in our portfolio, we are confident that the allocation of this capital will be significantly accretive to our long-term shareholders.

And Page 26 shows our updated guidance. Relative to prior expectations, we tightened our revenue outlook and are still centered on $2.4 billion of revenue for the year, which means that the business is compounding sequentially exactly as we expected it would.

Most importantly, the guidance still implies a lease revenue run rate that is up 10% to 15% heading into 2024, which is what we primarily care about.

We increased our adjusted EBITDA midpoint by $25 million to $1.025 billion to $1.075 billion, which is a function of our revenue performing as expected, combined with the cost and margin initiatives that I spoke about earlier.

And we do see margins running ahead of our original expectations through the remainder of the year, which gives us another strong tailwind for 2024.

We reduced our net CapEx range to $250 million to $300 million based on deferral of the Storage segment retail remodels and the maintenance efficiencies in the Modular segment. We have not assumed any further acquisitions in our outlook. So M&A beyond that which we closed in Q1 would be incremental.

Sequentially, I'd expect EBITDA to be relatively flat into Q2 and then accelerate into Q3 and Q4. Leasing costs will increase sequentially as delivery volumes increase into Q2, which should compress leasing margins. And delivery and installation margins could compress sequentially as we get a higher mix of delivery relative to return transportation revenue.

Overall, the midpoint of the EBITDA range implies 19% growth year-over-year and approximately 250 basis points of margin expansion which is on top of the 250 basis points of expansion that we delivered in 2022.

And we'll deliver free cash flow in excess of the long-term milestone that we established 3 years ago when we underwrote the Mobile Mini acquisition, before COVID, before Ukraine, and before this most recent round of recession fears.

Most importantly, the guidance sets us up with a leasing revenue run rate that is up 10% to 15% heading into 2024 and with better margins given the forward visibility in our model.

The business is compounding as expected. The fundamental drivers of this compounding are intentionally designed and within our control, and we will continue to execute our strategy to drive growth, expand return on invested capital, and create value for our long-term shareholders.

With that, Brad, I'll hand it back to you.

Brad Soultz

Thanks, Tim. I would like to take a moment to thank our team for safely and frugally delivering yet another outstanding quarter and progressing each of our growth levers, all while successfully navigating our CRM system harmonization.

We will easily eclipse our $1 billion adjusted EBITDA milestone in 2023, and we are on track to achieve all of the long-term financial targets that we established just 18 months ago.

I wish all of you listening today continued safety and good health. That concludes our prepared remarks. Operator, would you open the line for questions?

Operator

And our first question is from Andy Wittmann with Baird.

Andrew Wittmann – Robert W. Baird & Co. Incorporated

I guess I would just start with trying to get a better sense of some of your leading indicators, in particular the order book, Brad. Obviously, the revenue line doesn't move very quickly at all in response to economic changes, but the order book is probably the best, I guess, derivative in terms of what you're seeing.

So I was hoping you could talk about what you're seeing? And if you could break it down a little bit, what you're seeing in Modular versus what you're seeing in Storage, and talk about some of the key cyclical end markets, including your construction-related customers.

Brad Soultz

Yes. As I said in my prepared comments, there's not a lot changed versus Q1. Our order book remains robust. Looking forward, we expect work order production, as an example in Modular, to be in line with our expectations 3 or 4 months ago.

We are comparing, as you mentioned, against record levels of 2022. The most notable change, if you will, Andy, is that attributed to the retail sector, primarily the store remodels.

And if you take the balance of the portfolio across Modular and Storage, non-resi construction and the commercial/ industrial sectors, we've been cautious. I would not expect growth across the board in those sectors yet this year. Again, this is what we don't expect. We remain cautious. We've been very prudent here. We could see a bit, but we're well positioned irrespective of what these end markets present.

Andrew Wittmann – Robert W. Baird & Co. Incorporated

Got it. And I thought maybe, just as a follow-up, I'd have you elaborate a little bit more on the comments about the EBITDA run rate trending up 10% to 15% in 2024. And I guess that's almost implicit in your guidance. You can kind of get there, that's what's included. But could you talk a little bit about what some of the puts and takes are regarding that?

One of the things I heard, I think it was in Tim's comments, was that there was some rate upside that you're seeing. And so I was just wondering like how does that factor into your guidance, the rate upside for this year, and is that included in how you're looking at 2024 at this early stage?

Tim Boswell

Andy, this is Tim. It's a great question. And this is what we really spend our time managing, is how do we drive that sequential run rate into any future period? And to be clear, my comment was around the leasing revenue run rate. So price times volume times value-added products across the combined business.

As we get into Q4 going into next year, we see 10% to 15% growth going into 2024. And there aren't many businesses out there that I'm aware of that can say that with confidence. That's just a function of the lease duration and the predictability in our business model.

As Brad mentioned, the only real notable change in the guidance is the deferral of the retail store remodels in the Storage segment, for a variety of reasons, are pushing into 2024. And what we have seen in the Storage segment is offsetting benefits in pricing and value-added products, such that the midpoint of our revenue range on a consolidated basis has not changed.

Our delivery and work order expectations in the Modular segment are not materially different than in our original guidance. And of course, that original guidance had some conservatism in the back half of the year, which we maintain.

So as you think about what could change in terms of where you end up in that 10% to 15% range. If pricing continues to progress ahead of our expectations, that could take you higher. If volumes improved materially from where they are today, that's not going to impact the 2023 results significantly, but it impacts the run rate for 2024, which is great.

And then value-added products as well. We've baked in some growth on the Storage side of the segment and kind of a continuation of the trends we've had on the Modular side of the segment.

So I think those assumptions are balanced. But upside or downside, either way, it takes you to the 10% or the 15% side of the range. And as I mentioned in the prepared remarks, M&A would be incremental.

Operator

And our next question comes from Tim Mulrooney with William Blair.

Tim Mulrooney – William Blair & Company, L.L.C.

As I'm thinking about your end market exposure to commercial real estate, more broadly, nonresidential construction. Can you just talk about how much your business is tied to nonresidential construction? That's all in, like with contractors, subcontractors, architects, whatever, like all in.

And how do you think about that piece of the business being impacted looking forward with tightening credit conditions, particularly with regional banks?

Tim Boswell

Tim, it's a good question. We break it out in our deck by customer SIC Code, and you see it's roughly 35% is going to be tied to non-res construction, and that's all the general contractors, big and small, that you just referred to. There's another component that's around 5-ish percent that's residential. We work with the larger homebuilders there.

And then the other 60% of our business are basically every other sector of the U.S. and Canadian economies. And that is one of the, I think, misconceptions in our business, is there is a segment approximately 40% that's directly tied to construction customers, and then there's another 60% that use our services as the most cost-effective and flexible alternative to construction. And we see that playing pretty well in this environment.

Within the non-res sector itself, we see all the same forecasts that everybody else does. Nonresidential starts should probably be down this year. We focus more on the square footage starts, and we factored that into our guidance as we always would. Within that non-res mix, though, there are a lot of puts and takes, right?

We are absolutely benefiting from the megaproject, onshoring, and manufacturing trends that everybody is talking about. It seems like every week I'm getting a new multimillion-dollar long-duration customer contract that would fit that type of description. And we clearly have infrastructure spending picking up in the United States. And we've always maintained that that's likely a second half of 2023 and 2024 tailwind for the business.

Your question around the impacts of tightening of financial conditions is a good one. And this is something that we have seen in the business going back into the second half of last year.

Especially up in Canada, for example, I can think of a number of larger project opportunities that were not canceled because of tightening financial conditions, but budgets are being recalibrated based on elevated input prices, labor constraints, and then capital costs. We're actually seeing Canada now, a lot of that backlog start to flow back through the pipeline, which is pretty encouraging.

So going back into our budget process, we were already assuming some impacts in our non-resi markets related to tightening financial conditions. And I think some of the reactions to events in the last couple of months are probably overblown because that was happening for the last 12 or 18 months.

Tim Mulrooney – William Blair & Company, L.L.C.

Right. And recalibration sounds very different than cancellation, right?

Tim Boswell

Absolutely, it is. And remember, disruption and lengthening of project duration helps us. That's one of the mitigating factors in the churn of our portfolio, and we are seeing that in terms of return volumes that are lower than we would have forecasted to start the year.

Brad Soultz

Yes. The only thing -- for everyone, this is not a cyclic profile. I mean Tim just talked to Andrew through the 10% to 15% revenue growth we are highly confident in the next year.

If volumes change 1% or 2%, it's not meaningful, right? So the end markets are going to be what they are. We've shared our outlook. But irrespective of what they present, we're extremely bullish and will continue to be.

Tim Mulrooney – William Blair & Company, L.L.C.

Thank you for the clarification there for all the clarity on that answer. I'm just going to sneak my follow-up in real quick is on free cash flow. It's expected to be strong this year.

So just curious how you're thinking about deployment of that extra capital that you'll now have. If share repurchases are a priority right now, particularly given the pullback in the stock price over the last month or so, I'm wondering how you think about defending the stock at this valuation?

Tim Boswell

Tim, yes, we love the stock, even at prior higher valuations. So yes, we do calibrate our repurchase activity in part based on valuation. But we've also said that we won't miss a good tuck-in acquisition that comes our way. So we do maintain a waterfall here.

We've given you what our organic investment plan is for the year. We've told you that, based on current pipeline, the tuck-in volume is likely a bit above 2022 levels. And you can infer that given the fact that we're at the low end of our leverage range, everything else is going to go to the repurchase, and we'll calibrate that based on valuation.

Operator

And our next question is from Kevin McVeigh with Credit Suisse.

Kevin McVeigh – Credit Suisse

Great. I guess, Tim or Brad, you said it. I think I missed it. You talked about VAPS of $400 million of highly credible, and then an incremental $100 million in containers. Was -- I'm just -- I want to make sure I understand that comment because I think it's important.

Brad Soultz

Yes. And just in round numbers, right, we traditionally talked about what was our Modular focus over the last 10 years, being that $300 million to $350 million.

At the time of the merger, we talked about a $50 million incremental opportunity by putting furniture in the GLOs. That together now is about the $400 million, right? And there's another $100 million of opportunity we're very comfortable with on the Storage side.

Tim Boswell

And remember, that's on top of the growth that's been delivered over the course of the last 2 years. So we've grown the business, we've grown value-added products, and we've continued to extend both the magnitude and the duration of that growth opportunity through new product introduction and better penetration of the volume that we have.

The original estimates for our container VAPS back in Investor Day were approximately $50 million, that's conservative. And we're comfortable rounding up from there to get to that $500 million prospective opportunity on top of everything we've already delivered.

Kevin McVeigh – Credit Suisse

Makes sense. And then the 10,000 units that were pushed out, I mean, obviously, implicitly implies you increased the guidance. Can you maybe dimensionalize what the impact of the revenue on that would have been? And again, was that just timing of some store remodels? Or what drove that, the push-out of those 10,000 units?

Brad Soultz

Tim can jump in here, but I would qualify, Kevin, that we were contemplating that in our original guidance, right? I mentioned in my commentary that there was uncertainty. So within the range of guidance, before, it was contemplated. Now it's just -- it's surfed.

Tim Boswell

Yes. That's some of the challenges facing the retail sector are not -- this is not a secret, right? So you do have companies like Target saying, “Hey, we're not doing that activity this year to save on cost.”

And there's also some store format considerations that they're going through. But this is not a matter of if it happens, it's just a matter of when. That's historically been a good reoccurring source of business for us.

And in terms of in-year impact to rental revenues, you're probably talking about something in the $12-ish million range, plus some transportation to and from on those.

Operator

And our next question is from Dillon Cumming with Morgan Stanley.

Dillon Cumming – Morgan Stanley

Just wanted to see if you could talk through again the EBITDA opportunities you called out on Slide 15. I think the market is still probably not giving you full credit for achievement of those in the long term. Even though I think most investors are still confident in that longer term as well.

Just curious if you can kind of talk through how resilient those are in a more choppier macro environment and a potential non-res recession. How confident do you feel kind of around hitting that $1 billion growth figure over the long term in such an environment?

Brad Soultz

Yes. I'll start. Just working down the list on the value growth slide. Tim just talked about value-added products and service, we've pegged that at $500 million back in November of '21 Investor Day. We've been harvesting from that. It's apparent in our results, and we're saying it's still $500 million.

So there's a fair bit of reloading here. Lease rate optimization of $200 million. That doesn't assume any volume expansion. We've already talked about the spread between the units we've delivered in the last 12 months, and the average of the portfolio, highly confident in that.

The VAPS are going to fall through, call it 75% to EBITDA, and the lease rate optimization, well over 90% once we pay commissions and such.

Market penetration, that's when we've been waiting for the CRM project to conclude to really start to make traction there. So again, we're excited that we've successfully harmonized those 2 systems. And I think it's going to create operating efficiencies as well as customer satisfaction that will drive cross-selling and market penetration over time.

Logistics, Tim mentioned that was $50 million back in November of '21. We've harvested over $50 million since then. It's still $50 million looking forward. And that's primarily based upon the fact that we're just starting to get to work combining the 2 systems between the Mobile Mini platform and WillScot, and logistics which will really help with route optimization, continued in-sourcing and the sort.

And then the M&A and scale efficiencies. This includes the M&A that we know about. And then the scale efficiencies, again, are apparent in, call it, if nothing else, 650 basis points of EBITDA margin expansion year-over-year.

Dillon Cumming – Morgan Stanley

Got it. That's very clear. And if I can just ask a second one on the leverage range. So I think you've demonstrated clearly in terms of the free cash flow profile that you're comfortable and able to operate, in that 3 to 3.5x range pretty comfortably.

If that does become a bigger second point for the market, would you consider maybe reducing it by 0.5 turns, 1 turn or so if that would kind of open yourselves up to new investor classes? Or are you kind of, I think, more religious or just willing to stand fast on that 3 to 3.5x range?

Tim Boswell

Look, I think investors are very well educated on this point -- at this point, just given the stability of our leasing revenues and the predictability of the business and the churn in our top line. So yes, we always look at capital allocation holistically.

But to one of the questions earlier, strongly prefer to buy the stock at this level than to pay off pretax cost of debt at 5.7%, all right? So that's, in my investor discussions, this is not a sticking point that's come up for over 2 years, really.

The business does have a very significant deleveraging capacity. I mentioned in my remarks, if we want to, we can take a turn out of the leverage in 12 months. And that is just a really profound luxury that we have in this business, and we're perfectly comfortable at the 3x level that we're currently operating at.

Dillon Cumming – Morgan Stanley

Very clear. And I'm going to sneak in one last quick clarification. The change in the milestone rate on Slide 13 for the Modular VAPS from $600 to $650. Does that just reflect the movement of the GLOs out of the segment or is that more of a conscious change on your part?

Tim Boswell

That is a very astute observation. That's really just the mix of pulling out smaller square footage, ground-level offices from the Modular segment, moving them into the Storage segment where they belong, which implies the remaining larger square footage modular equipment in the Modular segment has a higher capacity for value-added products.

Operator

And our next question is from Scott Schneeberger with Oppenheimer.

Scott Schneeberger – Oppenheimer & Co. Inc.

Covered a bit on the smaller customers, the financing concerns and then the quantifying on Kevin's question of retail, and appreciate that.

Brad or Tim, could you guys address the megaprojects? I know you're not too open to sizing it as a percent of units or revenue. But could you provide some anecdotes? Or maybe give us a feel for how powerful these projects are?

Tim, I heard you say earlier, it feels like every week, there's another one. So it sounds like these remain consistent. How competitive is this? Are you the only one that gets a look? Or are others -- the tale sounds good, but can you just speak about how powerful this is as an offset to concerns that are out there in the market?

Brad Soultz

It's extremely powerful. And as we've mentioned in our prepared comments, our scale, our total value prop, et cetera, puts us in a very unique position to respond to these.

I mean, a simple way of thinking about it. Roughly, 1/3 of our net book value is associated with large complexes. Most of those, if not all of those big projects, will have those assets deployed. So that is a space we're uniquely positioned.

I mean, we've got in-house construction services team. I mean, if you're setting up 10,000, 20,000, 30,000 square foot, which many of those will require, sometimes, you need to stack 2 or 3 high, we're uniquely positioned to deliver on that aspect of the still relatively small percentage of total project spend.

Tim Boswell

Scott, I think the opportunity for us prospectively on these, is these are multiyear engagements, say, 3, 5, 7 years in some cases. And an area where we can, I think, have a very significant advantage is owning that project over the life cycle, not only winning the national general contractor with whom we've clearly got the best relationships, but then all of the other subcontractors and trades that are coming on and off of that project over the course of its life cycle with the full suite of our offering.

And if there's one area where we're spending some time as a team – we're already confident we're going to get the main general contractor and the main project – it's owning everything else over the course of that multiyear cycle, which is the real opportunity here.

Scott Schneeberger – Oppenheimer & Co. Inc.

I appreciate that guys. On the CapEx, can you take us a level deeper on the initiatives focused on work order efficiency to improve vendor administration and material consumption? Maybe quantification of that in savings, how meaningful is that on your pullback on the guidance?

And then you did provide a little bit more color in the deck and in this discussion about reining in the CapEx this year. But maybe what you're doing with the decrease in container purchases and a little bit more color there to let us know where you are in the CapEx cycle?

Tim Boswell

Yes, Scott, this is Tim. And I'm super excited about this. This has been a bit of a long time coming, coming through the Mobile Mini integration. We basically got a $65 million reduction in the midpoint of the CapEx guidance.

About $40 million of that is coming from the fact that, because we're not doing the retail store remodels in Storage, we don't need to buy 7,000 containers, right? So that's the biggest chunk right there.

On the Modular side, we're getting about a $20 million benefit from roughly a 10% efficiency savings in our cost per refurbishment. And as you go back to the integration now 2 years ago with -- into SAP, one of the areas where we've gotten a lot better visibility, analytics, and reporting, is around how much material is going on average into a certain type of refurb. How much labor? Are we using in-house labor or subcontractor labor? And looking at variances on these types of metrics across the entire branch network, you see -- or you used to see extraordinary variability.

So step #1 is tighten that variability, reinforce those standards from a quality standpoint around what is our expectation for the quality of unit that's going out into the field. And just by tightening that variability, we began to see significant CapEx savings in modular refurbs in the second half of last year. And those are being sustained in our bottoms-up reforecast heading into Q2 and Q3, which is really encouraging.

As you know, there's been cost inflation in the business over the last couple of years. And this is really -- a really nice tailwind that's starting to offset that in a meaningful way.

And the only other thing I'd call out is we are still integrating, like the branch network. And there, we do expect some proceeds from property sales in the forecast as well, which is going to be a further net CapEx opportunity. You can't do those every year. But we will still continue to see those types of proceeds as we optimize our real estate footprint.

Operator

And our next question comes from Manav Patnaik with Barclays.

Ronan Kennedy – Barclays Bank PLC

This is Ronan Kennedy on for Manav. Tim, could I just ask for your assessment of, and thoughts on, at a high level kind of pricing dynamics over the last few years through COVID with supply chain and inflationary dynamics, and what you're seeing now?

We've got a lot of questions on what people are seeing with regards to surveys of storage prices, pricing on shipping containers, et cetera. So how that plays into versus your initiatives around pricing and you acting like a pricing leader within industry?

And your outlook for how you think that will play out, and the assumptions around pricing for the remainder of the year and forward.

Tim Boswell

Yes. Ronan, this is Tim. I'll start, and Brad, you can jump in. This is an area where we're both quite passionate, so we could spend the rest of the call talking about it. As you know, the double-digit rate growth in our modular business has been going on since Q4 of 2017, right? That's before we had less than 20% market share.

Value-added products have been a great contributor there. Dynamic price segmentation and technology has been a great contributor. Sure, we went through this period of supply constraint. But remember, COVID was a negative demand shock across our business, and we continued to drive price through that period.

I do think that driving pricing was incrementally easier during the peak inflation periods. And you saw that through some of the expansion in our delivery and installation margins.

But the real momentum there is coming from things like our pricing process in the storage business, product positioning, where we're charging for patented premium features on certain products and offering a different price point for customers that just want a standard shipping container.

That's one of the reasons we're moving the ground level office product into the Mobile Mini branch network. We've got other products that meet that need for a smaller square footage footprint, like our HQ product and our 8' wide mobile offices.

So introducing structured products positioning with price differentiation, and pushing those everywhere we see opportunity in the market as a price leader. This is what we do. This is what we love doing as the leader in the marketplace.

So I'm not the least bit concerned about changes in maritime container pricing. It's one thing to have a container in the port of Los Angeles. It's quite another to have containers populated in Milwaukee, Wisconsin, Lexington, Kentucky and everywhere they need to be in order to service our captive customer base.

Ronan Kennedy – Barclays Bank PLC

That's very helpful. And then if I may, a follow-up on kind of competitive dynamics within the industry given some M&A by a competitor, some sizable M&A and entry, and a focus on storage, also some portfolio moves, I think replicating along the lines that you have done with divestitures of the U.K., Tank and Pump, et cetera.

So broader industry competitive dynamics and your outlook for M&A, if that changes your stance or approach on M&A? Or does the current macro outlook change M&A priorities?

Tim Boswell

Now we've said for a long time that we won't miss a good tuck-in that we like. And I think you can infer that we see everything that goes on in the industry. Very excited about the tuck-ins that we've executed over the course of the last 24 months.

We are the acquirer of choice in the market. I don't think anybody else offers a stronger value proposition to a prospective seller than we do. We can be very targeted in our due diligence.

We know the assets that we're dealing with. We can diligence, close all cash in a very short window of time because we know what we're doing. And we know how to integrate efficiently, even with smaller portfolios, right?

So no change in our appetite for M&A. It's always been there. We're more confident from an integration standpoint, just given all of the efficiencies that we're seeing in our business, the progress on pricing, on value-added products, as well as the margin expansion that we're seeing across our portfolio as all of these acquisitions are integrated into our network.

And we're also improving the talent level of the organization in so doing. So it really checks the boxes across all aspects of our strategy.

Operator

And our next question is from Faiza Alwy with Deutsche Bank.

Faiza Alwy – Deutsche Bank

I wanted to touch on Storage pricing again. What are the implications of the deferment of retail remodel into 2024 on pricing? And I think you mentioned that there was still a 30-point gap between realized pricing and spot pricing on Modular, but curious how you're seeing spot pricing trend on the Storage side of the business.

Tim Boswell

Faiza, it's Tim. The remodels won't impact storage pricing at all. We were getting much higher rates on seasonal storage capacity with retailers, and that's because it's short duration, right?

That's typically just a September to January type rental contract, and it should have a much higher rate, which is why you saw very modest sequential AMR decline from Q4 into Q1.

The retail remodels are more like core business from a pricing standpoint. So there's no change to our pricing expectations. And I would expect that we see continued sequential improvements on storage pricing.

Yes, we hadn't talked about the DSR, the spot spreads in the business. But they're as strong as they've ever been. In Modular, the spreads on most recent contracts are about 35% above the portfolio average. It's just under 30% on the ground level office product, and pushing 20% on our most recent contracts on the storage product. So pricing is extremely healthy. And to the question earlier, we're going to continue to do our part there as the market leader.

Faiza Alwy – Deutsche Bank

Great. And then just bringing it all together, sort of what's really changed over the last few months? When you first gave the fiscal '23 guidance, it sounds like 1Q came in better than how you had thought it might. And maybe these retail deferments is something new and that led to the CapEx decline. But what's really changed from your perspective?

Brad Soultz

This is Brad, I'll go first. From my perspective, it was the outstanding margin, both EBITDA margins flow through as well as the free cash flow margins in the first quarter.

As I mentioned before, the store remodels were contemplated in the range before. They're kind of ascertained now. And then that's -- as Tim characterized in revenue terms, it's relatively insignificant when you're talking about over $2 billion of revenue.

Tim Boswell

Yes. Faiza, the beauty of this business is not much changes quickly. The strategy has been very consistent. The execution has been I think phenomenal. I agree with Brad, the margin performance across the board is really exciting. And I think whether it's in logistics or SG&A, as I talked about, there continue to be opportunities there.

We're not doing any cost cutting or anything like that. That's not what we're talking about. We're talking about just managing the business more efficiently. And there's a lot of flexibility we have in the overall cost structure. So very pleased with that.

And based on what we've seen, it's sustainable well into 2024. So I think we're set up for another year of consistent margin expansion, which we've been doing ever since we went public. So not much has changed there.

And again, appetite for M&A is still there. And the growth opportunities that Brad ticked through very thoroughly, are all, frankly, bigger and longer in duration than we would have expected certainly back at Investor Day.

Operator

And our next question is from Steven Ramsey with Thompson Research.

Kathryn Thompson – Thompson Research Group, LLC

This is actually Kathryn Thompson with TRG. Just a follow-up on megaprojects. Just bigger picture, how much of megaprojects are embedded in your Investor Day long-term guidance? And does this meaningfully improve your leasing revenue outlook for '23 and '24?

I know you touched on going after megaprojects earlier in the call. But maybe a little bit more color on just what specific steps are being taken to take advantage of this? And do you prefer this type of business versus some of the legacy day-to-day work?

Tim Boswell

Kathryn, this is Tim. I'm going to start by just talking about what has kind of been in versus not in our long-term outlook. I think that's a very interesting question. And then Brad, you can maybe follow up on the question around how we go to market and the unique advantages we have on these types of projects.

But if you go back to November of 2021, the only thing we knew about back then was the infrastructure bill, right? And that was relatively new news at the time. So we didn't really include any market-based expansion in our Investor Day targets.

The whole point of that presentation was that we're talking about the things that are within our control. And now what we have is better visibility into that, projects directly funded from the infrastructure stimulus, and that's great. And we've always said that those will start to ramp up in the second half of this year going into 2024, and we maintain that perspective.

We certainly did not anticipate the magnitude of the reshoring that's happening in the United States, manufacturing expansion, renewable energy investment. We're seeing opportunities across all of these things, right?

And the confidence in our ability to win is one of the reasons that the revenue guidance isn't changing in light of maybe a net greater concern around the impact of a tightening in the financial system here, right?

So this is the nature of the business. There are always puts and takes in terms of the end markets that we serve. Our job is to be there. And I think we've got a disproportionately strong competitive footing on these bigger, more complex projects.

Brad Soultz

Yes. And I think, Kathryn, Tim characterized this extremely well. If we just use a couple of cases, a specific example. So we've done a large project near Austin. It's a chip plant well before the CHIPS Act was actually in place. We'll typically supply anywhere from 10,000 to 20,000 square foot of, we'll call it, anchor turnkey space solutions. Oftentimes, that will be half for the general contractor that's building the new facility, right? And then half for the customer themselves that are bringing their early engineers on site, et cetera, that will run the facility once it's up and running. These are 3- to 4-year duration projects.

And it's not just our fleet that puts us in a very unique position to supply those. It's our capability to set that size of a building up, right, maintain it over the course of the 3- to 5-year project duration, and bring it back and redeploy it.

I think what's also quite interesting, Tim referred to in one of the earlier responses, is we've been very good and very unique in our capability to win that anchor tenant, if you will. We have a massive opportunity to make sure we win every subcontractor, every single-wide unit, every storage unit, again, in a full turnkey scenario as we go forward.

So I couldn't be more bullish with respect to the next 3 to 5 years here. And I think it's a very unique scenario, both in our position as well as the market setup here.

Kathryn Thompson – Thompson Research Group, LLC

Yes. I assume that you're referencing the Samsung build-out in the Austin market.

Brad Soultz

Exactly.

Kathryn Thompson – Thompson Research Group, LLC

Yes, we had a heavy material producer at our private company conference, say that it's essentially bringing 45,000 jobs just for that one project eventually. So this is like a multiple-year construction project. How are you in -- and just to wrap it up, how do you get the subs? Because you have the main producer, Samsung. But what is your strategy for getting the subs? And can you scale that to other markets in the U.S.?

Brad Soultz

For sure. And the CRM harmonization was a key enabler for that. If you use the Samsung project as an example, that's large enough in scale. Everyone on our team's mobilized and aware, right, and talking to each other. That was quite manual prior to the CRM cutover.

So whether it's that Samsung project, data center projects that have been of similar magnitude kind of all over the U.S. over the last several years, we're moving that from a phone a friend to our team being fully enabled.

I talked about the marketing and analytics that we're capable of leveraging now with the new CRM harmonization to make sure, over the life of the 3- to 5-year project, we're potentially touching every person that comes on and off of that job site.

Operator

And our final question comes from Phil Ng with Jefferies.

Maggie Grady – Jefferies LLC

It's Maggie on for Phil. I guess, first, starting on the lower CapEx guide, I mean, all the areas you're pulling back makes sense. And Tim, I think you mentioned 1Q CapEx levels were kind of maintenance level for the business.

The $250 million to $300 million guide for the year, is that how we should think of maintenance levels for the current fleet? And then that should be a nice tailwind for free cash flow this year. Can you just kind of remind us how you think about free cash flow in maybe a softer macro backdrop?

Tim Boswell

Yes, Maggie, this is Tim. We talked about this a bit, I think it was on the Q2 call last year, and kind of pegged maintenance in that $175 million to $200 million of net CapEx range. And I'd say that $200 million level is a very good proxy for just a unit on rent-neutral investment level.

What takes us into the kind of midpoint of our current range is a fair amount of growth CapEx going into value-added products and services, right? We're continuing to see no slowdown in penetration in our Modular business. And growth in the Storage segment is, as I said, undeniable and starting to ramp up. So we will continue to fund that initiative wherever we see opportunity. It is arguably -- it is the fastest growing and arguably the most profitable part of the business from an ROIC standpoint.

So it's really that simple, investing around $200 million on maintenance. The majority of that is going into modular refurbishment in a given year. And as we ramp up growth, we're either buying containers, increasing modular refurbishments to put more units on rent, or investing in value-added products and services. And that's the formula we've been running for a long time. And we reassess it using a zero-based process every 90 days.

Having just gone through that process, that's the foundation for the guidance and the forecast that we give you every quarter.

Maggie Grady – Jefferies LLC

Okay. Got it. And then on the CRM integration, maybe if you could just kind of dig in a little deeper to the both near-term opportunities you're seeing there and what you're thinking long term? Is that more on pricing, volumes, logistics, new customer groups? Maybe just walk through how you're thinking about the opportunities there?

Brad Soultz

It's really all of the above. And I'll use a couple of quick analogies. So as Tim mentioned, we went live with the ERP back in May of '21. It took us about a year to really get fully optimized reporting in place to really leverage to the power of that. And you're seeing it in the margins and the free cash flow margins.

So I'll put that out there as kind of a time expectation. We're just live with the CRM, we're going to follow the same process. We'll put advanced analytics in place for our team. We're going to leverage the Marketing Cloud and all the tools of the Salesforce.com platform.

And going back to the discussion we were having with Kathryn with respect to that Samsung project, it doesn't have to be a person that calls every potential customer, right, and says, “Do you need a storage container? And by the way, do you need lights, ramps and shelves with that?” Right? That can be highly automated, still leveraging the core team we have.

So something we're super excited about. I think this year, this successful cutover will give us the year to really build out all of the reporting and analytics. You leverage all the automation that -- it's not rocket science that's in place, but it needs to be tuned and customized to all of our end market segments. And then this is a clear accelerant in 2024, 2025 and beyond.

Operator

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

Nick Girardi

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

Operator

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