TRANSCRIPT

Q3 2021 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

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Tim Boswell, Chief Financial Officer

Nick Girardi, Director of Treasury and Investor Relations

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Courtney Yakavonis, Morgan Stanley

Kevin McVeigh, Credit Suisse

Phil Ng, Jefferies LLC

Ross Gilardi, Bank of America

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TRANSCRIPT

Operator

Welcome to the Third Quarter 2021 WillScot Mobile Mini Earnings Conference Call. My name is Sarah, and I'll be your operator for today's call. Please note that this conference is being recorded. I will now turn the call over to Nick Girardi, Director of Treasury and Investor Relations. Nick, you may begin.

Nick Girardi

Good morning, and welcome to the WillScot Mobile Mini Third Quarter Earnings Call. Participants on today's call include Brad Soultz, Chief Executive Officer; and Tim Boswell, Chief Financial Officer. Today's presentation material may be found on the Investor Relations section of the WillScot Mobile Mini website.

Slide 2 contains our safe harbor statement. We will be making forward-looking statements during the presentation and our Q&A session. Our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control. As a result, our actual results may differ materially from today's comments. For a more complete description of 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. Before I get into this quarter's results, I'd like to remind everyone that we'll be hosting an Investor Day next Monday, November 8 at NASDAQ in Times Square. We're delighted with the number of attendees and look forward to seeing so many of you there.

Now turning to Slide 5. Our third quarter results demonstrate continued acceleration across our diversified portfolio with corresponding exceptional outcomes. While delivering this solid operational and financial performance, we also acquired and fully integrated 3 companies late in the third quarter, altogether adding approximately 11,000 storage assets and several new team members. As expected, following our successful SAP harmonization in the second quarter, we're even more able to seamlessly integrate these acquisitions. We've closed a fourth acquisition already in the fourth quarter. And going forward, we're uniquely positioned to continue our strategy to compound robust organic growth with highly accretive M&A.

Operationally, our delivery volumes and rates improved across all of our segments, underpinned by increased demand across all of our major end markets. A special note, VAPS penetration in North America Modular segment achieved a rate of $384 VAPS value per unit per month on all new units delivered in the last 12 months. Now you may recall that when we took the company public in late 2017, we set several ambitious goals, one of which was achieving 80% furniture penetration, which correlated to $400 of VAPS value per month. Needless to say, the $400 milestone is one of many that we’ll be resetting and raising as we see significant further upside potential as we continue to expand our offering, increase penetration, and further optimize rates.

In turn, we're pleased to raise guidance again this quarter. Strong free cash flow margins of 19% over the last 12 months supports continued execution of our capital deployment strategy.

In addition to funding all organic growth, one-time merger-related integration costs, and 3 acquisitions, we've repurchased $350 million of our shares and warrants over the last 12 months. Given our track record of smart and balanced capital deployment, our Board of Directors has increased our share repurchase authorization to $1 billion.

I want to extend my gratitude to our entire team for the strong performance in yet another quarter and extend a warm welcome to many of our new colleagues. I also want to thank our customers for their continued support, so we appreciate and value your business and take pride in delivering on our commitments to you.

Turning to Slide 10, the VAPS penetration mentioned before, achieved by our North America Modular segment, on new units delivered in the last 12 months is up 34% on a year-over-year basis and represents approximately $150 million of very predictable revenue growth over the next 3 years. This embedded growth potential simply and conservatively assumes, we hold VAPS penetration levels flat at the levels we've already achieved, we'll continue to do better than this.

We've also continued to roll out the same VAPS strategy across the Mobile Mini branches to further enhance our Ready-to-Work Ground Level Office solution set. Once fully deployed, this represents an incremental $50 million of potential revenue growth over the next 5 years. This growth driver was identified at the time of the merger with Mobile Mini and simply assumes we can achieve the same level of penetration we've already achieved on like-sized units in our North America Modular segment.

Now turning to Slide 12. Our ESG journey will further differentiate WillScot with our customers, employees, and will certainly serve as an accelerant to grow our human capital commensurate with our growth trajectory. From our 275 branches up to the Board level, we've begun to launch ESG initiatives, building upon our inherently sustainable circular economy model with an emphasis on human capital inclusion, diversity, and development. This ESG road map will build upon our core values, and we're committed to continue to enhance governance and ESG disclosure, including continued shareholder outreach, the launch of our ESG microsite, and issuing our first sustainability report by the end of 2023.

Turning back to Slide 15. Operationally, the demand, as mentioned before, continues to remain robust across all of our segments. Modular space unit deliveries in our North America Modular segment increased in the quarter at a rate of 8%, generally in line with our expectations given robust end market demand. The only minor mix change is associated with the continued return of short-term events, mitigating declines and COVID unique demand.

Deliveries in our North America Storage segment increased 13% year-over-year. This is driven by both strong demand across all of our end markets as well as the effect of North America Storage, now handling logistics services for both legacy Mobile Mini portable storage, as it previously had, as well as now the legacy WillScot portable storage in most of our geographical markets.

In our North America Modular segment, the increased deliveries resulted in an increase on unit on rent of 700 units over the course of the third quarter. On average, across the third quarter, units on rent were down 2.5% year-over-year. Given the long lease durations, unit on rent growth will continue to lag as volumes increase. Average portable storage units on rent in our North America Storage segment increased 30% year-over-year and 21% sequentially from the second quarter. While the increases include approximately 12,000 units on rent that were transferred from our North America Modular segment, the combined North American fleet of storage units on rent was still up 14% year-over-year, reflecting strong demand across all end markets, in particular, the retail store remodels.

Our U.K. segment utilization is 88%, and our Tank and Pump segment OEC utilization is up in the mid-70s, which is now above ’19 levels. We've been allocating growth capital to both segments to maintain a healthy but tight supply and demand balance, and both segments are driving significant revenue and EBITDA growth on a year-over-year basis.

Shifting gears to pricing on Slide 17. North American modular average monthly rental rates increased 20% year-over-year. 40% of the $141 year-over-year increase was driven by continued VAPS penetration. The remainder of the increase came from core pricing. And while there continues to be a favorable mix effect from the return of the shorter duration events as we saw in Q2, the overall price environment remains extremely robust.

Looking further back, the North America Modular segment has now achieved an impressive rate expansion of 11.4% CAGR since 2017. North America Storage segment rates were also up, up 7% year-over-year in the third quarter. Our team is very focused on optimizing rates for new storage activations and the focus is evident in the results. At our Investor Day, we'll also start to quantify some of the benefits we expect associated with the deployment of VAPS across the North America Storage portfolio, as well as benefits associated with enhanced product positioning, technology expansion, etcetera.

With that, I'll pass the call over to Tim.

Tim Boswell

Thank you, Brad, and good morning, everyone. Page 19 presents a high-level summary of the quarter. With the ERP migration completed last quarter, the team is firing on all cylinders and focusing on the commercial and operational value drivers that will drive this business into 2022 and beyond.

Leasing and services revenue increased by 20% year-over-year, with acceleration across all leasing KPIs and in all segments. Unit on rent volumes stabilized sequentially in our modular business such that volumes are neutral to our run rate and will inflect positively year-over-year in late Q4, Q1, which will be a tremendous benefit relative to recent periods.

Consolidated storage units on rent are up 14% year-over-year prior to the full impact of acquisitions, which closed at the end of September. The pricing environment is extremely robust and showing no signs of tapering and value-added products revenue in the P&L was up 30% year-over-year in Q3 and is accelerating. So the leasing fundamentals are outstanding to close out 2021.

Adjusted EBITDA increased 16% year-over-year to $190 million. Adjusted EBITDA margin increased 70 basis points sequentially to 38.8%, which is consistent with the progression we've discussed on our last 3 quarterly calls. Our leasing revenues increased 6.5% sequentially from Q2. So the effect of steadily compounding revenue growth even with these elevated delivery volumes and variable costs, should drive meaningful margin expansion both in Q4 and throughout 2022.

We generated $79 million of free cash flow during the quarter, and we've generated $339 million of free cash flow over the last 12 months at a 19% margin, despite nearly $50 million of cash integration and restructuring costs in that period. These costs are coming down, and we're clearly gaining traction with our commercial and operational initiatives, which is giving us confidence to reinvest aggressively.

We're updating our 2021 EBITDA outlook to between $720 million and $740 million for the year, up between 11% and 14% versus 2020, which will put us on a strong growth trajectory heading into 2022. We closed 4 acquisitions since we last spoke, adding approximately 11,500 storage units and 1,200 modular units to the fleet. Three of these transactions closed at the end of September and one in October, so they did not impact the Q3 results at all, but they will contribute to Q4 modestly and then bolster our 2022 run rates. We are very excited about these transactions as well as our growing pipeline of quality deals.

We repurchased $106 million worth of shares and equivalents in Q3 and have repurchased approximately $350 million of shares and equivalents in the last 12 months, which is roughly 4.5% of our current market capitalization and a much higher percentage if we were to look at an average market capitalization over that period. These are very meaningful returns to our shareholders. Importantly, we facilitated a third and final secondary offering by TDR Capital in September, which saw the full liquidation of their nearly 60 million shares over only a 6-month period.

We now have over 98% float in our stock, which has allowed us to welcome new investors as well as new diverse talent to our Board of Directors. Given the magnitude of TDR's position, this seamless transition is a testament to the broad investor interest in, and enthusiasm for our outlook. So we thank you for that support.

We maintained leverage at 3.7x this quarter as we prioritized capital allocations for organic growth, acquisitions, and share repurchases. We continue to see attractive opportunities in each of these areas. So we will continue to balance the pace of inevitable deleveraging with the more attractive investments that compound our growth and returns. As such, our Board increased our share repurchase authorization to $1 billion, so we have the appropriate flexibility. Altogether, it was a great quarter, and we have a fundamentally attractive outlook.

Turning to Page 20. I won't repeat everything on the page, but we'll call out a few items. First, I'd like to highlight our colleagues in our United Kingdom and our Tank and Pump segments. Adjusted EBITDA in the U.K. was up 60% year-over-year, and EBITDA at Tank and Pump was up 30% year-over-year. Both segments have incredible momentum heading into 2022, which is a reflection of the hard work on numerous commercial and operational initiatives that are now coming together to drive outstanding results. In both cases, our results simply blow away the competition. So while we may not be the biggest, we are clearly the market leaders in these 2 segments. So congratulations to the U.K. and the Tank and Pump teams.

North America Modular and North America Storage EBITDA together was up 13% year-over-year, which is a strong result in its own right. I will call out that we transferred approximately 12,000 storage units on rent from North America Modular to North America Storage in Q3. So approximately $5 million of revenue and EBITDA moved from North America Modular in Q2 to North America Storage in Q3 of 2021.

This is perfectly logical, as Brad mentioned, because we're now using the Mobile Mini branch network and logistics capability to manage the entirety of the North American storage fleet, but the movement does inflate the year-over-year results for the North America Storage segment and depresses the year-over-year result for North America Modular a bit by about $5 million of revenue and EBITDA in each case.

As we talked about last quarter, consolidated EBITDA margin remained down year-over-year but expanded 70 basis points sequentially, which was a bit better than we expected. Relative to Q3 of 2020, we incurred almost $10 million of incremental variable leasing costs associated with fleet maintenance to support higher deliveries. In bonuses and sales commissions were also up almost $7 million year-over-year, in line with our financial results and new business generation. You can see that steady build of core revenue streams in the bottom left chart over the last 6 quarters.

On Page 21, cash from operations has been steady and predictable moving in line with our lease revenue and EBITDA trends. Net CapEx in the bottom left chart is showing a normal seasonal pattern tracking in line with our guidance range. And in the bottom right, you can see some modest counter-cyclicality in our free cash flow margin which has averaged 19% over the last 12 months. This margin should expand as we progress towards our $500 million free cash flow milestone in late 2022, given the numerous initiatives in place to drive growth and profitability.

Turning to Page 22. We maintained leverage at 3.7x while investing $56 million in 3 storage acquisitions and repurchasing $106 million of share equivalents. We've got over $800 million of capacity available in our ABL revolver and are quite comfortable with the balance sheet given our growth trajectory. The macroeconomic backdrop appears to be supportive of organic growth. We have a growing pipeline of accretive acquisitions, and we find our own stock to be compelling as evidenced by our $1 billion repurchase authorization. So we'll continue to balance the pace at which we de-lever below 3.5x net debt to EBITDA with the other more attractive investments that compound our growth and returns.

Page 23 shows the revised outlook for 2021, and it really just reflects a continuation of the strong trends that we're developing in Q2. We now expect revenue between $1.85 billion and $1.88 billion, with adjusted EBITDA between $720 million and $740 million. This is a somewhat wider EBITDA range than we would typically provide going into the last quarter of the year. We're focused on the midpoint and there's probably more upside than downside in this range. The stronger-than-expected delivery activity could potentially pressure margins in the short term, those stronger-than-expected acquisition contribution could move us higher in the range. Either way, it will be a great year. And at this point, we're more focused on the trajectory for 2022 and 2023, which we're excited to take you through on Monday.

Lastly, before turning it back to Brad, on Page 24, our capital allocation framework is unchanged, and it's serving us well. In many respects, Q3 serves as a great case study for how we can allocate capital going forward. We have excellent forward visibility in our business given the predictability of the lease portfolio and the numerous organic growth levers we're pulling. We generated $130 million of cash from operations in Q3, but by growing the business and maintaining let 3.7x, we created approximately $210 million of total capital for investment. Of that $210 million, roughly 25% went to organic capital expenditures, another 25% went to tuck-in acquisitions, and the remaining 50% went to share repurchases.

While that formula was a bit coincidental in the quarter and will fluctuate, it aligns very well with our longer-term vision for how we can reinvest in our business, and we plan to take you through that detail on Monday. We are super excited to see many of you in person at NASDAQ to talk in depth about our longer-term outlook and to introduce you to some of the broader team members who are responsible for the terrific results that we get to talk about.

Brad, back to you.

Brad Soultz

Thanks, Tim. Turning to Slide 25. Our ESG journey is launching from a solid foundation and will serve as a key accelerant as we expand, empower, and fully unlock the potential of each member of our great team. We have the best team, assets, turnkey solutions, systems, and customers in our business. We are frugal and smart with capital we employ. We can transact quickly on M&A, integrating these businesses into our platform with ever-increasing efficiency. I expect our continued execution to support shareholder value creation for many years to come.

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

Your first question comes from the line of Kevin McVeigh from Credit Suisse.

Kevin McVeigh – Credit Suisse

Congratulations just a super outcome. Tim or Brad, it seems like you're being a little bit more aggressive with the capital deployment, which is great to see. Any thoughts just to that? Is that a little bit more confidence in the free cash flow outlook, maybe a sense of where the business is because, again, from a buyback perspective and purchases of incremental units, it seems like there's a lot of incremental optionality and value as it has really been since some of the larger deals?

Tim Boswell

Kevin, this is Tim. There's certainly confidence in the free cash flow outlook coming out of the business. But I think what you're also seeing is just a high degree of confidence coming out of the integration with a very broad portfolio of organic growth levers that we have in the business. And these are both top line in nature, value-added products, obviously, is no surprise. But there are a host of synergy and operating efficiencies that we see in the business as well.

And these are the nature -- this is a business where you're looking out multiple years, typically in terms of our planning horizon given the predictability of the top line lease revenue streams, and these types of organic levers, we see playing out not just in 2022, but in '23, '24, '25. And in some cases, we really do have multiyear, 3-, 5-plus year visibility into these growth levers.

So we're absolutely taking that into account when we think about the appropriate leverage levels for the business. In my commentary, I'd say that deleveraging is inevitable, it is, based on the growth trajectory. And then that then just opens up flexibility for these other alternatives. I mentioned the acquisition pipeline is quite interesting right now. We love the transactions that we've executed to date, and we're hopeful there are more to come, and the share repurchase authorization is just part of that long-term capital allocation mix.

Kevin McVeigh – Credit Suisse

That's helpful. And then I feel like I ask this every quarter, so I apologize, but I'm going to ask it again, the VAPS on Slide #10, it looks like you're really able to take up the future revenue potential. But Tim or Brad, it doesn't look like it includes those 11,000 units that you just acquired. Is that right?

And is there any way to think about those 11,000, would it have the same potential, probably have a little bit more revenue opportunity given the fact that there's no updates on it already. So just any additional thoughts on that? And then, the Ready to Work, it looks like you took that up to $50 million, up from $35 million as well. I just want to make sure I'm understanding that right.

Brad Soultz

Yes, Kevin, this is Brad. The 11,000 that we acquired at the end of the quarter were primarily all storage containers. So it's something we'll talk about in the Investor Day in November as we do see meaningful, kind of medium and long-term upside, as we deploy a VAPS portfolio, if you will, for the storage containers. So what we're showing on Slide 10, that's the $150 million of growth if we just hold rates we've already achieved across the North America Modular segment.

And then I mentioned there's an incremental $50 million of revenue potential over, say, the next 5 years, as we deploy that same strategy across the legacy Mobile Mini Ground Level Office fleet. That $50 million is the same $50 million we mentioned in March of 2020, when we launched the deal. And we're along the path of getting that rolled out into the branches.

Operator

The next question comes from the line of Andrew Wittmann from Baird.

Andrew Wittmann – Robert W. Baird & Co. Incorporated

I guess, Tim, I just wanted to understand a little bit more on the guidance here. The midpoint in the revenue guidance is like flat sequentially. It seems like delivery has improved in your largest business as the quarter went on. I'm just trying to understand, was there something in the third quarter revenues that made it particularly high as they went in sales volumes or delivery costs or other things.

It just seems like that revenue guidance should be little bit higher. And maybe you mentioned some of the stuff on the flow-through in terms of kind of installation costs to compress your margins a little bit in the fourth quarter, but maybe if you could talk a little bit more about that EBITDA guide too, that would be helpful for all of us.

Tim Boswell

Andy, sure. And what we're really seeing as we head into Q4 is a business that's on a very solid long-term growth trajectory, coupled with kind of the normal seasonality of a typical slower Q4 period. And this may be a little different for those legacy Mobile Mini investors that may be out there where Q4 is always the peak revenue period. It's a little bit of the opposite in the modular business just because you don't have as much delivery and return activity going on.

So as you think about sequentially how the business is going to move from Q3 into Q4, you will continue to see a build of those core leasing revenues, but the delivery and installation revenues will taper off a bit going into the fourth quarter. That will remain down probably in Q1. And then a typical seasonal pattern would see those delivery and installation revenues pick up in Q2 and Q3. And you can see that reflected in that longer-term revenue trend chart on the bottom left of Page 20.

What will also happen in Q4 is the variable costs that have been supporting those delivery volumes in Q2 and Q3, they'll start to taper off a bit as well. So the combination of stable and predictable, and frankly growing lease revenues in Q4, the drop in the lower margin delivery and installation revenues, then the beginning -- the tapering of the variable cost to support deliveries, all of that will allow margins in Q4 to expand both sequentially and year-over-year. And that's a very normal seasonal trend in our business. And it gives us clear line of sight into continued expansion in 2022. As we -- those year-over-year delivery volume swings probably are not as dramatic as they were especially in Q2 and Q3. So we do see a very healthy margin expansion year as we set up 2022.

Andrew Wittmann – Robert W. Baird & Co. Incorporated

That's really helpful answer. Could you just dig in a little bit more on -- it sounded like some of the $10 million in the quarter, I mean, it sounds like they're kind of like repair maintenance kind of stuff to put all the units out that you put out. I guess the pace of new units has been improving, obviously, in the modular business. Is that level of kind of work on the units that gets expensed a normal amount in the quarter given the volumes? Or are you having to go kind of deeper down the bench and put out -- having to put out more units that maybe need a little bit more TLC before they go out? And what's the trend like in that? I'm just kind of curious as how the mechanism was working in the quarter and what that implies for the future?

Tim Boswell

Sure, Andy. It's just normal volume-driven. The best place to start for this discussion is actually back in 2020, right? So in Q2 of 2020, our delivery volumes were down about 20% year-over-year, and then they started to claw back up in Q3 a bit faster than we expected. So fast forward to 2021, what did we talk about in Q2, we talked about almost $20 million of incremental variable costs year-over-year, and that incremental variable cost dropped roughly in half in Q3, because delivery volumes were picking up back in 2020, and that year-over-year delivery growth was around 8%, down a little bit from the growth rate we saw in Q2.

So sequentially, those variable costs were only up a couple of million dollars from Q2 into Q3. Lease revenue grew 6.5% from Q2 into Q3, which is why you got the 70 basis points of sequential margin progression. So again, this is playing out very much as we expected when we started the year. And we're really not seeing anything anomalous in the cost structure that would give us concerns going into 2022. We've got probably the same inflationary pressures that every industrial business is talking about, but just with much greater ability to pass that through in the top line. So that's what we're seeing right now from a volume and a cost of activation standpoint.

Brad Soultz

This is Brad. I just wanted to add. I think Tim makes a great point. This decline we saw in the second quarter of 2020, right? That was an unexpected shock, right.

Our thesis going into building out this platform was that we could create insulation that allows to grow through such. So not only was the cash flow counter-cyclic as expected, but to be able to pull out $20 million of costs in a quarter, right, when we found out about the impact, if you will, basically heading into the quarter is phenomenal. And as Tim said, this is just a return to normal. So I think this is kind of the beauty in the model of long lease revenues and our ability to react quickly, not only with capital but also with the cost structure.

Andrew Wittmann – Robert W. Baird & Co. Incorporated

That makes sense. And then just a quick follow-up, maybe, Brad, for you. The volumes in storage were obviously had picked up a lot here in the quarter. Is there any implication of what that means for your modular business? It seems like that storage business tends to be a little bit more cyclical, a little more procyclical, a bit more higher amplitude on the swings? Does that mean -- is this like a leading indicator? Is there anything to read in to what the storage volumes mean for the future of the modular business? Or am I reading too much into that by thinking there's a correlation or some implication there.

Brad Soultz

I don't think you're reading too much into it, Andy. I think I did call out there is the unique aspect of store remodels that’s primarily a storage play. And then, as you know, that the normal year-end seasonality which we expect to be normal again. So -- but no, these projects that were already underway, have been able to accelerate and return to a more normal pace. You follow construction put in place dollars, which will tend to support additional storage activation. So as we look ahead, we think what we're seeing in storage as well as the kind of steady increase in momentum in modular sets us up for what will be a pretty interesting year next year.

Operator

Next question comes from the line of Scott Schneeberger from Oppenheimer.

Scott Schneeberger – Oppenheimer & Co. Inc.

Congratulations on another strong quarter. I want to focus this is going to be a long question, but the overriding theme is supply constraints. We've heard from some of your competitors in modular and containers already in this earnings season that it's an issue to varying degrees for various reasons. So in modular, you guys are running a relatively low, continue to run a relatively low utilization in the high 60s. I'm guessing not a problem yet, and then the North American Storage, it's in 70s, so it could become an issue.

And then I noticed GLOs units on rent in the quarter was flattish. So -- and then finally, U.K. on this 90% utilized -- just how are you handling the supply chain? I know the CapEx guidance didn't change. If you could just rehash where you're focusing the CapEx dollars? And how concerned should we be if supply chain constraints remain heading into 2022 that you might be missing opportunities particularly in storage?

Brad Soultz

Yes, Scott, I'm not too concerned about missing opportunities. The markets are tight. And as noted, we've got years of growth we can fund on the modular side with the fleet we have. Storage side, we're seeing tighter. As we mentioned before, Tank and Pump 75% OEC utilization is at the levels that we're certainly investing carefully to manage that balance as well as in the U.K. But -- we're the largest domestic player, if you will, with respect to containers. We're still able to land containers, and sure they cost a bit more than before. But with all the rate momentum we mentioned throughout the call, that's not a cause of concern. And in fact, it's probably a net positive for us.

Scott Schneeberger – Oppenheimer & Co. Inc.

Just following on that, Brad. It seems -- I mean, looking at these pricing numbers, you're doing a great job there. So should we feel comfortable, you're easily covering the cost on a go-forward basis with the pricing increases?

Brad Soultz

Yes. We feel comfortable with that.

Tim Boswell

Scott, this is Tim. I'd add, it's not all about fleet volume, right, too. It's like we've got value-added products revenue streams across all product categories now going into 2022 and 2023. So even with the fleet that we have in place, know by the way, that fleet is getting more valuable every day, it looks like. We also have the opportunity to grow within the assets and drive more revenue per asset, whether it's price or value-added products and services, and that's across most of our asset classes.

Obviously, no constraint on the modular side. One of the strengths of this platform is that we handle the maintenance and refurbishment of that equipment in-house at scale in all of our big branches, and that's really different than anybody else with whom we compete in the U.S. and Canada on the modular side. So actually feeling pretty good about the overall supply-demand setup for the next 12, 18 months.

Scott Schneeberger – Oppenheimer & Co. Inc.

Appreciate that. And just as a follow-up, on the GLOs in North America Storage units on rent had been growing low mid-single digits for a while and it's flattish now. Just any comment on implications or thoughts there? And also, the 12,000 storage units moved from one segment to the other. You mentioned $5 million revenue and $5 million EBITDA. Just I -- there is a little surprised that it's an 80% to 100% margin on those. So just if you could comment on each.

Tim Boswell

Yes, Scott, on the transfer of the storage units, those are all steel boxes that are out on rent with customers, right? So one of the beauties of this business is once you drop it off, there really is no incremental cost associated with servicing the unit. So if we take 12,000 units that are out rent, paying our bills in Q2 and just move them from one segment to the next, there really isn't an associated cost movement with that.

So it truly was close to 100% flow-through, if you will, on those 12,000 units, and that does impact the year-over-year comparisons a bit, but at the end of the day it's also probably immaterial and not worth changing historically. In terms of the Ground Level Office, sequential unit on rent progression, that is one category where especially last year, we did have more COVID-related applications. So we can point to vaccination and testing end uses that are churning off in that category. Still, it's an area that we're going to be investing in. We've got another strong year of conversions planned for 2022. So no fundamental concerns whatsoever about that category. It's just one of the categories where Mobile Mini was a little ahead of the curve last year, I would say, in 2020 in terms of being out in front of the COVID opportunities.

Brad Soultz

Yes, Scott. The only thing I would add to that is also imagine the benefit of the combined fleet, right? So WillScot had container office basically ground level offices and a pretty decent similar-sized modular fleet. So we've got the flexibility to serve that same customer need, if you will, across both platforms. So yes, we're certainly not missing anything here.

Operator

Your next question comes from the line of Courtney Yakavonis from Morgan Stanley.

Courtney Yakavonis – Morgan Stanley

If we could maybe just go back to the comments on the fourth quarter EBITDA margin expansion. I think you mentioned a couple of times that you are expecting a step-up in margins in the fourth quarter. I think when we look at your guidance at the midpoint, it implies core EBITDA margins are roughly flat year-over-year. So can you just confirm that you are expecting year-over-year margin expansion? And if there's anything specifically that we can think about that’s still variable at this point that would impact that more positively or negatively?

Tim Boswell

Yes. Probably the biggest variable that can impact Q4 would be just the delivery volumes themselves. So as I said in my commentary, I'd probably see more upside than downside in that overall guidance range relative to the midpoint. But the things that could surprise you would be stronger-than-expected market conditions and delivery volumes, primarily in the modular business in Q4. That would be a good thing as it relates to our 2022 run rate, but we would happily incur that cost in Q4 to set up a stronger run rate going into 2022.

Sitting here in early November, we haven't really been surprised. So again, I'd point to the midpoint with some upside. And then I mentioned the acquisitions that we closed in September. We really didn't get any contribution from those in Q3. There are some modest integration costs associated with those as you bring in new smaller tuck-ins. But if we get those stabilized faster than maybe expected, that could cause some upside in the range as well. So no real fundamental change to our view of the margin trajectory going into next year.

Courtney Yakavonis – Morgan Stanley

Okay. Great. That's helpful. And then if you could also just comment on the update on the synergy targets. I think you had been saying that once you got this ERP integration, we could see a large step up. If you can just comment on the trajectory for that. And I think you had commented there might be some additional synergy potential once you do the CRM integration.

Tim Boswell

Yes. And we'll get into this in some detail on Monday Courtney. I think on a trailing basis in the P&L, we've reflected approximately $6 million or so of the Mobile Mini synergies. And on a run rate basis, we're well above that level. So tracking very much in line with 30% of synergies having been executed in our run rate by the end of Q3. And you'll start to see that run rate impact as we go into 2022.

We are also reinvesting in the front lines. We've introduced some out-of-period wage increases for frontline skilled trades and drivers and things of that nature, so that we are making some other investments in the team to go along with the original synergy plan. And as we'll talk about on Monday, there's going to be, I think, a fair amount of effort on the top line as well and topline related opportunities that maybe we didn't fully contemplate when we were framing the cost synergy opportunity in the Mobile Mini transaction. So that's all good stuff that we'll be talking about for purposes of 2022 and 2023.

Courtney Yakavonis – Morgan Stanley

Okay. Understood. And then just last, I know there was some conversation about supply chain constraints that we're seeing also. We're also seeing significant logistics constraints. Have you -- it sounds like you feel very confident you were able to deliver what you needed to deliver this quarter, but are you seeing any issues on the logistics side? And any thoughts on -- I know you moved some of the storage units over to the storage division, but any thing for how you're thinking about the build out of your internal logistics drivers?

Tim Boswell

Yes. Courtney, we can’t point to examples where we are unable to service a customer because of a logistics constraint, right? When we do look at the business, just take North America Storage, the delivery volumes are up dramatically year-over-year, which means we're using a higher mix of third-party outside hauling. And as a result, between that and rising fuel costs, our cost per move on the storage side is up almost 20% year-over-year.

Now we're able to pass that through to the customer in many cases, but we're absolutely seeing the same impacts in the supply chain that everybody else is seeing. So our job is to make sure that we're able to maintain those margin and pass it on to the customer.

The other thing I would say is that we do have a longer-term in-sourcing initiative as it relates to our modular business. The majority of our transportation is actually third party on the modular side of the business. Over time, given our scale, we really should be in-sourcing that. But to do so, you got to recruit drivers, you got to buy trucks and all of that is more challenging today than it was 12 months ago, right?

So we're not immune to any of those pressures, but the business model has demonstrated the ability to pass at least the cost side through. And over time, if we're able to successfully be able to drive some of these initiatives, we see ways to expand the margin.

Operator

Your next question comes from the line of Stanley Elliott from Stifel.

Stanley Elliott - Stifel

A quick question on the acquisition. You mentioned nice pipeline there, on the same token, you have called out some supply chain issues. What's the thought process about pivoting some of your CapEx spend for new modular or new storage fleet rather? And really stepping on the gas in terms of M&A since you've -- you basically did 4 deals and have already kind of worked them into the mix?

Brad Soultz

Yes, Stanley, this is Brad. Yes, as we go through the priorities of capital expenditures, buying used fleet is always more interesting than buying new. Just like refurbishing idle fleet we have is more interesting. So it's -- the M&A pipeline is robust, as Tim mentioned. It is highly accretive, and we'll continue to invest on that front. And certainly, before we would say, organically buy new assets and add supply to markets that are generally still well supplied, well balanced.

Tim Boswell

Yes. Stanley, if you just look at our rental equipment net book value and kind of trend that through the course of the year, we added about $50 million in Q3 to that rental equipment net book value related to acquisitions. If you take that out, that means the legacy fleet actually is contracting slightly. And that is consistent with what we've been doing at WillScot now for 4 years, consolidate more of the market, tighten up that overall balance in the market. And as Brad said, the economics of used are often quite interesting relative to adding new supply into the market.

Stanley Elliott - Stifel

Great. And then maybe a little bit of a longer-term question, potentially, we'll see what happens, but maybe we'll get some good news on infrastructure later today. These dollars would probably start to flow through 18 months out. When would you all expect to see that impact to your business since you're generally earlier or one of the earliest sort of rental applications on a job site?

Brad Soultz

Yes. I mean at the early it's 9 to 12 months out. I would -- I think more along the 12 to 18 months, as you've said, I mean, these projects aren't typically shovel-ready if you will. But even without the infrastructure, right, the ABI has been positive since February with some pretty robust numbers. So that's one of the questions raised earlier, that's really historically been a great indicator of inflection in modular deliveries for projects starting, say, 9 to 12 months after the ABI flips positive. So we feel like we've got a pretty interesting demand outlook for a number of years here with or without infrastructure.

Operator

Your next question comes from the line of Steven Ramsey from Thompson Research Group.

Steven Ramsey – Thompson Research Group, LLC

A quick question on North America Modular portable. Will that be phased out completely by transferring over to NAS? Or do you expect the units on rent to average around 400 or so going forward -- or 500 or so going forward?

Tim Boswell

Steven, this is Tim. I think maintaining that 400 or 500 assumption for now is the right assumption. The reason those are remaining in the segment is because we've got certain geographies where the legacy WillScot branch network has a branch presence and legacy Mobile Mini did not. So think about Mexico, think about Hawaii, think about Canada, and we're going to just keep that storage fleet embedded in those legacy modular branches, until such time as we're able to expand maybe the storage presence into new geographies, which is something we can talk about in the future, but for now I think your assumption is correct.

Steven Ramsey – Thompson Research Group, LLC

Okay. Great. And then thinking about the U.K. performance, very strong. Is there an opportunity to accelerate the growth there and drive the size upwards through CapEx or M&A and follow on, how much of that strength is a favorable backdrop versus internal initiatives?

Tim Boswell

Yes, there's definitely an opportunity to continue growing that business. That run rate has done nothing but accelerate over the last 18 months, and we are allocating growth capital in the U.K., as Brad alluded to. And we will probably front-load some of our capital spending based on these market conditions in the first half of 2022. So we love the business there. We love the economics and expect to continue to reinvest accordingly.

Steven Ramsey – Thompson Research Group, LLC

Okay. Great. And then one more quick one. Thinking about the acquisitions that have recently been completed what kind of rate and utilization do these have trying to think about how they impact, I guess, mostly North America Storage in the next couple of quarters?

Tim Boswell

Yes. I'd say most of what we're seeing in the market is pretty highly utilized, right? And that's just an indicator of where the market is generally. We do see commercial opportunities in most of our acquisitions when we take a look at them. We do have a pretty sophisticated yield management process that's in place on the modular side of the business, and we're applying some of those learnings in the storage side of the business. So you do sometimes find potential for recapturing revenue leakage in acquired portfolios.

And then value-added products is also just a unique revenue stream that's fundamental to how we operate our asset classes and very few others out in the marketplace do. Typically, those commercial synergies tend to be a little bit longer term in nature because in order to realize them, you need to let the acquired portfolio churn, units that have been out for 2, 3, 4 years, come back to the branch, maybe we convert them or refurbish them, clean them up and then we turn them out to customers the way we manage the rest of our fleet. So absolutely, that's part of the value creation formula when we're looking at M&A.

Operator

Your next question comes from Philip Ng from Jefferies.

Philip Ng – Jefferies LLC

I know some of the short-term events has helped the AMR growth for modular, but this is a pretty meaningful step function increase the last few quarters. Anything in particular that stands out that's driving perhaps some of the acceleration we've seen?

Brad Soultz

This is Brad. Certainly, continued VAPS acceleration, VAPS penetration and acceleration. But also 2 quarters here that are against, let's say, relatively weak comps the prior 2 years, right, because you had second quarter of last year and third quarter, mostly impacted by COVID. So I think -- I'd point to that 11.4% CAGR since 2017, is a pretty interesting bellwether for this. And we'll -- as we always do, we'll continue to push VAPS penetration and rate optimization, making sure that we're never trading rate for volume.

Philip Ng – Jefferies LLC

Is the rate piece a bigger component lately? Or it's more of the VAPS penetration piece?

Brad Soultz

It's been like amazingly steady like a 40% VAPS, maybe 45% with a balance rate since we started this in 2017.

Philip Ng – Jefferies LLC

Okay. That's great. And then deliveries have been trending positive for modular since the fourth quarter but units on rent are still down year-over-year and sequentially. So I'm a little surprised it hasn't reflected yet. So I guess, bigger picture, how confident are you that it's going to actually grow low single digit next year on units on rent for modular? And then provide some color why just given the long lease nature of both modular and storage, why the storage piece has bounced back a little quicker on the units on rent side?

Brad Soultz

Yes, this is Brad. I'll start with the modular bit, and the short answer is we're pretty comfortable with that low single-digit increase next year. We talk a lot about deliveries, right? The balance with units on rent are the returns. So you got average 3-year lease durations. The units on average that are turning right now are from late 2018 heading into 2019. At that point, you had Williams Scotsman and ModSpace running independently in pretty hot markets, right?

And as we've talked a number of times, the friction of combining WillScot and ModSpace and we combine 200 locations down to 120 entirely duplicative sales teams, we really encountered that friction throughout 2019. And so you just got returns at a higher clip. It's -- we've expected it. And we'll -- over time, you'll see those returns subside a bit as what we would expect given as we move, we'll be kind of sliding that 3-year window, if you will. So I'm going to think that pretty much covers it off.

Philip Ng – Jefferies LLC

Yes. That's great color, Brad. And just one last one, maybe for Tim. (inaudible) for your storage business is actually quite high, and certainly, you're excited about some of the VAPS offering to roll out in that business as well. How should we think about CapEx as we look out to 2022 and longer term? Because that's obviously potentially an offset on the cash flow conversion, which you kind of highlighted, which could pick up. So any color around that would be helpful.

Tim Boswell

Yes. Incremental growth CapEx in the storage business is a high-class problem, just given the attractiveness of the unit economics. And again, like one of the other analysts asked acquisitions will be part of that. So one of the things I like about the storage business is you've got multiple different ways to kind of grow volumes and capture market penetration and smaller tuck-in M&A is going to be part of that formula.

Oftentimes, it's a lot more efficient to acquire existing assets that are in market rather than buy 1 trip container from China, transfer it into the middle of the country and may be convert it into a Tri-Cam door, right? So we're going to be looking at both of those things. If you just break down our capital spend roughly this year, call it, a little over $200 million of net CapEx, $200 million to $230 million, about half of that will go into modular refurbishment. As Brad mentioned, we can take older units, refurbish them, we can do 4 of those for less than the cost of a new unit, typically, which is one of the reasons we like older fleet. Another 25% of the CapEx is going to go into value-added products, at the rate that's growing, we're happy to have our first marginal CapEx dollar go there.

And then the remainder is going to be feathered across the storage segments, the Tank and Pump segment, and targeted new fleet in the Modular segment. So I think that mix is going to be pretty consistent going into 2022. We may have a higher allocation to either tuck-in M&A or new fleet purchases on the container side next year. But again, we're only going to be doing that if it's purely demand-driven, accretive, and the economics are attractive.

Philip Ng – Jefferies LLC

But Tim, we shouldn't expect a big step up next year? Is effectively what I'm trying to get a better hand on. If you could provide some color there.

Tim Boswell

No, no, not a big step up.

Brad Soultz

No. And Phil, even to your question of longer term, VAPS and storage as an example. Using VAPS and modular as a proxy, these are cash-on-cash payback in 12 months. So as we look further Phil, and we'll talk about this on Monday, right, if we're able to accelerate growth quicker than expected with VAPS and storage containers, there may be a marginal increase in capital, but you're going to see a corresponding improvement in the revenues within that 12-month period. So as Tim said, these are all high-class problems and largely they’re noise around the edges here.

Operator

Last question comes from the line of Ross Gilardi from Bank of America.

Ross Gilardi – Bank of America

Tim, are you able to provide run rate annualized revenue and EBITDA for the 4 acquisitions you made?

Tim Boswell

We'll talk about it on Monday, Ross. So what I will say about these is we invested, what, $53 million in the transaction that closed in Q3 and the valuations that we're acquiring at are fair and attractive from our perspective. But let's do just save the details for Monday just from a disclosure standpoint.

Ross Gilardi – Bank of America

Okay. Got you. Look, you've had a lot of discussion on how the companies manage the balancing act between utilization and rate and so forth. And clearly, you've done a fantastic job in driving rate off of your existing fleet. I take it, you're going to continue deemphasizing fleet growth in favor of rate despite the fact that your markets are accelerating. I mean is that generally a pretty fair statement?

And then just given that, what's the likelihood that you actually hit this $500 million run rate free cash flow number earlier than you've been saying?

Tim Boswell

Well, first, I'd say we fully expect, based on what we see right now to be growing modular volumes in 2022 and storage volumes in '22. So there's no trade-off being contemplated as we go into the next couple of years. The fact is we're in an extremely supportive pricing environment. We don't see any signs that that's changing and we fully intend to layer in new value-added products revenue streams on top of that. So the relative mix of growth drivers impacting lease revenue, yes, we'll be more heavily weighted towards rate and value-added products. But we love it when there's a volume component, and we expect to deliver that next year.

Brad Soultz

Yes. The only bit I'd ask with respect to the $500 million run rate. Keep in mind getting there assumes, and we will achieve, the decline in integration-related costs as well as beginning to realize the cost synergies, both of which we're highly confident in, but those are hard to accelerate. So I think achieving $500 million as we exit the year is a great outcome. That's a milestone we set in March of '20 when we announced the merger before we even knew really what COVID was. So let's just stay focused on achieving the $500 million. Obviously, we'll get there as quickly as we can. But there are a couple of the drivers there that they're well in play, but they have to continue the completion of the execution.

Ross Gilardi – Bank of America

Okay. Great. If I could just squeeze one last one in. Just I wanted to ask you about Tank and Pump. At one point, this seemed like maybe it was a non-core asset, but you just had a fantastic quarter. How are you seeing it fitting in the portfolio going forward? And would you actually add to it?

Brad Soultz

Well, as I mentioned and Tim mentioned, we're certainly investing to continue to grow that business, right, with keen eye on managing or maintaining the appropriate supply-demand balance there. Effectively, we've seen almost every KPI inflect positive there. We're just starting to see rates inflect. So it's the same kind of core leasing model as we're operating across modular and storage, and we're extremely pleased with the progress the division’s making as well as the outlook in the coming year or two. So we're very impressed with how that team is executing. And you can stack it up against their other peers that published public information, and they're -- I think they're lapping the competition maybe the second time now.

Operator

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

Nick Girardi

Thank you, Sarah. Thank you all for your interest in WillScot Mobile Mini. If you have additional questions after today's call, please contact me and looking forward to seeing you all in New York on Monday. Thank you.

Operator

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