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TRANSCRIPT

Q1 2024 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

May 02, 2024, at 5:30 PM ET

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Nick Girardi, Sr. Director of Treasury and Investor Relations

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Ronan Kennedy, Barclays Bank PLC

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

TRANSCRIPT

Operator

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

Nick Girardi

Good afternoon, and welcome to the WillScot Mobile Mini First Quarter 2024 Earnings Call. Participants on today's call include Brad Soultz, Chief Executive Officer; and Tim Boswell, President and Chief Financial Officer. Today's presentation material may be found on the Investor Relations section of the WillScot Mobile Mini website. Slides 2 and 3 contain our safe harbor statements. We will be making forward-looking statements during the presentation and our Q&A session.

Our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control. As a result, our actual results may differ materially from today's comments. For a more complete description of the factors that could cause actual results to differ and other possible risks, please refer to the safe harbor statements in our presentation and our filings with the SEC. With that, I'll turn the call over to Brad Soultz.

Brad Soultz

Thanks, Nick. Good afternoon, everyone, and thank you for joining us today. I'm Brad Soultz, CEO of WillScot Mobile Mini. Starting on Slide 6. Our Q1 results were solid and in line with our expectations and support our 2024 outlook. Tim will cover these in more detail in a few minutes. I'd first like to highlight several significant strategic milestones the team also accomplished in the quarter as well as provide a brief status update regarding the McGrath transaction.

First, in January, we combined our legacy WillScot and Mobile Mini sales and operations teams under a single leadership structure organized by geography. This allows us to go to market locally with a single team that can service our customers across our full offering of turnkey space solutions. Our team is now empowered to present our full suite of capabilities to every customer at every opportunity.

And my colleagues are equally excited for their own career development and growth opportunities inherent in this structure. Next, and to support this field integration, in March, we consolidated and upgraded our field service and dispatch systems, which allow us to better utilize our logistic resources across all product lines, while improving execution, safety and customer communication. As a result, our team can now leverage all available trucks, drivers and service crews across the market.

As we progress through the remainder of 2024, we'll be deploying the latest available route optimization and logistics management tools. With these tools in place, we can in turn accelerate the insourcing of these crucial services, which further differentiates us from competitors and improves both customer service and profitability. Our drivers and

service teams are consistently recognized by our NPS promoters, and we're putting in place the systems to build upon that advantage.

This is just one example of how we're advancing our digital road map using customer feedback to enhance nearly every aspect of the customer experience. We're also focusing on improving our external technology interfaces. By Q3, we'll consolidate our 6 websites into 1, supported by the latest technology to promote awareness and drive demand across our full offering of turnkey space solutions. This will include an enhanced customer portal with expanded customer self-service capabilities, which will both simplify key customer touch points and improve our back office efficiency.

These enhancements are also in direct response to feedback we get from our customers. And finally, in support of sales force effectiveness, I'm particularly excited about our recently launched proprietary sales tool we call Project One. Project One leverages multiple third-party and internally generated data sources to identify developing project opportunities well ahead of initial bidding across our largest customer segments. These opportunities are profiled by algorithms informed by our vast transaction history.

We then estimate the full turnkey space solution requirements for each project, which are then automatically assigned to the most appropriate local sales expert based upon size and geography. This gives us a platform to optimize selling time, improve cross-sell and conversion and to be more prescriptive and recommend bundled solutions that are tailored by project type.

Taking a step back over the past 3 years, our team has diligently and painstakingly worked to harmonize our business processes and underlying systems while dramatically growing the business and expanding profitability. With this foundation in place, we've now harmonized our teams and are in a position to even more seamlessly integrate new businesses and deploy technology more offensively, enhancing every aspect of the customer experience and further differentiating our unrivaled customer value proposition.

I'd like to thank the team for their safe and flawless execution during these complex initiatives, which will further accelerate our growth as we continue to execute the $1 billion of idiosyncratic growth levers to the benefit of all stakeholders for years to come.

Now turning to Slide 26. Consistent with our history of execution and value creation, we announced a definitive agreement to acquire McGrath in January that we expect to close in the second half of 2024. We see tremendous opportunities to drive incremental value for our collective customers, communities, employees and shareholders. Our assets, our geographical footprints and customer segments are each unique but fit well together, resulting in broader turnkey space solutions, enhanced customer service capability and additional career opportunities for our colleagues.

I'd like to highlight several examples of value drivers associated with combining these two unique platforms. First, we'll cross-sell the comprehensive WillScot VAPS portfolio as we've successfully done in all past acquisitions. McGrath has already begun this journey through their MM plus offering, and we believe we can accelerate this growth while improving overall customer satisfaction. Second, McGrath customers will benefit from access to WillScot's innovative FLEX, clearspan and climate control solutions. WillScot customers will, in turn, benefit from McGrath's Kitchens-To-Go, Enviroplex and custom modular sales capability.

We'll benefit from McGrath's expertise in serving the education sector, which is but one great example of how we can grow in new industry verticals. McGrath's inventory centers have clear efficiency benefits, which WillScot can pass on to our customers. We'll leverage our in-house WillScot transportation and service crews to better service the McGrath customers. We'll share fleet across the combined network, realizing capital synergies. We'll optimize the combined real estate footprint over time. We'll integrate the best-in-class safety, learning and development, community engagement programs, all building on our great Place to Work certification.

And finally, WillScot's technology platform can support all of this with seamless integration, thanks to our prior investments. To the right on this slide, we've highlighted how these drivers check all the boxes with respect to value creation. The list of potential benefits goes on and on with advantages for all stakeholders, which makes us excited about the combined future.

Most importantly, these are underpinned by 2 outstanding teams. While our interactions are appropriately limited until we close, everyone, we've had the opportunity to collaborate with thus far has been fantastic. We've been particularly impressed by McGrath's team's customer focus, pragmatic approach to problem-solving and strong work ethic. I believe that the McGrath culture is truly complementary to ours with both built on a customer first, common drive to excellence and focus on unlocking value for all stakeholders.

Finally, I'll touch on the progress supporting the FTC's review of this transaction. I know there's been a lot of noise and speculation around this process as there is with virtually all M&A transactions these days. We don't engage in speculation or hypotheticals. We put our heads down and go to work. We have excellent advisers who are experienced in the process and are intimately familiar with our facts and circumstances.

We're engaged in a productive dialogue with the FTC, which has been both collaborative and professional. We expect that we'll have complied with all of the FTC's information requests in the second quarter. And based upon our progress working with the FTC, expect that we'll be in a position to close the transaction in the second half of 2024. Further, we anticipate that McGrath will be in a position to hold its shareholder vote in early Q3. And as we progress the year, we'll remain opportunistic as to how and when we replace the bridge financing.

We clearly have a proven formula to drive sustainable growth and value creation. Our acquisition of McGrath has clear benefits for all stakeholders and will both accelerate our growth and proportionately increase the $1 billion of idiosyncratic growth levers fully in our control.

We continue to see $700 million of free cash flow and $4 of free cash flow per share as important milestones that we’ll surpass in due course. And I'm incredibly proud of the tireless and expert execution by our teams to deliver the transaction, transform how we do business and execute every day in the field on behalf of our customers. With that, I'll hand it over to Tim to discuss our Q1 results and highlight how these strategic initiatives support our outlook for 2024 and well beyond.

Tim Boswell

Thank you, Brad, and good afternoon and good evening, everyone. Page 32 shows a high-level summary of the quarter. Our Q1 results were in line with our overall expectations for the year, so we're off to a good start and on track to deliver yet another year of record financial performance.

I'll start with some commentary on market conditions to provide some context for the results. Nonresidential square foot starts continued to decline to start the year, but appear to be stabilizing in line with 2019 levels. We still see the mix of nonresidential projects skewing larger and view that as a multiyear tailwind supported both by the various federal spending programs as well as reshoring trends favoring North America.

In the short term, smaller, more transactional and interest rate sensitive projects remain challenged, and we can see this mix shift in the mix of our modular and storage activity. Modular activations are building sequentially and year-over-year with a very strong order backlog heading into Q2. Modular activations were up almost 5% year-over-year in the 13-week period ending in April. So heading into Q2, modular product is performing on track with our original plans for the year.

Storage volumes, on the other hand, continue to lag modular, which we expected. And while monthly activation rates have increased sequentially into April, consistent with normal seasonality, those increases are below our original plans. So we continue to have some risk from storage volumes but also haven't yet seen the benefits of the various organization and system enhancements that Brad referenced and there are plenty of opportunities to improve performance here.

Pricing remains very strong across all product lines with average monthly rate growth of 11% year-over-year in modular and 22% year-over-year in storage. Value-Added Products are inflecting well across both major product categories and are another area where we have opportunity in the remainder of the year. As you can see on Page 14, Value-Added Products on our modular activations of $393 per unit per month over the last 12 months is 30% over the average of the portfolio and inflected positively year-over-year in Q1 as expected.

And Value-Added Products on storage activations in the last 12 months of $32 per unit per month are up 62% year-over-year. So we continue to be quite excited about both of these revenue streams. So overall, we had a healthy mix of leasing KPIs that drove 5% lease revenue growth in the quarter, with storage volumes being the obvious red flag and overall macro conditions heading into the second half being the biggest question mark.

Nonetheless, we generated $587 million of revenue, $461 million of leasing revenue and $248 million of adjusted EBITDA, all of which was right in line with our plan for the quarter. Adjusted EBITDA margin of 42% contracted both sequentially and year-over-year, but was slightly better than we had expected for the quarter, and I expect margins will expand meaningfully in the second half of the year as lease revenues build and we realize efficiencies from our recent system enhancements.

And cash flow and returns continue to be outstanding. Free cash flow was up 40% year-over-year in the quarter at a 25% free cash flow margin. Return on invested capital over the last 12 months is 17%, which is also in the middle of our operating range. And we've generated $618 million of free cash flow over the last 12 months, which represents $3.24 of free cash flow per share and is compounding predictably towards our longer-term milestones.

Obviously, with the recent pullback in the stock, largely on transaction and macroeconomic concerns, we think our cash flows are significantly undervalued on this trailing metric, let alone prospectively. So we resumed our share repurchases in April accordingly. Overall, it was a good start to the year, and I echo all of Brad's appreciation for the execution by our team across multiple fronts.

Page 33 lays out revenue and adjusted EBITDA for the quarter. Total revenue was up 4%, with 5% growth in our leasing revenues, partly offset by a 6% decline in our transportation revenues, which was driven by lower volumes of storage activations and returns. Adjusted EBITDA margin of 42% was down both sequentially and year-over-year, although slightly ahead of what we anticipated heading into the quarter. This sequential contraction was expected and driven by two factors that should reverse as we progress through the year.

First, storage unit movements we expect were at their low point for the year in Q1. So as the overall volume of movements increases through the course of the year, we'll get better leverage out of our trucking fleet and more opportunities to in-source transportation. Secondly, repair and maintenance activity for modular products is ramping as we head into Q2, supporting year-over-year increases in work order activity and delivery volumes.

We expect leasing margins to reflate naturally as lease revenue compounds and maintenance expenses stabilized through the year. And lastly, with our system enhancements in Q1, we are beginning to see efficiency gains that we believe will begin building in Q3 and into 2025. So we continue to anticipate margin expansion in 2024, albeit weighted to the second half of this year and sustained into 2025 given those drivers.

Lastly, before shifting to cash flow. I do want to flag approximately $15 million of integration and transaction-related costs in the quarter related to the signing of the McGrath transaction and support for the regulatory review process. This cost us approximately $0.06 per share in the quarter, and I expect we'll continue at roughly $10 million per quarter for the rest of the year. So overall, Q1 results were consistent with our original plans and guidance for the year, and we'll talk about our views on risks and opportunities when we get to the guidance.

Moving to Page 34. Cash flow continues to be a strength. We generated $209 million from operating activities in Q1, up 40% year-over-year, driven by our predictable recurring lease revenues. Net CapEx increased 41% year-over-year to $65 million due to investments in work orders to support modular activations as well as new climate controlled storage units as we build out that offering organically.

All in, we generated $144 million of free cash flow during the quarter, which was up 40% year-over-year and at a 26% margin over the last 12 months, which is in the middle of our target operating range. Free cash flow per share of $0.75 in the quarter was up over 80% year-over-year and continues to compound towards our longer-term milestones. We are quite comfortable eclipsing $4 of free cash flow per share in the next 2 years and before incorporating the impact of McGrath and believe this predictability and best-in-class cash flow profile are key differentiating features of our business.

Turning to Page 35. We maintained leverage sequentially from Q4 to Q1 at 3.3x net debt to last 12 months adjusted EBITDA, which is comfortably inside our leverage target of 3.0 to 3.5x. Leverage is on a downward trend heading into Q2. And as I've said previously, we can easily deleverage by approximately 1x per year when we so choose. So we are comfortable at this level and intend to flex leverage upwards upon closing the McGrath acquisition and then deleverage again back into our target range within 12 months post closing.

In January 2024, we executed a floating to fixed SOFR swap for $500 million of notional value at a fixed rate of 3.7% for 1-month term SOFR. As of March 31, 2024, our weighted average pretax cost of debt is approximately 5.9% with annualized cash interest of approximately $207 million or $220 million inclusive of noncash deferred financing fees. Our debt structure is approximately 80% fixed and 20% floating. We have ample liquidity to refinance our 2025 notes at any time to optimize interest costs. And as we discussed upon announcing the McGrath transaction, we have

committed financing and ABL capacity available for 100% of the cash consideration, and we'll refinance those commitments opportunistically as we progress towards closing.

Page 36 shows our capital allocation framework and our performance over the last 12 months. We invested approximately $200 million over the last 12 months in organic fleet investments, which has been on the lower end of historical norms given the demand environment. We invested over $500 million in acquisitions over the last 12 months, the majority of which went towards our new cold storage and clearspan platforms. And while we did not repurchase any shares in Q1 2024, we've repurchased over $600 million or 13.9 million shares over the last 12 months, resulting in a 6.4% reduction in our outstanding share count.

One silver lining from the delay in closing McGrath is that it actually gives us more near-term flexibility to allocate capital. So we resumed share repurchases opportunistically in April as valuations dropped. We'll continue to be opportunistic with repurchases while ensuring that we maintain the target post-closing leverage that we structured for the McGrath transaction.

Before turning it back to Brad, Page 37 shows our outlook for 2024, which is unchanged. We are maintaining the outlook that we issued during the Q4 2023 call, given that Q1 was in line with our internal plans. We continue to take a cautious view of the macro and our storage volumes are an obvious headwind as we've discussed. Relative to our original guidance, we see some potential offsetting upside for modular products, value-added products and margins.

In terms of the sequential cadence for the next few quarters, we continue to see a steady mid-single-digit sequential revenue growth each quarter as we progress through the year, which is consistent with our original outlook. However, with more of that revenue growth coming from modular and with the lower volume of storage movements impacting trucking, I expect margins could be sequentially flat into Q2, with more of the margin expansion materializing in Q3 and Q4. So that margin cadence is slightly different than our original outlook, though perfectly logical given the mix of activity as well as the cost efficiencies that we are identifying.

Capital expenditure plans for the year are unchanged. Given the performance of modular volumes and Value-Added Products, we are investing in refurbishments, flex units and Value-Added Products for both the modular and the storage fleet. Our organic plans for cold storage are on track, so we are adding fleet there organically. And we never planned any CapEx for the dry storage business based on where utilization levels were entering the year. So obviously, no change to that plan based on where we sit right now.

Lastly, for modeling purposes, I will flag the roughly $10 million per quarter of expenses going forward related to the McGrath regulatory and integration processes, which will impact EPS and cash flow. So like any year, 2024 is playing out a bit differently than we originally planned, but the beauty of our business is that we have a lot of different levers with which to drive results on top of the inherent predictability of our cash flows. Anywhere within the guidance range will represent another record year for the company across almost every financial metric and implies a growing run rate into 2025.

And by the end of the year, we expect to have the McGrath team on board. And together, we will begin unlocking all of those value levers that Brad articulated and which will compound powerfully across our platform and predictably over time. So we have some work to do in the remainder of the year to set that stage, but that outlook is extremely energizing for our team here, and we're up to the challenge. With that, Brad, I'll hand it back to you.

Brad Soultz

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

Operator

(Operator Instructions) And our first question will come from the line of Scott Schneeberger with Oppenheimer.

Scott Schneeberger - Oppenheimer & Co. Inc.

Tim, could you elaborate kind of in closing your remarks, you mentioned 2024, unlike originally expected and some work to do anywhere within the range will be, again, another nice year of growth. But just reading between the lines, where are you with regard to the guidance range right now? And what are the puts and takes the changes this year, specifically, if you just with the top 3 or 4 that are different than expected as far as trends?

Tim Boswell

Yes, Scott, really not much has changed. And hence, the guidance range is unchanged. If you just think about where we landed in Q1, it was right on top of our internal plans, which is good. I commented that a good place to center would be on mid-single-digit sequential revenue growth quarter-to-quarter for the rest of the year, which probably puts you right in the middle of our guidance range and right where we expected. So there's really no change to the revenue outlook based on where we finished Q1 and what we see heading into Q2.

The only thing that has changed is that we've got a stronger mix of modular activations relative to storage versus what we would have originally budgeted. And that does two things. It means that the maintenance activity that we incur at the outset of a modular lease, we're going to continue to incur and that creates a short-term pressure on margins, but it means you're building that 3-year lease stream, which is a wonderful trade-off.

And then because the both activations and returns of storage units, I refer to those as total movements, are lower than we expected. That means you're getting less operating leverage over the fixed cost in our trucking fleet. And those two factors are what are causing me to think that EBITDA margins are likely sequentially flat from Q1 to Q2 and then really begin to expand in Q3 and Q4.

If I contrast that with our original guidance, I would have expected a more even expansion of EBITDA margins over time. But the implication for the run rate, as we exit the year going into 2025, puts us in a very good spot both in the original guidance and in this guidance. So it's kind of a nuanced change around the mix of activity in the business, but overall, no real change to the outlook.

Scott Schneeberger - Oppenheimer & Co. Inc.

All right. I'll let others follow up on that. I appreciate all that. I'm going to go now to the mention of share repurchases in April. And it looks like we'll get a decision on the closing of McGrath later in the year. So it's given you a little bit more flexibility with how to apply cash in the interim. So are you open to sharing how much you've repurchased in April so far? And just whether you answer that one or not, just what are your thoughts on applying your capital here in the interim?

Tim Boswell

Look, we're not going to share the exact amounts, Scott. But if you think back to our capital allocation framework for the last couple of years, repurchases have been a consistent mechanism to return capital to shareholders and amplify and compound returns. And we are still very enthusiastic about that lever. We had paused repurchases back in Q4 and for the duration of Q1 as we were working on the McGrath transaction.

But to your point, the silver lining of the delay in the FTC process is that we have internally generated cash flow and balance sheet capacity that we need to deploy as responsible stewards of shareholder capital. So the repurchase is absolutely a wonderful use of capital at these valuations, and we intend to continue that deployment here as we progress through Q2.

I also said in my remarks that we are going to flex leverage up to close the McGrath transaction, and we're very cognizant of that. So we will not do anything from a capital allocation standpoint between now and closing that would increase that post-closing leverage beyond that, which we talked about when we announced the transaction, and that was about 4.25x leverage. And as we said at the time and reiterated today, we'll reduce that by a full turn within 12 months post closing.

Operator

One moment for our next question. And that will come from the line of Manav Patnaik with Barclays.

Ronan Kennedy - Barclays Bank PLC

This is Ronan Kennedy on for Manav. Can I just confirm the driver of the last 12 months delivered VAPS down 2%? And then what last 12 months VAPS modular units and modular segment was given the switch that was made last year? And then what you're quoting now?

Tim Boswell

Ronan. So on Page 14, you'll see that we had about $393 per unit per month of Value-Added Products across all modular activations over the last 12 months. That number includes some third-party managed services from the

legacy storage segment. So it's a little higher than the number that you would have seen last quarter. And we included that as a function of the segment consolidation this quarter. In Q1, if we just isolate the last 3 months, that metric is up year-over-year.

So we've been waiting to see this inflection in the modular VAPS delivered rates, which we have indeed seen and we see that continuing into Q2. And yes, you can infer that the leading edge on that metric is higher than that, which we've reported here. So very pleased actually with the turnaround in that metric and the penetration levels we're seeing across the team. And I do want to highlight the storage Value-Added Products as well, right? It doesn't look like much, but $32 per unit per month, up over 60% year-over-year with a leading edge that's well above that $32 number, that's exactly what we said we were going to do and we introduced Value-Added Products for this asset class, and it's starting to really get some traction.

Ronan Kennedy - Barclays Bank PLC

And then as a follow-up, some modular activations, I think, are up 5% on track with original plans, which I would assume the implications for units on rent inflection are the same and total units on rent for the year to be flat to down low single digits. What are the implications of what you're seeing on the monthly activation rates and storage being below plans, the risk storage volumes, the ultimate implication for UOR for the year?

Tim Boswell

Yes. I think you're right on, actually in terms of your assessment of the modular business. So on track with our original expectations with unit on rent inflecting sometime in the second half, assuming those activation rates are sustained. Activation rates for storage are a bit below our original expectations for the year. And I expect that unit on rent or averaging that on rent is down slightly sequentially into Q2.

And then it really kind of -- Q4 is probably the earliest we'd see a year-over-year unit on rent inflection in the storage business. But again, a few of our enterprise accounts here or there can really move the needle, and I'm encouraged by some of the discussions we're having there.

Operator

One moment for our next question. And that will come from the line of Tim Mulrooney with William Blair.

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

Just a couple of quick questions here on demand. You highlighted the demand across customer segments supports a unit on rent inflection in the second half of 2024. So that was really interesting. Can you just dig into that a little bit more for us? Is that because you're expecting an improvement in nonresidential construction or retail remodel or

some other facet of end market demand in the second half? Just curious what you're seeing that gives you confidence to make that statement.

Tim Boswell

Tim, this is Tim. So this was our -- we're talking about the modular product, specifically when we say that. And this was always the expectation for the year. It was predicated on mid-single-digit year-over-year activation growth sustained through the course of the year. And because we have 3-year lease durations underpinning the unit on rent portfolio, it takes several consecutive quarters of year-over-year activation growth to cause unit on rent to inflect positively on a year-over-year basis.

So that is indeed what we've seen now through April. And it's what we see as we look at the backlog into the next 2 months. We don't have perfect visibility, of course, into the second half of the year. But in terms of how we've started the year and what we see going into Q2, it's in line with our original plans. And if it is sustained, it would cause unit on rent to inflect some time in the second half for the modular products.

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

Got it. And so this isn't built on hope. I mean, this is just extrapolating current trends. That's helpful. And I asked this other question last quarter, but I'm going to ask it again, this is on pricing for your portable storage. I'm curious if you could provide what the core portable storage average rental rate growth was in the first quarter, excluding the cold storage acquisition?

I think last quarter, you said about half of that increase was driven by the cold storage acquisition, but there was some noise, I think, from seasonal retail pricing. So was it about half again this quarter as well and that core portable storage rental rates were up maybe, I don't know, like 10% year-over-year or something like that?

Tim Boswell

I think saying that about half is attributable to cold is a fine way to think about it, Tim. The bigger point here is that we do use product differentiation, broadly speaking, as a way to drive rate and higher value per unit. So even within the traditional storage fleet, you've got standard shipping containers, you've got Mobile Mini branded containers with tri cam doors and other specialty features. And we've got differentiated pricing across all of those different products. Cold is just another one that happens to be at a higher price point.

So yes, I do expect we'll continue to have a mix benefit within the storage product class. Part of which is being driven by cold, but part of which is also being driven by those other traditional specialty Mobile Mini products.

Operator

One moment for our next question. And that will come from the line of Steven Ramsey with TRG.

Kathryn Thompson - Thompson Research Group, LLC

This is Kathryn Thompson calling in for Steven today. Looking forward, as you are focused on the McGrath acquisition, you've had a great track record of free cash flow generation and managing CapEx. As you look forward to McGrath, how does that -- what changes are there from your capital expenditure, CapEx profile and free cash as we look forward?

Tim Boswell

Kathryn, this is Tim, and I'm sure Brad will have some comments to add here. So when we announced the McGrath transaction, we did say that it would be accretive -- modestly accretive to earnings and free cash flow per share in the first full year post closing, and we continue to believe that's the case. I think it gets a lot more interesting as you kind of roll the model forward and let it compound, and we always take that kind of long view as a management team.

There are a host of synergy and value creation opportunities inherent in the transaction. And Brad ticked through 10 of them on Page 26. When we announced the transaction, we highlighted $50 million of very straightforward cost synergies, which are representative of efficiencies we've realized in all of our past transactions. But Page 26 really gives you a view of all of the optionality that's inherent in the transaction to create value for customers, for employees and for shareholders.

And you can see in the right-hand column, return on invested capital has a lot of checkmarks in it, right? That's because there are cross-selling opportunities across both companies', complementary product offerings, their diversification opportunities as we go bigger into the education segment, there are a host of operational efficiencies as we think about scale advantages, using inventory centers, sharing fleet across the combined branch network and sales force.

So the list literally goes on and on. And the beauty in a transaction like this is you don't have to execute and be successful across all 30 of these nodes, if you can want to think about it that way. You can win some, you can lose some, but we're highly confident that this is going to be a home run over time.

Kathryn Thompson - Thompson Research Group, LLC

Okay. Great. And then just I appreciate your color in terms of the EBITDA margin flow sequentially just with modular versus storage impact on margins. If you step back and look at the bigger picture in terms of the overall mix, not only just what you're seeing near term in the quarter, but what you see in the pipeline over the next 12 months or so, what

is that telling you in terms of just the overall macro view? And then, I guess, that backdrop, what are you seeing that give you insights on just how WillScot wins and the reindustrialization of the U.S.?

Brad Soultz

Yes. Kathryn, this is Brad. I'll touch on it first. I think as we've mentioned a few times on the call, the modular activation rates being up 5% on a rolling 3-month basis, we think is an outstanding outcome given the continued nonresi headwinds. And we're clearly seeing continued wins and benefits on these larger mega projects onshoring, reshoring, reindustrialization and the such. So this is one we've discussed a number of times. Medium and long term, I'm quite bullish with respect to the opportunities associated with nonresi construction, mainly on those fronts.

But we're certainly seeing, I think, outperformance in modular. We don't need any heroics as far as recovery to accomplish everything that Tim's outlined with respect to modular volumes this year. And I just think we're extremely well positioned to continue to take advantage of what I think several years of a great setup here.

Operator

One moment for our next question. And that will come from the line of Andrew Wittmann with Baird.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

I was wondering if you could talk a little bit about the conversion rates from your quotations to your orders and how that is informing, maybe your opinion on the customers' price sensitivity or their view of the health of their end markets? Maybe talk about how the timing is changing, if at all, between -- the time between quotation and order and delivery? I know maybe last year this time, you were saying that, that was extending a little bit. I was wondering if that's still extended or if it's extending further, contracting? I guess just some detail around the consumer behavior as you're seeing it on your leading indicators.

Brad Soultz

Yes. Andy, this is Brad to start with. So you're right. We've talked about this phenomenon last year, but it was specific to the modular portfolio. And I think effectively, we're seeing something very similar, right? We said storage will lag modular. So our rolling 4-month quote activity in the storage business is up year-over-year. As Tim mentioned, we are seeing conversion rates slow, but that's not necessarily because we're losing business, right? I think this is maybe a timing phenomenon a bit like we saw in modular.

And as we do as normal course, right, in every market and every like product position that Tim mentioned, we will always test price, right, to see -- to validate it if there is price volume elasticity, both on the core product itself as well as with the logistics side of the value prop. So I don't personally see anything too much to read into that other than the storage recoveries lagging modular. And I think we're seeing a lot of the similar setup.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Got it. I thought it was curious, Tim, you were talking about total moves being down, and I think activations is the obvious thing. But the fact that storage units are not being returned at the same rate. I guess that's a little different from what I would have, I guess, expected. Is there something to read into that about what that's saying about the macro at all?

Tim Boswell

I don't think so, Andy. I don't see anything unusual in the volume of returns that you wouldn't expect just based on the fact that you've got fewer units on rent, right? So you can think about returns as being proportional to -- in some way to the installed base. So as the installed base gets a bit lower, a lower quantity of units will return every period. And that's one of the kind of self mitigating elements of both portfolios.

It works a little bit differently in storage than it does in modular. But I do actually see a benefit to unit on rent in storage from lower return volumes as we look out through the rest of the year, but kind of expected based on where overall unit on rent has trended.

Andrew Wittmann - Robert W. Baird & Co. Incorporated

Okay. I guess the corollary to that is that the average lease time for those storage units isn't changing. I was wondering if the average time on rent was elongating and that was a factor, but it sounds like the average duration of the storage lease is about the same.

Tim Boswell

I think that's right, Andy.

Operator

One moment for our next question. And that will come from the line of Faiza Alwy with Deutsche Bank.

Faiza Alwy - Deutsche Bank

So I wanted to talk again about why modular activation is trending better than storage. I know we've talked about this before. But I wonder as time has gone on, if you changed in terms of your assessment and what some of the factors are and whether you think there's differences in supply, differences in competition? Or is it just a function of customer mix and large versus small projects?

So just give us some color on that. And if you think there's any risk that storage is more of a leading indicator and modular to the extent that there isn't an improvement in the macro environment sort of modular sort of doesn't recover at the rate that we hope it does.

Tim Boswell

Yes. This concept -- Faiza, this is Tim, that storage is some type of leading indicator is a bizarre concept because the modular almost always goes out at the very beginning of a project and comes off at the end, whereas you're going to get more intra-project churn in the storage business. So that one doesn't hold any water. The only difference really that we see between the drivers of the modular business versus storage, they're really two big ones. One is the retail exposure that we have in storage, which we don't have in modular.

And I think we've beat that one to death over the last couple of quarters. The second is that we do have a disproportionate exposure in the modular business to larger mega projects, right? And so as the mix of nonresidential construction activity skews more towards those larger, more sophisticated projects that has a disproportionate benefit to us in the modular business. That's an obvious well-documented phenomenon in terms of the mix of nonresidential construction activity currently.

I expect it persists for the foreseeable future based on, frankly, how drawn out these federal stimulus programs are likely to be. And I do view that as a tailwind, especially for the modular business over the course of the coming years, not months.

Faiza Alwy - Deutsche Bank

Understood. And then I just -- I wanted to touch on the deal. And Brad, I absolutely appreciate your comments around how you don't want to engage in hypotheticals and all of that. But you -- in your comments, you sound very confident about the deal getting done. And I think that's in stark contrast to what a lot of investors believe. So I wonder if you can give us a peek into what type of discussions, questions you're getting from the regulators and sort of what your defense is in terms of the consolidation happening in the space?

Brad Soultz

Look, we've said it's a great transaction. We have high confidence in closing. We said the transaction will require a filing. We made the filing. The filing was selected for a review. We're complying with the review. And I think other than what I've already shared in my prepared comments, we're not going to get into further details on speculation here.

Operator

One moment for our next question. And that will come from the line of Angel Castillo with Morgan Stanley.

Angel Castillo - Morgan Stanley

I just wanted to go back to an earlier comment about pricing or some of the moves in volume, not necessarily being driven by kind of market share loss or any impact because of pricing. Just could you give us a little bit more color on that and what gives you comfort around some of the moves being more kind of macro or project related rather than anything related to kind of a pricing dynamic? I think if I recall correctly, some of the reported numbers from McGrath showed kind of growth in some of the unit on rent. So just wanted to understand some of the differences. And again, what gives you comfort on the pricing side?

Tim Boswell

This is Tim. In terms of the McGrath report, they reported a utilization decline, right, and a pretty meaningful one. So the unit on rent growth was via acquisition. So I think that was maybe just a misinterpretation of that piece. We can identify the retail exposure within the storage portfolio. As of Q1, nonresidential square footage starts, we're down 13% year-over-year, right? And nonres square footage starts have been down for over the past 12 months, if you look at it year-over-year. So you know that overall volume of activity, at least in the construction market, has contracted, right?

I can also go back and look at where units on rent are today versus where they were in 2019 and we're up meaningfully since that time and nonres square footage start volume are in line with 2019. So that tells me there hasn't been a meaningful share trade over that period of time, granted it has been a pretty volatile period as you go from 2019 into COVID, then the rebound and then to where we are today.

Angel Castillo - Morgan Stanley

That's great. And then I just wanted to go back to the mid-single-digit sequential kind of implication for the full year guide. Can you just give us a little bit more of a sense for what kind of mix is it within that in terms of how much is kind of unit on rent improvement versus how much is just rental rate and VAPS kind of sequential pickup here?

Tim Boswell

Yes. So we continue to have a storage sequential headwind going into Q2, right? And I expect that sequentially those volumes then improve in Q3 and Q4. Sequentially, modular volumes are improving, right? So I expect that continues. And I think the rate trends, frankly, have been very stable and predictable, and I don't see anything in our leading indicators right now that would suggest that's changing as we roll the model forward.

So frankly, more similar than different as we compare our leasing KPIs sitting here today versus the original expectations for the year, with storage volume being the one change.

Operator

One moment for our next question, and that will come from the line of Philip Ng with Jefferies.

Philip Ng - Jefferies LLC

Tim, if I heard you correctly, you're expecting margins to be flat sequentially and it kind of stepped up in 3Q, 4Q. And the full year, it's up about 50 basis points. So if my math is correct, I think it implies a pretty sizable step-up first half, second half, call it, 600 basis points? And you're telling me modular is stronger versus storage. And storage, I think, has higher margins. So what kind of gives you the confidence of that nice step up in margins in the back half, which seems pretty outsized versus seasonality?

Tim Boswell

It's the same lease revenue build sequentially that we expected through the course of the year. As we get more storage movements that we anticipate through the remainder of the year, you get better leverage off of the trucking fleet. And so D&I margins, Phil, actually do impact the overall margin profile of the business, and that will be a benefit.

And then the third lever is really resulting more from the implementation of our field service and dispatch platform, which we executed in Q1. And this -- what this does is this allows us, in any given market through a single dispatcher to leverage our trucks, our drivers, our service crews across any of the customer activities that we're servicing, whether it's a storage delivery or return or a modular delivery or return or setting up furniture in any of our equipment.

So to date before the integration of the two teams locally, we basically had redundancy across all of those functions. Now I don't view this as a huge cost reduction initiative by any means. But in any given local market, if we've got an HVAC technician that resided at a modular branch, well, we can use that HVAC technician across the entire fleet now and maybe not use as much third-party service and third-party transportation.

And then there are also some efficiency implications for our back office by virtue of having the entire company on one system. And you can almost think of this, Phil, as the realization of some of the cost synergies that we expected from the Mobile Mini acquisition a few years ago. Obviously, much more value has been created through our commercial initiatives over the past few years. But now that we're on a single CRM front-end, ERP backbone and field service platform, I expect we're going to be unlocking efficiencies here, not just in the second half of the year, but going into 2025 as well.

Philip Ng - Jefferies LLC

And Tim, on this initiative you're talking about the dispatch that's largely going to flow through the D&I side on the margin side? Or is it actually going to flow through modular and storage as well?

Tim Boswell

I think you can see it on the leasing margin. I think you can see it in D&I, and I think we'll see it in SG&A. So I think it's going to touch us in a lot of ways.

Philip Ng - Jefferies LLC

Okay. And then you gave some great color on modular in terms of units on rent, largely unchanged. Storage, a little weaker, more flat sequentially. It would be helpful to kind of give us a little more context in the back half, how to think about progression just because just, frankly, there's less visibility. Any update on the retail side of things? Have you heard any stronger pull-through perhaps in the back half or still TBD at this point on the retail side?

Tim Boswell

No specific order information to share with you as it relates to Q4. But as I said, I think, a quarter or so ago, hard to see it being much worse than it was. The activation volumes and order rates that Brad referenced in storage are building sequentially as we go into Q2. Now that is normal and to be expected from a seasonality standpoint, but we are seeing it, right? So that does give us a reason to expect unit on rent to flatten sequentially.

And you would normally see a build from Q2 into Q3 and then Q4 is always, frankly, the highest quarter for unit on rent in storage. So our expectations there, I think, are pretty modest and based on kind of a normal seasonal progression from where we are today.

Operator

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

Nick Girardi

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

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect.