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TRANSCRIPT

Q3 2023 Earnings Conference Call

WillScot Mobile Mini Holdings Corp. (Nasdaq: WSC)

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WILLSCOT MOBILE MINI PARTICIPANTS

Brad Soultz, Chief Executive Officer

Tim Boswell, President & Chief Financial Officer

Nick Girardi, Sr. Director of Treasury and Investor Relations

MEETING PARTICIPANTS

Brian Biros, Thompson Research Group, LLC

Faiza Alwy, Deutsche Bank

Margaret Grady, Jefferies LLC

Ronan Kennedy, Barclays Bank PLC

Scott Schneeberger, Oppenheimer & Co. Inc.

Sean Wondrack, Deutsche Bank

Seth Weber, Wells Fargo Securities, LLC

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

TRANSCRIPT

Operator

Welcome to the Third Quarter 2023 WillScot Mobile Mini Earnings Conference Call. My name is Tanya, and I will 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, Senior Director of Treasury and Investor Relations. Nick, you may begin.

Nick Girardi

Good morning, and welcome to the WillScot Mobile Mini Third Quarter 2023 Earnings Call. Participants on today's call include Brad Soultz, Chief Executive Officer; and Tim Boswell, President and Chief Financial Officer. Today's presentation material may be found on the Investor Relations section of the WillScot Mobile Mini website.

Slide 2 contains our safe harbor statement. We will be making forward-looking statements during the presentation and our Q&A session. Our business and operations are subject to a variety of risks and uncertainties, many of which are beyond our control. As a result, our actual results may differ materially from today's comments. For a more complete description of the factors that could cause actual results to differ and other possible risks, please refer to the safe harbor statement in our presentation and our filings with the SEC.

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

Brad Soultz

Thanks, Nick. Good morning everyone. Thank you for joining us today. I'm Brad Soultz, Chief Executive Officer of WillScot Mobile Mini. Now starting on Slide 16, our company is delivering record financial performance, revenue, adjusted EBITDA, margins, free cash flow and return on invested capital are at our highest levels in our history. Our strong return profile and cash flow generation are driven by consistent execution by our team as well as the many idiosyncratic levers that we've built into our portfolio. We have multiple ways to win in any macro environment, which makes our financial performance very predictable.

Over the last 12 months, we've generated almost $3 of free cash flow per share. And using our share repurchase authorization, we've reduced our economic share count by 9.2% over the last 12 months and by nearly 20% over the last 3 years. We believe the combination of capital allocation and our continued operational execution represents a reliable formula to deliver consistent compound returns to our long-term shareholders over time.

Now when I think about investing in [our] company, my thesis comes down to three main points. First, our $1 billion of idiosyncratic and very predictable growth levels are largely within our control. Keep in mind that we initially defined this $1 billion growth lever portfolio in late 2021 and it is still a $1 billion portfolio. Meanwhile, we've been consistently harvesting and reloading it, whilst we've grown EBITDA by over $300 million. And you'll recall that our ever-expanding VAPS portfolio represents $500 million or about half of this portfolio. Among other points that Tim will highlight later, I was pleased to see our most recent modular VAPS delivery rates inflect strongly following the CRM changes we implemented in all of it. Second, our disciplined approach to capital allocation drives returns with

accretive, organic and inorganic investments which we can execute while returning excess capital to shareholders. And third, given our visibility into free cash flow, we're confident that we'll surpass our next milestone of $4 of free cash flow in the coming years.

Speaking of investments in the future, we extended our offering of space solutions with several exciting acquisitions in the recent months. In Q3, we built out our cold storage leasing platform and are now the North American leader in that business. And in October, we acquired a provider of premium large clearspan structures, which will allow us to offer even larger and more flexible spaces to customers across almost all of our end markets. While these capabilities are simply extensions of the spectrum of space solutions that we can provide our customers. Both businesses are rapidly growing in high-value segments of supply chain and expand our total addressable market, creating even more opportunities to serve our customers, our current customers and our new customers as the only total space solution provider in North America. We expect to grow both businesses meaningfully by leveraging our core competencies, pricing, value-added products, operational excellence and M&A. And the addition of these capabilities highlights the scalability of our platform, given our significant technology investments over the past few years. It goes without saying, we're very excited that these platforms will provide for additional growth levers above and beyond the $1 billion idiosyncratic growth levers, which are already in flight. And we look forward to talking about these in greater detail in our upcoming Investor Day.

To that end, I'm excited to share that we'll be holding our second Investor Day on March of 2024. Our company has outperformed or is accelerating towards all of the milestones we set in our last Investor Day. We have high confidence in our $1 billion of aforementioned growth levers. In March, we'll describe next milestones on our growth trajectory. It's pretty obvious, we have upside in many of our key metrics. For example, the midpoint of our guidance this year suggests 44.5% adjusted EBITDA margin. which is at the high end of our 40% to 45% operating target range. Similarly, return on invested capital is at 18% over the last 12 months, well above the 10% to 15% operating range that we thought was reasonable in late 2021. Coinciding with this Investor Day, we will also plan on issuing our inaugural sustainability report.

Now touching briefly on the end markets. The market environment is largely unchanged from our Q2 expectations. The modular segment is performing a bit better relative to our assumptions, while the storage segment is just a bit worse. Modular segment quoting has remained up 9% year-over-year, although conversion activations has remained a bit slower. The modular segment added modular units on rent through Q3. Storage units on rent dropped by approximately 2% during the quarter before beginning to increase in October. Altogether, this paints a stable picture as we look into 2024. And the mix shift in nonresidential starts activity favoring larger scale industrial project plays to our strengths from a competitive standpoint.

Finally, let me reiterate how excited I am for 2024 and beyond. We're closing out 2023 on a strong foundation, and we spent the last 18 months thinking about the next horizon of our growth trajectory. That's a fun job when there are so many opportunities for value generation as there are in our business made even more so by the quality, creativity and diligence of our team. We look forward to sharing those details with you in New York in March.

With that, I'll hand it over to Tim.

Tim Boswell

Thank you, Brad, and good morning, everyone. Page 21 shows a high-level summary of the quarter. All of our financial KPIs are performing at record levels as we approach 2024. The business continues to perform as expected in this environment. Our strong financial performance during the quarter was driven by continued pricing discipline, growing VAPS penetration, excellent margin performance across all revenue streams and continued cost discipline. Adjusted EBITDA margin was up 250 basis points year-over-year. So our longer-term margin expansion trend remains on track and supported by our cost management initiatives and technology investments. We generated $148 million of free cash flow in Q3, with $533 million of free cash flow over the last 12 months.

As of October 27, that represents approximately $2.80 of free cash flow per share, which has more than doubled over the last two years. And we remain on track to eclipse the longer-term $4 of free cash flow per share milestone that we committed at our last Investor Day and within the time frame that we committed.

We closed 11 tuck-in acquisitions over the last 12 months, representing almost $500 million of capital invested and the tuck-in pipeline looks consistent heading into 2024. Return on invested capital was 18% over the last 12 months. We see further upside to this metric. And more importantly, we are discovering new ways to reinvest in our business, as you've seen with some of the recent extensions of our space offering.

And we continue to return capital to shareholders at rates well above any benchmark. With our economic share count down 9.2% over the last 12 months, we believe the repurchases are highly accretive for our long-term shareholders, a group which includes our leadership team here.

Page 22 lays out revenue and adjusted EBITDA for the quarter. Revenue was up 5% in Q3, with leasing revenues up 9.1%, driven by increased pricing and VAPS penetration and partly offset by lower transportation and sales revenues. Of the roughly $38 million increase in leasing revenues year-over-year, approximately 60% of the growth was organic, driven by pricing in value-added products, offset by some volume and 40% is from acquisitions over the last 12 months. So the growth algorithm remains quite balanced.

Pricing in Q3 was slightly better than what we expected. The runway on modular units is unchanged, with average rates up 16% year-over-year in the quarter. And our average monthly rates on portable storage units were up 25% year-over-year. So we haven't seen any pricing weakness across either segment despite the softer demanded backdrop, and we're being quite disciplined about that.

Just focusing on the spot spreads we see in unit pricing. There's approximately a $200 million mark-to-market tailwind across the portfolio, which we will realize in the form of incremental revenue from rate convergence over the next three years. So this remains a very powerful lever for us heading into 2024. In our Modular segment, the spread between units delivered over the last 12 months and the average of the portfolio remains over 30%, including value-added products. And the spread for storage units, excluding seasonal deliveries, is over 10%. So we're quite comfortable with the spot rate environment and the implications for 2024.

Value-Added Products continues to be another powerful tailwind with absolute growth across all space categories and strong penetration increases in ground level offices and storage containers in the quarter. Similar to pricing, there is approximately a $200 million mark-to-market tailwind across the portfolio in Value-Added Products with a total $500 million opportunity if we -- when we converge to the longer-term milestones that we established for both modular and storage, and there's been no change in those targets.

Volumes on rent were slightly better than we expected in modular and slightly weaker for storage. So overall, the leasing revenue trajectory is in line with what we expected to end the year.

Shifting to margins. Q3 was our strongest quarter of the year so far for delivery volumes. So leasing costs increased by $6 million sequentially from Q2 to Q3, and driving slight sequential margin compression as we anticipated last quarter. That said, gross margins were up year-over-year across all revenue streams so we continue to see a favorable divergence of increasing pricing relative to stabilized input costs, which we expect to continue into 2024, supporting margins in the bottom line.

Overall, adjusted EBITDA margins were up 250 basis points year-over-year and are up over 300 basis points year-over-year at the midpoint of our guidance. And our margin on net income from continuing operations increased 160 basis points to 15.1%, despite higher interest costs. So I expect that margins will remain a bright spot for the business as we head into 2024.

Moving on to Page 23. We continue to see very healthy net cash flows from operating activities and expect that cash flow will steadily build into 2024 based on our embedded growth drivers. Net capital expenditures remain at maintenance levels, down 66% year-over-year as we balance fleet investments with demand and continue to benefit from work order efficiencies and moderating inflation that I discussed in detail on the Q2 call. I will note, we expect net CapEx to increase sequentially in Q4, which is a bit atypical from a seasonality standpoint and related to growth investments to support some of our more recent product expansions. Free cash flow increased approximately 80% year-over-year to $148 million in Q3, with free cash flow margin increasing to 22% over the last 12 months inside our target operating range of 20% to 30%.

Turning to Page 24. We finished Q3 at 3.3x net debt to last 12 months adjusted EBITDA which is comfortably inside our operating range for leverage of 3.0x to 3.5x. Leverage increased sequentially to fund a higher level of tuck-in acquisitions while maintaining a steady share repurchase cadence to take advantage of lower valuations. We can easily deleverage by approximately one turn per year when we so choose. So we'll decide whether or not we deleverage from here based on the opportunity set that we see as well as the operating environment.

During the quarter, we completed a $500 million offering of senior secured notes at [7.380%] which we used to pay down our asset-backed revolver and finance the tuck-in acquisitions. We are incredibly grateful for the strength of our bank group and our repeat customers in the bond market. We value our relationships, appreciate your support and know that you are getting an outstanding risk-adjusted return. As of September 30, our pretax weighted average interest rate is approximately 6.1%. Our annualized cash interest is approximately $214 million and our debt structure is approximately 65% fixed and 35% floating, which approximates our target mix.

We have approximately $1.3 billion of liquidity in our ABL revolver, which gives us ample flexibility to fund our capital allocation priorities regardless of macroeconomic conditions. We have capacity in the ABL to refinance the 2025 notes at any time of our choosing, and we will do so to optimize interest costs and depending on our capital requirements. The balance sheet is in a great position, strong, flexible and with abundant liquidity.

Page 25 shows our capital allocation framework and our performance over the last 12 months. We generated $1.7 billion of capital on a leverage-neutral basis over the last 12 months, inclusive of divestitures. As I alluded last quarter, we allocated more capital to acquisitions in Q3, with $333 million invested in our cold storage platform as well as a modular leasing and manufacturing business in the Pacific Northwest. And in October, we closed another

transaction adding 616 global clearspan to our portfolio, which we're super excited about. These are compelling businesses with great economics and our existing customer base are scratching their heads searching for partners that can work with them at scale in these categories. We are that partner, and we are excited to scale these new solutions across our network and apply our core competencies and value-added products, pricing, operations excellence and bolt-on M&A to make them even better. And we're excited to welcome these new team members to the WillScot Mobile Mini family.

This is how we create value for our customers and our shareholders as well as our new team members. Scale is the name of the game, and I expect these platforms will scale exponentially and quite profitably with the support of our financial and human capital, and we'll, of course, defer the specifics to our upcoming Investor Day.

Lastly, before turning it to Brad, Page 26 shows our current guidance. We increased the midpoint of our adjusted EBITDA range for 2023 to account for the acquisitions that closed in Q3, and we tightened the revenue and adjusted EBITDA ranges given that we are 3 quarters through the year. Our business is performing to the prior EBITDA midpoint with slightly stronger margins as we mentioned in Q2.

Our assumptions around operating KPIs are effectively unchanged from the Q2 call, modular volumes are slightly better than expected, storage volumes slightly weaker, storage pricing a bit better, though all within a normal margin of error for our quarterly forecasting process. Together, the midpoint suggests approximately 300 basis points of margin expansion for the year and free cash flow of approximately $550 million in 2023, both of which would reflect record profitability levels heading into 2024.

As we progress from Q3 to Q4, I expect total revenue to continue its steady sequential increases with sequential growth in leasing revenues, partly offset by normal sequential declines in delivery and installation revenues. Adjusted EBITDA will also increase with margins expanding sequentially and although perhaps not to prior year levels, just given the elongated timing of seasonal storage rentals last year, and that sequential progression in the core business plus recent acquisition contribution gets us to the midpoint of the EBITDA guidance.

Looking ahead to 2024, our run rate as we close out 2023 is supportive of another strong growth year. VAPS and rate convergence together will provide approximately 10 percentage points of support to leasing revenue growth as we head into next year, irrespective of market conditions. And we have longer-term margin tailwinds, which are obvious in our results and suggest that we're headed for record profitability levels again in 2024. We have high confidence in our $1 billion of idiosyncratic growth levers as well as the incremental opportunities that we see in cold storage and clearspan, and we're excited to discuss these opportunities and our outlook for long-term value creation at our next Investor Day in March 2024.

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

Brad Soultz

Thank you, Tim. And as always, thank you to our customers for your continued support. Thank you to our shareholders for their continued trust with our capital, and thank you to our employees for their hard work to deliver on our team's commitments. 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

Our first question will come from Andy Wittmann of Baird. And again, our first question will come from Andy Wittmann of Baird.

Tim Boswell

Andy, we can't hear you if you're on. And why don't we just go on to the next question, please.

Operator

And our next question will come from Seth Weber of Wells.

Seth Weber - Wells Fargo Securities, LLC

Tim, I just wanted to go back to your -- one of your last comments there about fourth quarter margin. It sounds like kind of flattish, maybe flat to down for the quarter on a year-over-year basis. Can you just give a little bit more detail on what's going on there? And then why that would -- why margin expansion would reaccelerate again next year?

Tim Boswell

Yes, Seth, I think the only significant difference versus Q4 of 2022 would be the seasonal retail storage volumes and transportation that would have been flowing into last year. And the seasonal volumes on rent and storage are down circa 6,000 units year-over-year, and the transportation timing also plays into that. So it's really nothing more than that. We're seeing a nice sequential build in storage volumes from Q3 into Q4, as you would expect, not to the same degree we had last year. That's the primary contributor there.

Seth Weber - Wells Fargo Securities, LLC

And then maybe just sticking on the retail angle. Can you just talk about your confidence in some of the projects that have gotten pushed this year that they'll happen next year? Are you hearing anything about that? Or just how we should be thinking about that 2024 versus '23 for that segment in particular?

Tim Boswell

Yes. The starting point is I don't see how it could get any worse than it was this year. And I'm not saying that flippantly. I just don't see it as a risk going into 2024, and it is the type of business that can recover quite quickly. You have seen some store CapEx announcements from larger retailers going into next year. It's a little soon to kind of know exactly the timing and magnitude of the demand implications for us. But I kind of view that as a positive and an opportunity going into next year. This was very soft from a remodel standpoint. And that business will be in some

cases, direct with the retailers, Seth, and in other cases, direct with local contractors who then work with us on a recurring basis. So we have to kind of aggregate the demand across both of those channels to get a clear picture of where that shapes up for 2024.

Operator

And our next question will come from Scott Schneeberger of Oppenheimer & Co.

Scott Schneeberger - Oppenheimer & Co. Inc.

I think I'll focus my first question on the VAPS LTM delivered rate. If you can just recap you were kind of bundled and then ala-carte seemingly back to bundled in August. What trends have you seen since August, when you saw the number for the quarter? I just want to get a sense of how we should expect that to trend going forward since you made the switch back.

Brad Soultz

Yes. Scott, as I mentioned in my prepared remarks, it's inflected pretty positively and strongly post those changes that we implemented really in mid-August that we alluded to or spoke about on our last call. So quite pleased with that. And as you can do the math for the LTM to roll through, you're probably looking into next year before you see it inflect on an LTM basis, but early signs are encouraging.

Scott Schneeberger - Oppenheimer & Co. Inc.

For my follow-up, these new acquisitions, certainly sizable, the largest that we've seen since the big merger back in 2020, and they sound interesting look forward to hearing about them at Investor Day and what they do for your target addressable market and how those can grow. So it sounds great. And certainly, the reason that the EBITDA increased but I think there might be some concern out there of just hey, acquisitive growth versus organic? Just want to get a sense, it looks like you're still delivering solid organic growth and the business is running well. But because the acquisitions are in their closet a bit, I was wondering if you could speak a bit to how you're thinking about organic growth, I mean, here and beyond?

Tim Boswell

Yes, Scott, this is Tim. And I mentioned this in my prepared remarks. If we kind of dissect lease revenue, and you got to strip out transportation and strip out sales, right? Because when we're acquiring businesses, we're typically focused on the lease revenue line and the delivery and installation will fluctuate period-to-period based on other drivers. But if we just look at the $38 million year-over-year increase in lease revenue, approximately 60% of that increase is organic. And that's primarily driven by pricing in Value-Added Products, offset by some organic volume loss. That's no surprise, right?

And then if you think about the acquisitions that we made leading up to Q3 and assume kind of like a 4.5x multiple on lease revenue, you can start to back into what I think that inorganic lease revenue contribution is, and then those Q3 acquisitions, while larger, we got maybe a month of contribution from those in Q3. So I'm actually really happy with the organic, inorganic mix in the quarter. And based on the magnitude of the tuck-in acquisitions that we're doing, if we stay in this range in terms of enterprise value deployed, that organic, inorganic mix really shouldn't change very much.

Operator

And our next question will be coming from Tim Mulrooney of William Blair.

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

Tim, that was helpful. I just want to build on that last question a little bit and ask it more directly. How much do you expect acquisitions completed in the last 12 months to contribute to revenue and EBITDA in the fourth quarter?

Tim Boswell

In the last 12 months in the fourth quarter, let's see, Tim.

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

Just curious how much you think M&A is going to contribute just so that we can figure out, okay, how much of that guidance raise was due to M&A? How much was due to organic? Just trying to hold in on those numbers?

Tim Boswell

Well that's an easy one, Tim. If we just do it from an EBITDA standpoint, I said in the prepared remarks, the core business is performing to the prior midpoint of about $1.05 billion. And so that I would say the entire guidance increase at the midpoint of about $7.5 million of EBITDA is driven by the acquisitions in Q3.

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

Perfect. Okay. And then the Modular, the average rental rates, we saw it decelerate a little bit from 17% in the second quarter to 14% in the third quarter. Just curious how much of that is due to a slowdown in spot rate increases and how much of that might be due to other factors like VAPs or other things.

Tim Boswell

It's been roughly flat in terms of the mix between the unit pricing trajectory, Tim. And the value-added products contribution at least on that metric. So frankly, changes of that magnitude of a percentage point here or there, I don't really consider that to be meaningful.

Operator

Our next question will be coming from Steven Ramsey of Thompson Research Group.

Brian Biros - Thompson Research Group, LLC

It's actually Brian Biros on for Steven. First, the acquired companies recently seem to be in attractive adjacencies. Can you just touch on how much investment is needed to get these up to par with your core and maybe just reach their full potential and any time line for that?

Tim Boswell

I'm going to answer, this is Tim. I'm going to answer it a little bit differently, and we can quantify more precisely the timing and magnitude of investments at the Investor Day. That is one of the intents. You can assume the unit economics are as good or better than any other fleet category in the portfolio, right? And as such, we're more than happy to invest organically behind both of these categories. And there are inorganic opportunities as well through bolt-on M&A that we can use to supplement that.

I think in terms of overall capital expenditure expectations going into next year, I still think centering on that $275 million number with a relatively broad range around that is a good place to center, right? Sitting here right now, we won't have to invest probably in the first half of the year, organic CapEx in the storage fleet as that utilization recovers.

We'll be investing in Value-Added Products. And we'll certainly be investing behind these categories as well as modular refurbishments. And again, we'll get more precise as we get into March of next year as some of these growth plans are still coming together. But I think you can assume that each of these categories has the potential to be at least as large as our ground level office category just as a data point that's out there. And as such, we believe they're quite meaningful and quite attractive. So the teams are putting together those growth plans as we speak, and we fully intend to invest behind them.

Brian Biros - Thompson Research Group, LLC

Understood. And second, I guess, just on storage. Can you expand on how the -- maybe the retail season is shaping up here, you entering thinking around 70% utilization versus mid-80s a year ago? I think you mentioned some stuff earlier on the call, but just -- how does that change the pricing conversations, if at all?

Brad Soultz

Pricing conversation hasn't changed a lot. This is Brad. Tim mentioned full stop the number of units we have on rent for seasonal storage is down from last year. And you also recall last year, they went out quite early like starting in June, which is a full quarter earlier than normal. So it's -- as I mentioned in the last quarter's call, it started out, shaped up kind of in line with -- in terms of rate and timing from a more normal perspective, but it's certainly below prior year. And as we sit here today, we're roughly 6,000 units on rent behind where we were about 1 year ago in that category.

Operator

Our next question will come from Faiza Alwy.

Faiza Alwy - Deutsche Bank

I wanted to ask about some of the macro trends that you're seeing and how you think that's impacting the business in Storage versus Modular because it feels like you're not really seeing a slowdown, activity seems to be picking up in Modular relative to Storage. So just help us understand some of the dynamics there.

Tim Boswell

Faiza, this is Tim. I'll start, Brad, provide any additional color. I mean, just think about the end market exposures to the two businesses. They're more alike than different. I think we beat the retail exposure to death at this point in the Storage segment. And that is the number one difference between the volume performance of the two segments. If you think about nonresidential square footage starts, they'll be down double-digits this year as measured in square footage, right, which is the way to look at it, that will correlate most closely with the volume of equipment required. And we see that impact roughly evenly distributed across the two segments.

Sitting here right now, if you look at the modular business and actually the storage business as well, if you look at net new orders, I mean, the year-over-year improvements are actually quite exciting for us. I mean the modular business, quoting activity is up about 9% year-over-year. And we are seeing pretty strong net new order increases year-over-year on the storage business, although I'll caveat, the storage business was effectively sold out last year, so it was harder to generate net new orders.

So the leading indicators in our business right now actually are pretty encouraging going into the end of the year. And as you look at it like different end market indicators going into next year, quoting activity in our business probably being the most interesting, you still have contractor backlogs that are north of nine months. That's a very healthy level, Associated Builders and Contractors Confidence Survey. You've got contractors projecting growth and employment growth over the next six months. So there are no objective indicators there that have us kind of concerned about the end market outlook going into next year. And then my comment earlier to Seth, the retail is not going to get any worse. So it can only really get better in 2024. So all of that has us -- our base case going into next year is this is a pretty stable outlook with some upside on the storage volumes.

Brad Soultz

Yes, this is Brad. The only thing I would add to that is while non-resi starts are down double-digits, as Tim mentioned, the absolute levels are still extremely robust by any historical metric, right? So we are working against tough comps in 2022. But these absolute levels are still extremely robust, and it's a great platform to build on leading into 2024.

Faiza Alwy - Deutsche Bank

Great. And I wanted to follow up on capital allocation. So you have devoted more capital to acquisitions and done some of these interesting deals. Should we anticipate more acquisitions of the size sort of just lay out some of your priorities again as it relates to capital allocation at this point?

Tim Boswell

Yes. The priorities in the mix have not changed. It's just very difficult, as you know, to pinpoint the timing and magnitude of any one transaction. Really, the only larger transaction that we did was the A&M Cold Storage platform in August or September, right? So everything else that we've done has been in that sub-$100 million enterprise value range, which is exactly where we've been transacting over the course of the last three years. And as we think about the 200-plus targets that are in our tuck-in pipeline, that's the right magnitude to expect. And if we're doing between two and four of those per quarter, that's pretty much the cadence we've been on for the last three years, and I don't see any real change in mix in terms of the composition of the tuck-in pipeline. In terms of overall capital allocation, I would just refer back to Page 25 in the deck. The target is we think we can deploy about 25% of our capital into those tuck-ins, as I just described, the organic CapEx will be about another 25%. That will be demand-driven. It will fluctuate period-to-period based on the need to add fleet and add VAPS and refurbishments. And we still see ample surplus capital in a leverage-neutral framework, which is why shareholders have seen a 9% reduction in the share count over the last 12 months. And sitting here today, that's a superb use of our capital and highly accretive long term, and we're going to continue to do it.

Operator

Our next question comes from Andy Wittmann of Baird. Again, Andy, your line is open. You may be muted. Okay. Moving forward, one moment. Our next question will be coming from Philip Ng of Jefferies.

Margaret Grady - Jefferies LLC

This is Maggie on for Phil. I wanted to start out, Brad, I think you mentioned in the prepared remarks, quoting activity for modular was still up in that kind of 9% range year-over-year, but conversions have been a little softer. Can you talk about what's driving that? Is that a pricing decision by the customer? Is that just timing and you expect that to flow through out of greater lag. Can you just talk about what's going on there?

Brad Soultz

Yes. Conversions have been just slower, and I think it's primarily driven by labor constraints, backlogs at the general contractors.

Margaret Grady - Jefferies LLC

Okay. And then digging in a little more to this cold storage solutions category. Just curious what the strategy is there? How much overlap is there with your existing customer base or end markets? And is this a category where there's going to be chunkier-sized M&A deals in this space or still on that kind of tuck-in size range that you see in Modular and storage?

Tim Boswell

Maggie, this is Tim. I'll start with your second question. And I think the nature of the bolt-ons are actually quite similar to those that we've been executing in the other modular and storage categories. So this kind of fits squarely within our strategy. We have the best platform in the -- in North America, and there are opportunities to build it, both organically and inorganically. It's a very interesting category in terms of the complementary nature of both commercially and operationally.

I'll start operationally because maintaining, delivering, picking up and dropping off this equipment is really no different, requires no different capabilities than we already have in both the Modular and the Storage segment. So this is very easy for us to execute, just leveraging the existing branch network that we have. I'll note that at one point in time, we were actually A&M's largest customer because we were renting some of this equipment and then re-renting it to our existing customer base. And you can think about the relevant sectors as being largely outside the construction end market. You can think about any of the retail customers that we have. Any customers in pharmaceutical or in certain manufacturing categories. Certainly, many nodes within the foodservice supply chain and distribution supply chain. We're not just talking about food, things like cosmetics and materials that go into manufacturing processes that need to be kept at a certain temperature. There are a lot of different applications for those within our current customer base. It's a category that we've been releasing historically over the years. Although not with the full force of our sales resources behind it. So incredibly excited about how this complements the existing platform, multiple organic and inorganic opportunities. There's a pricing opportunity. There will definitely be a value-added products opportunity over time, and we're really pleased with how the team has come together so far.

Operator

And our next question will come from Manav Patnaik of Barclays.

Ronan Kennedy - Barclays Bank PLC

This is Ronan Kennedy on for Manav. Can I ask you guys, please for an update on the latest on what you're seeing in terms of demand from megaprojects, the manufacturing trends such as reshoring, renewable investment, the infrastructure program or the fiscal programs as a whole and infrastructure. What you're seeing from that in terms of

demand if you are starting to potentially comp over new starts there and then how that was contemplated in your guidance and kind of the assumptions there for volume?

Tim Boswell

Ronan, this is Tim. I'd say it's kind of embedded in our outlook for nonresidential construction activity, generally speaking. We don't put a lot of credence into the forecasts that are out there. But if you look at prevailing non-res square footage forecast for next year, they're flattish. And that implies a pretty meaningful mix shift between kind of smaller non-res projects, think about warehousing and commercial office is obviously being down. And we're seeing a mix shift towards the larger, more complex situations that you alluded to.

Here, we can't really track every single project and the ultimate funding source, but we can say based on magnitude of opportunities that we see and the prevalence of larger square footage opportunities that, that mix shift is absolutely happening. And from a competitive standpoint, that's probably our sweet spot in the area where we're best positioned. So overall, we're not assuming a major increase in nonresidential construction activity in 2024. But as Brad mentioned, if we stay stable at '23 levels. That's a very, very healthy environment. 2023 should be up about -- in terms of non-res square footage starts up about 12% versus 2019, just to give you some calibration of where we sit right now. And if we have that type of backdrop going into 2024, combined with the pricing tailwinds that are just outstanding. The Value-Added Products tailwinds. I mean, we talked about Value-Added Products and Modular briefly and how that penetration is recovering. Value-Added Products revenue in the Storage segment is going to exceed $90 million this year, up over 40%, right, year-over-year. So we're seeing very good traction across all space categories and value-added products. Margins are performing well. And we always have the tuck-in M&A pipeline in our back pocket.

Ronan Kennedy - Barclays Bank PLC

That's very helpful. And then a follow-up to a question on margins that I think was more specific to fourth quarter -- 4Q. But looking forward, can you talk about -- I think you had previously alluded to a kind of new level of margins. Can you talk about kind of the puts and takes there, the drivers, whether it's logistic margins, the ability to leverage and improve SG&A back-office workflow, et cetera?

Tim Boswell

The great thing here is it's really all of the above. And if you start where the lease revenue growth is coming from, on the organic side, it's pricing and Value-Added Products. So you're going to be naturally accretive to margins. If your organic revenue growth is coming from those two variables. As you know, the tuck-ins are also accretive to margins over time, and that comes from a couple of different levers, not even so much cost reductions these days, just given the size of these, but the price in value-added products convergence as those portfolios churn over time. If you just look at rental gross margin, I've said for, shoot almost a year now that we're enjoying a divergence of favorable growth rates on rental pricing that's obvious and a stabilization of material input costs, we track a basket of goods that go into our modular refurbishments and that basket has been flat now for about 12 months. So that's going to be supportive of margins.

I'm not really assuming any further improvement in transportation margins. They've been a highlight for the last two years. I do think there is opportunity there over time as we roll out the Field Service Lightning platform next year and subsequently route optimization capabilities, but I wouldn't even embed that in my assumption for 2024 at this point. And now that we're in the single CRM, this allows for things like quoting all modular and storage products on a single quote, which ultimately can lead to single invoicing and consolidation of some of those back-office processes. So I can almost go to any cost line or margin line in the P&L, Ronan and find an argument to -- for margin expansion.

Operator

Our next question will be coming from Sean Wondrack of Deutsche Bank.

Sean Wondrack - Deutsche Bank

When I take a look at your sort of aggregate fleet sort of maybe on a percentage basis, what portion of that fleet is fungible across both traditional rental and these mega projects?

Tim Boswell

Shoot, Sean. It's all of it.

Brad Soultz

It's all of it.

Tim Boswell

Mega projects, the core of that project is likely to be a large modular complex or in many cases, multiple large modular complexes and that often will be the core for the primary general contractor that's leading the project. But the nice thing about these mega projects is you're going to have subcontractors and other trades on and off of the project over the course of multiple years. And we're talking three plus year projects when you get into the larger scale opportunities, and those subcontractors could be taking containers, they could be taking single-wides. There's really no -- there's no limit to the fungibility of the fleet for those types of opportunities.

Sean Wondrack - Deutsche Bank

That's interesting. And what percentage of your fleet would you say that flex offering at this point? Has that migrated over time?

Tim Boswell

It is migrating. And ballpark, just off the top of my head, I think we're circa 8,000 units of total fleet there. And it is the only fleet category where we're buying stock fleet. And I do expect the fleet mix does migrate more in that direction very slowly over time, right? I know in the most recent quarter, I think the flex units were accounting for just over 10%

of our deliveries on the modular side. So it is a growing mix of the modular fleet and very conducive to those larger projects.

Sean Wondrack - Deutsche Bank

Great. That's very helpful. Also just kind of on another note, we've been hearing that only a marginal amount of the infrastructure funds really have been released. Is that what you're seeing out there in your markets? Do you expect that to sort of ramp up a bit more next year?

Brad Soultz

Yes. And that's consistent with our outlook throughout the year. I mean, we've seen these mega projects without regard to CHIPS Act, without regard to federal infrastructure stimulus. It's happening because it's good business, and then we're uniquely positioned to capitalize on those. So when federal stimulus really starts to flow. That's a 2024 event, likely. I think it's just further longer-term tailwinds with respect to those megaprojects.

Sean Wondrack - Deutsche Bank

That's great. And then I have one last question for you, Tim, and feel free to answer this to the degree you want to. When would you expect to repay these 2025 notes? Would you be waiting for the step down at par? Or would you be willing to let these bonds go current before repaying them prior to maturity or refi them?

Tim Boswell

Right. Like I said in my prepared remarks, we've got $1.3 billion of capacity in the ABL. And right now, the ABL is actually priced a bit higher than the 2025s. So from just a pure interest cost optimization standpoint, I lean towards leaving the 2025s outstanding, and we can refinance them into the ABL at any time. Now the other variable is what other uses of capital do we have, and we reassess that as opportunities present themselves. But there is absolutely no urgency in my mind, as long as benchmark rates stay where they are above 5%.

Operator

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

Nick Girardi

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

Operator

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