

## WillScot Mobile Mini

## Growing the empire: thoughts on the McGrath acquisition

Maintain Rating: BUY | PO: 56.00 USD | Price: 48.63 USD

## A lot to like with the McGrath acquisition

On Monday, WillScot (WSC) announced it would acquire modular and storage rental firm McGrath for \$3.8bn in stock and cash (2Q24 close). Our preliminary view on the acquisition is positive given valuation (9.5x 2024E EBITDA w/ op synergies), financial impact (i.e., accretive), diversification (Education) and low integration risk (WSC is an experienced acquirer). The deal will make WSC the only public pureplay storage and modular firm and solidify their dominant market position. On a pro-forma basis, the combination would generate \$3.2bn in revenue and \$1.4bn in EBITDA for 2023E.

## Valuation – upside from synergies and M&amp;A track record

While there are limited comps for modular transactions, at 9.5x EBITDA McGrath is valued largely in line with WillScot pre-Mobile Mini acquisition. We think the valuation reflects a constructive dialogue between sophisticated operators. McGrath has followed a similar playbook to WillScot the past few years and is in the early stages of introducing a VAPS (value-added products & services) equivalent product. The projected \$50mn of cost synergies (realized in 24 months) seem reasonable, in line with those expected after the Mobile Mini acquisition and do not account for cross selling opportunities. WSC has a proven track record of M&A, executing well across the acquisitions of Mod Space in 2018 and Mobile Mini in 2020. We reiterate our Buy rating on WSC.

## Leverage increase isn't concerning given cash generation

At close WSC expects to have ~\$6.1bn in debt (4.3x net leverage). While significant, WSC has the ability to reduce leverage by a turn annually and the combined entity is expected to generate \$700mn in FCF in 2025E. All together this provides a clear path to de-lever below 3.5x within 12 months of close.

## Diversification benefit is helpful

McGrath has a strong position in education markets, comprising 33% of customers. The vast majority of this is public K-12 (23%) and Private K-12 (6%). While we do not believe diversification away from traditional construction and commercial/industrial markets was the driver behind the acquisition, it nonetheless has the desirable impact of diversifying WillScot's business a bit more towards Education (4% currently, 12% post close). Our call with [AIA's Kermit Baker \(see report\)](#) noted that institutional spending has remained healthy, with Education spending continuing to grow at a double-digit percentage (+13% through Nov). Education is expected to grow a further 3.9% in 2024.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.49	1.25	1.80	2.35	2.94
GAAP EPS	0.69	1.53	2.47	2.35	2.94
EPS Change (YoY)	-5.8%	155.1%	44.0%	30.6%	25.1%
Consensus EPS (Bloomberg)			1.79	2.30	2.81
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	99.2x	38.9x	27.0x	20.7x	16.5x
GAAP P/E	70.5x	31.8x	19.7x	20.7x	16.5x
EV / EBITDA*	16.5x	12.5x	10.7x	10.0x	9.1x
Free Cash Flow Yield*	2.4%	2.7%	5.0%	5.4%	5.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

02 February 2024

## Equity

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## Stock Data

Price	48.63 USD
Price Objective	56.00 USD
Date Established	2-Nov-2023
Investment Opinion	B-1-9
52-Week Range	34.40 USD - 53.46 USD
Mrkt Val (mn) / Shares Out (mn)	9,690 USD / 199.3
Free Float	97.5%
Average Daily Value (mn)	69.40 USD
BofA Ticker / Exchange	WSC / NAS
Bloomberg / Reuters	WSC US / WSC.OQ
ROE (2023E)	36.5%
Net Dbt to Eqty (Dec-2022A)	196.1%
ESGMeter™	Medium

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Timestamp: 02 February 2024 05:00AM EST

# iQprofile<sup>SM</sup> WillScot Mobile Mini

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.4%	7.3%	9.7%	10.8%	12.4%
Return on Equity	7.7%	19.1%	36.5%	35.8%	37.7%
Operating Margin	18.0%	23.9%	28.7%	30.2%	31.8%
Free Cash Flow	231	258	480	526	568

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	3.4x	2.2x	1.5x	1.8x	1.6x
Asset Replacement Ratio	1.0x	1.4x	0.8x	0.8x	0.8x
Tax Rate	24.1%	24.3%	25.5%	25.5%	25.5%
Net Debt-to-Equity Ratio	134.1%	196.1%	294.1%	247.2%	188.0%
Interest Cover	2.0x	3.5x	3.4x	4.4x	5.7x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,673	2,143	2,390	2,500	2,675
% Change	1.3%	28.1%	11.5%	4.6%	7.0%
Gross Profit	650	884	1,060	1,140	1,250
% Change	0.5%	36.1%	19.9%	7.6%	9.6%
EBITDA	687	908	1,060	1,140	1,250
% Change	6.3%	32.2%	16.7%	7.6%	9.6%
Net Interest & Other Income	(149)	(146)	(200)	(170)	(150)
<b>Net Income (Adjusted)</b>	<b>160</b>	<b>340</b>	<b>497</b>	<b>436</b>	<b>521</b>
<b>% Change</b>	<b>34.4%</b>	<b>112.0%</b>	<b>46.4%</b>	<b>-12.3%</b>	<b>19.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	115	276	363	436	521
Depreciation & Amortization	318	344	330	345	355
Change in Working Capital	(34)	(54)	(97)	8	(28)
Deferred Taxation Charge	37	101	0	0	0
Other Adjustments, Net	104	78	135	0	0
Capital Expenditure	(309)	(487)	(250)	(262)	(281)
<b>Free Cash Flow</b>	<b>231</b>	<b>258</b>	<b>480</b>	<b>526</b>	<b>568</b>
<b>% Change</b>	<b>99.1%</b>	<b>11.7%</b>	<b>86.1%</b>	<b>9.6%</b>	<b>8.0%</b>
Share / Issue Repurchase	(356)	(741)	(900)	(325)	(300)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	216	367	400	(200)	(400)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	6	7	57	129	67
Trade Receivables	351	410	517	514	551
Other Current Assets	125	104	104	104	104
Property, Plant & Equipment	3,036	3,382	3,232	3,079	2,935
Other Non-Current Assets	2,255	1,925	1,925	1,925	1,925
<b>Total Assets</b>	<b>5,774</b>	<b>5,828</b>	<b>5,835</b>	<b>5,751</b>	<b>5,581</b>
Short-Term Debt	12	13	13	13	13
Other Current Liabilities	506	549	558	564	572
Long-Term Debt	2,672	3,063	3,463	3,263	2,863
Other Non-Current Liabilities	587	637	637	637	637
<b>Total Liabilities</b>	<b>3,777</b>	<b>4,262</b>	<b>4,672</b>	<b>4,478</b>	<b>4,086</b>
<b>Total Equity</b>	<b>1,997</b>	<b>1,565</b>	<b>1,162</b>	<b>1,273</b>	<b>1,495</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,774</b>	<b>5,828</b>	<b>5,835</b>	<b>5,751</b>	<b>5,581</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Industrial Services/Equipment Rental

## Company Description

WillScot is a leading specialty rental services market leader providing innovative modular space and portable storage solutions across North America. WillScot has 120 branches and over 153k rental units encompassing over 77mn square feet. About 90% of sales come from the US, with over 90% of adjusted gross profit from the recurring lease business.

## Investment Rationale

We expect WillScot to continue executing well and expect shares to see multiple re-rating as the company further demonstrates its ability to drive double digit rate growth through the cycle while also capturing various internal and inorganic growth opportunities. We also see the company showing progress on debt reduction and accelerating FCF generation.

## Stock Data

Average Daily Volume 1,427,127

## Quarterly Earnings Estimates

	2022	2023
Q1	0.17A	0.36A
Q2	0.26A	0.43A
Q3	0.36A	0.46A
Q4	0.46A	0.55E

## Price objective basis & risk

### WillScot Mobile Mini (WSC)

Our PO on WillScot Mobile Mini is at \$56 per share on 12.0x 2024E EV/EBITDA. While WillScot standalone did not have a long trading history, Mobile Mini's historical multiple was roughly 12x going back over a decade, and we expect the scale, technology, and optimizations made by WSC should command a premium to the historical multiple.

Risks are: 1) deterioration in rental rate environment for core mobile office business, 2) weaker than expected deleveraging effort, 3) botched integration, and 4) tightening of the credit markets

## Analyst Certification

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### US - Machinery Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AECOM	ACM	ACM US	Michael Feniger
	Blue Bird Corp	BLBD	BLBD US	Sherif El-Sabbahy
	Caterpillar Inc	CAT	CAT US	Michael Feniger
	CNH Industrial NV	CNHI	CNHI US	Michael Feniger
	Construction Partners Inc.	ROAD	ROAD US	Michael Feniger
	ESAB Corp	ESAB	ESAB US	Sherif El-Sabbahy
	Finning International Inc.	YFTT	FTT CN	Sherif El-Sabbahy
	H&E Equipment Services Inc	HEES	HEES US	Sherif El-Sabbahy
	Knife River Corp	KNF	KNF US	Sherif El-Sabbahy
	Republic Services	RSG	RSG US	Michael Feniger
	Techtronic Industries Co Ltd	TTNDF	669 HK	Michael Feniger
	Techtronic Industries Co Ltd	TTNDY	TTNDY US	Michael Feniger
	United Rentals Inc	URI	URI US	Michael Feniger
	Vulcan Materials	VMC	VMC US	Michael Feniger
	Waste Connections Inc	WCN	WCN US	Michael Feniger
	WillScot Mobile Mini	WSC	WSC US	Sherif El-Sabbahy
<b>NEUTRAL</b>				
	AGCO Corp	AGCO	AGCO US	Michael Feniger
	Deere & Co	DE	DE US	Michael Feniger
	Fluor	FLR	FLR US	Michael Feniger
	GFL Environmental Inc	GFL	GFL US	Michael Feniger
	GFL Environmental Inc	YGFL	GFL CN	Michael Feniger
	Jacobs Eng.	J	J US	Michael Feniger
	Kennametal Inc.	KMT	KMT US	Michael Feniger
	Martin Marietta Materials	MLM	MLM US	Michael Feniger
	NV5 Global Inc.	NVEE	NVEE US	Michael Feniger
	PACCAR Inc	PCAR	PCAR US	Michael Feniger
	RB Global, Inc	RBA	RBA US	Michael Feniger



**US - Machinery Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Waste Management	WM	WM US	Michael Feniger
<b>UNDERPERFORM</b>	Allison Transmission Holdings Inc.	ALSN	ALSN US	Sherif El-Sabbahy
	Casella	CWST	CWST US	Michael Feniger
	Cummins Inc	CMI	CMI US	Michael Feniger
	Herc Holdings Inc	HRI	HRI US	Sherif El-Sabbahy
	IPG Photonics	IPGP	IPGP US	Michael Feniger
	Oshkosh Corp.	OSK	OSK US	Michael Feniger
	Terex Corp.	TEX	TEX US	Michael Feniger
	Timken Company	TKR	TKR US	Michael Feniger

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

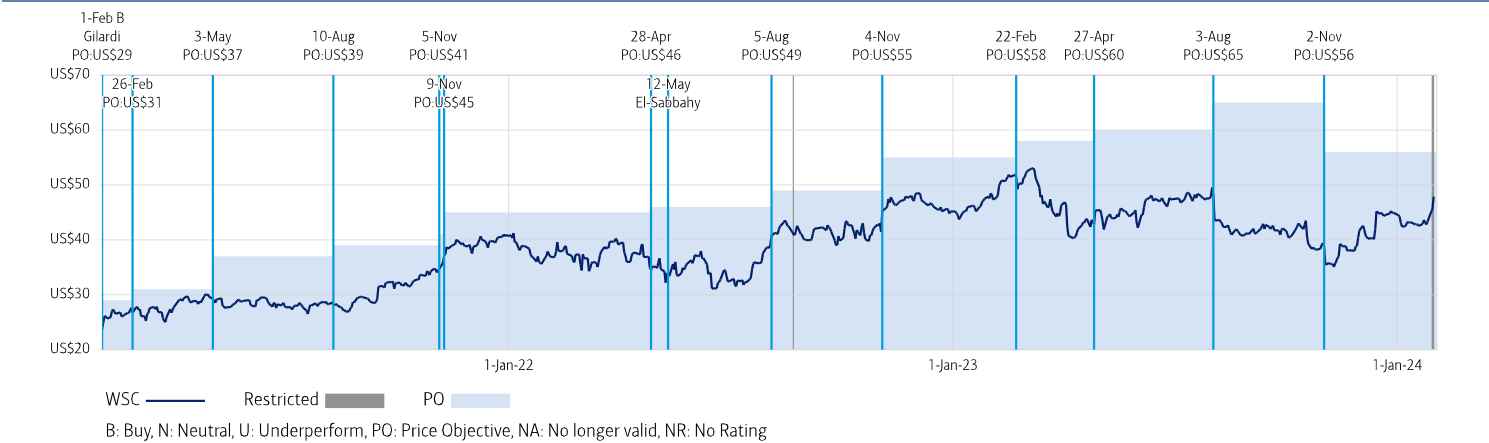
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WillScot (WSC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating  
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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