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# Accel Entertainment, Inc. (ACEL)

Q4 2021 Earnings Call

## CORPORATE PARTICIPANTS

**Mathew Ellis**

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**Brian Carroll**

*Chief Financial Officer, Accel Entertainment, Inc.*

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

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## OTHER PARTICIPANTS

**Steven Pizzella**

*Analyst, Deutsche Bank Securities, Inc.*

**Greg Gibas**

*Analyst, Northland Securities, Inc.*

**Jordan Bender**

*Analyst, Macquarie Capital (USA), Inc.*

**Omer N. Sander**

*Analyst, JPMorgan Securities LLC*

**Noah Naparst**

*Analyst, Goldman Sachs & Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Hello, and welcome to the Accel Entertainment Q4 and Full Year 2021 Earnings Call. My name is Katie and I'll be coordinating your call today. [Operator Instructions]

I will now hand over to your host, Mathew Ellis, SVP of Corporate Strategy, to begin. Matthew, please go ahead.

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**Mathew Ellis**

*Senior Vice President-Corporate Strategy, Accel Entertainment, Inc.*

Welcome to Accel Entertainment's fourth quarter and full year 2021 earnings call. Participating on the call today are Andy Rubenstein, Accel's Chief Executive Officer; and Brian Carroll, Accel's Chief Financial Officer.

Please refer to our website for the press release and supplemental information that will be discussed on this call. Today's call is being recorded and will be available on our website under Events & Presentations within the Investor Relations section of our website.

Some of the comments in today's call may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties, including those relating to COVID-19 and its variant strains. Actual results may differ materially from those discussed today and the company undertakes no obligation to update these statements, unless required by law. For a more detailed discussion of these and other risk factors, investors should review the forward-looking statements section of the earnings press release available on our website as well as other risk factor disclosures in our filings with the SEC.

During the call, we may discuss certain non-GAAP financial measures. For reconciliations of the non-GAAP measures as well as other information regarding these measures, please refer to our earnings release and other materials in the Investor Relations section of our website.

I will now turn the call over to Mr. Andy Rubenstein.

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## Andrew H. Rubenstein

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Thanks, Mat. Good morning, everyone. Thank you for joining us for Accel's fourth quarter and 2021 full year earnings call. I'm pleased to report we had another strong quarter, which led to a record 2021, even though we weren't open for the full year. Adjusting for the days we were closed in 2020 and 2021, year-over-year same-store sales grew by 38%. As we've highlighted throughout the year, the primary drivers of the growth were the higher bet limit software upgrades and the sixth VGT installations.

Towards the end of 2021 and into 2022, we saw a small decline in expected revenue and increased operating expenses related to the Omicron variant. In Illinois, Omicron cases began to decline in mid-November and peaked in late-January, while the mandatory mask mandate was already in place from August 2021 through February 2022. However, as you'd expect, by the end of February, cases dramatically declined and play has begun to return to seasonal norms.

Despite the small drop in revenue in early Q1, the current momentum in our business has allowed our guidance for 2022 to remain unchanged. More importantly, we foresee no long-term negative impacts.

On the expense side, in addition to the higher than expected costs from overtime and other Omicron-related impact in Q4, we strategically elected to increase our advertising expenditures during the fourth quarter to build deeper awareness for our AE Player Rewards and to target future location owners. While we saw minimal immediate impact from the advertising, we believe the investment will continue to drive more players to Accel and help us win a larger share of new locations in 2022. Without these additional expenses and even with reduced play, our adjusted EBITDA would have been within the range we previously guided to.

I'd now like to discuss our equity interest in Gold Rush. We made convertible equity investments in July and October of 2019. In July of 2021, we exercised our right to convert our convertible notes in the common stock of Gold Rush. Unfortunately, Gold Rush objected to the conversion and requested that the Illinois Gaming Board deny the transfer of equity interest to Accel, which the IGB did. We strongly disagree with the IGB's position on this and are pursuing all legal and administrative remedies to the fullest extent possible.

Accordingly, we recently filed a lawsuit against Gold Rush in the Circuit Court of Cook County with respect to the denied conversion. We are claiming damages for breach of contract and the applied covenant of good faith and fair dealing, as well as unjust enrichment. As this is an ongoing legal matter, we cannot answer any questions, but the complaint is a matter of public record.

Turning to Century, based on our current license application statuses with the various regulators, we believe Century will close by the end of May. We are already licensed in South Dakota and West Virginia, and we expect to be licensed in Nevada, Montana and Louisiana by the end of May. Century continues to significantly outperform our original estimates, and we're looking forward to adding them to the Accel family.

Sticking with M&A, we also entered the Iowa market at the end of 2021 with our acquisition of Rich and Junnie's. Similar to Georgia, Iowa allows for electronic amusement devices where winnings can be redeemed in the form of

merchant credit. While this was a relatively small acquisition, we believe it serves as a platform for future growth and remain excited about the potential opportunities in the Iowa market.

On the organic front, our sales team continues to sign additional competitor in organic locations. Last year, Accel was awarded 281 new licenses or 35% of the total new licenses awarded. At the first IGB meeting of 2022, Accel was awarded 44 new licenses or 39% of the total licenses awarded. Our ability to continually win more licenses than our current market share is a strong testament to our sales capabilities, brand awareness and location owners believing in the Accel difference. Whether we look at the number of eligible businesses without gaming or the number of VGTs per capita, we believe Illinois still has a significant amount of highly visible growth.

In Georgia, we ended the year with nearly 100 locations and our pipeline continues to grow. We're monitoring the House and Senate bills, which would legalize a prepaid debit card redemption option and remain excited about the long-term prospects for us in that market.

Looking at other states, we remain cautiously optimistic that several states will consider distributed gaming in the future. This year, four bills were filed in Missouri that are currently awaiting committee hearings. And in North Carolina, video gaming legislation is expected to be introduced in the upcoming short session. We continue to work with the various stakeholders to educate them about the benefits of distributed gaming and the incremental revenues it generates for state and local governments and small businesses alike. We are confident the growth playbook we built in Illinois can be replicated in any future market and our leadership position nationally will create advantages for us.

Overall, Accel is in a very strong position to capitalize on the future. Our hyper-local business model, low-capital requirements and highly visible growth offers one of the best returns in gaming.

With that, I'd like to turn it over to Brian to walk you through the numbers in more detail.

## Brian Carroll

*Chief Financial Officer, Accel Entertainment, Inc.*

Thanks, Andy, and good morning, everyone. For the fourth quarter, we had total revenue of \$192 million and adjusted EBITDA of \$33 million. For the full year, we set a new Accel record with total revenue of \$735 million and adjusted EBITDA of \$140 million, year-over-year increases of 132% and 212%, respectively. As compared to 2019, revenue was 71% higher and adjusted EBITDA was 75% higher.

Location hold-per-day for the fourth quarter was \$780, a year-over-year increase of 34%. Location hold-per-day for 2021 was \$806, a year-over-year increase of 38%. The primary drivers of the increase were the higher bet limit software and our sixth VGT initiative.

CapEx for the fourth quarter was \$11 million cash spend and CapEx for the full year was \$30 million cash spend. As of December 31, we had 13,639 VGTs in 2,584 locations, year-over-year increases of 11% and 6%, respectively. Location attrition continues to remain low and mirror the pre-COVID historical averages. At the end of December, our average residual contract length was approximately 6.8 years. Our ability to maintain this figure is a true testament to the strong and long-lasting relationships we've built with our location partners.

As you may know, towards the end of November 2021, we announced a \$200 million share repurchase program as we find the opportunity to return capital to shareholders in the form of buybacks, an attractive use of our significant free cash flow. Quarter, we purchased \$9 million of Accel stock at an average purchase price of \$12.79 per share. In January and February of 2022, we purchased an additional \$11 million of Accel stock at an average

purchase price of \$12.73. Given our relatively under-levered balance sheet and strong free cash flow, we are in position to make exciting investments like Century and thoughtfully return capital to shareholders.

At the end of the fourth quarter, we had approximately \$143 million of net debt and \$749 million of liquidity, consisting of \$199 million of cash on our balance sheet and \$550 million of availability.

For 2022, and as Andy mentioned earlier, given the current momentum, we are reiterating our guidance. We saw a small impact from the Omicron variant, but 2022 is still tracking towards the guidance released last November. Similar to our last call, I'm going to share guidance without Century and then include Century pro forma on a full year basis.

The 2022 guidance also assumes Georgia will no longer be an emerging market in the second half of 2022, since we'll have operated in Georgia for more than 24 months. We expect to end 2022 with 14,560 to 14,750 VGTs in 2,760 to 2,795 locations. Including Century, we expect to end 2022 with 23,000 to 25,000 VGTs in 3,700 to 3,800 locations.

2022 revenue is estimated to be \$820 million to \$870 million. Assuming the full year benefit from Century, revenue is estimated to be \$1.07 billion to \$1.18 billion. Adjusted EBITDA is estimated to be \$160 million to \$170 million. Assuming a full year of Century, adjusted EBITDA is estimated to be \$182 million to \$198 million. CapEx is estimated to be \$20 million to \$25 million cash spend. Assuming a full year of Century, CapEx is estimated to be \$25 million to \$35 million cash spend.

Back to you, Andy?

## Andrew H. Rubenstein

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Thanks, Brian. We are extremely pleased with our record performance this past year and are even more excited for what the future holds. 2021 was a year of record monthly revenues despite the slow start due to COVID-related closures. Recent results have solidified our view that these elevated revenues are sustainable going forward.

It's important to remember that our product and gaming experience today is substantially better than it was in 2019, and that is reflected in our results and outlook. We have more machines per location, newer cabinets, better software, higher jackpots and higher max bets. In addition, our locations continue to invest in nicer gaming areas, given the strength and importance of the incremental revenues we help them generate.

We remain confident that our asset-light, hyper-local business model creates a platform to outperform in difficult times and really thrive under normal circumstances, as demonstrated by our continued performance. We aim to leverage our proven business model and extremely strong financial position to continue our expansion and return capital to shareholders. We've gone from one state to soon to be nine states, and we see that continuing to expand.

Our success would not be possible without our dedicated employees and loyal customers. They are the true competitive advantages of our business that make Accel the preferred choice in distributed gaming.

We will now take your questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] We take our first question from Steve Pizzella from Deutsche Bank. Please go ahead.

**Steven Pizzella**

*Analyst, Deutsche Bank Securities, Inc.*

Hey. Thanks, guys. Can you just talk a little bit more about the recent trends you are seeing that gives you the confidence to reiterate the guidance, despite the negative impact from Omicron in January? Are you back to pre-Omicron levels?

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Yeah. Thank you, Steve. We've seen building strength since Omicron has kind of worn off its effect on the overall economy, and as the early numbers had indicated in March, it's building upon what we saw late February. And I believe as people are kind of re-engaging with kind of society and going out more, that has impacted us in a positive way. Most recently, the mask mandate in Illinois was revoked and, therefore, people are able to go out mask-less. And in Cook County, the requirement of vaccination has also been removed. So, more and more people are feeling comfortable going out and engaging with our machines.

**Steven Pizzella**

*Analyst, Deutsche Bank Securities, Inc.*

Okay. Great. Thank you. And just how are you approaching share repurchases? Is it all opportunistic? I mean, how are you weighing share repurchases versus other uses of capital such as M&A?

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Yeah. So we filed a 10b-5 and so, therefore, there is a program that is purchasing based on the price in the market and there's different thresholds. We'll continue to look at share repurchasing as an opportunity to return value to our investors. And, currently, we see the pricing, such that we will continue down that path.

As far as relative to the M&A, we plan to continue to do both. There is capacity for us to continue down both paths. We have considerable cash flow to be able to sustain both programs for the foreseeable future.

**Steven Pizzella**

*Analyst, Deutsche Bank Securities, Inc.*

Okay. Great. Thank you. Appreciate it.

**Operator:** The next question comes from Jordan Bender from Macquarie Capital. Please go ahead, Jordan.

**Jordan Bender**

*Analyst, Macquarie Capital (USA), Inc.*

Thanks. Thanks for taking my question. You've talked about the strength in the higher bet limits over the last couple of quarters. When you think about the average bet size prior to the upgrades and where it stands now, I was just wondering if you've a sense of how much more the average bet size has to move up.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

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Yeah. It has trended upwards and we see our funds in increasing. The ability for the consumer to continue to increase their bet is there. We really don't know what their individual capacity or as a group will be, and a lot of that is related to, obviously, wage inflation and the cost of alternative entertainment.

**Jordan Bender**

*Analyst, Macquarie Capital (USA), Inc.*

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Okay. And then for my follow-up, you just talked about the elevated advertising spend kind of towards the end of the year. Should we expect that to creep into the first and maybe second quarter of 2022 as well?

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

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No, I would say that was an opportunistic situation where we were having a lot of strength. We were introducing to a lot of newer players, the AE Rewards Program, and we'll continue with our previous program of AE Rewards and use the jackpots and other types of rewards to entice the players.

**Jordan Bender**

*Analyst, Macquarie Capital (USA), Inc.*

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Okay. Thanks, Andy. Nice quarter.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

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Thank you.

**Operator:** Our next question comes from Stephen Grambling from Goldman Sachs. Please go ahead.

**Noah Naparst**

*Analyst, Goldman Sachs & Co. LLC*

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Hi. This is Noah Naparst on for Stephen. Thanks for taking the question. As it relates to the guide and emerging markets, can you remind us what else, besides Georgia no longer being in that category, will be in emerging markets? So, for example, Iowa and whether any of the Century's states would be in the number?

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

A

Yeah. I would say for this year, we'd be looking at Iowa and Pennsylvania as emerging markets for us. Century, obviously, is a mature market as well as in both Nevada and Montana. So as you think about it, just those two other states.

**Noah Naparst**

*Analyst, Goldman Sachs & Co. LLC*

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Thanks. And one more for me, have you seen any impact so far at your locations from higher gas prices or any of the macro uncertainty impacting the consumer potentially?

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Yeah. I think it's really premature for us to see any of that, and our numbers have been strong as expected so far, and we expect the fact that our offering of entertainment is static in price that we'll continue to see that strength.

**Noah Naparst**

*Analyst, Goldman Sachs & Co. LLC*

That makes sense. That's all for me. Thank you.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Thank you.

**Operator:** The next question comes from Greg Gibas from Northland Securities. Please go ahead.

**Greg Gibas**

*Analyst, Northland Securities, Inc.*

Hey, good morning, guys. Wondering if you could talk about the degree to which Century is outperforming your original estimates.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Yeah. Thanks, Greg. Century has seen strength similar to the rest of the country in terms of as we've rebounded around gaming across the board with additional stimulus that we saw in 2021, we underwrote the deal at \$20 million of EBITDA, we've guided somewhere between \$20 million to \$25 million, and we think that the performance that what we've seen in the last, call it, six months has indicated that that's very achievable. And similar to Illinois, their establishments are close to where people live. So the impacts of having to drive to a more destination gaming experience won't affect them, like it will regional casinos.

**Greg Gibas**

*Analyst, Northland Securities, Inc.*

Got it. That's helpful. And if we could touch on the Iowa market, how sizeable was that opportunity? I know it's amusement and ATM versus VGTs, but wondering if you could maybe discuss the market opportunity in Iowa and if you're seeing maybe other attractive opportunities there.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Yeah. I mean, today, it's a not material, but we see it growing quite significantly over the next couple of years. It's an ancillary market to us. We had a previous service agreement with the company. And when they were looking to exit their market, it was a good fit. So we have reasonable expectations for growth there. But at this point, it will not be material to the overall performance of the company.

**Greg Gibas**

*Analyst, Northland Securities, Inc.*

Okay, understood. Last one from me. Just given you're very close with your locations or your establishments, have you seen any impacts relating to locations struggling to find employment to keep regular open hours?

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Yeah. I mean, that was definitely impactful in February I mean, I'm sorry in December and January. A lot of it related to Omicron, where people were reluctant to go back to work due to the proximity to all the customers and working in environments where they thought were less safe than their homes. As February has indicated, that's kind of loosened up, and we've seen their ability to operate in more total operating hours and find additional employees that would allow them to do so. But it definitely impacted hours of operation in both December and January and just like it affected our overall performance in those months.

**Greg Gibas**

*Analyst, Northland Securities, Inc.*

Okay. Thank you.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Thanks.

**Operator:** [Operator Instructions] We take our next question from Omer Sander from JPMorgan. Please go ahead.

**Omer N. Sander**

*Analyst, JPMorgan Securities LLC*

Hey, Andy, Brian, Mat. Thanks for taking the question. Just one. How are you thinking about the bridge of new locations added both from the gaming commission and then conversions this year and the potential impact of any attrition?

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

So we expect to kind of continue the pace that we have maintained over the last few years in terms of adding new locations. We see 2022 as a very good year, as we know what our pipeline is. Obviously, they need to be converted to live locations.

The attrition, which was greater in 2020 and 2021, as businesses failed due to basically the COVID pandemic. We're starting to see some of those businesses with new ownership reopen. So I would say the attrition will be lower on a relative basis than previous years, and growth for new locations should pick up toward the back end of 2022 into 2023.

**Omer N. Sander**

*Analyst, JPMorgan Securities LLC*

Great. Thank you.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

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Thank you, Omer.

**Operator:** I can confirm we have no further questions. So I'll hand it back to Andy for any closing remarks.

**Andrew H. Rubenstein**

*President, Chief Executive Officer & Director, Accel Entertainment, Inc.*

Yeah. Thank you, everyone, for joining us today. And like I said that we have begun a very strong 2022 and we are very optimistic that this strength will continue. There are a lot of indicators that we are in the beginnings of one of the best years Accel has ever had. And so we look forward to speaking with you guys again in a few months. Thank you and have a good day.

**Operator:** Thank you all for joining. This now concludes today's call. Please disconnect your lines.

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