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Accel Entertainment, Inc. (ACEL)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the Accel Entertainment Q3 2021 Earnings Call. My name is Daisy and I'll be coordinating today's call. You will have the opportunity to register a question at the end of the presentation. [Operator Instructions]

I will now hand over to your host Mathew Ellis the Senior Vice President of Corporate Strategy from Accel Entertainment. So, Matthew, please go ahead.

Mathew Ellis

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

Welcome to Accel Entertainment's third quarter 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 related 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.

Andrew H. Rubenstein

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

Thanks, Mat. Good morning, everyone. Thank you for joining us for Accel's third quarter earnings call. It's hard to believe, but this is the first time since we became public in November of 2019 that we've been fully open for two consecutive quarters. I'm pleased to report the strong performance for the second quarter continued throughout the third quarter. On a seasonal basis, the third quarter is typically the lowest performing quarter, but as demonstrated in our results, we continue to see year-over-year location revenue growth of more than 30%.

As we've highlighted throughout the year, the primary drivers of the higher revenue were the completion of higher bet limit software upgrades and the sixth VGT installations. We also continue to optimize our product offering, which helps us retain our existing players and attract new players. Due to the quarter's strong results, we are raising our current year guidance again and also releasing 2022 guidance. I'll leave it to Brian to walk you through the numbers later in the call.

Turning to growth, as most of you are already aware, on October 22, we amended our credit facility, which increased our borrowing capacity from \$438 million to \$900 million. It was a large ask from our lender group, but after seeing our intended uses of the funds along with our high quality credit story, we actually received commitments in excess of our ask. Our M&A pipeline is active and we expect to announce more opportunities in the future in both existing and incremental new states.

I'd also like to thank our lender group for their continued support. While we're on the topic of M&A Century is still on track to close in the first half of 2022. And they continue to perform better than our original estimates. As we're not certain on the timing of closing we're releasing 2022 guidance to illustrate what Accel would look like if Century was included for the full year.

On the organic front our sales teams continue to sign an additional competitor in organic locations. Year-to-date Accel was awarded 243 new licenses or 35% of the total new licenses awarded. Our ability to win more licenses in our current market share is a strong testament to our sales capabilities and location owners believing in the Accel difference. Our sales team is just one of many competitive advantages that differentiates us from other operators. We're continuing to monitor the number of licenses awarded each meeting but more importantly we're focused on the size and quality of our sales pipeline which continues to grow. We always aim to win more than our fair share of licenses and then work with our location partners to maximize their gaming and overall business revenue. But when we look at the number of eligible businesses without gaming over the number of VGTs per capita we believe Illinois still has a significant amount of future location growth. In Georgia we continue to grow our backlog and expects to end the year with 100 live locations. We also continue to work on improving the gaming experience for players and are hopeful that a new redemption option will be introduced in the future. We remain excited about the long-term prospects for us in this market. Looking at other states, we remain cautiously optimistic that several states will consider distributed gaming in the future. For example, Virginia and Missouri will likely introduce distributed gaming bills in their upcoming legislative sessions. We continue to work with the various stakeholders in these states 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 that our growth playbook we built in Illinois will enable us to be successful in any future markets. Overall, Accel is in a

strong position to capitalize on the future. We believe we offer one of the best returns in gaming, combined with highly visible growth.

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 third quarter, we had total revenue of \$193 million and adjusted EBITDA of \$38 million. The year-over-year increases of 43% and 63% respectively. Revenue per location per day for the third quarter was \$798, a year-over-year increase of 34%. The primary drivers of the increase were the higher bet limit software and our sixth VGT installations. CapEx for the third quarter was \$8 million cash spent. As of September 30, we had 13,384 VGT's in 2,549 locations. Year-over-year increases of 8% and 15% respectively. Location attrition continues to remain low and mirrored the pre-COVID historical averages. It is our continued belief that this is with incremental gaming revenues have a lower failure rate as compared to businesses without. At the end of September, our average residual contract length was approximately 6.7 years. At the end of the third quarter, we had approximately \$148 million of net debt, down \$19 million from Q2. Including our amended credit facility, we have \$730 million of liquidity consisting of \$180 million of cash on our balance sheet and \$550 million of availability.

I would now like to provide updated guidance for 2021 and 2022. As a reminder, the 2021 guidance assumes no acquisitions and includes the partial shutdown from January of this year. We are now forecasting to end the year with \$13,660 to \$13,775 PTTs in 2,600 to 2,620 locations. Revenue for 2021 is now estimated to be between \$725 million to \$715 million with adjusted EBITDA of \$148 million to \$145 million. CapEx is estimated to be between \$20 million to \$25 million cash spend.

Year-end net debt, excluding any acquisition financing, should be approximately \$110 million to \$150 million, implying a year-end trailing debt to EBITDA multiple of only 0.8, giving us ample firepower to pursue additional inorganic and greenfield opportunities. For 2022, I'm going to share guidance with and without Century. Since the exact timing of Century is still uncertain, the guidance I'm going to provide with Century will be on a pro forma basis, with Century included for the full year.

The 2022 guidance also assumes Georgia will no longer be an emerging market in the second half of 2022, since we have to operate in Georgia for more than 24 months. We expect to end 2022 with 14,560 and 14,750 BTTs in 2,760 to 2,795 locations. Including [indiscernible] (00:09:57) we expect to end 2022 with 23,000 VGT to 25,000 VGTs and 3,700 to 3,800 locations. 2022 revenue is estimated to be between \$820 million to \$879 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 between \$116 million to \$170 million. Assuming a full year of Century, adjusted EBITDA is estimated to be between \$182 million to \$198 million. Cash spend CapEx is estimated to be between \$20 million to \$25 million assuming a full year of Century, cash spend CapEx is estimated between \$25 million to \$35 million. Taking into account our amended credit facility, the timing of the Century acquisition and the growth Andy discussed earlier, we are not guiding our net debt for 2022 at this time. As we have more visibility, we will resume providing updates. Back to you, Andy.

Andrew H. Rubenstein

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

Thanks, Brian. We're extremely pleased with our performance this quarter and even more excited for what the future holds. 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 the results and outlook. We have newer cabinets, better software, higher jackpots and our locations continue to invest in natural gaming areas given the strength and importance of the incremental revenues, we help them generate. We remain confident there are 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 differentiated operating model an extremely strong financial position in order to continue our expansion both in Illinois and across the country. Our success would not be possible without our dedicated employees and loyal customers. They are the true competitive advantages of our businesses that make Accel the preferred choice in distributed gaming. We will now take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much. [Operator Instructions] Our first question comes from Omer Sander from JPMorgan. Omer your line is open. Please go ahead.

Omer N. Sander

Analyst, JPMorgan Securities LLC

Hi, Andy, Brian, Matt, thanks for taking the question. Hoping you can pass out commentary a little bit more. It looks like your 2021 guidance implies a nice sequential step up in locations and VGTs in the 4Q. Are you seeing the momentum more on the conversions and gross units or the more moderation on the attrition front?

I would say, Andy, thanks for the question Omer. I'd say that the attrition is relatively flat as far as it's not declining or growing that's kind of consistent with past experience. It's more on the ability to win new customers and convert some of our customers that are currently with some of our competitors. We are getting some growth with additional equipment in our current portfolio. But I don't – it's not material going forward.

Great. Thank you.

Operator: Thank you. Our next question comes from Kathleen Brenneck from Goldman Sachs. Kathleen, your line is open. Please go ahead.

Hi, this is Noah on for Stephen Grambling from Goldman. Looking at the 2022 guidance that you've given in sort of parsing out what is organic excel versus Century. It would seem to be that the contribution from Century, you sort of stepped up the guidance versus what you'd originally outlined at the Analyst Day. Are you seeing any trends there in Century's markets that things have been going better than expected or what's driving that?

A

So, we've seen Century do a really nice job as the – we – as the markets have reopened in kind of mid-2020 and going forward. And they have performed better than expected, consistent with what we're seeing across the country. So, there has been some changes in the – especially in Nevada market, where they now have a player rewards program that the state allowed to be implemented July 1 of this year. And so, I think we'll see benefits – we've seen benefits from it a little bit in the initial phase. And I think we'll continue to see it as we go forward into 2022.

Q

Okay. And if I could just ask one follow-up, do you have any insight into the potential legalization in Virginia [indiscernible] (00:15:52) related to you touched on it, but any conversation there?

A

Yeah. In both markets there has been legislation introduced in the past. There's interest, interest from the legislators. The question is whether or not like the stars will align to get that legislation across the finish line. And in any given year, it can happen and it got close in both states at different points over the last couple of years. The both states see that the success that the state of Illinois has had and as we look forward mean it's a real benefit for the state as well as for small business owners. And so, there's no [indiscernible] (00:16:52) have really benefited from the gaming that was introduced in the 2009 legislation that we implemented October of 2012. So we're hopeful, but with any type of legislation until you get it signed by the Governor, we've learned that lesson a few times here in Illinois. It's not legislation.

Q

Thanks. That's it for me. Thank you very much.

Operator: Our next question comes from Steven Pizzella from Deutsche Bank. Steve, your line is open. Please go ahead.

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Hey, guys, thanks for taking my questions. I think 2022

Steven Pizzella

Analyst, Deutsche Bank Securities, Inc.

Hey, guys. Thanks for taking my questions. I think 2022 year-over-year guidance implies approximately 15% revenue growth at the midpoint ex-Century, I believe, with about half coming from new VGTs. Can you talk about the drivers of the other half?

A

Yeah. Yeah. I mean one of the bigger drivers is, if you recall, we were shut down for 22 days in January. So, we're going to pick up the revenue from basically a zero for two-thirds of a month – more than two-thirds of the month of January. The other part that we'll see is there was some – there'll be some annualization of the six machines that were implemented after we went up.

And then finally, a lot of the software that came into play was finally implemented in that first and second quarter. So, they'll get the benefit of the \$4 bets. So, all those different factors will contribute to additional revenue, and obviously, where our overall economy has inflationary pressures. And so, people are spending more and the relative value of our entertainment hasn't changed.

Q

Okay. Great. That's helpful. Thanks. And then, is there any way you can kind of talk about the cadence within the quarter? Did you see any impact from the delta? And then, if you're able to give any comments on October trends?

A

Yes. Yes. Yes. So looking at it like the delta hasn't really had much effect and as we saw in the past as entertainment options are more limited, we do better because we're a safer more with form of entertainment that's closer to home with environments that they're comfortable with. So the delta hasn't had any anything negative, if anything as people are traveling a little less than anticipated. They're staying closer to home and playing our machines and we've had a very like good performance during this period. October kind of is like almost any other relative month of the seasonality is similar that than what would as expected. So we're not seeing any outlier one way or the other.

Q

Okay. Helpful. Thanks. And just one more, if I could. Can you just talk about the pipeline you are seeing for new locations and how much visibility you do have into 2022 pipeline and beyond?

A

Yeah, so the pipeline we, you know, we only see as far as kind of what our current portfolio of locations that we have signed up.

And then obviously the gaming boards licensing process is the other major factor. We continue to perform and we continue to win new opportunities and are our customers choose us over other options time-and-time again, and so can't really see how like later into the second half of 2022 is going to perform and except for the fact that we do have a good team and they have performed in the past and we expect them to continue to succeed in the future. So what that means is that, you know, we hope that the performance that you've seen out of Accel will continue going forward.

Q

Okay. Appreciate it. Thanks, guys.

Operator: Thank you very much. Our next question comes from Jordan Bender from Macquarie Capital. Jordan your line is open. Please go ahead.

Jordan Bender

Analyst, Macquarie Capital (USA), Inc.

Thanks for taking my question. So last week, Illinois expanded gaming and allowing slots into locations you previously couldn't penetrate, although I think only about 8% of municipalities didn't allow VGT, so relatively small. But do you know the market size for these veteran and fraternal organizations and is that in your guidance?

So, no it's not in our guidance organizations and is that in your guidance?

So no it's not in our guidance and it's a very small opening that was created. I would say whatever those municipalities you can't expect more than one or two veterans locations in those municipalities. And a lot of them don't even have veterans halls or American Legions. So that's kind of not something that we're looking far – toward for meaningful revenue. And our hope is that at some point there's other opt-ins where you can have a more – a greater ability to expand the BGTs in some of these opt-in communities but it's not in any of our guidance.

Okay. And then the Illinois market is still north of around 55 operators. When you look at future years when – what do you see in terms of consolidation and how do you fit into that M&A when you think about M&A inside of the state versus outside of Illinois?

Yeah. I mean well there's always opportunities for consolidation. I don't think they'll be a lot of significant consolidation and part of that is that the market has a couple of big players and I think overall all the state wants to keep a good competitive market. And – but at the same time, I think you'll still always see a lot of really small players. And as far as Accell goes, we're always pursuing acquisitions inside of Illinois. But I'd say a lot more of our focus has been recently in other opportunities and other markets. And I mean Century is the best example. I think that is, as we learn new markets through Century's distribution and manufacturing business, we'll identify where we should be next.

Perfect. Thanks, Andy.

Andrew H. Rubenstein

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

Thank you.

A

Operator: [Operator Instructions] Our next question comes from Greg Gibas from Northland Securities. Greg, your line is open. Please go ahead.

Greg Gibas

Analyst, Northland Securities, Inc.

Hey, guys. Thanks for taking the questions. First, just wanted to confirm that we're at nearly 100% in terms of installing the safety [indiscernible] 00:27:03 and then higher PAT limit installation.

Q

Yes. Thanks, Greg. We are – yeah, in the 98% range. Not much. There's not much additional.

A

Greg Gibas

Analyst, Northland Securities, Inc.

Okay. Great. And then, if I could follow-up on the kind of the poll you provided on the M&A pipeline, do you think acquisition multiples have changed at all maybe since your last few acquisitions?

Q

I think they stabilized maybe slightly lower but it's pretty stable.

A

Got it. And you know just a follow up to on your commentary regarding Century outperforming your expectations. And just wondering if you could maybe expand on to what degree they did?

Q

Yeah I mean they're – just the revenue has been significant. And it's following the trend that we've seen across the country where very local very regional type gaming has been a preferred form of entertainment as the economies reopen from the kind of pandemic period. And so where we saw in 2019 about \$20 million is of EBITDA we're expecting it to be somewhere between 18% to 22% higher. And there – and it's based on just that people want to entertainment that's close to home where they know people who are in the establishment and they feel comfortable and they're seeing a lot of the same trends that we've seen in Illinois and then obviously they're not getting the value of adding a [indiscernible] machine and higher bet limits but we also think they're going to get the benefit of having a player reward system that was just recently implemented.

A

Q

Got it. That's helpful and I guess last one from me, any sense of whether locations under contract are impacted by labor supply issues at all?

A

Yeah, labor is an industry that is in this industry is being impacted very similar to all the kind of lower wage businesses. And fortunately, a lot of our business partners are family-owned small business owners and so they have a very loyal employee base. But, we have seen some situations where there's been real struggles to hire or to grow their employee base because of rising in wages and the limited market. And we foresee that being a challenge in the near future. And hopefully, as more people feel more comfortable to go back into the workplace, some of that will go away.

Q

Okay. Understood. Thanks again and congrats on the results.

A

Thanks Greg.

Operator: [Operator Instructions] We have no further questions. So I'll hand back over to Andy for closing.

Andrew H. Rubenstein

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

I just want to thank everyone for joining us today and wish everyone a safe and healthy holiday season and look forward to speaking with everyone again in the New Year.

Operator: Thank you, everyone, for joining today's call. You may now disconnect your lines and have a lovely day.

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