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Accel Entertainment, Inc.

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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	6

Call Participants

EXECUTIVES

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Derek Harmer

General Counsel, Chief Compliance Officer & Secretary

Mathew Ellis

Chief Financial Officer

ANALYSTS

Chad C. Beynon

Macquarie Research

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Presentation

Operator

Good afternoon. Thank you for attending the Accel Entertainment Second Quarter 2023 Earnings Call. My name is Matt, and I'll be your moderator for today's call. [Operator Instructions].

I would now like to pass the conference over to our host, Derek Harmer. Derek, please go ahead.

Derek Harmer

General Counsel, Chief Compliance Officer & Secretary

Welcome to Accel Entertainment's Second Quarter 2023 Earnings Call. Participating on the call today are Andy Rubenstein, Accel's Chief Executive Officer; and Matt Ellis, 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. 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 Andy.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thanks, Derek, and good afternoon, everyone. Thank you for joining us for Accel's second quarter earnings call. I'm pleased to report we had another record-breaking quarter. We reported revenue of \$293 million, a year-over-year increase of 28% and adjusted EBITDA of \$47 million, a year-over-year increase of 9%. Q2 revenue growth was primarily driven by the successful acquisition of Century, which is now fully integrated and 0.4% same-store sales growth in Illinois.

The modest growth in Illinois was mainly due to unfavorable weather. Warmer temperatures came earlier than expected, and we've seen higher thunderstorm activity during the summer. Our continued growth in the face of economic uncertainty clearly demonstrates the strength of our hyper local business model.

Our establishment partners recognize and rely on the incremental profits are high-quality offerings bring to their businesses. On the expense side, our technology investments have started to bear fruit. Over the winter, we reimagined how to provide service to our locations by investing in technology to help us more efficiently dispatch our technicians while continuing our industry-leading level of service.

Our cost structure continues to remain stable despite the inflationary impacts on labor and costs. While the labor market remains challenging, we've seen some signs of stabilization, allowing us to better retain it and attract talent. Our asset-light business model and highly variable cost structure will allow us to continue to quickly calibrate our business to any additional changes in the economy.

On the regulatory front, we reached a settlement with the Illinois Gaming Board to resolve our disciplinary complaint for \$1.125 million. With this matter behind us, we look forward to working together more productively.

Turning to Century. I'm pleased to share that we've completed our back-office integrations and our operations teams continue to align on best practices. With Century's capital constraints removed, we're now focused on unlocking Century's growth by investing in new equipment and strategic acquisitions. On the greenfield front, we're closely watching North Carolina. As a part of North Carolina's efforts to reduce corporate income taxes, we're hopeful the state will turn to distributed gaming as an alternative source of tax revenue. The House and Senate are currently reconciling the respective budget bills, both of which currently include distributed gaming. We should know more by the end of August.

Looking at M&A, our pipeline remains active, and we're evaluating multiple opportunities across the country. Our long-term goal continues to be the increase of percentage of our revenue generated outside of Illinois. Overall, Accel continues to execute its growth playbook. We remain excited about the opportunities in the markets where we are currently operating as well as new markets we're looking to enter. Our strong balance sheet, local business model and highly visible growth offers one of the best returns in gaming.

With that, I'd like to turn it over to Matt to walk you through our financials in more detail.

Mathew Ellis

Chief Financial Officer

Thanks, Andy, and good afternoon, everyone. For the second quarter, we had total revenue of \$293 million, a year-over-year increase of 28% and adjusted EBITDA of \$47 million, a year-over-year increase of 9%. As a reminder, Century has been included in our results since June 1, 2022, and Century operates in markets where the revenue splits between Century and the location is negotiated. The margins are attractive, but far lower than our existing business.

I'd also like to note that our reported \$47 million of adjusted EBITDA includes the \$1.125 million settlement with the IGB. CapEx for the second quarter was \$20 million cash spend. The increase is due to accelerating some purchases in Illinois to avoid supply chain disruptions and additional investment in our developing markets such as Nebraska and Georgia. We continue to see upside in both of these markets, and we're excited by the recent growth. That said, it's important to realize today's investments may not be fully realized for several years to come.

As of June 30, we had 23,759 terminals and 3,655 locations, year-over-year increases of 7% and 5%, respectively. Location attrition continues to remain low and is mostly attributable to our lowest performing locations closing their doors. At the end of the second quarter, we had approximately \$285 million of net debt and \$575 million of liquidity, consisting of \$233 million of cash on our balance sheet and \$342 million of availability on our current credit facility.

I'd now like to discuss our capital allocation strategy. As you're all aware, in November of 2021, we announced a \$200 million share repurchase program. With our strong balance sheet and low leverage, we're in a unique position where we can grow our business and return capital to shareholders. Generally speaking, we intend to fund growth using our credit facility and return our free cash flow to shareholders. I would like to emphasize that this strategy may change depending on macroeconomic conditions, growth plans and other factors.

To that end, during the quarter, we repurchased \$8.1 million worth of Accel stock at an average purchase price of \$9.14 a share. We are now just over halfway through the repurchase program with 9.7 million shares repurchased at a cost of just over \$100 million. Similar to last quarter, we are not issuing guidance due to the near-term macroeconomic uncertainty. However, I would like to emphasize that demand continues to remain strong and should the current trends continue, we expect to deliver another strong year with record-breaking results.

With that, I'd like to turn it back over to Andy.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thanks, Matt. We're pleased with another strong quarter and remain focused on executing our growth strategy to create value for our investors. We're confident that our locally focused business model creates

a platform to outperform in challenging conditions such as these and thrive under normal circumstances. We will now take your questions.

Question and Answer

Operator

[Operator Instructions] The first question is from the line of Steve Pizzella with Deutsche Bank.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Can you just talk about any trends you saw in the quarter by month and by location? And maybe any color you can give us on July?

Mathew Ellis

Chief Financial Officer

Steve, thanks for the question. Generally speaking, the whole quarter came in strong with -- as Andy discussed, when the warmer weather comes, revenue slows up a bit. But throughout the quarter, we recovered. So I would say, overall, we continue to stay on a general basis ahead year-over-year, a little more modest on the same-store sales growth, but still growing.

And then on the Century side as well, consistent. Granted, we got them in June of last year, but we're seeing year-over-year growth there as well. July similar to Q2 looks good, maybe not as strong as years ago but still up. So sort of like I said, we feel pretty good about everything. Hard to get too aggressive just with everything going on, but we continue to see positive numbers.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Okay. That's helpful. And then margins were up nicely quarter-over-quarter, and thanks for the color on the cost. Can you talk about where you think you can get margins to kind of moving forward in the back half even as we think about 2024?

Mathew Ellis

Chief Financial Officer

So I think remember, you've got to think, again, costs are up in general, our raises come midyear. So that will be factored in. But again, revenue is growing. So I think I wouldn't go much up from where we're going. But like we said, we've been able to manage our cost structure well. keep our service levels very high.

So I think sort of what you've been seeing is something to continue modeling. The one thing I'd stress is while demand holds up, obviously, those incremental revenue dollars can have an impact. But overall, I think what you've seen for the first 2 quarters of this year with just maybe a little bit of cost inflation for the back half is a pretty reasonable way to model.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Okay. And then just one more, if I can. Thanks for the color on North Carolina. Are there any other jurisdictions you're looking at, maybe in Chicago, often or any other states you could share what you're seeing out there on the legalization front.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thanks, Steve. This is Andy. We have been monitoring the Missouri's, the Indiana's, the city of Chicago, we haven't seen any real movement that would indicate that some of these jurisdictions would either legalize or adopt legalized gaming. And so definitely for '24, we're very pessimistic on anything other than North Carolina, having any movement. Looking into the future, maybe it's something that we're constantly

monitoring. And even if there was some type of movement on that, it's probable that it's going to take 18 to 24 months after the legislation passes or the authorization before we'll be able to monetize the market.

Operator

The next question is from the line of Chad Beynon with Macquarie.

Chad C. Beynon

Macquarie Research

Andy, I wanted to ask about just broadly M&A conversations. You mentioned your strong balance sheet and your appetite to grow outside of Illinois. So just wondering if bid-ask spreads have tightened or given how strong the consumer has been nationally if potential sellers are still not ready to come down on price.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes. I mean thanks, Chad. I think there's still a bit of a disconnect. And I think you have to look at it market by market, some of the legacy markets, it's contracting in terms of the gap, but especially with interest rate pressures on some of these businesses and the actual cost of capital increasing, people are starting to get a reality check. We've looked at some of the transactions that have happened in the last year or 2, and they're not -- today wouldn't be viable. And we're kind of pleased with our position that we've kind of been able to use our capital more prudently, and we expect there'll be opportunities as we move forward because the pricing is becoming more and more attractive.

Chad C. Beynon

Macquarie Research

Appreciate that. And then back on North Carolina, apologies that I haven't looked into this to the degree that I should have, but it's a \$10 million population state. And if I look at Illinois and I kind of back out Chicago, where there's no product, North Carolina could actually be bigger from a population standpoint than what we see in Illinois. From a unit standpoint, within the 2 different bills, have they been -- has it been discussed in terms of what the size could be? I mean, could this be as big as kind of present day, Illinois after North Carolina matures?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes, that's a very interesting question. The legislation hasn't been finalized. There's a lot -- there's been multiple iterations of it and many different proposals that we've seen or heard about most of them we haven't even seen. There's the potential for equipment in the market limitations, whether it's by individual storefront or its total market. And a lot of that's being negotiated.

I believe because of this mentality, it may hold back the opportunity or the total market ability to earn because of legislative limitations. Again, it's all speculative because we haven't seen anything that's close to final. And we'll continue to wait to -- for it to be worked out.

All this being said, there is a real possibility that nothing happens. And that's -- as all of us have followed legislation in these markets for many, many years, it can -- it teeters. And any given day, you can go one direction or another in terms of the momentum. We think it's pretty positive right now. But until the governor signs it, as we learned in -- what happened in Virginia. Nothing's guaranteed.

Chad C. Beynon

Macquarie Research

Good points. And then lastly, just thinking about the Century integration. I'm looking at \$177 million of TTM EBITDA with much greater strength in the last 2 quarters. Is there still -- are there still synergies from the Century acquisition that could come in the future? Or do you feel like that portfolio outside of macro trends is running optimally?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

So as far as looking at it from a synergy standpoint, they've done -- they run a very, very good operation. And we've extracted some synergies. But what we're seeing more is opportunities. And they have a very good brand. They have outstanding service. They're a leader in both markets. And with the capital that we've provided, they've really been able to upgrade and seek out new opportunities. And so we think that they are -- they haven't reached their potential. And we think there's still a path to keep to continue growing their presence in each market and improve the top line performance.

Operator

The next question is from the line of Greg Gibas with Northland.

Gregory Thomas Gibas

Northland Capital Markets, Research Division

I guess, first, just to follow up on -- you mentioned the back office integrations with Century being complete, and now the focus is on kind of investing in some new equipment. Will we see a meaningful impact on financials that we should be accounting for a result of that? Or is that just kind of the next step in terms of the focus on that integration.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thanks for calling, Greg. I think you'll see a gradual improvement and growth in the revenues. It's not going to be a big pop. It's going to be something that will consistently happen over the next couple of years. It's -- you're talking about a big ship, and we're adding pieces to it, and it's growing, but it's not something that's going to happen overnight. And we've got great leadership there, and our market presence is significant to where we are a recognized leader. So I think we can build on that. And I think you'll see the benefit from that for a few years to come.

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Okay. Great. Regarding M&A, and the goal to kind of diversify outside of Illinois more, what -- you mentioned looking at multiple markets, what would kind of be your -- the primary or maybe the top markets that you're looking at in terms of M&A transactions.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

And we're looking across the board on these opportunities. And I think there's a lot of promise in markets outside of Illinois. And we've spent quite a bit of time exploring these markets. Fortunately, the Century Grand Vision part of our business has allowed us to investigate and understand how gaming works in many other markets.

And from that -- from those learnings, I think when a new market like Nebraska opens up, where we've been successful, it's because of the experience that we -- that the Century and Grand Vision teams have in developing products for new markets, understanding the needs of the market, and we lever that very quickly to work with companies that are in the market and either do a partnership or an acquisition to establish ourselves. And as Nebraska has moved along and grown and started to trend toward positive EBITDA, you'll see the benefit of that experience.

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Sure. Okay. Makes sense. I guess just lastly, I did want to follow up on North Carolina, something that we should be tracking more closely. I know you kind of provided the high level, but can you just remind me where it stands today in terms of legislation? And I thought you said when we'd expect to get an update.

But when would we maybe hear an update on the next step of that like legislation in the North Carolina market?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

So from our understanding, the legislation related to gaming will be -- is currently in the budgeting process. So they are looking to close gaps in tax revenue that they're reducing in, whether it's a corporate tax or personal tax or some other tax revenue and replace it with something like video gaming revenue or a video gaming tax. It's still in the budgeting process. The budget has not been approved. And the deadline originally was the end of June. It's been extended, obviously, and they're working through this.

We expect to get more information and color around where this legislation is and what it is because it's been held fairly secretively, it's not like what you experienced in Illinois, where the legislation gets written, they get circulated, it's a different process. But we're optimistic that they see the value of bringing legalized, regulated gaming to replace the current industry there and be able to provide the gap that they need to close in order to reduce other taxes.

Operator

Thank you for your question. There are currently no further questions registered. [Operator Instructions] There are no additional questions waiting at this time. So I'll pass the call back to Andy Rubenstein for any closing remarks.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thank you, everyone, for joining us today. Like we said earlier, we had a very good second quarter. The summer hasn't changed too much from traditional trends, and we look forward to continue to performing at a high level. And as we remarked earlier, the opportunities are there for real growth. And I hope to demonstrate in the next couple of quarters how we continue to lead in route gaming, not just in Illinois, but throughout the U.S. route markets. So thank you again. Have a great summer. We'll talk to you in the fall.

Operator

That concludes the conference call. Thank you for your participation. You may now disconnect your lines.

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