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Accel Entertainment, Inc. (ACEL)

Q4 2020 Earnings Call

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CORPORATE PARTICIPANTS

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OTHER PARTICIPANTS

Jordan Bender
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Steven Pizzella
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Greg Gibas
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John DeCree
Analyst, Union Gaming Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Accel Entertainment Fourth Quarter and Full Year 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mathew Ellis. Thank you. Please go ahead.

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

Welcome to Accel Entertainment's fourth quarter and full year 2020 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 and the current health concerns. 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.

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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 fourth quarter and full year 2020 earnings call. We had a strong start to the fourth quarter, but as everyone is aware, Illinois VGTs were shut down for the second time on November 19. Similar to last time, we reduced our cash burn and furloughed idle employees. But, unlike the last shutdown, we were allowed to install, swap and upgrade our VGTs. We took this opportunity to clear most of our backlog, and position Accel and our location partners for a strong relaunch.

In mid-January, regions throughout the state began to reopen with limited gaming hours. By February 5, all regions returned to normal hours of gaming operations with limited indoor dining. As reported in the IGB data, Accel generated more than $48 million of gaming revenue in February, the best month in our history despite extreme temperatures, multiple snowstorms, and only being 28 days long. Revenue and locations open in both February 2020 and February 2021 was up almost 20%, mostly driven by the higher bet limit software and the additional six VGT. These initial results continue to demonstrate the resilience and strength of our local business model.

Turning to M&A. It was a busy quarter and start to 2021. On December 30, 2020, we acquired American Video Gaming, a northern Illinois operator, for $30 million. The integration went smoothly, and we are pleased to welcome American Video Gaming's 49 locations to the Accel family, as well as Bill, Mary, and John Filer whose family has owned and operated American Video Gaming for more than 70 years. This acquisition further demonstrates our ability to find well-run, financially attractive opportunities that complement our business.

On March 2, we announced our expansion into the western United States with the acquisition of Century Gaming, a route operator in Montana and Nevada, as well as a manufacturer of gaming terminals. Century has more than 8,500 gaming terminals in over 900 locations. We expect them to generate $220 million of revenue and $20 million of adjusted EBITDA in 2021. We will pay $140 million, implying a purchase multiple of 7 times adjusted EBITDA. We have full confidence in Steve Arntzen and his management team to continue successfully running the business, and look forward to sharing and implementing the best practices of both companies. While we like the financial economics on their own, I would like to spend some time discussing additional benefits of the acquisition.

Century brings two new states to the Accel family, further diversifying our geographical footprint outside of Illinois. Century owns Grand Vision Gaming, which designs gaming software and assembles gaming terminals. A proprietary terminal known as Power Vision is exclusively provided in Century's Nevada route. Grand Vision is also licensed to sell gaming terminals in Montana, South Dakota, West Virginia, and Louisiana. While Grand Vision will not be able to sell gaming terminals in Illinois because Accel cannot hold both a formal operator's license and a manufacturer and distributor's license in its home market. We think this offering will be valuable and a differentiator in other states.

Finally, Century designs and owns Gamblers Bonus, a popular player rewards product offered at their Nevada locations. While player awards has not yet been approved in the Illinois market, we believe this technology, combined with our own expertise, will provide a powerful and cost-effective platform to launch our own product when and if appropriate.

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Before turning it over to Brian, our CFO, to walk you through our results in more detail, I would like to briefly discuss one final item. On December 18, we received a disciplinary complaint from the IGB, alleging violations of the Video Gaming Act and the IGB's adopted rules for video gaming. The complaint seeks to fine Accel $5 million. Reiterating our previous public comments, we intend to vigorously defend the company against the allegations in the complaint, and we deny any allegations of wrongdoing. We filed our initial answer to the IGB's complaint on January 11 and had begun the administrative hearing process. As this is an open matter, we cannot take questions or comment further.

Over to you, Brian.

Brian Carroll

Chief Financial Officer, Accel Entertainment, Inc.

Thank you, Andy. As of December 31, we had 12,247 VGTs in 2,435 locations, year-over-year increases of 17% and 5%, respectively. The increase in locations demonstrates that Accel continues to grow despite the current COVID challenges. Our sales teams continue to sign new organic and competitor locations, and we are particularly pleased that our involuntary attrition rate on closures remains in line with the pre-COVID historical averages. The IGB scheduled eight meetings for 2021, the same number of meetings in 2019, which should allow for a return to pre-COVID levels of annual new licenses. At the end of December, our average residual contract length was approximately 6.8 years. As a reminder, in February 2018 the IGB limited agreements to no more than eight years. As of March 15, we have installed more than 1,106 VGTs and expect to install a total of 1,300 by June.

For the full year, we had total revenue of $316 million and adjusted EBITDA of $34 million. For the fourth quarter, we had total revenue of $74 million and adjusted EBITDA of $5 million. The declines from prior year were due to the two shutdowns from March 16 to June 30 and November 19 to mid-January of 2021. I think it is important to note that our asset-light business model generated positive adjusted EBITDA despite being shut down over 40% of the year. Further, we continue to set new revenue and adjusted EBITDA records during the months we are open, demonstrating the resilience of our business. Our hyperlocal and intimate gaming experience continues to offer players a safe and comfortable environment to enjoy our machines.

CapEx was $26 million cash spend in 2020 compared to $21 million in 2019. The increase was largely attributed to the purchases of six VGTs which were installed throughout the year. As a reminder, CapEx is primarily related to our location and VGT growth. At the end of 2020, we had approximately $176 million of net debt and $234 million of liquidity, consisting of $134 million of cash on our balance sheet and $100 million of revolver availability.

With 2020 behind us, I would now like to provide guidance for 2021. We are forecasting to end the year with 13,250 to 13,400 VGTs in 2,550 to 2,575 locations. Revenue for 2021 is expected to be between $580 million to $600 million with adjusted EBITDA of $95 million to $100 million. CapEx is forecasted to be $20 million to $25 million of cash spend. Keep in mind, these amounts include the January 2021 shutdown, assume no M&A, and include increased operating expenses for COVID.

Back to you, Andy.

Andrew H. Rubenstein

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

Thank you, Brian. I think everyone at Accel is focused on 2021 and glad to put 2020 behind us. I cannot fully express how thankful and proud I am of all of our employees and location partners who met and conquered the

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challenges we faced in 2020. They adapted throughout the year to changing mitigations and positioned Accel to emerge stronger than ever.

We will now take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Jordan Bender with Macquarie. Your line is open.

Jordan Bender
Analyst, Macquarie Capital (USA), Inc.

Q

Good afternoon. Thanks for taking my question. So, in terms of your 2021 guidance and the costs related to COVID, I'm coming out to roughly $1 million a month. Is that something in the range that you guys are looking at? And then, should we expect similar margin levels on the Illinois operations at similar pre-COVID EBITDA levels?

Brian Carroll
Chief Financial Officer, Accel Entertainment, Inc.

A

Yeah. This is Brian. I don't – we have much lower anticipated expenses for COVID throughout the year. And it's a – we can discuss later where you got that from, but it's probably a fraction of that.

Jordan Bender
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. And then, similar – will you be looking at similar margin levels and similar EBITDA levels post COVID?

Brian Carroll
Chief Financial Officer, Accel Entertainment, Inc.

A

Pretty close. It's still not over yet, so we still have to go through the year, but we were pretty comfortable with the guidance we provided. Like I said, January was a neutral. And so, the balance of the year, we forecasted for guidance is between $95 million and $100 million.

Jordan Bender
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Perfect. And then, it might be tough to differentiate because of the closings. But the stronger hold-per-day results you're seeing, can you kind of talk about what is coming from maybe a stronger consumer versus what you're seeing versus the increased bet limits?

Andrew H. Rubenstein
President, Chief Executive Officer & Director, Accel Entertainment, Inc.

A

Well, we don't have the ability to identify exactly what the cause of the increase of the revenue. We're seeing kind of year-over-year increases in the range of around 20%, and that increase is a combination of the higher bet limits, larger jackpots, the addition of the six machine and the ability for the large truck stops to go from 6 machines to 10 machines. And obviously, there is some pent-up demand as people haven't been able to play over the last few months. So, the combination of all those factors clearly has increased the play. And the other part of it is there is a bit of reluctance for players to go to the casinos because of the crowds and the concerns

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around COVID-19. We believe that we'll see continued growth in the player base because of COVID concerns. A lot of the older players still have not come back to our establishments as they are using caution in kind of reentering the entertainment society.

Jordan Bender
Analyst, Macquarie Capital (USA), Inc.

Q

Perfect. Thanks, guys. I'm going to pass it off.

Operator: Your next question comes from Greg Gibas with Northland Securities. Your line is open.

Greg Gibas
Analyst, Northland Securities, Inc.

Q

Hey. Good morning, Andy and Brian. Thanks for taking the questions. First, was just kind of wondering if you could talk about maybe the biggest differences and similarities between the gaming markets in Montana and Nevada compared to Illinois and maybe what attracted you to those markets and how does overall penetration or saturation compare across those states?

Andrew H. Rubenstein
President, Chief Executive Officer & Director, Accel Entertainment, Inc.

A

This is Andy. So, I'd say there's quite a few differentiations between the two markets. The ability to have up to 15 machines in an establishment or 4 more in those markets is definitely a real differentiator where obviously we're limited to the 6 machines or the 10 machines in the large truck stop. The other big driver of the differences is the fact that the split of revenue between the establishment and the operator is negotiated in the Nevada and Montana markets, and therefore more of the economics goes to the establishment owner is how the markets played out. And therefore, it's discouraged investment and innovation in both those markets because there isn't as much cash flow on a per establishment basis.

We believe that we can bring innovation to the market without considerable expense and help Century, both those markets, kind of not just innovate but to be able to extend their leadership in those markets. And with those two opportunities, both in Nevada and Montana, I think we can assist their business in growing their same-store sales, as well as their customer base.

Greg Gibas
Analyst, Northland Securities, Inc.

Q

Okay. Great. Appreciate that. And then wanted to touch on the recent acquisition of American Video Gaming. What, I guess, attracted you to that operator? Was it kind of regions in Illinois that weren't as penetrated from your current portfolio, and could you share any valuation metrics on that transaction?

Andrew H. Rubenstein
President, Chief Executive Officer & Director, Accel Entertainment, Inc.

A

Yeah. I mean, their route kind of overlaps a lot of our existing business, and so we're very familiar with the establishments. We're very familiar with the Filer family. They have been friends of Accel for a long time. And as we were having conversations, there appeared to be good synergies, as well as opportunities, to share best practices.

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Greg Gibas
Analyst, Northland Securities, Inc.

Q

Okay. Great. And I guess the last one for me, was just kind of wondering if you could comment on the size of your backlog, I don't think you did in your prepared comments, and maybe the average time it will take to deploy that contracted backlog.

Andrew H. Rubenstein
President, Chief Executive Officer & Director, Accel Entertainment, Inc.

A

Yeah. Our backlog continues to be significant. The deployment of it is often determined by licensing, and the Illinois Gaming Board has been fairly predictable in how they license, and so you can look at historical patterns and kind of extrapolate what would happen in 2021.

Greg Gibas
Analyst, Northland Securities, Inc.

Q

[indiscernible] (19:21). Thank you.

Operator: Your next question comes from Steven Pizzella with Deutsche Bank. Your line is open.

Steven Pizzella
Analyst, Deutsche Bank

Q

Hey. Thanks for taking my questions. Just on the American Video Gaming acquisition, are you able to provide the contribution you baked in for the 2021 guide?

Brian Carroll
Chief Financial Officer, Accel Entertainment, Inc.

A

Yeah. This is Brian. If you go to the Illinois Gaming Board website, you'd see that [ph] they have approximately, on an (19:50) annualized basis, about $12 million to $13 million of revenue – gaming revenue. We do not disclose what their EBITDA contribution is.

Steven Pizzella
Analyst, Deutsche Bank

Q

Okay. Thank you. And then could we just get maybe an update on the pipeline you see for additional legalization of VGTs in additional states? I know you guys are pretty dialed in.

Brian Carroll
Chief Financial Officer, Accel Entertainment, Inc.

A

Yeah. I wouldn't call it a pipeline. There's a lot of states that have legislation percolating. And you can kind of look through the list of legislation we've seen, the Missouri's, the Pennsylvania with extended legislation, Virginia having potential transformation legislation. There are some other states that have kind of had discussions. There is no definitive this is what's going to happen, and we are monitoring all the different states.

Steven Pizzella
Analyst, Deutsche Bank

Q

Okay. Appreciate it. Thanks, guys.

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Operator: Your next question comes from John DeCree with Union Gaming. Your line is open.

John DeCree
Analyst, Union Gaming Research LLC

Q

Hi, everyone. Just one question from me, Andy. I don't know if you could talk a little bit about strategy going forward as it relates to M&A and where your focus might be, whether it's continue to do tuck-ins in Illinois, if there's small stuff to do in Montana to bolt on once the Century acquisition closes, would Nevada be a market you'd look to expand the footprint though as opposed to other states where VGT gaming is legal today that you don't have a foothold yet. So, just big picture, what makes sense for the M&A strategy going forward.

Andrew H. Rubenstein
President, Chief Executive Officer & Director, Accel Entertainment, Inc.

A

Yeah. I would say that we are actively looking beyond Illinois. I think there's real opportunity to bring our best practices into other states and with partners in other markets. That being said, Illinois has always provided opportunities for us to grow, and I think the combination of growing Illinois, but more importantly the focus of increasing our national footprint, will happen simultaneously.

John DeCree
Analyst, Union Gaming Research LLC

Q

A follow-up to that maybe, Andy, is, are there any states outside of Nevada and Montana that look particularly interesting? And would a potential transaction look more like the Century acquisition where there is a little bit of scale to it rather than maybe a smaller move, perhaps like Georgia was?

Andrew H. Rubenstein
President, Chief Executive Officer & Director, Accel Entertainment, Inc.

A

I would say the smaller moves will continue to happen, and there are some transformational acquisitions out there. Whether they're in 2021, 2022, 2023 is not clear, but we're very open to continuing to grow the business. And as we identify companies like Century that are good partners for us and are a cultural fit, we'll continue to bring them into the Accel family.

John DeCree
Analyst, Union Gaming Research LLC

Q

Great. Thanks so much, Andy.

Operator: There are no further questions at this time. I will now turn the call back to Andy Rubenstein for closing remarks.

Andrew H. Rubenstein
President, Chief Executive Officer & Director, Accel Entertainment, Inc.

I just wanted to thank everyone for joining us today. We're looking forward to a very strong 2021, and hopefully this is the last conversation that we have on a call related to COVID-affected earnings. So, wishing everyone a good week, and thank you for joining us.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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