



Accel Entertainment, Inc.

NYSE:ACEL

Earnings Call

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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

Aaron Lee

Macquarie Research

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Presentation

Operator

Good morning. Thank you for attending today's Accel Entertainment Q1 2023 Earnings Call. [Operator Instructions] I would now like to pass the conference over to your host, Derek Harmer, General Counsel and Chief Compliance Officer with Accel Entertainment. You may proceed.

Derek Harmer

General Counsel, Chief Compliance Officer & Secretary

Welcome to Accel Entertainment's First 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 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 first 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 49% and adjusted EBITDA of \$46 million, a year-over-year increase of 31%.

Q1's revenue growth was primarily driven by the successful acquisition of Century and 9% same-store sales growth in Illinois. The growth in Illinois was driven by favorable weather and replacing some of our older equipment with newer machines. Our continued growth in the face of economic uncertainty really demonstrates how well our hyper-local business model works, even when other forms of entertainment suffer. Our establishment partners recognize and have come to rely on the value of our high-quality offerings to help support their businesses, a trend we expect to continue.

On the expense side, we've adjusted to the new normal, and I am pleased to share our expense structure has remained stable for the last 3 quarters. While certain costs such as parts remain elevated, and we expect them to stay that way, it's also become less difficult to hire new team members. We have also implemented new tools to provide even faster and more consistent service to our locations. Our asset-light business model and highly variable cost structure allows us to quickly calibrate our business to any additional challenges in our markets.

Turning to Century. The integration is going well, and we've introduced some best practices across our markets. Overall, we're pleased with the progress we've made, but we remain focused on continuing to grow organically and inorganically. In Nebraska, we're adding new locations every week and focusing most of our time on working with locations to grow their businesses.

Our offering remains relatively unknown, but redesigned gaming areas, new machines and best-in-class service continue helping our location partners attract new players. On the greenfield front, we're closely

watching Chicago and North Carolina. During this year's election, Chicago's mayor-elect expressed an interest in bringing distributed gaming to Chicago.

In North Carolina, the state legislature may include distributed gaming in this year's budget. In both markets, we're working with the decision-makers through our coalitions and trade associations to emphasize the benefits of distributed gaming. We remain cautiously optimistic that an existing market may expand or a new market will open in the next several years.

Looking at M&A, our pipeline remains active, and we're evaluating multiple opportunities across the country. Our long-term goal is to continue to increase the 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 currently operate as well as the new markets we're looking to enter. Our 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 Matt to walk you through our financials in more detail.

Mathew Ellis

Chief Financial Officer

Thanks, Andy, and good afternoon, everyone. For the first quarter, we had total revenue of \$293 million, a year-over-year increase of 49% and adjusted EBITDA of \$46 million, a year-over-year increase of 31%. As a reminder, Century has been included in our results since June 1, 2022, and Century operates in markets where the revenue split between Century and the location is negotiated. The margins are attractive, but far lower than our existing business.

Illinois same-store sales increased 9% year-over-year due to favorable weather and the optimization of equipment throughout our portfolio. CapEx for the first quarter was \$21 million cash spend. The increase is due to accelerating some purchases in Illinois to avoid supply chain disruptions and investments 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. However, it's important to note today's investments may not fully be realized for several years to come. As of March 31, we had 23,497 terminals and 3,628 locations, year-over-year increases of 72% and 41%, respectively. Location attrition continues to remain low and in line with our historical averages. At the end of the first quarter, we had approximately \$309 million of net debt and \$557 million of liquidity, consisting of \$229 million of cash on our balance sheet and \$328 million of availability on our current credit facility.

I'd now like to provide an update on our efforts to return capital to shareholders, specifically our share repurchase program. As you're all aware, we announced a \$200 million share repurchase program in November of 2021 as we find the opportunity to return capital to shareholders in the form of buybacks, an attractive use of our strong free cash flow. During the quarter, we purchased \$4.2 million of Accel shares at an average purchase price of \$8.82 per share. The slower pace this quarter, as compared to previous quarters, can mostly be attributed to the longer blackout period in the first quarter. Since the repurchase program started, we have repurchased more than 8.8 million shares at a cost of \$92 million. Given our relatively under-levered balance sheet and strong free cash flow, we're able to continue investing in our new markets while appropriately returning capital to shareholders.

At this time, we have decided not to issue guidance due to the near-term macroeconomic uncertainty. However, I'd like to emphasize that should the current trends continue, we're positioned to deliver a strong year with record-breaking results. As we get more visibility this summer, we'll aim to provide an update in the future.

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 by leveraging the strong foundation we have built with our proven playbook. We're confident our locally focused business model creates a platform to outperform in difficult times 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

Curious about the uplift that you guys did see from replacing some of the older machines with the newer equipment. And can you talk about kind of the opportunity you see there moving forward?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thanks, Steve. This is Andy. We've seen that as a better quality products that are more similar to what's available in the casino market come into our market, the players recognize it as a product that they enjoy playing and that they quickly kind of make the change to play in that product. Whether they're making that choice over visiting a casino to play it or not, I can't tell you. But there's definitely been an adoption to the new products as well as a real appreciation for a lot of the games that they've historically been playing in Las Vegas or other regional casinos.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Okay. I appreciate that. And then can you talk about kind of the cadence of trends you saw in the 1Q and how maybe 2Q to date has trended?

Mathew Ellis

Chief Financial Officer

Yes. Thanks, Steve. It's Matt. So obviously, like we talked, Q1 was very strong throughout. Andy mentioned favorable weather, the machine optimization. March and April are our best months. Again, April came in pretty strong. You'll see those, the Illinois results soon. So I would say that sort of the beginning of the year momentum continues. Too soon to say how the seasonality of our business, how it will go but sort of like I discussed, if this keeps up, it's going to shape up to be a really great year. But with all the sort of macroeconomic going on, it's hard to pinpoint exactly what will happen.

Operator

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

Aaron Lee

Macquarie Research

This is Aaron on for Chad. I wanted to touch on your M&A pipeline for a second. Has there been any change in the number of opportunities for the markets that you're focused on? And in terms of size, are you seeing more tuck-ins like the Progressive deal? Or are there any opportunities for bigger portfolios?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

The opportunities seem to be fairly consistent with what we've seen in the past. I think we will continue to be aggressive in pursuing these opportunities. The tuck-ins are always there. And as we move forward, I think you'll see that what have we -- how we've historically behaved will be consistent with future behavior.

Aaron Lee

Macquarie Research

Got it. And as a follow-up, any color on the rollout of the prepaid cards in Georgia? And what sort of impact on performance that you're seeing and maybe what your expectations are?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

So we've seen some adaptation to the prepaid card. We think that the players, who have been introduced to it, have appreciated the ease of use, the ability to gather value on a card that they can utilize elsewhere in the marketplace. It's a slow migration. But as -- just as we've seen the overall society move to a more cashless society, the interest and the participation continues to increase.

Aaron Lee

Macquarie Research

Congrats on the great quarter.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thank you.

Operator

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

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Congrats on the strong results. Wanted to ask, I guess, on the benefits that you're seeing from installing those new products or machines. Is that mostly a Q1 event? Or should we expect maybe a benefit from that going forward? And I guess just maybe to get a sense like the percentage of your network in Illinois that has been updated with those new products.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Greg, thanks for calling in. We -- this is a constant development, and it's something that is kind of a continuous improvement for the company. We're always looking to increase the performance, to optimize the individual locations and to provide the player a better offering. So I think you'll see this program continue, and we have brought in a lot of equipment over the last 12 months.

We continue to purchase new equipment. And this equipment will migrate out into the field into different locations throughout this year and next, as new product comes in, we're first to deploy. And we believe that our establishment partners should get the best opportunity to earn and we're there with them by providing that equipment.

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Okay. Makes sense. Yes, it seems like it really resonated with the players, so good to hear. And I wanted to follow up too on your brief comments on Chicago or North Carolina. When do you think we get maybe more of an update regarding whether they would move forward with distributed gaming?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes. I mean these new markets are -- I mean sometimes it's a coin flip, sometimes, you're at the roulette wheel. Today, I don't think we're at the roulette wheel. I think it's -- there's a chance. It's not a coin flip, but I do believe that there's adversity as there always is. And the session ends in North Carolina on May 31. So as we start -- the day start to close in on that finality of the session, which could be -- could get extended, and we've seen that happen. It's going to be more and more challenging.

We are optimistic, but as I've stated before, there has been no meaningful legislation passed in the United States for route gaming since 2009. And this would be significant, but it's still far from even going to a vote. Chicago, we -- the new mayor has yet to take office. There's -- the gaming is not the #1 priority for the City of Chicago, I can tell you that. The election was -- the #1 topic in the election is public safety.

And we believe that this is the most important for the people who live there as well as all the people who come to visit Illinois. So they'll probably address that issue. And as we see some positive results, and we have a good summer, the mayor is open to having that conversation.

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Got it. Fair enough. I know it's difficult to predict, but that's helpful, Andy. I guess just last one for me, and I know it's all inorganic at this point. But just wondered if you have a sense of what same-store sales growth was for Century? I know you said it was 9% in Illinois. Just wondering if you have a sense of what it was year-over-year.

Mathew Ellis

Chief Financial Officer

Thanks, Greg. It's Matt. Again, it's a more mature market. They did see increases, not quite as high as Illinois, but Century's routes also had a pretty nice Q1 as well. So you've got growing population trends. You've got, again, close to home gaming there and different gaming cultures. But again, we still see those routes continuing to expand.

Operator

There are no further questions in queue. [Operator Instructions] There are no further questions waiting in queue. I'd like to turn the call back over to Andy Rubenstein for concluding remarks.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thank you, everyone, for joining us this afternoon. We have had a good start to the 2023 year, and I think we're all very positive on the trends that we're seeing. And if, as Matt said, that the momentum continues, I think you will be -- and we'll all be impressed with the performance. So thank you for joining us. Please be safe, and we look forward to talking to you with the second quarter earnings.

Operator

That concludes today's call. Thank you for your participation. You may now disconnect your lines.

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