

Accel Entertainment, Inc. NYSE:ACEL

FQ4 2023 Earnings Call Transcripts

Wednesday, February 28, 2024 10:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.17	0.22	▲29.41	0.18	0.85	NA
Revenue (mm)	278.53	287.50	▲3.22	284.99	1158.17	NA

Currency: USD
Consensus as of Feb-07-2024 2:31 PM GMT

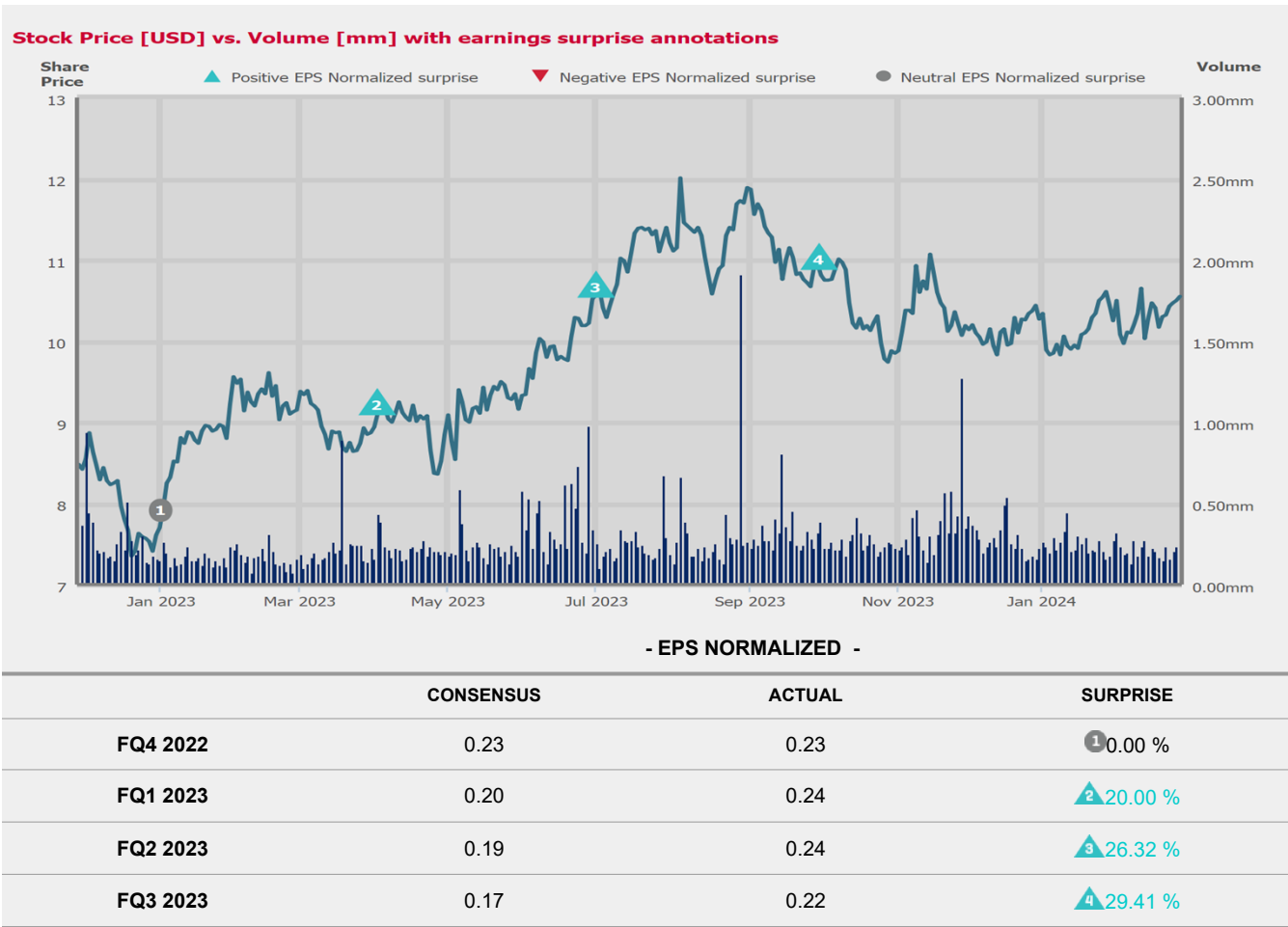


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Call Participants

EXECUTIVES

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Derek Harmer

*General Counsel, Chief Compliance
Officer & Secretary*

Mathew Ellis

Chief Financial Officer

ANALYSTS

Chad C. Beynon

Macquarie Research

Gregory Thomas Gibas

*Northland Capital Markets, Research
Division*

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Presentation

Operator

Hello, everyone. Thank you for attending today's Accel Entertainment Q4 and 2023 Earnings Call. My name is Sierra, and I will be your moderator today. [Operator Instructions]

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

Derek Harmer

General Counsel, Chief Compliance Officer & Secretary

Welcome to Accel Entertainment's Fourth Quarter and Year Ended 2023 Earnings Call. Participating on the call today are Andy Rubenstein, Accel's Chief Executive Officer; and Mat 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 financial 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 Fourth Quarter and 2023 Earnings Call. I'm pleased to report we had another record-setting year, with total revenue of \$1.2 billion and adjusted EBITDA of \$181 million, year-over-year increases of 21% and 12%, respectively. For the quarter, we reported revenue of \$297 million and adjusted EBITDA of \$45 million, year-over-year increases of 7% and 3%, respectively. Revenue growth throughout 2023 was driven by the Century acquisition adding new locations and 3% same-store sales growth in Illinois.

We also saw growth in our developing markets where we continue to add locations, attract new players and improve our offering with better equipment. Our continued growth demonstrates the strength of our local business model. Our location partners recognize the value we provide and rely on the incremental revenues our high-quality offering brings to their businesses. On the expense side, our cost structure continues to remain in line with our expectations despite the inflationary impacts on labor and other expenses such as parts. Our asset-light business model and highly variable cost structure allow us to quickly calibrate our business to any changes in the economy.

Looking at future growth, our pipeline remains more active than ever as we evaluate multiple opportunities across the country. We are working hard to get the right opportunities across the finish line and look forward to sharing them with you in the near future. We are also optimistic about the opportunities in the markets where we currently operate. Our strong balance sheet, locally focused business model and consistent growth offers one of the best returns in gaming.

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

Mathew Ellis

Chief Financial Officer

Thanks, Andy, and good afternoon, everyone. For the fourth quarter, we had total revenue of \$297 million, a year-over-year increase of 7%, and adjusted EBITDA of \$45 million, a year-over-year increase of 3%. For the year, we set a new Accel record, with total revenue of \$1.2 billion and adjusted EBITDA of \$181 million, year-over-year increases of 21% and 12%, respectively. 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 other markets.

CapEx for the fourth quarter was \$22 million cash spend and CapEx for the year was \$82 million cash spend. The year-over-year increase was due to several factors. First, we accelerated purchases of our redemption terminals to protect against supply chain disruptions. Second, 4 new high-performing gaming terminals were introduced in Illinois at the same time. In the past, we would normally see one high-performing cabinet released every 12 to 18 months. Lastly, we continue to invest in our developing markets such as Nebraska and Georgia. Based on everything I just mentioned, we view a portion of 2023's CapEx as onetime in nature and we are projecting CapEx in 2024 to be between \$55 million and \$65 million, a decrease of more than 20%. Over the longer term, we expect CapEx to decrease even further.

As of December 31, we had 25,083 terminals and 3,961 locations, year-over-year increases of 7% and 6%, respectively. Excluding Nebraska, terminals and locations increased year-over-year by 5% and 3%, respectively. Location attrition continues to remain low and is mostly attributable to our lowest performing locations closing their doors. At the end of the fourth quarter, we had approximately \$281 million of net debt and \$566 million of liquidity, consisting of \$262 million of cash on our balance sheet and \$304 million of availability on our current credit facility.

I would now like to provide an update on our capital allocation strategy. We continue to make progress on our \$200 million share repurchase program. During the quarter, we repurchased 1.4 million shares at an average purchase price of \$10.31 per share. We are almost 60% through the repurchase program, with more than 11 million shares repurchased at a cost of \$118 million. With our strong balance sheet and low leverage, we are in a unique position where we can grow our business and return capital to shareholders. Similar to prior quarters, we are not issuing guidance due to the near-term macroeconomic uncertainty.

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

Andrew Harry Rubenstein
Co-Founder, President, CEO & Director

Thanks, Mat. We're pleased with another strong year and remain focused on executing our growth strategy to create value for our investors. We're confident that our turnkey, full-service, local gaming solutions provide a platform to continue to produce strong and consistent results. Our focus is to provide unmatched customer support, guidance and expertise so our location partners can grow their businesses. We will now take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Steve Pizzella with Deutsche Bank.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Just wanted to focus on Illinois location growth first, if we could. It looks like up a little bit over 4% versus the market up about 3% for Illinois, implying you are gaining some share. Can you just talk about what is driving that? Are these new locations? Are these conversions? And how does your current pipeline look?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thanks, Steve. So as we look at it, our -- we've always had a very strong sales effort. We see that a lot of new business owners choose Accel as their partner. And what we're seeing more and more of is the competitors' locations are recognizing that Accel has a preferred offering and is a preferred business partner. So we're seeing both of that help grow our current base. The -- we're always looking at our portfolio. So we are constantly paring down the bottom of our portfolio where locations aren't profitable. But as we continue to grow, I think you'll see more and more establishment owners choosing Accel, as they have through the last 12 years.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Okay. And then, I guess, turning to margins, down modestly year-over-year and sequentially. How should we think about the margin moving forward into this year? And I guess what kind of top line growth do we need to see to get some margin expansion?

Mathew Ellis

Chief Financial Officer

Yes. So Steve, it's Mat. Thanks for the question. I think the first part is, obviously, you've adjusted for Century and all of that. What it really comes down to is sort of that balance of revenue growth versus labor. And we've talked about it, and I think the expense side of our business is really easy to forecast. Again, labor seems to be in line, and we're not seeing sort of those crazy hikes we saw nearly almost 1.5 years ago. But there's still inflation out there, and the labor market does remain a bit challenging.

The other side of it is our revenue. And the beauty of our business is there's no concentration of revenue. There's no microeconomic thing that's going to hit us hard. The hard part is we don't have those forward-leaning forward indicators, early bookings or anything like that to predict. So I think, again, we're coming into this year, some cautious, but if we get the growth like we've seen and the weather holds up, and again, we depend on people sticking close to home and sticking to their routines, we'll get that revenue pop. It's hard to give you an exact number. But if we get to that upper mid-, slightly below mid-single digit revenue growth, you'll see that margin come back up. But it's really just a balancing act right now.

Overall, I'd say it's relatively -- we had some tough comps. We had great weather last January and February, but the year started out like we'd expect. But the old days of mid- and upper single-digit growth aren't there. So I think it will be relatively flat, but we'll see how it turns out.

Operator

Our next question today comes from Chad Beynon with Macquarie.

Chad C. Beynon

Macquarie Research

I wanted to ask about the M&A environment. We've been talking about the potential rate declines here for some time. Obviously, the rates came down a little bit, and now they're kind of stubbornly at levels that are higher than we thought at this point in the year. But when you talk to potential sellers, is this still a potential catalyst? Or are they waiting for rates to come down? Are you guys waiting for rates to come down? And could this still be an opportunity in the next 6 to 12 months as we kind of get through the cyclical period to just add inorganically?

Andrew Harry Rubenstein*Co-Founder, President, CEO & Director*

Yes. Thanks, Greg (sic) [Chad]. As we look at -- I mean there's always opportunities. And we've, I think, identified a few that we have continued to work with. And we'll see how that plays out over the next couple of quarters. But I think what has been a challenge is a gap between the buy and the sell and that -- where the seller expectation is still closer to what we saw in '19 and '20 and the buyers have kind of adjusted to a different economic environment.

Do I see that gap closing? A little bit. But I don't think it's going to close until you have some of the rates kind of decline from the levels that they're at, or you see some of the pressure on some of these companies who are over-levered that they need to take action. And so we believe we're well positioned as a buyer. We have low leverage. We have great availability. And I think what you'll end up seeing is that we'll execute in the next 12 to 18 months on some opportunities that will be appropriately priced.

Chad C. Beynon*Macquarie Research*

Mat, on the \$80-plus million of CapEx in '23. So you mentioned that, that's coming down in '24 quite significantly. Because it was a higher period and it doesn't sound like it was deferred CapEx, it sounds like it was CapEx to grow the business, is there some type of return that we should assume on kind of the extraordinary CapEx in the year with some new terminal purchases? Are you seeing those returns absent some of the weather? Is it bringing a new customer? Just any additional information in terms of the extra cash outflow and kind of how that can lead to growth.

Mathew Ellis*Chief Financial Officer*

Sure. Thanks, Chad. I think the place we see the biggest return is our developing markets. A great example is Nebraska. Those investments there, as that market ramps, the primary catalyst there now is increased demand as players in that market get used to the product and we see they like the product. Again, the percentages are outrageous, but we're starting at low numbers. But that market has turned EBITDA positive, and we expect to see decent growth out of it again.

On the Illinois side, you can kind of divide it into 2 sort of investments. One is the investment in extending revenue, which while you don't get that growth, you get that certainty in revenue and consistent revenue. The other half, you do get it where you're taking out a less desirable machine with a better machine. And you are able to work with that owner to drive more traffic because they have a better offering. So we are seeing those returns.

The biggest return, again, would be in the developing markets. In Illinois, when you have that, I would say that it takes a little longer, obviously, particularly at your best location because the demand is there. And it's more the players expect it rather than the demand at those locations change because new product comes. But in both cases, we are happy with the returns we're seeing.

Operator

Our next question comes from Greg Gibas with Northland.

Gregory Thomas Gibas*Northland Capital Markets, Research Division*

Great. Just wanted to clarify, I think you said Illinois same-store sales up 3% for the full year. Wondering if there were any differences in Q4. Was that just the bottom line with the 3%?

Mathew Ellis*Chief Financial Officer*

So Q4 was a tad lower, as you saw in the press release. And again, I think the biggest thing is to just look at the weather. Again, play is consistent, right? It's these other things we can't control. Ironically, a nice mild weekend in the winter can really move the needle. And in '22, we had good weather; '23, overall, in this winter in the Midwest has been mild. But I don't think there's anything to look at other than more just you look at the overall local gaming space, and the demand is still there, Greg, in a good way. And we saw that again here, we had a few rough weekends in January. But overall, revenues coming in like we expect. Again, it's a more modest growth than the old of mid-single digits, but we're up a little. And it's what we'd expect to see in an environment like this, which I think compared to overall sort of local gaming, our business is holding up very well.

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Okay. Great. And I just wanted to ask, if anything, regarding your prospects in Nebraska or Georgia. But specifically Nebraska, like how should we -- has anything changed, I guess, in terms of the prospects you're seeing there? And I think the rate -- you're close to 240 locations now versus 140 a year ago. Should we think about that rate of growth? Or do you think like an acquisition makes sense to kind of accelerate your presence in the market? Just curious how you're thinking about growth within Nebraska.

Andrew Harry Rubenstein*Co-Founder, President, CEO & Director*

Yes. Thanks, Greg. We're looking at acquisitions all the time. We've seen a lot of growth recently organically. It's pretty clear that, like we are the premium preferred vendor and business partner to establishments, especially in Nebraska. I mean there's a large gap. And I don't think that gap is going to be closed anytime soon. So we're winning these new partners over and over again. And I think the need for an acquisition isn't as great. The other thing I will tell you is there are a couple opportunities that we're evaluating. And I wouldn't be surprised if, by the end of the year, one of them kind of decides, hey, this is my time and Accel is my partner.

Gregory Thomas Gibas*Northland Capital Markets, Research Division*

Great. I guess a quick follow-up would just be, are you able to comment on maybe what market or markets that we'd be in if we were to see something before the end of the year?

Andrew Harry Rubenstein*Co-Founder, President, CEO & Director*

I think it's hard to predict because the seller may be talking to us or may be engaged. I think you'll see -- we'll probably do a couple of things outside of Illinois. And whether something happens in Illinois or not, really uncertain. But I think you'll see some growth outside of Illinois. It's one of our focuses, as we've discussed. Which market? Uncertain right now, but I think you'll -- we'll definitely execute on that.

Operator

There are currently no questions registered. [Operator Instructions]

We have no questions waiting at this time. So I'd like to pass the conference to Andy Rubenstein for closing remarks.

Andrew Harry Rubenstein*Co-Founder, President, CEO & Director*

Thank you all for joining us today. Like we said, we had a very strong 2023; '24 is definitely off to the right start. And we're very optimistic that Accel will continue its growth trajectory. And as I just recently said that the opportunities outside of Illinois are presenting themselves every day. And the question is what we actually execute on and the performance that we'll be able to provide whether it's on the latter part of '24 or that you'll see in '25. So thank you again, and look forward to reconvening in about 3 months. Thanks.

Operator

That will conclude today's conference call. Thank you all for your participation. You may now disconnect your lines.

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