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Accel Entertainment, Inc.

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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

Chad C. Beynon

Macquarie Research

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Presentation

Operator

Hello, everyone. Thank you for attending today's Accel Entertainment Q1 2024 Earnings Call. My name is Sierra, and I will be your moderator for 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 First Quarter 2024 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 and 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 once again had a strong quarter. We reported revenue of \$302 million, a year-over-year increase of 2.9% and adjusted EBITDA of \$46 million, a year-over-year increase of 0.3%. Similar to other companies in Illinois, we saw negative same-store sales growth, primarily due to unfavorable weather, especially in January. However, adding new locations in Illinois and Nebraska allowed us to grow revenue overall.

Our location partners recognize the value we provide and rely on the incremental revenues, our convenient, high-quality offering brings to their businesses. On the expense side, we continue to optimize our operations, which has helped us maintain a stable cost structure despite inflationary impacts. Our highly variable cost structure allows us to quickly adjust 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 are currently operating. Our strong balance sheet, proven business model and consistent growth offer one of the best investments 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 first quarter, we had total revenue of \$302 million, a year-over-year increase of 2.9% and adjusted EBITDA of \$46 million, a year-over-year increase of 0.3%. As of March 31, we had 25,321 terminals and 3,987 locations. Year-over-year increases of 5.6% and 5.1%, respectively. Location attrition continues to remain low and is mostly attributable to our lowest performing locations closing their doors.

Capital expenditures for the first quarter were \$21 million cash spend. The increase was attributable to payments of outstanding invoices from last year. As a reminder, the primary driver of our elevated CapEx was the introduction of 4 new high-performing gaming terminals at the same time in Illinois. In the past, we would normally see one high-performing cabinet released every 12 to 18 months. We view last year and this quarter's CapEx is onetime in nature.

For 2024, we are still projecting CapEx 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. At the end of the first quarter, we had approximately \$286 million of net debt and \$553 million of liquidity, consisting of \$254 million of cash on our balance sheet and \$299 million of availability on our credit facility. On our capital allocation strategy, we continue to make progress on our \$200 million share repurchase program.

During the quarter, we repurchased 600,000 shares at an average purchase price of \$10.60 a share for a total of \$6 million. We are almost 60% through the repurchase program with 12 million shares repurchased at a cost of \$124 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.

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 quarter 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 Chad Beynon with Macquarie.

Chad C. Beynon

Macquarie Research

Wanted to start with just kind of the legislation landscape, places like in Virginia, North Carolina, Georgia, et cetera, not necessarily for '24, but kind of where things are shaping up and if you think any of these have a decent probability of passing something favorable for your business in '25?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thanks, Chad. This is Andy. As far as -- I'll go down the states that you mentioned and a few others. Virginia has legislation that's kind of pending, not probable of getting passed and signed by the governor, but something has to give in that state because of the existing equipment that's out in the field, and the governor's desire to kind of clean up an illegal industry. I don't think this year is the year, whether '25 is the year, I don't know. But it has a probability. It's obviously greater than 0, but it's tough legislation, I mean, just in general. But we feel that something has to give because there's been so many different bills that have been pushed forward in the last couple of years, and there's a real need to do something.

Georgia legislation passed this year kind of solidifying the gift card or kind of value card as a redemption option. And I believe that's the beginning of a more long-term movement in Georgia toward a cash-out environment that's more like Illinois. I don't think that's going to happen in '25 or '26, but it's directionally positive. And that bill signed and done.

North Carolina is still -- there are sessions still going. Last year, we got very close. This year, we haven't seen the bills. But again, there is good momentum due to the fact that there's a lot of equipment out in the field that there's a strong opposition to, let's call it, an illegal market from the government leaders.

So this year's legislation will probably not include casino, and that gives it a better chance. But again, it's not -- it's very difficult legislation to pass and not that optimistic.

Finally, Pennsylvania has a very similar situation to North Carolina and Virginia. There hasn't been any real movement there. Whether it happens, it could be -- there's going to have to be some type of an impetus to -- for them to push some legislation through because there appears to be a lot of people that are happy with the status quo.

So what I'm tell you, I would say it's less than 50% chance of anything happen in the next 2 years. But there are states that have a reason to pass legislation, allowing VGTs or a skill game environment, and that would be regulated. And we're watching it actively. We're ready to move when legislation that's passed. We're going to expand what we're doing and lead into the gift card in Georgia. So I think it will benefit our business, but the question is how much.

Chad C. Beynon

Macquarie Research

That's great. Thanks for running through that, Andy. And then just in terms of what you're seeing with the consumer in your establishment, so the revenue growth was stronger than, I guess, what we've seen in a lot of weather-impacted markets and kind of what we've seen from other operators in the first quarter, that would tell me that the February-March, I guess, exit rate was fairly stable or maybe even healthy, I would say. Is that kind of what you were seeing in your establishments? Were you pretty happy with how the business recovered throughout the quarter after a tough January?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes. I mean it was a very strong recovery from kind of getting a real punch to the mouth early in the year. And it kind of gives us confidence that where we sit in kind of the world of gaming or talk about like the vertical of gaming that we're -- we are the -- the gaming entertainment that is closest to home, it takes the least investment to participate. You don't have to drive very far. You don't have to fly anywhere. You don't have to have a large commitment in terms of the play.

And so as the dollars get pushed away from the destination gaming even away from -- as people drop off from their regional big casino nights out, they keep -- when those sellers get pushed down to us, but even more importantly, they have a regular experience for them. And we're good every day or weekly entertainment, and we seem to benefit in kind of all economic cycles. And the question is just how much.

Operator

Our next question comes from Steve Pizzella with Deutsche Bank.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Can you hear me now?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes.

Mathew Ellis

Chief Financial Officer

Hey, Steve?

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Just wanted to ask from an M&A perspective, what's kind of holding back deals from getting to the finish line? And what geographies have you guys been looking at?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

So I don't know if there's anything that's been holding them back. We take a very disciplined approach going through diligence, making sure that any regulatory questions are answered prior to closing. And I believe that some of the things that we're pursuing will get there. It's just more important to us to get there in a very confident way, minimizing any future risk and to fully understand the business and the potential revenue and then make sure it's priced accordingly.

So the -- these opportunities are we believe are going to be significantly accretive to the business, but we've been doing a lot of work to make sure they're the right type of opportunities for Accel to expand. And as far as geographically, as being a national company, it's not just one market or one area of the country that we're looking. I would expect us to be involved in multiple markets by the end of the year with some of these opportunities that we've talked about, and we're excited to share that with you when they get to the finish line.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Okay. And then always nice to see revenue growth in Illinois, even when location hold per day is down year-over-year, driven by the actual location growth. Can you give us any color on the pipeline you have for location growth moving forward, whether in Illinois or some of your other states? And how we should think about that for the remainder of the year?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

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Yes. I mean, we continue to have the opportunities. We -- the establishment owners select us consistently over our competition and we tend to win on the sales front over and over again. And that's -- whether that's Illinois, whether it's Montana, whether it's Nevada, Georgia, and I think that theme will continue to carry us as we move forward.

We obviously always experience business owners that are not successful, and their [indiscernible] is close, but we continue to upgrade our portfolio as the bottom kind of self-cleanses and the locations that we signed on a whole are definitely a big improvement for what we lose. So you're seeing a constant improvement in the portfolio.

I think as we've seen some softness with some of our locations that we'll be a little more cautious in bringing on new locations because going forward, there's -- it's -- you need a certain amount of revenue on the location side more than we do to support your establishments cost structure. And the -- as labor costs rise, while material costs, cost of goods sold, they impact those businesses greater than ours. And so we're very aware that their business model changes to be a little more cautious as we sign up new locations.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Okay. And then just one more for me, if I may. The Nevada location hold per day, it was just slightly negative year-over-year in the quarter. Is there anything you're seeing in that market to highlight? And how should we think about that moving forward?

Mathew Ellis

Chief Financial Officer

Steve, this is Mat. I think similar to what Andy said earlier, players push to our local close to home offering, and there's a very local regional offering there as well. But we don't see anything systemic. I think demand is still there. You look at that overall locals market. I think we're on the better end of that spectrum. And it's just, again, our offering improves, especially we're able to make smart investments in that market with our locations. So obviously, I would love to see it up. But I think with what you're seeing, again, it highlights that close-to-home convenient offering the whole concept of 10 minutes door-to-door versus a much further journey to something else.

Operator

Thank you all for your questions. There are currently no questions waiting. [Operator Instructions] It seems we have no further questions. So I will pass the conference back over to Andy Rubenstein for closing remarks.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Thank you, everyone, for joining us today. As a reminder, the Accel Entertainment Annual Meeting is tomorrow. I'm hoping everyone will be able to join us. We had a very good first quarter despite a rough start. We're excited 1 month into the second quarter. And we look forward to sharing more and more news about the growth of Accel on next quarter's call. So thank you, and I hope all of you enjoy the Mother Day -- Mother's Day weekend.

Operator

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

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