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Accel Entertainment, Inc. (ACEL)

Q1 2021 Earnings Call

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CORPORATE PARTICIPANTS

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OTHER PARTICIPANTS

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Greg Gibas
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Omer N. Sander
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Steven Pizzella
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John DeCree
Analyst, Union Gaming Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Accel Entertainment Quarter One 2021 Earnings Call Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions]

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

Mathew Ellis

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

Welcome to Accel Entertainment's first quarter 2021 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.

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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 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 first quarter earnings call. We were thrilled with the play to start the year. We set a new revenue and adjusted EBITDA record despite being closed for more than half of January.

Q1 gaming revenue was $140 million, a year-over-year increase of $38 million. The $38 million increase is broken out as follows: existing locations contributed $35 million to the increase, meaning same-store sales growth of 34%; acquisitions and new locations net of closures contributed $8 million to the increase; and the reduction in operating gaming days due to COVID shutdown from 76 days in Q1 2020 to 72 days in Q1 2021 had a negative impact of $5 million. The primary drivers of the increase at existing locations were the higher bet limit software, the six VGT and improvements we made to optimize machines at our locations during the most recent shutdown.

March is typically the best month for our industry, and this year was no different. The strong performance continued into April where we actually earned more revenue per day than March. We've been cautious with our guidance as we evaluate the short-term impact of the recent stimulus. We also understand we are currently one of the few forms of available entertainment for our players. However, with strong play continuing each passing week, we have more confidence that the elevated revenue we are realizing is a new normal.

We're also encouraged by the vaccine progress and recent comments about the full reopening this summer in Illinois, as we believe we are still missing many of our historical players due to caution or reduced indoor bar and restaurant capacity. We believe that the pandemic introduced our products in many new players as a more convenient option than casinos. And we believe that many of those new players will stay with us post-pandemic. At the same time, we also expect to gain back the aforementioned players we have not seen. Based on the sustained strong performance and other factors just mentioned, we've increased our guidance, which Brian will walk you through shortly.

Turning to growth. We see opportunities in new markets both organic and inorganic. Last year, we entered Georgia in a small way, but we still see upside. Then earlier this year, we announced a large expansion into Nevada and Montana through our acquisition of Century. Our M&A pipeline remains active and we expect to announce more opportunities in the future.

Speaking of Century, we are working through the regulatory applications and we expect to close in late 2021. Century is also performing better than our original estimates. As we get closer to closing, we'll provide more updates on Century's latest performance and our integration plans.

On the organic front, we are cautiously optimistic that several states will consider distributed gaming. While the recent Senate vote in Missouri did not go the way we wanted, there is still significant momentum for gaming to be legalized in the future. We will continue to monitor the various opportunities across the country and provide updates when appropriate. We believe our growth playbook established in Illinois will enable us to be successful in any future market.

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With that, I turn it over to Brian to walk you through the numbers in more detail.

Brian Carroll

Chief Financial Officer, Accel Entertainment, Inc.

Thanks, Andy. As of March 31, we had 12,720 VGTs in 2,470 locations, year-over-year increases of 14% and 5%, respectively. Also, attrition continues to mirror the pre-COVID historical averages. Revenue per location per day for the first quarter was $784, a year-over-year increase of 37%. As Andy discussed earlier, the primary drivers of the increase were the higher bet limit software, the six VGT initiatives and improvements we made to optimize machines at our locations during the most recent shutdown.

At the end of March, our average residual contract length was approximately 6.7 years. As of April 30, we've installed more than 1,200 six VGTs and expect to install a total of 1,300 by June. A handful of municipality still only allow five VGTs, so this number could increase should they change their ordinances.

For the first quarter, we had total revenue of $147 million and adjusted EBITDA of $26 million, year-over-year increases of 38% and 74%, respectively. CapEx was $2 million cash spend in the first quarter compared to $4 million a year ago. At the end of the first quarter, we had approximately $157 million of net debt and $249 million of liquidity, consisting of $173 million of cash on our balance sheet and $76 million of revolver availability.

Based on the player behaviors and the favorable trends Andy discussed earlier, I would now like to provide revised guidance for 2021. We are now forecasting to end the year with 13,375 to 13,525 VGTs in 2,575 to 2,600 locations. Revenue for 2021 is now expected to be $650 million to $705 million with adjusted EBITDA of $117 million to $127 million. To refresh, this includes the fact that the first 15 days of the year were without gaming and Illinois was not fully reopened until the first week of February. CapEx is still forecasted to be $20 million to $25 million of cash spend. All of the revised amounts assume no M&A and minimal impact from COVID-19.

Finally, I want to briefly discuss the amended 10-K we filed yesterday. Based on the recent staff statement issued by the SEC and in consultation with our auditors, we reclassified our warrants from equity to a liability and recorded the change in the value of our warrants on our income statement. The SEC pronouncement was primarily directed towards companies that became public through mergers with special purpose acquisition companies and was not specific to Accel. Also, the change resulted in no impact to cash or adjusted EBITDA, and nearly all the warrants were exchanged for A1 shares in Q3 2020. As always, we are committed to following the latest accounting guidance and we'll continue to hold ourselves to the highest standards.

Back to you, Andy.

Andrew H. Rubenstein

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

Thanks, Brian. We're extremely pleased with our performance this quarter and excited by the continuing strong performance. Our asset-light, hyper-local business model creates a platform to weather difficult times and thrive as the country reopens. Please note our success would not be possible without the dedication of our employees and establishment partners.

We will now take your questions.

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QUESTION AND ANSWER SECTION

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

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

Q

Yeah. Hi, guys. Good morning. Hope you're doing well. There was a pretty large acquisition in the space few weeks ago. I was just looking to get your thoughts on, does this change anything from a competitive standpoint that could it make it harder for you to maybe convert some of these locations over to sell now? Thanks.

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

A

Please clarify which acquisition you're discussing.

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

Q

The J&J Ventures.

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

A

With IGS?

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

Q

Yeah.

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

A

We don't think it will have any real impact and we're continuing to progress on our own plans to continue to grow organically within the market.

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

Q

Okay. And then the follow-up on the growth comments. I think in the past you've talked about the need for a casino in Downtown Chicago in order for, I guess, politicians to start to look at legalization of distributed gaming in Cook County. With an RFP underway in that market for that casino, is there any change in your thought or anything that you're hearing that we could start to hear some movement for the Downtown Chicago area?

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

A

Yeah. I would say that the timeline is still long. The RFP is going to take a while. It's going to take a while to build a permanent casino. I don't think the issue will be addressed until some significant time of operation of the permanent casino. So, we're looking at quite a few years. So, it's not in our budget in the near future.

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

Q

Okay. Perfect. Thanks.

Operator: Your next question comes from the line of Omer Sander from JPMorgan. Your line is now lobe,

Omer N. Sander
Analyst, JPMorgan Securities LLC

Q

Hey, Andy, Brian, Mat. I appreciate you taking the questions and congrats on the strong results.

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

A

Thank you.

Omer N. Sander
Analyst, JPMorgan Securities LLC

Q

Just had a question first on the sustainability, the strong demand trends, and how do you think about the impact of reduced capacity throughout the first quarter and then – or limited capacity, I guess, and then obviously the shutdown early in January?

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

A

So I think there is two elements that are going on with reduced capacity. One, there's obviously less people allowed inside a facility. That impact is, I'd say, relatively minimal because you got to remember we only have six machines, but it does have some effect because people were reluctant to go out because it wasn't the same experience as they had before. The bigger part of it, I would say, is there's still a population that is not comfortable going out to establishments to socialize in public. And a lot of those are more of the older player base. I think we haven't seen some of those players come back. And I think that will be kind of a replacement for some of the pent-up demand that fueled some of the March numbers. So, I think it will balance itself out, and we'll get those customers back, which will continue our path with same-store sales growth.

Omer N. Sander
Analyst, JPMorgan Securities LLC

Q

That's helpful. Thank you. And then one question on M&A. Can you comment there, I guess, are there maybe not distressed [indiscernible] (14:04) other operators in Illinois that maybe present some opportunity and you're at 27%, 28% market share in the 1Q, how much more runway is there in that space?

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

A

I mean, we're hopeful that there'll be other opportunities to work with some of the operators that see that we have a value proposition that offers a unique experience for the establishment as well as their ability to merge in to contribute to what we're doing. So, there's still opportunities, and we're continuing to explore those opportunities and we'll see how that goes.

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Omer N. Sander
Analyst, JPMorgan Securities LLC

Q

Right. Thanks. Congrats again.

Operator: Your next question comes from the line of John DeCree. Your line is now open.

John DeCree
Analyst, Union Gaming Research LLC

Q

Hi, everyone. Two questions for me. The first is, Andy, could you give us a little color on your backlog? I think in the presentation you've mentioned that there's still strong backlog of contracted locations waiting to go live and if you can give us a little more detail. Are they more new openings or more conversions? And as we kind of advance through the reopening, how is that backlog built? Has it picked up as business picked up? Any thoughts there would be helpful.

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

A

Yeah. I mean, I think we've demonstrated in the first two license periods that we've been successful in receiving a larger proportion of the licenses than our market share. So, reflecting on that, I think as we go forward, we've had some success with people that are looking to either open up new businesses or they've taken over businesses that closed last year as new ownership. So I think you'll see as there becomes more confidence in the economy and the reopening that the back half of 2021 into 2022 will reflect a strong path of reopenings and growth from our backlog.

John DeCree
Analyst, Union Gaming Research LLC

Q

Got it. Understood. And to pivot to the higher max bet and payout, I believe you mentioned that the upgrades are nearly complete. Wondering as we look at the strong demand and revenue per day across your machines, if you have a sense of how the higher max bet machines are performing relative to those that have not yet been upgraded. I guess, we're all kind of trying to decipher how much is pent-up demand and stimulus checks versus how much is some of those structural changes that the new regs in Illinois had afforded you? I know probably a tough question this early given all the noise, but...

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

A

Yeah. There is a lot of noise, but I can kind of give you a little clarity. So, most all the establishments that have any kind of considerable revenue have all been upgraded to the max bets and higher jackpots. So, we're not going to see that much more lift left because most everybody has been upgraded.

As far as the pent-up demand versus kind of the new norm, and you guys don't have the ability to see it, but we saw in the first week or two, a couple weeks in March when the stimulus checks hit, this is like real surge and then it kind of normalized out, and that normalization continued through April and we're seeing it into early May. That being said, we're still seeing seasonality and maybe a little bit greater on the seasonality as reopening of the economy has occurred. So, it does appear that those enhancements have created a new normalization of play and we've built some new customer base through a lot of the players that used to go to casinos when the pandemic opened up last July and then we reopened again in January saw the convenience of our establishments as a very good replacement for the trips that they were making to the casinos. They probably still

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will end up going back to the casinos, but on a more reduced level because they recognize that we have similar equipment with good payouts and a very good experience and it's much more convenient.

John DeCree
Analyst, Union Gaming Research LLC

Q

That's great. That's really helpful, Andy. Thank you.

Operator: Your next question comes from the line of Greg Gibas of Northland. Your line is now open.

Greg Gibas
Analyst, Northland Securities, Inc.

Q

Hey, thanks for taking the questions and congrats on the strong results. First, I was just kind of wondering if you could provide a general update on how penetrated do you think the Illinois market currently is and maybe, I guess, the level of opportunities you're still seeing for new location penetration in the state.

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

A

As far as the overall market, I mean, I still see that the market's growing. And you'll always have growth in kind of that replacement where there's people always that fail in their business and new businesses reopen either in their place, in that same establishment or within that market. So, we see that cycle continue to occur maybe at a more reduced factor going forward. But because we've been able to obtain a solid pipeline historically and going forward, we'll continue to grow as we outperform our market share.

Greg Gibas
Analyst, Northland Securities, Inc.

Q

Okay. Great. And if I could, I guess, ask about the M&A pipeline. You said it remains active. Is that pipeline mostly new market oriented or kind of focused on adding additional Illinois operators?

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

A

I mean, we're working on both fronts. We've identified opportunities in some of the new markets that don't have gaming yet, but also we've identified opportunities in Georgia that we obviously capitalized in the past. We think that Century will allow us to become introduced to other markets. So, while we'll always have an eye on Illinois and the opportunities there, I think that the growth going forward will probably be more focused on states outside of Illinois.

Greg Gibas
Analyst, Northland Securities, Inc.

Q

Okay. Great. I guess, last one for me, if I could just follow up on the backlog. You're talking about it remaining pretty healthy here. From maybe a directional level, are a lot of locations that recently reopened now more interested in adding VGTs to their establishments or, I guess, are you seeing similar levels of demand that you saw kind of in the Q4, early 2021 timeframe? I guess, just trying to – you talked about the second half of 2021 expecting it to look better. But can you just comment on the dynamics that you're seeing since everything kind of reopened?

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

A

Yeah. I think most new establishments that open up have VGT revenue in their budgets. And so, the expectation that they're going to have gaming is very prevalent. Why I was looking toward the second half of 2021 and into 2022 is the confidence that a small business owner has in opening up a new business is becoming greater everyday as the economy has picked up, as it appears that the worst of COVID is clearly behind us. And so, that business risk that a small business owner takes when they open up a new business has been reduced. And so, they're starting to look at those businesses that closed during COVID, there was empty establishments that were the local – the number three local bar in their small town and say, you know what, I can reopen that business, I can do it and it's a relatively low risk proposition because it's already built out and I'm willing to make a go of it. We're seeing more and more of that attitude that will allow us to build new opportunities in our pipeline for the next, call it, 12 to 18 months.

Greg Gibas
Analyst, Northland Securities, Inc.

Q

Great. Good to hear. Thanks, Andy.

Operator: [Operator Instructions] Your next question comes from the line of Steve Pizzella from Deutsche Bank. Your line is now open.

Steven Pizzella
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, guys. Thanks for taking my questions. Just wanted to kind of get your guys' opinion on some of those various bills that we've seen that come up for expanding VGTs. They are kind of slow to work their way through [indiscernible] (25:28) passed compared to some of the sports betting, which is interesting when you look at kind of some of the tax revenues that VGTs generate for the states. Kind of how are you guys thinking about that?

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

A

The legislation for VGTs is always challenging. And as you can look historically, it doesn't pass in the new states very often. And I think legislators, when they're looking at sports betting, they see something that is more kind of a wave that is occurring throughout the United States, and they're looking for their market to participate. And it definitely is a form of gaming that wasn't available except in a few states prior to the most – in the last few years. And so, I think as we look at the VGTs, obviously, the revenue is far greater for one of the states that bring on the gaming. But oftentimes, we see headwinds from existing casino operators who are in that state. There are people that are running skill-based gaming or sweepstakes gaming or whatever you would like to call it that are not in favor of a regulated VGT market. And so those oppositions have always been challenging in addition to the anti-gaming sentiment in a given state.

So, where we can see a lot of opportunity and we see that there will be states that recognize the value of VGTs and the revenue that it can provide, that it can help small businesses survive, it will always be a challenge. And the next few years I think the opportunity is as great as ever. And as you saw in both Georgia and Missouri, legislation got very, very close. And our hope is that some of those legislators appreciate the value that we can bring to their budgets and in the next session or two move that legislation across the goal line.

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Steven Pizzella
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's helpful. Thanks. And then just somewhat following up on that related online sports betting. Has that impacted your business at all? And how do you think potentially the iGaming if legalized [indiscernible] (28:47) any opportunities for you there at all?

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

A

So, sports betting I think just in general I think has been helpful or non-eventful in terms of our business. It allows to get more people talking about gaming but, more importantly, it brings people out to the bars, to watch games and have that social environment with other people who are interested and maybe placing bets on those games. That by bringing them to the point – basically for our point of sale introduces more people to the VGTs, gives them another opportunity to game while they are at the establishment. So, I think it's overall, in my opinion, has been helpful and I think our regulators have done a very good job in implementing it. And we think that iGaming could have a similar positive effect on the market. We just don't know how it's going to be legislated. We don't know the way it's going to be implemented. Our hope is that it's available to anyone who owns a gaming license or who was able to get that license and, therefore, we're optimistic that we will be able to participate in bringing our players another way to experience gaming.

Steven Pizzella
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Appreciate it. Thanks, guys.

Operator: [Operator Instructions] And we don't have any questions over the phone. Mr. Rubenstein, please continue.

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

Yes. I just wanted to thank everyone for joining us today. We are very optimistic on the rest of 2021 and we look forward to reconnecting with you at the end of the next quarter. Thank you.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.

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