Accel Entertainment, Inc.

NYSE:ACEL

Earnings Call

Tuesday, February 28, 2023 10:30 PM GMT

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

Omer Nathan Sander
JPMorgan Chase & Co, Research Division

Steven Donald Pizzella
Deutsche Bank AG, Research Division

Presentation

Operator

Good afternoon. Thank you for attending Accel Entertainment's Q4 and Full Year 2022 Earnings Call. My name is Matt, and I'll be your moderator for today's call. [Operator Instructions] I would now like to pass the conference over to our host, Derek Harmer. Derek, please go ahead.

Derek Harmer
General Counsel, Chief Compliance Officer & Secretary

Welcome to Accel Entertainment's Fourth Quarter and Full Year 2022 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 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, including those relating to COVID-19 and its various strains. 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 Fourth Quarter and 2022 Full Year Earnings Call. I'm pleased to report we had another strong quarter and record 2022 results. For the fourth quarter, we reported record revenue of $278 million, a year-over-year increase of 45% and adjusted EBITDA of $43 million, a year-over-year increase of 30%. Q4's revenue growth was primarily driven by the successful acquisition of Century as well as our growth in Illinois, where we added 52 locations and saw same-store sales grow 6%.

Despite the current inflationary environment, our performance continues to demonstrate the strength and resilience of our business model. We believe and our results demonstrate that players continue to seek out our hyper local high-quality offerings due to its convenience and appeal. Our business partners continue to see the benefits of gaming in their establishments, and we believe they will continue to invest in gaming due to the incremental profits they receive.

On the expense side, we are continuing to adjust to the new normal, where we saw inflation and other macroeconomic factors increase many of our large expenses such as labor, parts and fuel. We have and we'll continue to invest in new technologies to streamline our operations while always maintaining our reputation for the best-in-class service. Our asset-light business model and highly variable cost structure allows us to quickly calibrate our business to the current environment.

Turning to Century. The integration is going well, and we're starting to align on best practices. We have already utilized Century's technology capabilities in our developing markets, which helped us create a differentiated premium offering. We also acquired the Montana slot route, Progressive in December with 26 locations based in Kalispell. Overall, we're pleased with the progress we've made but remain focused on continuing to grow organically and inorganically.

In our developing markets, we continue to invest and remain optimistic about their long-term potential. In Georgia, we've installed prepaid value card technology in more than half of our establishments, and early results indicate a noticeable increase in performance. As a reminder, in May of 2022, the Georgia Lottery announced it would be expanding its gift card pilot program by making it available to all locations. This program allows players to load their winnings onto a prepaid value card, which substantially reduces one of the biggest barriers player space in the Georgia market.

In Nebraska, we're bringing our best practices in the market by working with our location partners to redesign their gaming areas with new equipment to help attract new players. The focus in both markets is to grow our backlog and bring new locations live. It's important to remember that current performance in both Georgia and Nebraska is far lower than our mature markets, so it will take significant time for today's investments to be fully realized.

On the M&A front, our pipeline remains active, and we are 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 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 the numbers in more detail.

Mathew Ellis
Chief Financial Officer

Thanks, Andy, and good afternoon, everyone. For the fourth quarter, we had total revenue of $278 million, a year-over-year increase of 45% and adjusted EBITDA of $43 million, a year-over-year increase of 30%. For the full year, we set a new Accel record with total revenue of $970 million and adjusted EBITDA of $162 million, year-over-year increases of 32% and 16%, respectively.

I would like to remind everyone that Century has been included in our results since June 1, and Century operates in markets where revenue split between Century and the location is negotiated. The margins are attractive but far lower than our existing business.

For the fourth quarter, Illinois same-store sales increased 6% year-over-year. And for the full year, Illinois same-store sales increased 3% year-over-year, confirming demand for our offering remains strong. CapEx for the fourth quarter was $14 million cash spend, and CapEx for the full year was $47 million cash spend. The increase is due to our 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 realize today's investments may not be fully realized for several years to come.

As of December 31, we had 23,150 terminals and 3,598 locations, year-over-year increases of 70% and 39%, respectively. Location attrition continues to remain low and in line with our historical averages.

At the end of the fourth quarter, we had approximately $318 million in net debt and $553 million of liquidity, consisting of $224 million of cash on our balance sheet and $329 million of availability on our credit facility.

I would 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 and attractive use of our strong free cash flow. During the quarter, we purchased $17 million of Accel stock at an average purchase price of $8.70 a share. Since the program started, we have repurchased $88 million of Accel stock through the end of 2022. Given our relatively underlevered balance sheet and strong free cash flow, we are in a position to continue investing in our new markets while appropriately returning capital to shareholders.

At this time, we are not issuing guidance due to the near-term macroeconomic uncertainty, but I'm pleased to share the strong tailwinds from the end of last year have continued through the start of 2023. As we get more visibility, 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 year and remain focused on executing our growth strategy by leveraging the strong foundation we have built and 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 Omer Sander with JPMorgan.

Omer Nathan Sander
JPMorgan Chase & Co, Research Division

Matt, on that last point, hoping you can talk a bit about the moving pieces for this year. I know there's no formal guidance out there. But how are you thinking about maybe the balance of the Illinois licenses issued, additional tuck-in M&A opportunities? It looks like you had a nice 300-machine operator acquisition in Montana in the quarter. Any potential improvement in yield as you go through the Century portfolio? And then anything else I might be missing as well?

Mathew Ellis
Chief Financial Officer

Thanks, Omer. Yes. So let me break it down, and we'll start with Illinois. But again, strong start to the year. Everyone saw the January data. Again, if these trends are going to continue, we should have a nice up year. We'll annualize Century and then continue to build from that. We're seeing good licensing coming out of the Illinois Gaming Board. So we're pleased with that, and we'll continue to bring on those locations. So nice looking trends in Illinois.

On the Century front, again, we're continuing to find opportunities. You're not going to see massive movement there just because of the way those markets operate, but we'll continue to look to improve.

And then on M&A, Progressive is a great example, but we always look to execute these. And I think you've seen we do, do these pretty frequently all things considered. So we see kind of upside across the board here. It's just a little early in the year with everything going on. Our expenses are pretty well known, but it felt a little early to issue that guide just given sort of the macroeconomic situation but strong start to the year. We're seeing great play heading into sort of our high season.

Omer Nathan Sander
JPMorgan Chase & Co, Research Division

Awesome. That's helpful. And then maybe if I can just dig into Century a bit more. Based on my math, it seemed like you're also seeing an improvement in yields there. Is that just seasonality? I know I don't necessarily have a full sort of year's worth of data. Are you seeing also the benefit of newer, better, higher yielding machines there, too?

Mathew Ellis
Chief Financial Officer

So we're going to go with yes and yes. We are -- there is some seasonality to that market just like ours. But like we said, it's a complex integration, but it's going well. We are sharing practices, and we will look to have each side perform better.

Operator

The next question is from the line of Steve Pizzella with Deutsche Bank.

Steven Donald Pizzella
Deutsche Bank AG, Research Division

First off, second half margins with Century in the portfolio around [50.5%], is that a good way to think about margins moving forward?

Mathew Ellis
Chief Financial Officer

I think so, Steve. I mean, again, we see some upside. Remember, our developing markets, as they grow, they will sort of leave that emerging market status and enter the P&L. But overall, yes. Again, Andy sort of touched on it, but we are investing technologies. We want to use our people smarter, and we're going to continue to look for ways to try to drive that margin up. But that's not something that we can snap our fingers and do. It takes time and maneuvering, but it's a good starting point, yes.

Steven Donald Pizzella
Deutsche Bank AG, Research Division

Okay. And then just a follow-up on Illinois' locations, I think, 65 for the year, closer to 100 ex the removal for the 72-hour rule, which is a little lower than years past. How should we think about kind of Illinois' location growth moving forward?

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

This is Andy. The -- as we look at it, there will always be closures of businesses that have failed, and new people go into those locations. I think that we will get a disproportionate amount of those locations as far as going to us on those new owners. We also see less growth in kind of new inventory in the market and where we get our significant share of that. I don't think the overall pool of new businesses opening that haven't been opened previously will be increasing. So we're projecting good numbers as we look forward but not with the strength that we've seen in the past.

Operator

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

Chad C. Beynon
Macquarie Research

Matt, I know you said that margins in the back half of '22 is kind of a good place to start with going forward. But I was wondering if you could talk a little bit more about some of the inflationary items that you guys had touched on in '22, I guess, mainly labor just given the state of the economy. I'm assuming that fuel has come down, but just wanted to focus on labor inflation.

Mathew Ellis
Chief Financial Officer

Yes, sure. Thanks for the question, Chad. I think the back half of '22, again, sort of reflects the -- it's a good run rate for all of the labor changes we have seen. Again, we're managing in multiple ways. We're looking to be smarter with technology. We're looking at ways where, hey, when we look at accounts, how do we want to deploy our labor. We want to focus on our customers that are focused on gaming with us at the expense of maybe someone where gaming is a smaller part of their business.

So I think that being said, all of the impacts you saw, we adjusted our labor force. We adjusted to it, and that was fully captured in the back half of the year. So a lot of that wage inflation that you're seeing, it is kind of fully recognized in that period. It's not partially recognized, just sort of the way our performance reviews work.

And again, it is our biggest force. Our employees are one of our most valuable assets. They are [context], so we want to be very conscious of this. But we do see room to be very smart with our workforce, deploy it appropriately. But I think, bottom line, the back half of '22 captures sort of that new normal that Andy referenced.

Chad C. Beynon
Macquarie Research

Okay. Great. And then in terms of potential new legislation, can you just kind of talk about any particular states that you have your eye on if the investor -- or if the legislative education process has continued?

I know there's a number of different bills related to gaming that have been introduced but wondering if there's anything specific to distributed that could provide for an opportunity in '23 or beyond.

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

Yes. The current -- yes, this is Andy. Thanks. The current environment in some of the states that we've been monitoring such as Pennsylvania, Virginia, Missouri, North Carolina hasn't been that favorable. Missouri, we saw it recently get stuck. Pennsylvania is in kind of a permanent hold. Virginia, there's some challenges that need to be overcome related to the casinos that are coming online and the governor's kind of priorities. And then as we look at the North Carolina market, it's -- there's a lot to be negotiated. That's the only one that we think is really still having momentum in this session. And so where the outcome is highly uncertain and not necessarily are we optimistic, it's the only one that's kind of still on the table.

As we look forward into the future years, it will always be considered, but it's difficult legislation to pass. And as we've seen, no meaningful legislation has been passed in the last 14 years, so our business model is not predicated on the success of legislation. It's -- we're focused on growing our existing markets, entering into legacy markets and finding opportunities that are unique in the gaming industry.

Operator

There are currently no further questions registered. [Operator Instructions] There are no additional questions waiting at this time, so I'll pass the conference back to Andy Rubenstein for any closing remarks.

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

I just wanted to thank everyone for joining us today. We've had a nice start to the year, and we look forward to talking to you sometime in the next few months. And again, everyone be safe, and we look forward to talking to you again. Thanks.

Operator
That concludes the conference call. Thank you for your participation. You may now disconnect your line.