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

Gregory Thomas Gibas
Northland Capital Markets, Research Division

Samir Morris Ghafir
Macquarie Research

Steven Donald Pizzella
Deutsche Bank AG, Research Division

Presentation

Operator

Good afternoon, and thank you for attending today's Accel Entertainment third quarter earnings call. My name is Jason, and I'll be the 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 Third Quarter 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 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 third quarter earnings call. I am pleased to report we had another strong quarter. We reported revenue of $287 million, a year-over-year increase of 8% and adjusted EBITDA of $44 million, a year-over-year increase of 7%.

Q3's revenue growth was primarily driven by adding new locations in Illinois, along with 1% same-store sales growth. We also saw some growth in our developing markets where we continue to add locations and attract new players. Our continued growth in the current economic environment demonstrates the strength of our hyper-local business model. Our establishment partners recognize and rely on the incremental profits that our high-quality offering brings to their businesses.

On the expense side, our cost structure continues to remain stable, despite the inflationary impacts on labor and other expenses such as parts. While the labor market remains tight, we have seen some signs of stabilization, allowing us to better retain and attract talent. Our vendors have worked through nearly all of the supply chain disruptions and are now able to provide parts on a timely and consistent basis.

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 active, and I'm excited to share we're evaluating multiple opportunities across the country. We're working hard to get those opportunities across the finish line and look forward to sharing them with you in the future. Our long-term goal remains to continue to increase the percentage of our revenue that is generated outside of Illinois.

Overall, Accel continues to execute its growth playbook. We remain excited about the opportunities in the markets where we are currently operating as well as new markets where we're looking to enter. Our strong balance sheet, local business model and highly visible 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 third quarter, we had total revenue of $287 million, a year-over-year increase of 8% and adjusted EBITDA of $44 million, a year-over-year increase of 7%.

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 third quarter was $19 million cash spend. The increase is due to accelerating some purchases in Illinois and additional investment in our developing markets such as Nebraska and Georgia. We continue to see upside in both these markets, and we're excited by the recent growth.

That said, it's important to realize today's investments may not be fully realized for several years to come. As of September 30, we had 24,016 terminals and 3,687 locations, year-over-year increases of 7% and 5%, respectively. Location attrition continues to remain low and is mostly attributable to our lowest performing locations closing their doors.

At the end of the third quarter, we had approximately $282 million of net debt and $572 million of liquidity, consisting of $230 million of cash on our balance sheet and $342 million of availability on our credit facility.

I'd now like to provide an update on our capital allocation strategy. As you're all aware, in November of 2021, we announced a $200 million share repurchase program. With our strong balance sheet and low leverage, we're in a unique position where we can grow our business and return capital to shareholders.

During the quarter, we repurchased just over 300,000 shares at an average purchase price of $11.10 per share. We are just over halfway through the repurchase program with approximately 10 million shares repurchased at a cost of approximately $104 million.

Similar to prior quarters, we are not issuing guidance due to the near-term macroeconomic uncertainty. However, I would like to emphasize that demand continues to remain strong and should the current trends continue, we expect to finish the year with record-breaking results.

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 locally focused business model creates a platform to outperform in challenging conditions such as these and thrive under normal circumstances. We will now take your questions.

Question and Answer

Operator

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

Steven Donald Pizzella
Deutsche Bank AG, Research Division

Can you talk about if you saw anything outside of normal seasonality from a customer demand perspective in the quarter throughout your 3 main regions? And then maybe any color you can give us on how October trended.

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

Yes. Thanks for calling, Steve. The -- what we're seeing is basic kind of stability in the play, still some growth, but it's not -- it's minimal in terms of year-over-year on the same-store play. As we look at some of the markets, we're seeing strength where we've invested in new equipment. We've seen that in the Nevada market. Illinois, we're starting -- we see -- we continue to see that. But overall, I'd say there's -- the market has been stable. I think is kind of representative of the fact that our business is incredibly resilient even as people are starting to pause in their discretionary spending.

October has kind of followed the trend. And although we don't have the final numbers and results, as you'll see in the reporting in the next few days from the state from what we have seen, again, it's very strong, stable performance. The customer sees that we provide a value. We provide convenience and quality. I mean the quality of our equipment keeps getting better and better. So the experience that they have locally is just as good or better than they may experience in a casino or at a destination location.

So we feel good about it. We have confidence in this quarter. And although we're kind of holding off on forecasting beyond the end of the year, I think the stability of our business and where distributed gaming kind of sits in the gaming vertical is a position of strength.

Steven Donald Pizzella
Deutsche Bank AG, Research Division

Okay. That's helpful. And then as we think about margins and the cost structure, it looks like margins were flat to maybe down a couple of basis points year-over-year. How should we think about that cadence moving forward? And maybe what kind of -- what level of revenue growth do you think you need to get to that margin expansion moving forward?

Mathew Ellis
Chief Financial Officer

Steve, it's Mat. Thanks for the question. I'll start with cost first. Again, I think we talked about this in the past, but our raised cycle is in July. So the best thing to look at rather than a year ago as sort of sequential. And as we talked about, expenses overall and wages being the biggest part of that has been pretty stable. I mean we have our annual cost of living increases and stuff like that, but the cost structure has been very stable.

Frankly, on the forecasting part, that's the easy part of the job what is sort of, as Andy discussed earlier, the revenue. And while we're seeing strong trends, a lot of that margin expansion will come down to sort of how the revenue flows at. We feel very good about the cost base. Again, we're close to home, we're local. We're an easy, convenient option for our players.

So as he said, October came through better than we internally forecasted. But again, you'll see the numbers soon. So overall, we feel good, but we'll certainly try to get some margin expansion, but a lot of that will come through on the demand side.

Steven Donald Pizzella
Deutsche Bank AG, Research Division

Okay. And then just one more, if I could. The kind of $60 million to $70 million level in CapEx this year, is that a good run rate to think about moving forward into kind of 2024 and 2025 as we build out our models?

Mathew Ellis
Chief Financial Officer

I think you can go a little lower than that. Like we talked about, we walked some purchases forward this year just out of abundance of caution and to be a little opportunistic, I would expect it to drop 10% to 20% next year. We'll see how everything comes in, but we have a lot of new products come in. And then to be safe, we didn't want to run into any shortages. Like we said, a lot of those have gone away. But certain equipment, you don't want to end up with a backlog and you can't keep setting new locations. So I would expect it down 10% to 20%.

Operator

Our next question is from Chad Beynon with Macquarie.

Samir Morris Ghafir
Macquarie Research

This is Sam on for Chad. First question with same-store regional gaming revenues slowing in the broader gaming industry, could you remind us of the various growth opportunities that you guys have in your portfolio that are not dependent on same-store growth such as tuck-ins, new locations, vertical integration? And what would the aggregate growth fee from these avenues assuming same-store trends across the portfolio are flat in '24 and '25?

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

Thanks, Sam. This is Andy. The -- we have quite a few opportunities, whether it's tuck-in, here in Illinois or other markets. And I'd expect us to continue those -- pursuing those opportunities in '24. We will expand our retail operations. We have got a couple of locations that will be able to operate the retail business in Montana. You'll see the opportunities kind of manifest themselves in '24. And then we're looking at a lot of new markets. I mean there's -- we -- as Accel has expanded its business to places like Nebraska, the success there as indicated to us that there is other real opportunities for us to grow.

We are a manufacturer in states like Louisiana, South Dakota. We anticipate getting more involved in the Louisiana market as we get into the second half of '24. So the opportunities are there. I think by the time we do this call, at the end -- toward the end of the first quarter, you'll see that we've made some progress. And the real results will start to be realized in the second half of '24 into '25.

Samir Morris Ghafir
Macquarie Research

Great. And then as a follow-up, looking at Illinois data, it doesn't look like the VGT market has been impacted by any of the new casinos that have launched in the last few months. And it actually looks like growth has accelerated. Just wondering what you've seen, if anything, in your portfolio at all?

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

I mean we really haven't felt it. There's a couple individual locations that are in proximity to the casino that have been -- had marginal decrease. We believe that, in general, as gaming becomes more of an acceptable form of entertainment in Illinois similar to how it is in Nevada, that more people see it as a real value in entertainment.

We're in an inflationary environment in many of the other entertainment alternatives where our value proposition of time or the money spent is the same, and people are appreciating what our offer is. So our view is Illinois is a strong market. It will become more and more of a gaming culture, as we've seen over the last 11 years of operating, that playing slot machines is an entertainment that people prefer.

Operator

There are no more questions. Sorry, we have another question from Greg Gibas with Northland.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

First, I guess, you mentioned just tuck-ins in Illinois continuing to look at those. I just -- I think it's been a little while, so I'm curious if you're still seeing attractive opportunities in terms of tuck-ins within Illinois.

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

Yes, and we're evaluating them. And those opportunities will -- I think, the presence and I think they'll continue. The market is always kind of transitioning and a lot of -- again, 11 years into this market, there are people that are looking to exit or find a company to partner with. And we've demonstrated that we're a good partner. And when the opportunity is appropriate and we kind of go through the diligence that indicates this is the right spot for both companies, we'll continue to execute on that.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

Great. And then I guess kind of the follow-up there, you mentioned the goal still being to expand revenues outside of Illinois. I'm just curious like where you'd stack up those growth opportunities in terms of markets. With North Carolina up table for the time being, where are you kind of most excited about?

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

I mean we really like some of the opportunities in Montana that we've started to capitalize on, and we have -- we've been able to be successful in a few of these retail situations. And I think we'll be able to continue down that path, to grow the business significantly. You're looking at other states that are out there. Nebraska is growing from a very low number, but we see a very strong growth pattern in same-store sales growth there.

So I think, like I said, as we move into next year, there'll be other states that we've identified to pursue that we may make a stronger effort. We're really looking hard at what we're doing in Georgia, whether we pivot in one direction or the other. South Dakota has presented a few opportunities. So they are there. But I would tell you, Montana is the one that is most actionable right away. It may be a different conversation 6 to 9 months from now, but Montana's the most present.

Operator

There are no more questions. I'll pass the call back over to the management team for closing remarks.

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

Thank you, everyone, for joining us today. We are pretty excited about what's coming in '24, which will spill into a very strong second half of the year and into '25 and '26. We appreciate you guys listening today. I want to wish everyone a safe and happy holiday season, and we'll look forward to sharing some good news as we talk to you again in the new year. Thank you.

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