

Accel Entertainment, Inc. NYSE:ACEL

FQ4 2024 Earnings Call Transcripts

Thursday, February 27, 2025 10:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.21	0.21	●0.00	0.24	0.91	0.91	●0.00	0.86
Revenue (mm)	306.07	317.52	▲3.74	310.34	1219.54	1230.97	▲0.94	1252.75

Currency: USD

Consensus as of Feb-17-2025 4:35 PM GMT

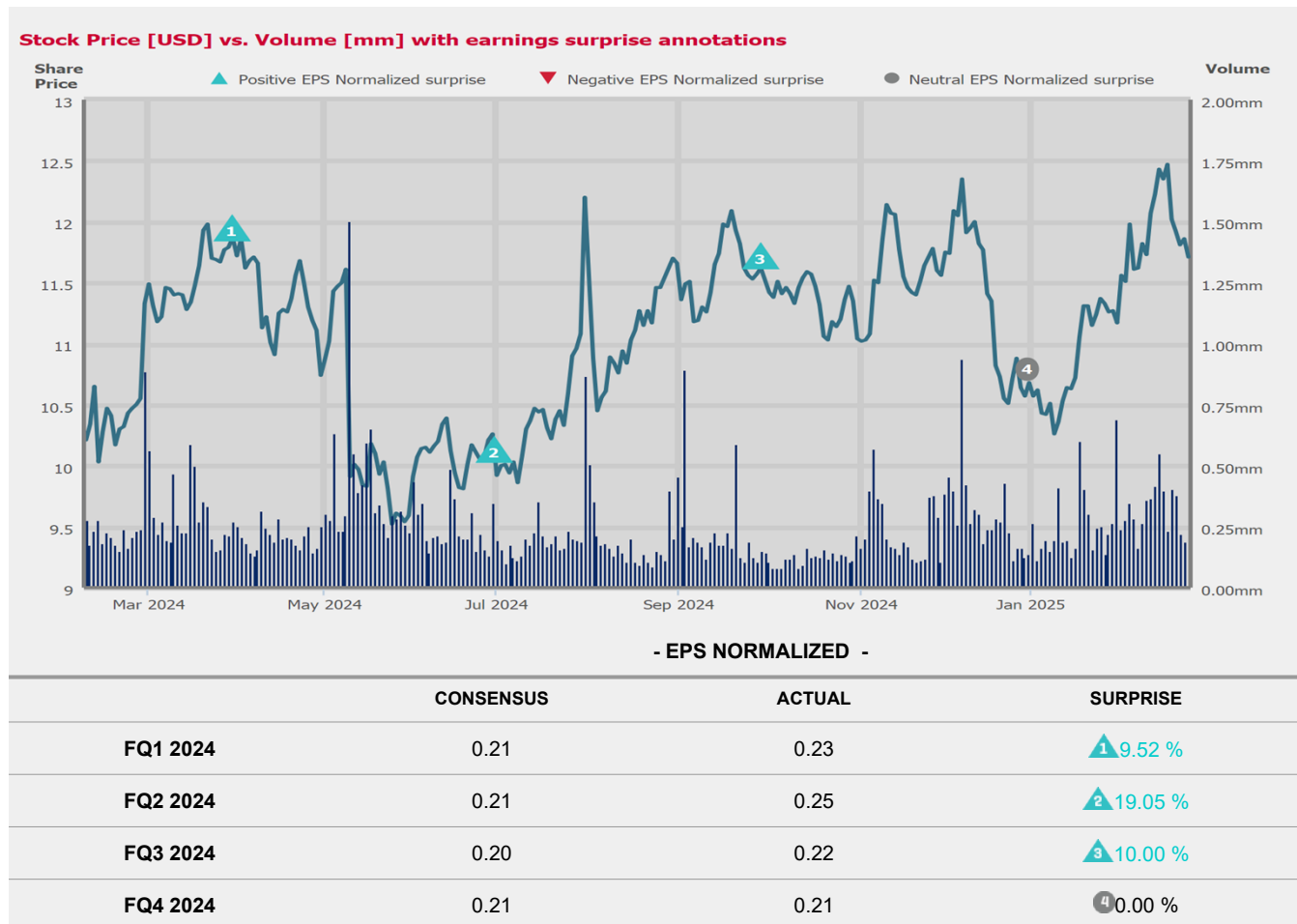


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Call Participants

EXECUTIVES

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

Derek Harmer
*General Counsel, Chief Compliance
Officer & Secretary*

Mark T. Phelan
President of U.S. Gaming

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

Good afternoon, and thank you for joining the Accel Entertainment Q4 and Full Year 2024 Earnings Call. My name is Kate, and I will be the moderator for today's call. [Operator Instructions]

I would now like to turn the call over to Derek Harmer, General Counsel and Chief Compliance Officer. Please proceed.

Derek Harmer

General Counsel, Chief Compliance Officer & Secretary

Welcome to Accel Entertainment's Fourth Quarter and Full Year 2024 Earnings Call. Participating on the call today are Andy Rubenstein, Accel's Chief Executive Officer; Matt Ellis, Accel's Chief Financial Officer; and Mark Phelan, Accel's President of U.S. Gaming. 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.

Any projected financial information presented in this call is for illustrative purposes only and should not be relied upon as being predictive of future results. The inclusion of any financial forecast information in this call should not be regarded as a representation by any person that the results reflected in such forecasts will be achieved. 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 today's call. I'm pleased to report we had another record-setting year with total revenue of \$1.2 billion and adjusted EBITDA of \$189 million, proof of the resiliency of our convenient local gaming offering. It was a busy quarter for us. We entered into Louisiana on November 1, and acquired Fairmount Park outside St. Louis on December 2. Our teams are hard at work integrating Louisiana and preparing for the Phase 1 opening of the Fairmount Casino in the second quarter of this year.

In terms of financial performance, Illinois, our largest market, posted market-wide GGR growth of 4% year-over-year, outperforming Illinois Casinos, which were down 3% year-over-year on a comparable basis. We are proud of the strong foundation we have built in our home state, leading in a model that's a win, win, win for our state, our partners and local convenience-based gaming providers like us.

During the quarter, our location count in Illinois was down again sequentially. This was due to the strategic closures of 16 underperforming locations. Without these closures, our location count would have been flat for the quarter. For the full year, we strategically closed 54 underperforming locations, which helped us rightsize our operations in response to the 1% increase in the state gaming tax on July 1, 2024.

We expect this process to continue as we review our portfolio and look for opportunities to improve financial performance. We've identified a subset of locations within our bottom decile performers that we will phase out over coming quarters. Given we have an attractive pipeline of promising locations, we expect near-term Illinois net unit growth to potentially be flat with planned positive impacts to EBITDA and greater returns on invested capital as we rotate locations.

Across our footprint, we continue to refine our sales and operating model, focusing on the highest hold per day locations. The improvement in the composition of our portfolio will help drive both top line and bottom line growth driven by choiceful segmentation and resource allocation.

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In addition to what I just mentioned, we lead into our continuous process of reviewing our markets and operations to find areas of improvement. As a result, we've identified additional efficiencies and opportunities for growth that will result in improved performance and an increase in free cash flow.

On the regulatory front, Illinois continues to lay the groundwork for ticket in-ticket out, also known as TITO, which should make cash processing more efficient. More importantly, it will create a more convenient experience for our players, allowing them to switch between games and our locations without cashing out and cashing in each time. Making our sites more akin to a casino experience. We're hopeful TITO will be rolled out in 2025. We continue to monitor regulation related to this.

Before I turn it over to Mark, I'm going to take a few minutes to talk about Accel's value proposition and where we see our greatest opportunities for growth. For both our customers and players, we provide a high-quality slot gaming experience at a low price point that can be accessed by our players at a local, convenient retail location of their choosing in 15 minutes or less from their home. We support retail gaming partners by providing them with high-margin revenue gaming products and labor-light self-service technology.

We instill player loyalty through our rewards programs by creating memorable player experiences with our diverse gaming selection. And finally, we maintain collaborative and reliable partnerships with regulators across 11 different regulatory structures, all while generating attractive returns on capital in the low teens.

In our core route-based business model, our steady growth algorithm is both simple and compelling. We target low single-digit revenue growth, mid-single-digit EBITDA growth and high single-digit free cash flow growth, assuming normalized CapEx levels, which Matt will address later.

Looking ahead, the primary levels for growth in our core route business are: one, growing organically in Illinois, Nebraska and Georgia through both newly licensed establishment and converting competitors' locations; two, driving profitability in Nebraska and Georgia through operational execution and strategically positioning ourselves in the face of favorable legislation; three, collecting a greater share of location economics through selectively owning establishments in markets where this is permitted and is otherwise profitable; and four, preparing ourselves for future opportunities in new states likely to legalize local gaming in the future.

Outside of our core business, our M&A pipeline remains active, as demonstrated by the Fairmount and Louisiana acquisitions. We are confident that we can leverage our proven capabilities as a local gaming operator to convert opportunities in the attractive and sizable nationwide \$15 billion plus GGR local gaming market. Most assets in this market are unconsolidated and sit at EBITDA levels that are below the radar of larger gaming companies, conditions that play to our strengths.

With that, I'm going to turn it over to Mark to provide an update on Fairmount.

Mark T. Phelan
President of U.S. Gaming

Thanks, Andy. We closed the Fairmount acquisition on December 2 for approximately \$40 million in Accel stock after adjusting for working capital and the price of Accel stock at close. The acquisition includes a master sports betting license with a long-term partnership with FanDuel, a horse race track, off-track betting facility opportunities and the ability to develop a best-in-class locally focused casino. This transaction builds on our core capabilities in local gaming that we've honed over the last 15 years with attractive returns on capital and free cash flow.

We are combining our local gaming expertise with key partnerships in areas outside our core business to create an exceptional customer offering. As a reminder, we expect to develop this project in 2 phases. Immediately after closing, we started construction on Phase 1 of our casino, which will be built in the existing grandstand with approximately 255 electronic gaming devices, for electronic table games and significantly improved food and beverage amenities.

As of now, we expect to open Phase 1 during the second quarter of 2025, and we look forward to welcoming players once the facility is open. For Phase 2, we'll build a permanent casino on site with detailed plans for 600-plus slot machines, 24 table games, food and beverage amenities and a new and improved FanDuel Sportsbook.

With that, I'll pass it over to Matt to go over the fundamentals of the quarter.

Mathew Ellis
Chief Financial Officer

Thanks, Mark, and good afternoon, everyone. For the fourth quarter, we had total revenue of \$318 million, a year-over-year increase of 6.9% and adjusted EBITDA of \$47 million, a year-over-year increase of 6.2%. For the full year, we set a new Accel record with

total revenue of \$1.2 billion and adjusted EBITDA of \$189 million, year-over-year increases of 5.2% and 4.2%, respectively. As of December 31, we had 26,346 terminals and 4,117 locations, year-over-year increases of 5% and 3.9%, respectively.

Revenue per location for the quarter in our core states was as follows: Illinois was \$868 per day, an increase of 3.5% year-over-year; Montana was \$614 per day, an increase of 4.6% year-over-year; Nevada was \$786 per day, a decrease of 6.7% year-over-year; Nebraska was \$253 per day, an increase of 5.9% year-over-year; and Louisiana was \$979 per day. The increases in Illinois, Montana and Nebraska really emphasize the strength and resilience of both our business model and more importantly, consumers who continue to choose our high-quality local and convenient offering.

Capital expenditures for the fourth quarter were \$11 million of cash spend and capital expenditures for 2024 were \$67 million of cash spend. For the full year, we spent \$2 million on Fairmount and Louisiana, leaving \$65 million of cash spend in our existing markets. At the end of the fourth quarter, we had approximately \$314 million of net debt and \$425 million of liquidity, consisting of \$281 million of cash on our balance sheet and \$144 million of availability on our credit facility.

Looking ahead, we are forecasting \$75 million to \$80 million of CapEx for 2025 comprised of \$39 million to \$41 million in our existing markets, \$5 million to \$7 million in Louisiana and \$31 million to \$32 million for Fairmount. I'd like to note that CapEx for Fairmount includes both Phase 1 and initial construction for Phase 2. After Fairmount and the initial CapEx in Louisiana, we expect company-wide normalized CapEx to return to \$40 million to \$45 million, which will be an encouraging boost to free cash flow and returns on capital.

On our capital allocation strategy, we continue to favorably view share repurchases as an effective way to return capital to our shareholders. During the quarter, we repurchased 361,000 shares at an average purchase price of \$11.14 a share for a total of \$4 million. For the full year, we repurchased approximately 2.4 million shares at an average purchase price of \$10.42 and for a total of \$25 million. Earlier this week, our Board of Directors authorized replenishing our share repurchase program back to \$200 million. With our strong balance sheet and low leverage, we are in a unique position where we can grow our business and continue to 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, Matt. As I mentioned earlier, we are very pleased with our strong performance this year and the fact that our teams are working hard to complete construction on Phase 1 of the Fairmount Casino. For the immediate term, we remain focused on executing our growth algorithm with improving cash flow and returns. Long term, we look forward to capitalizing on the significant growth opportunities ahead of us as an aligned and incentivized Accel team.

Accel remains strong as evidenced by our results and healthy balance sheet, enabling us to pursue a multipronged approach to capital allocation, making us a compelling investment. Local gaming is an attractive growing niche within the broader gaming market with multiple opportunities to generate strong and consistent revenue and EBITDA growth as well as strong free cash flow and returns on capital.

We will now take your questions.

Question and Answer

Operator

[Operator Instructions] The first question will come from the line of Steve Pizzella with Deutsche Bank.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Thanks, Matt, Andy. There are a lot of moving parts with adding in Louisiana to the model for 10 months and '25, everything that comes with Fairmount and the added temporary casino, how should we think about the contributions to the model?

Mathew Ellis

Chief Financial Officer

Thanks, Steve, it's Matt. Let's start with Louisiana. You look back to when we disclosed closing it and we disclosed \$6 million of EBITDA. So I think for the full year '25, you should add that and like you called out 2 months of them in 2024 results. For Fairmount, as Mark said, we're planning to open in Q2 so we might want to split the difference there. But as we sort of talked about earlier, full run Fairmount, all built out, all said and done, we forecasted \$25 million of EBITDA, and we've sort of guided that the temp would do about 1/3 of that. So you've got 1/3 of that \$25 million and then you need to prorate it for opening in, we'll call it, the middle of Q2.

Steven Donald Pizzella

Deutsche Bank AG, Research Division

Okay. That makes sense. And then just looking in Illinois in January, looked like it started off pretty strong, at least looking at the data we can see. Could you see similar trends in other markets? And are you able to comment at all on February?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes. I mean -- this is Andy. Thanks, Steve. We had very favorable weather in January this year, where last year it was a bit rough. And then the weather in February here has been not as good as it was last year. I wouldn't say we don't know whether they will actually balance themselves out. But helpful in the country, we haven't seen the extremes that we've experienced in Illinois on the weather factor.

Overall, I think there's been a well-received demand for our gaming products. And I think we're seeing good results early from some of the remodels we're doing in Louisiana, some of the new products we're introducing in some of the other markets to kind of upgrade our routes has all been very positive from a consumer perspective.

Operator

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

Chad C. Beynon

Macquarie Research

Andy, you mentioned just the pruning of the Illinois units really to focus on free cash flow per location. So I definitely appreciate the discipline there. At what point will you be through this and then we should expect for some growth in the market?

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes. So I don't think they're totally tied together. The pruning is really that bottom the very bottom of our portfolio. And there will always be some that need to be pruned. And we make investments or we have confidence in our ability to either reignite poor-performing locations or locations that we think will be decent performers, the owners of the facilities aren't that committed to gaming and therefore, we're not getting the returns that we need. So that part of our business will be a constant process.

And I think as we've been a little more aggressive in pruning as we've seen costs increase from labor. We've seen a tax increase last summer. Our focus is to obviously increase the free cash flow. And I think the growth will be continuous because as the our assets will be redeployed into better accounts. And I think you see it constantly, but I think it will really kind of manifest itself probably later this year into next year where the average profitability of the location will be noticeably better.

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Chad C. Beynon
Macquarie Research

Okay. Great. And then last week, one of the big manufacturers in the space acquired an e-pull tab or a company in the charitable gaming space and then we're able to shine some more light on that sector. I believe when you guys talked about the potential areas of expansion for Accel, e-pull tabs was in there. I don't think a lot of investors or analysts had a full appreciation of the sector. But now that another company in the space has shone light on that, and they talked about potential expansion and yes, how large the sector is. Is that something that you think is a little bit more front and center in the near term, just given some of the heightened awareness for that sector? Or does that kind of weigh on the scale equal to some of the other opportunities for future growth?

Mark T. Phelan
President of U.S. Gaming

Chad, it's Mark. Good question. So that market is a really interesting one, but it's -- and by the way, it was a great outcome for the company that was purchased, Grover and we're friendly with that management team and happy that they were able to realize the value they did. But that's a real content market. It's less of a product and service market that we're familiar with. So it made a lot of sense for Light & Wonder to purchase them because of the superiority of their content.

In terms of Accel participating in that market, we would really have to have a partner who could provide that kind of superior content, and we can complement that with our ground game. So it's an interesting market, but it's one where it's something we have to partner with someone to really participate in.

Chad C. Beynon
Macquarie Research

Okay. And then lastly, if I can sneak in one more. There's been some legislation here in January and February. I think most of it has been around just moving tax rates around, and there's been some that have -- that would potentially bring in iGaming or sports betting. We haven't seen as much in your sector -- is that something that you think still could come maybe in this legislative session here kind of early in '25 that we're just not aware of at this point? Or do you think a lot of future expansion in the route market kind of gets pushed into a later period in terms of legislation?

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

Thanks, Chad. This is Andy. It's something that we are always aware of. We haven't seen any real iGaming legislation bubble up in this legislative session. Inevitably, we'll see it, whether we'll gain any traction not as likely as in the past, but I believe that we'll continue to see iGaming legislation in certain markets. I don't think it's as likely to be in some of the Route Gaming markets first.

I think it's more likely to appear in markets that don't have Route Gaming or have minimal casino presence. Illinois with extensive bricks-and-mortar Route Gaming I wouldn't say would be the first market that would pass legislation from going forward nor would Nevada, but we're constantly monitoring it. And we're trying to educate the legislators that the Route Gaming market is a much better solution with much more regulation and consumer protection than the iGaming product.

Operator

The next question comes from the line of Greg Gibas with Northland.

Gregory Thomas Gibas
Northland Capital Markets, Research Division

Andy, Mark and Matt, I wanted to ask, I guess, if you could speak to the growth opportunities you see in Louisiana, do you expect to continue to be acquisitive in that market or focus more on organic growth there?

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

Yes. Thanks, Greg, it's Andy. We see -- it's almost kind of a contradicting market, a mature market, one that's been around for 30-plus years. But at the same time, a market that's not that sophisticated and well developed. So you still have an incredibly fragmented market. And there's 2 markets in that, that we're looking at in Louisiana. The truck stops, which I think there's like 197 truck stops in the state, and it's still heavily fragmented and then even more fragmented is the bar market, which most bars in the state of Louisiana are utilizing very old legacy equipment 20-plus years old.

And we see the opportunity to improve our truck stops. We've done pretty well so far. And we're evaluating what needs to be done with the routes that we've purchased. I believe that we'll grow organically over time. And the truck stops as some of the ownership transitions over the next 10 years, one or 2 a year may be available for us to acquire and grow our presence.

Gregory Thomas Gibas

Northland Capital Markets, Research Division

Got it. That's helpful. And I wanted to follow up on Fairmount. I guess, one, could you maybe remind us of the timing of Phase 2 development. And I think you already kind of spoke to the uplift you expect to see with maybe Phase 1 being 1/3 of that. I wonder if you could maybe break out what piece relates to the FanDuel component in that? And if not, could you maybe break that out?

Mark T. Phelan

President of U.S. Gaming

So in terms of timing, I think we've guided to sort of end of '27 for the Phase 2. As Matt pointed out, we're planning to go live with Phase 1 in Q2, and that would give us a little over 2-plus years to build a more permanent facility. And we're not allowed to break out the revenue, but...

Mathew Ellis

Chief Financial Officer

Greg, it's Matt. We can't fully break it out, but if you think back to when we announced it, the track was around breakeven, maybe making a little. So that would sort of imply without -- with just racing, F&B and the sports book sort of how the track was doing pre-Racino.

Operator

At this time, we do not have any further questions registered in the queue. [Operator Instructions] At this time, we do not have any further questions registered in the queue, so I will turn the call back over to Andy Rubenstein for any final remarks.

Andrew Harry Rubenstein

Co-Founder, President, CEO & Director

Yes. Just wanted to thank everyone for joining us today. We will be connecting with you in about 2 months. I think the year is off to a really good start, and we'll be excited to share some of the progress we've made when we talk again in May.

Operator

That concludes today's call. Thank you all for your participation, and you may now disconnect your lines.

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