
MARYLAND LOTTERY AND GAMING CONTROL COMMISSION

1800 Washington Blvd., Suite 330, Baltimore, Maryland 21230

COMMISSION REPORT



American Gaming Systems, LLC

MANUFACTURER LICENSE RENEWAL APPLICANT

Report Date: February 25, 2020

“Commission Presentation”

Manufacturer License Renewal – American Gaming Systems, LLC

We are conducting a hearing on the manufacturers renewal license application submitted by American Gaming Systems, LLC. The Maryland Lottery and Gaming Control Agency is required by “The Gaming Law” to conduct an investigation to determine if American Gaming Systems, LLC is qualified to be awarded a manufacturers license.

You (the commissioners) have been provided with the complete investigative report on American Gaming Systems, LLC. You have also received a copy of the public report that was in your packets and made available to everyone on the agency website. I will summarize the reports that have been given to you.

American Gaming Systems, LLC was last approved for a manufacturer license by the Commission on April 23, 2015. American Gaming Systems, LLC has maintained its manufacturer license in good standing and has not been subject to any disciplinary sanctions by the Commission.

Background

American Gaming Systems, LLC (“AGS”) was incorporated in April 2005 in the State of Delaware. Through a series of six holding companies,

Manufacturer License Renewal – American Gaming Systems, LLC

AGS is wholly owned by PlayAGS, Inc. (the “Company”), a publicly traded company registered with the United States Securities and Exchange Commission (SEC). AGS, LLC is a manufacturer and distributor of a variety of gaming devices and software systems.

AGS is currently licensed by 23 state regulatory gaming authorities.

Ownership of Applicant

As previously mentioned, AGS is a wholly owned subsidiary of PlayAGS, Inc. On January 30, 2018, PlayAGS completed an initial public offering of 10,250,000 shares of its common stock, at a price of \$16.00 per share and is publicly traded on the New York Stock Exchange under the symbol “AGS.” In its most recent Proxy Statement filed with the SEC on July 26, 2019, PlayAGS disclosed that as of July 18, 2019, it had 36,714,238 shares of common stock issued and outstanding. The following entities held beneficial ownership of more than 5% of PlayAGS’s common stock as of July 18, 2019:

- Apollo Gaming Holdings, L.P. – 8,208,076 shares owned (22.4%)
- Park West Asset Management, LLC – 1,933,291 shares owned (5.3%)

Manufacturer License Renewal – American Gaming Systems, LLC

The shares held by Apollo Gaming Holdings, L.P. (“Holdings”) are subject to an irrevocable proxy granted to AP Gaming VoteCo, LLC (“VoteCo”) which appointed VoteCo with the full power to vote, direct and effect the sale, transfer or other disposition of all or any part of the shares of the Company held by Holdings. AP Gaming VoteCo, LLC is owned and controlled by David Sambur who as the sole managing member of VoteCo has the authority to control PlayAGS’s affairs, including the election of its board of directors and the appointment of management.

Apollo Gaming Holdings, L.P. has a general partner, Apollo Gaming Holdings GP, LLC, and four limited partners, the Apollo Fund VIII Funds, which all are owned through a series of five holding companies by the ultimate parent, Apollo Global Management, Inc., a publicly traded company. Apollo Global Management, Inc. is beneficially owned by Leon Black, Marc Rowan, and Joshua Harris through several Apollo Operating Group units.

AGS Capital, LLC, AP Gaming Acquisition, LLC, AP Gaming II, Inc., AP Gaming I, LLC, AP Gaming Holdings, LLC, AP Gaming, Inc., PlayAGS, Inc., Apollo Gaming Holdings, L.P., AP Gaming VoteCo, LLC,

Manufacturer License Renewal – American Gaming Systems, LLC

Apollo Gaming Holdings GP, LLC, BRH Holdings GP, Ltd. and AGM Management, LLC have all filed Principal Entity Disclosure Forms with the Maryland Lottery and Gaming Control Agency. Apollo Global Management, Inc. is a Principal Entity and has previously submitted a Principal Entity Form to the Agency. Leon Black, Marc Rowan, Joshua Harris, and David Sambur are all currently licensed as Principal Employees in Maryland. BlackRock, Inc. reported that as of December 31, 2019 it beneficially owned 1,899,779 shares or 5.4% of PlayAGS's outstanding common stock. Park West Asset Management, LLC and BlackRock, Inc. are institutional investors and have previously been granted institutional investor waivers by the MLGCA.

There are also no concerns with the suitability of AGS Capital, LLC, AP Gaming Acquisition, LLC, AP Gaming II, Inc., AP Gaming I, LLC, AP Gaming Holdings, LLC, AP Gaming, Inc., PlayAGS, Inc., Apollo Gaming Holdings, L.P., AP Gaming VoteCo, LLC, Apollo Gaming Holdings GP, LLC, BRH Holdings GP, Ltd. or AGM Management, LLC as Principal Entities.

Discussion of Financial Performance

AGS, LLC's financial statements are consolidated with those of its publicly traded parent company. Therefore, we performed a detailed analysis of PlayAGS's consolidated operating performance and financial condition for the calendar years ended December 31, 2014 through December 31, 2018. We offer the following comments:

- 1) American Gaming Systems, LLC overall operating performance was poor during the five-year review period and first nine months of calendar year 2019. The Company has consistently generated net losses which have resulted from increases in costs as the Company expanded. This expansion was funded primarily through borrowings which has left the Company highly leveraged and this debt and the related interest expense has placed a burden on earnings and operating cash flows.

Although the Company has experienced unfavorable operating activity, it has generated positive operating cash flows each year, reduced its annual net loss in recent years, and satisfied its long-term debt obligations. Additionally, the recent refinancing and

Manufacturer License Renewal – American Gaming Systems, LLC

redemption of its debt has provided lower interest rates which should reduce the burden placed on operating income and net profits over time. The Company has increased revenue each year and seen steady improvement in operating income over the past several years. The Company believes that as it continues to enter new markets and develop new products and more competitive games, its operating results will improve in future periods. The auditors have not expressed any concerns with the Company's financial position and there are no overwhelming concerns that disqualify AGS, LLC for re-licensure. However, due to the Company's historical poor performance and level of debt, a review of the Company's performance is recommended on an annual basis.

- 2) There were no material issues involving the known financial backers
- 3) American Gaming Systems, LLC possesses the requisite good character, honesty and integrity
- 4) American Gaming Systems, LLC has sufficient business ability and experience
- 5) There were no potential disqualifying factors

Manufacturer License Renewal – American Gaming Systems, LLC

CONCLUSIONS and OPINION

MLGCA's investigation has confirmed that the Applicant has sufficient financial resources and found no derogatory information regarding the Applicant's qualifications. Based on the criteria in SG §§ 9-1A-07(c)(7) and 9-1A-08(d), we conclude that the Applicant has established by clear and convincing evidence the qualifications required for the renewal of its manufacturer license.