

Deal Terms

1 AGS = 12.50

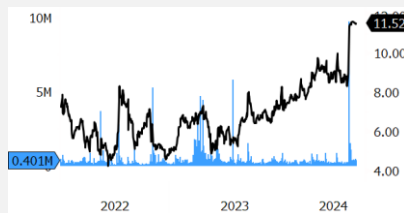
Target: PlayAGS

Country	United States
Bloomberg	AGS
Sector	Consumer Electronics
Share price (\$)	11.52
Market cap (\$m)	454
Free float (%)	~96

Acquirer: Brightstar Capital Partners LP

Country	United States
Bloomberg	N.A.
Sector	PE
Share price (\$)	N.A.
Market cap (\$m)	N.A.
Free float (%)	N.A.

PlayAGS Price Chart



Status

Gaming filings approval - July 27, 2024

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PlayAGS (AGS) /Brightstar Capital Partners

AGREED MERGER

Assuming the upside optionality for the deal timeline and the takeout valuation on a counterbid or shareholder opposition we believe the deal spread is somewhat wide.

Regulatory Risks And Timing

- **Brightstar does not own any related companies in its current portfolio.** Based on that we do not consider the HSR approval as the gating item to the deal. However, we note that HSR filing is only due November 8, 2024, after the US elections.
- **Gaming regulatory approvals** are likely to be required in multiple jurisdictions and **will drive the deal timeline.**
- The major factor that affects the timing is the standard regulatory process required under gaming licenses, which is predominantly expected to be the longest process.
- While AGS is licensed in over 280 gaming jurisdictions worldwide, real money iGaming is limited to 11 jurisdictions.

Precedents

- **We believe that the 9-12-month timeline is realistic,** however the second half 2025 deal close target assumed by the companies might be a bit conservative. We note that precedent gaming deals took effect 6-11 months after deal announcement.

Shareholder Vote

- PlayAGS investor Emmett Investment Management said that it intends to vote against what it called was the company's "inadequate" proposed take-private deal with Brightstar Capital Partners.
- In an open letter to the company's stockholders, Emmett said the deal is not in the best interest of shareholders as they are being asked to accept a bid from Brightstar that "offers effectively zero - or negative - premium."
- Emmett said it believes that the company's shares would be trading higher than the current market price if market participants had been given the opportunity to digest Q1 results absent Brightstar's offer.
- Emmett holds 1.5% of AGS.
- Other shareholders have not commented yet.

Counterbid

- There is a termination fee of ~\$0.49/AGS in case of a counterbid.
- Other PE bidders might be interested in buying AGS. **Based on our LBO model a PE bidder has the room to improve the current offer.** Precedent transactions and AGS historical FY EV/EBITDA multiple also justifies higher takeout multiple.
- AGS competitors for the live casino floor gaming machines include International Game Technology, Light & Wonder, Aristocrat Technologies, Everi Holdings, Konami, Ainsworth Game Technology, and Galaxy Gaming.
- International Game Technology is busy with the process of separating its Global Gaming and PlayDigital businesses and then combining the units with Everi. The deal is expected to close in late 2024 or early 2025.
- Light & Wonder bought SciPlay (AGS key competitor) last year and it can be a potential suitor of AGS with synergy options. In its 1Q 2024 CEO stated: "We remain within our targeted net debt leverage ratio range at 3.0 times at the end of Q1 with enhanced optionality around capital allocation is our business continues to grow." "We will consider M&A opportunities that are complementary to our core business and above internal return hurdles."
- Inspired Entertainment had made a bid for PlayAGS in August 2022, at \$10 per share.
- Aristocrat may be occupied with the integration of NeoGames.

Valuation:

- AGS has been trading substantially below peers. AGS has a superior margin compared to peers. In recent quarters AGS's revenue has been steadily growing, with a focus on selling to tribal casinos and diversifying its product lines. The overall outlook for the gaming industry is positive, providing room for growth for small equipment makers like PlayAGS.
- Assuming a 20% control premium to recent months' a longer average FY1 EBITDA multiple a takeout price is justified around \$14.00.
- AGS underperformed in previous quarters mainly due to below-expectation results, increased opex and lowered profit targets.
- Precedent deals were struck at around low teens EBITDA multiples:
- The takeout multiples for AGS are: 6.4x LTM EV/EBITDA and 5.9x FY1 EV/EBITDA.
- By our LBO calculation we see room for PE bidders to offer a takeout price substantially above the 12.50/AGS offer price. An improved offer of up to \$14.00-\$15.00 would result in a low/mid-teens IRR.

Key terms of the merger

Transaction Details

Announcement Date	May 9, 2024
Offer terms	1 AGS = \$12.50
% owned by AGS stockholders	0%
Deal Size (Market Value)	\$493m
Offer structure	All cash merger
Target's Board Recommendation	Yes
Voting Agreement	No
Target Incorporation	Nevada (US)
Merger Agreement	Click here for the merger agreement
Merger Presentation	Click here for the merger presentation

Indicated Closing Date

- The transaction is expected to close in the second half of 2025 subject to customary closing conditions, including the receipt of regulatory approvals and approval by a majority of AGS stockholders.

Dividends

- AGS shall not pay dividend

Financing

- Concurrently with the execution of the Merger Agreement, Parent obtained equity and debt financing commitments for the Transactions. Funds affiliated with Brightstar Capital Partners (such funds, collectively, the "Investors") have delivered an equity commitment letter (the "Equity Commitment Letter") to Parent, pursuant to which, the Investors have committed to provide Parent, on the terms and subject to the conditions set forth in the Equity Commitment Letter, an aggregate equity commitment to fund a portion of the payment of the aggregate Merger consideration and other amounts required to be paid under the Merger Agreement (the "Equity Financing"). Barclays Bank PLC, Citizens Bank, N.A. and Jefferies Finance LLC are parties to a debt commitment letter (the "Debt Commitment Letter" and, together with the Equity Commitment Letter, the "Commitment Letters") delivered to Parent and have agreed to provide, on the terms and subject to the conditions set forth in the Debt Commitment Letter, certain debt financing to fund a portion of the payment of the aggregate Merger consideration and other amounts required to be paid under the Merger Agreement (the "Debt Financing", and together with the Equity Financing, collectively, the "Financing"). The Financing, when funded in accordance with the terms of the Commitment Letters, will provide Parent, when taken together with the non-restricted cash, cash equivalents or other immediately available sources of cash funds held by or available to Parent, Merger Sub or the Company that are not subject to any further conditions, approvals or consents to use such funds (except as otherwise set forth in the Merger Agreement), with sufficient available funds to fund the payment of (i) the aggregate Merger consideration and (ii) all other amounts required to be paid at or prior to the consummation of the Transactions and all fees, costs and expenses of or payable by Parent and Merger Sub in connection with the Transactions and the Financing, in each case in accordance with the Merger Agreement at the closing of the Transactions. The Transactions are not subject to a financing condition. In addition, concurrently with the execution of the Merger Agreement, the Investors have entered into a limited guarantee, pursuant to which the Investors have agreed to guarantee Parent's obligation to pay any termination fee, reimburse and indemnify the Company with respect to certain expenses in connection with Parent's debt financing and pay certain other amounts required under the Merger Agreement, up to an aggregate cap of \$45,200,000.

Target capitalization

- Target Equity** There are 39,454,547 outstanding shares.

- Target Debt**

	March 31, 2024	
	Carrying Amount	Fair Value
Long-term Debt	\$ 550,247	\$ 551,454

- Target Net Leverage** FY1 Net Debt/EBITDA 3.0x

Valuation Multiples

- 1-day premium** The per share purchase price represents a 41% premium to the Company's volume-weighted average share price over the last 90 days and a 40% premium to AGS' closing price on May 8, 2024.
- LTM EV/Sales** 2.71x
- FY1 EV/Sales** 2.67x
- FY2 EV/Sales** 2.58x
- LTM P/E** 29.8x
- FY1 P/E** 28.2x
- FY2 P/E** 19.2x
- FY1 EV/EBITDA** 5.9x
- FY2 EV/EBITDA** 5.7x

Timetable

Date of the Merger Agreement (T)	May 8, 2024
Deal Announcement	May 9, 2024
Proxy filing deadline (20BD)	May 28, 2024

■ Gaming filings approval (80)	July 27, 2024
■ HSR filing deadline	November 8, 2024
■ Expiration of HSR waiting period (+30D)	December 8, 2024
■ Shareholder meeting	By August 2024
■ Settlement (CBR est.)	By mid 2025
■ Outside date	May 8, 2025
■ Extended outside date	August 8, 2025
■ Further extended outside date	November 8, 2025

Deal close definition

- Unless this Agreement shall have been terminated pursuant to Article VII, and unless otherwise mutually agreed in writing between the Company, Parent and Merger Sub, the consummation of the Merger (the “Closing”) shall take place remotely by electronic exchange of deliverables at 8:00 a.m. Eastern Time on the second (2nd) business day following the satisfaction or waiver (to the extent such waiver is permitted by this Agreement) of the conditions in Article VI

Solicitation Clause

- There is a non-solicitation clause with a fiduciary out prior to the shareholder vote
- There is a five business day matching period (might be reduced to two)
- “Superior Proposal” shall mean a bona fide written Acquisition Proposal that the Company Board (or committee thereof) determines, in its good faith judgment after consultation with its outside legal counsel and its financial advisor, (a) is reasonably likely to be consummated in accordance with its terms, taking into account all legal, regulatory and financing aspects (including certainty of closing) of the proposal and the identity and financial wherewithal of the Person making the proposal and other aspects of the Acquisition Proposal that the Company Board (or a committee thereof) deems relevant, and (b) if consummated, would be more favorable to the Company’s stockholders (solely in their capacities as such) from a financial point of view than the Transactions (after considering such factors as the Company Board considers in good faith to be appropriate, including type of consideration, conditionality, the expected timing to closing and likelihood of consummation of such proposal) and after taking into account any revisions to this Agreement and the Transactions made or proposed by Parent prior to the time of such determination; provided that for purposes of the definition of “Superior Proposal,” the references to “twenty percent (20%)” and “eighty percent (80%)” in the definition of Acquisition Proposal shall each be deemed to be references to “fifty percent (50%)”.

Key conditions to the merger

- | | |
|----------------------------|--|
| ■ Shareholder approvals | ■ receipt of the approval of the Company’s stockholders representing a majority of the voting power of the outstanding Shares (the “Company Required Vote”); |
| ■ No injunctions | ■ Yes |
| ■ No legal prohibition | ■ Yes |
| ■ Regulatory Approvals | ■ HSR and gaming regulatory approvals |
| ■ Reps and warranties | ■ Yes |
| ■ Covenants fulfilled | ■ Yes |
| ■ No Company or Parent MAC | ■ Yes |
| ■ Closing certificates | ■ Yes |

Parent MAC Definitions

- “Parent Material Adverse Effect” shall mean any Effect that would, individually or in the aggregate, prevent, materially delay or materially impair the ability of Parent or Merger Sub to consummate the Transactions by the Termination Date.

Company MAC Definitions

- “Material Adverse Effect” shall mean any Effect that, individually or taken together with all other Effects, has had or would reasonably be expected to have a material adverse effect on (1) the business, condition (financial or otherwise), liabilities or results of operations of the Acquired Companies, taken as a whole, or (2) the ability of the Company to consummate the Transactions by the Termination Date;

MAC Carve-outs

- provided, however, that solely with respect to the foregoing clause (1), none of the following, and no Effect arising out of, relating to or resulting from the following, shall be deemed in and of themselves, either alone or in combination, to constitute, and none of the following shall be taken into account in determining whether there is, or would reasonably be expected to be, a Material Adverse Effect: (a) any change in the market price, credit rating or trading volume of the Company’s stock or other securities or any change affecting the ratings or the ratings outlook for the Company (provided that the underlying factors contributing to any such change may be taken into account in determining whether there is, or would reasonably be expected to be, a Material Adverse Effect, unless such underlying factors would otherwise be excluded from the definition of Material Adverse Effect); (b) any Effect arising out of or relating to the announcement or pendency of the Transactions, including any action taken (or not taken) by any Acquired Company that is expressly required to be taken (or is expressly prohibited from being taken) by it pursuant to this Agreement (other than Section 4.2) and any change in customer, supplier, employee, financing source, stockholder, regulatory, partner or similar relationships of the Acquired Companies (provided, that this clause (b) does not apply in the context of any representation or warranty of the Company which specifically address the consequences of the execution and delivery of this Agreement or the consummation of the Transaction, including for purposes of determining whether the condition set forth in Section 6.2(a) has been satisfied), (c) any Effect generally affecting any industry in which any Acquired Company operates; (d) economic, legislative, regulatory or political conditions or conditions in any securities, credit, financial or other capital markets, in each case in the United States or any other

country or region; (e) any Effect from changes in interest rates, inflation rates or fluctuations in the value of any currency; (f) any act of terrorism, war, natural disasters, pandemic or epidemic (including the COVID-19 pandemic, and any variations thereof or related or associated epidemics, pandemics or disease outbreaks (collectively, the "COVID-19 pandemic")) (and any escalation or worsening of any of the foregoing); (g) any failure by any Acquired Company to meet any internal or external projection, budget, forecast, estimate or prediction in respect of revenues, earnings or other financial or operating metrics for any period (provided that the underlying factors contributing to any such failure may be taken into account in determining whether there is, or would reasonably be expected to be, a Material Adverse Effect unless such underlying factors would otherwise be excluded from the definition of Material Adverse Effect); (h) any Effect resulting or arising from Parent's or Merger Sub's breach of this agreement or an Equity Financing Party's breach of the Equity Commitment Letter; or (i) any change after the date hereof in any Legal Requirements or GAAP, or binding interpretations of any Legal Requirements or GAAP; provided, further that any Effect referred to in the foregoing clauses (c), (d), (e), (f) or (i) may be taken into account in determining whether there is, or would reasonably be expected to be, a Material Adverse Effect to the extent such Effect has a disproportionate adverse effect on the Acquired Companies, taken as a whole, as compared to other similarly situated participants in the industries in which the Acquired Companies operate (in which case any such disproportionate adverse effect (and only such disproportionate adverse effect) may be taken into account in determining whether there is, or would reasonably be expected to be, a Material Adverse Effect).

Break fees

■ Break fee	■ \$19,300,000, or ~\$0.49/AGS
■ Reverse break fee	■ \$38,600,000 or ~\$0.98/AGS

Antitrust related clauses

■ Jurisdictions	■ US
■ Divestiture obligation	<ul style="list-style-type: none"> ■ Company shall not sell, divest or spin-off, abandon, waive, relinquish or permit to lapse, fail to diligently prosecute, enforce or maintain, fail to renew, guarantee, exchange or swap, lease, transfer, mortgage or otherwise encumber or subject to any Encumbrance (other than a Permitted Encumbrance) or otherwise dispose of or assign any rights, properties or assets (other than Intellectual Property Rights) with a fair market value that is individually in excess of \$2,000,000 or in the aggregate in excess of \$5,000,000, ■ except (A) dispositions of supplies, inventory, merchandise or products to customers in the ordinary course of business, dispositions of obsolete, surplus or worn-out assets or assets that are no longer used or useful in the conduct of the business of any Acquired Company and dispositions of marketable securities for cash in the ordinary course of business, ■ (B) transfers between or among the Acquired Companies or ■ (C) voluntary terminations or surrenders of leases or subleases of real property in the ordinary course of business;
■ Litigation obligation	■ No
■ Reverse break fee (regulatory)	■ For gaming regulatory approvals \$24,800,000

Specific Performance

- Yes

Governing Law

- Nevada and Delaware

Key Target shareholders

Shareholders	%
BlackRock Inc	7.8
ArrowMark Colorado Holdings LLC	7.3
Vanguard Group Inc/The	5.5
Ameriprise Financial Inc	4.0
Renaissance Technologies LLC	3.9
Lopez David B	3.9
Brigade Capital Management LP	3.8
Millennium Management LLC/NY	3.8
Russell Investments Group Ltd	3.3
Boston Partners Global Investors I	2.1
Others	54.7

Source: Bloomberg

Company descriptions & rationale for the merger

TARGET DESCRIPTION

- AGS is a global company focused on creating a diverse mix of entertaining gaming experiences for every kind of player. Its customer-centric culture and remarkable growth have helped it become one of the most all-inclusive commercial gaming suppliers in the world. Powered by high-performing slot products, an expansive table products portfolio, highly rated online casino content for players and operators, and differentiated service, the Company believes it offers an unmatched value proposition for its casino partners
- AGS Capital was a supplier of Electronic Gaming Machines (“EGMs”) primarily to Class II Native American gaming jurisdictions.
- AGS is a leading designer and supplier of EGMs and other products and services for the gaming industry. Since 2014, AGS has expanded product line-up to include:
 - (i) Class III EGMs for commercial and Native American casinos permitted to operate Class III EGMs,
 - (ii) EGMs that use the results of historical horse races (“HHR”) in their game math, which are allowed in several niche markets and raceways,
 - (iii) table game products and
 - (iv) interactive products, all of which AGS believes provide it with growth opportunities as AGS expands in markets where it currently has limited or no presence.
- For the year ended December 31, 2023, approximately 67% of the total revenue was generated through recurring contracted lease agreements whereby AGS places EGMs and table game products at customers’ gaming facilities under either a revenue sharing agreement (AGS receives a percentage of the revenues that these products generate) or fee-per-day agreement (AGS receives a daily or monthly fixed fee per EGM or table game product), or recurring revenue from Interactive gaming operations. AGS operates its business in three distinct segments:
 - EGMs,
 - Table Products and
 - Interactive.
- Each segment's activities include the design, development, acquisition, manufacturing, marketing, distribution, installation and servicing of a distinct product line.

Operations

- AGS provides customers with EGMs, table products, ancillary table product equipment, systems software, computer hardware, signage and other equipment for operation within their gaming facilities. In return, AGS receives either cash for sold items, or a share of the revenue generated by these products and systems, either as a flat monthly fee or a daily fee. The determination of whether the agreement results in a revenue share, monthly fee, or daily fee arrangement is generally governed by local gaming jurisdictions. For the revenue share arrangements on EGM products, AGS has historically shared between 15% and 20% of the revenues generated by the EGMs. Under the agreements for EGMs, AGS participates in selecting the mix of titles, maintain and service the equipment and oversee certain promotional efforts. When sold, AGS offers the majority of products with an optional parts and service contract.
- For Table Products AGS typically licenses table games and leases related equipment for which it receive monthly royalty and lease payments. AGS also leases and sells roulette and baccarat signs as well as a single deck card shuffler for poker tables, Dex S, and new second shuffler, the Pax S single-deck shuffler.
- The Interactive segment generates revenues from (1) real-money gaming (“RMG”) revenues, which are earned primarily based on a percentage of the revenue produced by the games AGS offers to online casino customers, (2) business-to-customer (“B2C”) social products where consumers purchase virtual coins used to play social casino games and (3) business-to-business (“B2B”) social products where AGS obtains a percentage of monthly revenue generated by the white label casino apps that AGS build and operate for customers. In support of the business and operations, AGS employs a professional staff including field service technicians, production, sales, account management, marketing, technology and game development, licensing and compliance and finance.

Products

- AGS provides casino customers with HHR, Class II and Class III EGMs for the tribal and commercial gaming markets, as well as more than 60 unique table products offerings, ancillary table products equipment, systems software, computer hardware, signage, and other equipment for operation within gaming facilities such as the newly introduced card shufflers. In the Interactive segment, AGS offers a library of games for online casino operators, a library of casino-themed social and mobile games, and B2B social casino solutions available to land-based casino customers.

EGM Segment

- EGMs constitute the largest segment, representing 92% of the revenue for the year ended December 31, 2023. In 2023, AGS had a library of over 550 proprietary game titles that AGS offers for delivery on the EGM cabinets. These include premium lease-only cabinets Orion Starwall, Orion Curve Premium, Orion Rise, and Big Red (“Colossal Diamonds”) and the recent addition Spectra UR43 Premium. Also, the core cabinets that are available for sale and lease include the newly released Spectra UR49C and Spectra UR43, as well as the Orion Portrait, Orion Slant, Orion Curve, Orion Upright and ICON. In addition to providing complete EGM units, AGS offers conversion kits, which are essentially software containing new games that allow existing game titles to be converted to other game titles offered within that operating platform and on an existing cabinet.

Table Products Segment

- AGS offers customers more than 60 unique table products, including live felt table games, side bets, progressives, card shufflers, signage, and other ancillary table game equipment. Table products are designed to enhance the table games section of the casino floor (commonly known as “the pit”). Table products segment offers a full suite of side bets and specialty table games as well as progressive technology products that provide this enhancement and increase gaming activity and hold percentages for the casino customers. AGS believes that this segment will serve as an important growth engine for the company by generating further cross-selling opportunities with EGM offerings. As of December 31, 2023, AGS had placed 5,415 table products domestically and internationally. Based on the number of products placed, AGS believes it is presently a leading supplier of table products to the gaming industry.

Interactive Segment

- AGS specializes in providing a Business-to-Business (“B2B”) game aggregation platform catering to the rapidly growing online real-money gaming (“RMG”) sector. The remote gaming server empowers it to deliver an extensive library of games developed by the internal game development studios. The catalog encompasses various game types, including slots, table games, and progressive technology. The RMG solutions resonate with a diverse and widespread player base, positioning AGS as a trusted partner for operators seeking to thrive in the competitive global gaming landscape.
- AGS also offers Business-to-Consumer (“B2C”) free-to-play social casino apps that players across the globe can enjoy anytime online or on their mobile devices. The most popular app, Lucky Play Casino, offers mobile players all the thrills of Vegas casinos. Players can choose from dozens of AGS player-favorite slot games and other casino classics like video poker, blackjack, and bingo. The apps also feature in-app tournaments, rumbles, VIP bonuses, and unique interactive challenges.

Other Segment Information

- AGS customer base includes leading casino operators in leading established gaming markets such as the **United States, Canada, and Latin America**. The customers include large tribal customers like the Chickasaw Nation and well-known corporate customers such as MGM Resorts, Caesars Entertainment, as well as many other commercial and tribal casinos.

Customers

- Within the Native American tribal market, AGS provides both Class II and Class III games that generate approximately 60% of the EGM segment revenue. AGS also serves customers in commercial, video lottery terminal, charity bingo and route-based markets.
- Oklahoma is the largest market and the gaming products in the state accounted for approximately 21% of the total revenue for the year ended December 31, 2023. AGS also lease EGMs and to a lesser extent table products, to local casinos and slot halls in **Mexico** which generated approximately 6% of the total revenue in the year ended December 31, 2023.

Competition

- AGS encounters competition from other designers, manufacturers and operators of EGMs, table products, social casino and real-money gaming games. Competitors range from small, localized companies to large, multi-national corporations, several of which have substantial resources and market share.
- Competitors for the live casino floor gaming machines include, but are not limited to, **International Game Technology PLC (“IGT”), Light & Wonder, Inc. (formerly known as Scientific Games Corporation), Aristocrat Technologies Inc. (“Aristocrat”), Everi Holdings Inc. (“Everi”), Konami Co. Ltd. (“Konami”), Ainsworth Game Technology Ltd., and Galaxy Gaming, Inc.** Additionally, there are hundreds of non-gaming companies that design and develop social casino games and apps and real-money gaming products and services. Many of the competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the design, manufacture and operation of gaming products for many years. Some of these companies contain significant intellectual property including patents in gaming technology and hardware design, systems and game play and trademarks. In addition, the larger competitors contain significantly larger content portfolios and content development capability and resources, are licensed in markets throughout the United States, and have international distribution. IGT, Light & Wonder, Inc., Aristocrat, and Konami all have a presence in the back-office accounting and player tracking business which expands their relationship with casino customers. Aristocrat and Everi are the primary competitors in the Class II market.

Regulation and Licensing

Licensing and Suitability Determinations

- A significant portion of AGS operations take place at facilities conducting gaming activities on the tribal lands of Native American tribes resulting in operations being subject to **tribal and/or federal and sometimes state regulation** depending on the classification of gaming being conducted in each such case as defined in the **Indian Gaming Regulatory Act** of 1988 (“IGRA”). In states where commercial gaming has been legalized, operations are conducted subject to the applicable federal, state, and local government regulation.

Licensing Requirements of Security Holders

- In some jurisdictions in which AGS operates, certain of the stockholders or holders of the debt securities may be required to undergo a suitability determination or background investigation. Many jurisdictions require any person who acquires, directly or indirectly, beneficial ownership of more than a certain percentage of the voting securities (generally 5% or more) to report the acquisition of the ownership interest and the gaming authorities may require such holder to apply for qualification or a finding of suitability. Most jurisdictions allow an “institutional investor” to apply for a waiver from such requirements provided that the institutional investor holds the ownership interest in the ordinary course of its business and for passive investment purposes only.
- Notwithstanding the 5% ownership threshold, gaming authorities have broad discretion and each person who acquires, directly or indirectly, beneficial ownership of any voting security or beneficial or record ownership of any nonvoting security of any debt security of AGS may be required to be found suitable if a gaming authority has reason to believe that such person’s acquisition of that ownership would otherwise be inconsistent with the declared policy of the jurisdiction.

- Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period of time after being advised that such a finding or license is required by a gaming authority may be denied a license or be found unsuitable. The same restrictions may also apply to a record owner if the record owner, after being requested, fails to identify the beneficial owner. Any person denied a license or found unsuitable and who holds, directly or indirectly, any beneficial ownership interest in us beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Additionally, AGS may be subject to disciplinary action if, after it receives notice that a person is unsuitable to be a stockholder or to have a relationship with AGS or any of the subsidiaries, AGS:
 - pays that person any dividend or interest upon the voting securities;
 - allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;
 - pays remuneration in any form to that person for services rendered or otherwise; or
 - fails to pursue all lawful efforts to terminate the relationship with that person including, if necessary, the immediate purchase of said voting securities for cash at fair market value.
- In light of these regulations and their potential impact on AGS' business, the amended and restated articles of incorporation contain provisions establishing the right to redeem the securities of disqualified holders if necessary to avoid any regulatory sanctions, to prevent the loss or to secure the reinstatement of any license, permit or approval, or if such holder is determined by any gaming authority to be unsuitable, has an application for a license or permit denied or rejected or has a previously issued license or permit rescinded, suspended, revoked or not renewed. The amended and restated articles of incorporation also include provisions defining the redemption price of such securities and the rights of a disqualified security holder.

Federal Registration

- The Gambling Devices Act of 1962 makes it unlawful for a person to manufacture, transport, or receive gaming devices (including the products), or components across interstate lines unless that person has first registered with the Attorney General of the United States Department of Justice. This act also imposes gambling device identification and record keeping requirements. Violation of this act may result in seizure and forfeiture of the equipment, as well as other penalties. As an entity involved in the manufacture and transportation of gaming devices, AGS is required to register annually.

Native American Gaming Regulation

- Gaming on Native American lands is governed by federal law, tribal-state compacts, and tribal gaming regulations. Federally, gaming on Native American lands is subject to IGRA, which is administered by the National Indian Gaming Commission ("NIGC"). Under IGRA, gaming activities conducted by federally recognized Native American tribes are segmented into three classes:
 - Class I, Class II and Class III.
- Class I. Class I gaming represents traditional forms of Native American gaming as part of, or in connection with, tribal ceremonies or celebrations (e.g., contests and games of skill) and social gaming for minimal prizes. Class I gaming is regulated only by each individual Native American tribe. AGS does not participate in any Class I gaming activities.
- Class II. Class II gaming involves the game of chance commonly known as bingo (whether or not electronic, computer, or other technological aids are used in connection therewith to facilitate play) and if played in the same location as bingo, also includes pull tabs, punch board, tip jars, instant bingo, and other games similar to bingo. Class II gaming also includes non-banked card games, that is, games that are played exclusively against other players rather than against the house or a player acting as a bank such as poker. However, the definition of Class II gaming specifically excludes slot machines or electronic facsimiles of Class III games. Class II gaming is regulated by the NIGC and the ordinances and regulations of the Native American tribe conducting such gaming. Subject to the detailed requirements of IGRA, including NIGC approval of such Native American tribe's gaming ordinance, federally recognized Native American tribes are typically permitted to conduct Class II gaming on Indian lands pursuant to tribal ordinances approved by the NIGC. AGS offers products and services to the Class II market.
- Class III. Class III gaming includes all other forms of gaming that are neither Class I nor Class II and includes a broad range of traditional casino games such as slot machines, blackjack, craps and roulette, as well as wagering games and electronic facsimiles of any game of chance. IGRA generally permits a Native American tribe to conduct Class III gaming activities on reservation lands subject to the detailed requirements of IGRA and provided that the Native American tribe has entered into a written agreement or compact with the state that specifically authorizes the types of Class III gaming the tribe may offer. The tribal-state compacts vary from state to state. Many such tribal-state compacts address the manner and extent to which the state or tribe will license manufacturers and suppliers of gaming devices and conduct background investigations and certify the suitability of persons such as officers, directors, key persons and, in some cases, shareholders of gaming device manufacturers and suppliers. AGS offers products and services to the Class III market.
- IGRA is administered by the NIGC and the Secretary of the U.S. Department of the Interior. The NIGC has authority to issue regulations related to tribal gaming activities, approve tribal ordinances for regulating gaming, approve management agreements for gaming facilities, conduct investigations and monitor tribal gaming generally. IGRA is subject to interpretation by the NIGC and may be subject to judicial and legislative clarification or amendment. The gaming ordinance of each Native American tribe conducting gaming under IGRA and the terms of any applicable tribal-state compact establish the regulatory requirements under which AGS must conduct business on Native American tribal lands.
- Under IGRA, the NIGC's authority to approve gaming-related contracts is limited to management contracts and collateral agreements related to management contracts. A "management contract" includes any agreement between a Native American tribe and a contractor if such contract or agreement provides for the management of all or part of a gaming operation. To the extent that any of the agreements with Native American tribes are deemed to be management contracts, such agreements would require the approval of the NIGC in order

to be valid. To AGS' knowledge, none of the current agreements with Native American tribes qualify as management contracts under IGRA.

- In addition, to the extent that any of AGS' agreements with Native American tribes are deemed by the NIGC to create an impermissible proprietary interest, such agreements are void and unenforceable. To AGS' knowledge, none of the current agreements with Native American tribes create an impermissible proprietary interest in Indian gaming.

International Regulation

- Certain foreign countries permit the importation, sale, and operation of gaming equipment, software and related equipment in casino and non-casino environments. Some countries prohibit or restrict the payout feature of the traditional slot machine or limit the operation and the number of slot machines to a controlled number of casinos or casino-like locations. Gaming equipment must comply with the individual country's regulations. Certain jurisdictions do not require the licensing of gaming equipment operators and manufacturers. In Mexico, for example, gaming regulations have not been formalized and although AGS believes that it is compliant with the current informal regulations, if there are changes or new interpretations of the regulations in that jurisdiction AGS may be prevented or hindered from operating the business in Mexico.

Social Gaming Regulation

- With respect to the social interactive gaming business, it is largely unregulated at this time. There are, however, movements in some jurisdictions to review social interactive gaming and possibly implement social interactive gaming regulations. AGS cannot predict the likelihood, timing, scope or terms of any such regulation or the extent to which any such regulation would affect the social interactive gaming business.
- AGS is subject to various federal, state and international laws that affect the interactive business including those relating to the privacy and security of the customer and employee personal information and those relating to the Internet, behavioral tracking, mobile applications, advertising and marketing activities, sweepstakes and contests. Additional laws in all of these areas are likely to be passed in the future, which would result in significant limitations on or changes to the ways in which AGS collects, uses, hosts, stores or transmits the personal information and data of the customers or employees, communicate with the customers or deliver products and services or may significantly increase the costs of compliance.

BIDDER DESCRIPTION

- Brightstar Capital Partners is a middle market private equity firm focused on investing in industrial, manufacturing, and services businesses where Brightstar believes it can drive significant value with respect to the management, operations, and strategic direction of the business. Brightstar employs an operationally intensive "Us & Us" approach that leverages its extensive experience and relationship network to help companies reach their full potential.

STRATEGIC RATIONALE FOR THE MERGER

- "We are very pleased to reach this agreement, which we believe provides our stockholders with compelling, certain cash value. Joining forces with Brightstar represents an exciting new chapter for AGS and our mission to provide exceptional gaming solutions for our operator partners," said David Lopez, CEO & President of AGS. "With Brightstar's resources and strategic guidance, we believe AGS will be well-positioned to make targeted investments in R&D, top talent, operations, and industry-leading innovation, which should accelerate our global footprint."
- "We look forward to working with David and the AGS team to capitalize on opportunities by taking a long-term approach to creating value," said Andrew Weinberg, Founder & CEO of Brightstar. "AGS has a strong pipeline of new products, and we believe the Company's innovative approach to game development provides significant potential for continued growth."
- "We have been impressed by AGS' award-winning products, differentiated culture, and outstanding reputation in this expanding industry," said Roger Bulloch, Partner at Brightstar. "We trust that partnering with AGS and executing on our shared vision can accelerate the Company's ability to create even greater value for its customers and players around the world."

Key risks

REGULATORY RISKS AND TIMING

- [Brightstar](#) does not own any related companies in its current portfolio. Based on that we do not consider the HSR approval as the gating item to the deal. However, we note that HSR filing is only due November 8, 2024, after the US elections.
- Gaming regulatory approvals are likely to be required in multiple jurisdictions and will drive the deal timeline.
- The major factor that affects the timing is the standard regulatory process required under gaming licenses, which is predominantly expected to be the longest process.
- While AGS is licensed in over 280 gaming jurisdictions worldwide, the [below is limited to real money iGaming](#):
 - Nevada
 - West Virginia Lottery
 - UK Gambling Commission
 - Pennsylvania Gaming Control Board
 - Michigan Gaming Control Board
 - Connecticut, Department of Consumer Protection
 - New Jersey Division of Gaming Enforcement
 - Isle of Man
 - Romania ONJN
 - Malta Gaming Authority
 - Government of Gibraltar, Ministry of Commerce

Precedents

- Timeline length of gambling precedents:
 - Ladbrokes (LCL LN) / GVC (GVC LN) 4 months
 - Gamesys Group (GYS LN) / Bally's Corp (BALY US) 7 months
 - The Stars Group (TSG) / Flutter Entertainment (FLTR LN) 8 months
 - Pinnacle Entertainment (PNK) / Penn National Gaming (PENN) 10 months
 - NeoGames (NGMS US) / Aristocrat Leisure (AAL AU) 11 months

CBR View:

- We believe that the 9-12-month timeline is realistic, however the second half 2025 deal close target assumed by the companies might be a bit conservative. We note that precedent gaming deals took effect 6-11 months after deal announcement.

SHAREHOLDER VOTE

- PlayAGS investor Emmett Investment Management said that it intends to vote against what it called was the company's "inadequate" proposed take-private deal with Brightstar Capital Partners.
- In an open letter to the company's stockholders, Emmett said the deal is not in the best interest of shareholders as they are being asked to accept a bid from Brightstar that "offers effectively zero - or negative - premium."
 - "Brightstar's offer is unattractive for yet another reason: First quarter AGS results did not reflect any of the benefit the Company stands to receive from market disruption related to the upcoming merger of IGT and Everi. As AGS touted in its March Investor Presentation, the IGT/EVRI merger will likely accelerate AGS's market share gains, particularly in the mechanical reel segment of the market. AGS currently has zero market share in mechanical reel, but a best-in-class, brand new product set to be released in the second half of 2024. IGT and EVRI together have greater than 50% market share in this segment. But when the two companies consolidate, operators will likely begin systematically reducing the number of IGT/EVRI units on their casino floors at the very moment AGS's mechanical reel product is slated to enter the market. Under Brightstar's proposed deal, stockholders will be deprived of this significant upside."
 - "Given the AGS/Brightstar deal will close only in the second half of 2025 and AGS is meaningfully cash generative, stockholders are being asked to forward sell their AGS shares for what will likely be a multiple of well below 4.8x NTM adjusted EBITDA, assuming only modest organic growth. We do not understand why any shareholder would be excited to sell an excellent, growing business at this relatively low multiple and a flat share price relative to 2019. Recall that in 2019, AGS traded at a multiple of 7x adjusted EBITDA, despite inferior mix and operating momentum; today, stockholders are being asked to sell their AGS shares for a materially lower multiple when the business mix and operating momentum have both improved."
- Emmett said it believes that the company's shares would be trading higher than the current market price if market participants had been given the opportunity to digest Q1 results absent Brightstar's offer.
- Emmett holds 1.5% of AGS.
- Other shareholders have not commented yet

COUNTERBID

- There is a termination fee of ~\$0.49/AGS in case of a counterbid.
- Other PE bidders might be interested in buying AGS. Based on our LBO model a PE bidder has the room to improve the current offer. Precedent transactions and AGS historical FY EV/EBITDA multiple also justifies higher takeout multiple.
- AGS competitors for the live casino floor gaming machines include International Game Technology, Light & Wonder, Aristocrat Technologies, Everi Holdings, Konami, Ainsworth Game Technology, and Galaxy Gaming.
 - Additionally, there are hundreds of non-gaming companies that design and develop social casino games and apps and real-money gaming products and services.
 - IGT, Light & Wonder, Inc., Aristocrat, and Konami all have a presence in the back-office accounting and player tracking business which expands their relationship with casino customers. Aristocrat and Everi are our primary competitors in the Class II market.
- International Game Technology is busy with the process of separating its Global Gaming and PlayDigital businesses and then combining the units with Everi. The deal is expected to close in late 2024 or early 2025.
- Light & Wonder bought SciPlay (AGS key competitor) last year and it can be a potential suitor of AGS with synergy options. In its 1Q 2024 CEO stated: “**We remain within our targeted net debt leverage ratio range at 3.0 times** at the end of Q1 with enhanced optionality around capital allocation is our business continues to grow.” “**We will consider M&A opportunities** that are complementary to our core business and above internal return hurdles.”
- Inspired Entertainment had made a bid for PlayAGS in August 2022, albeit at \$10 per share
- Aristocrat may be occupied with the integration of NeoGames.

FINANCING

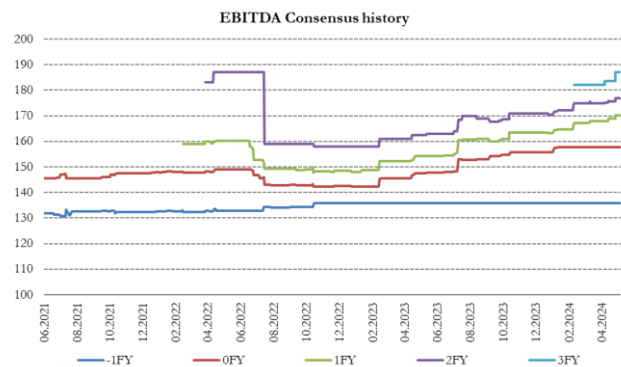
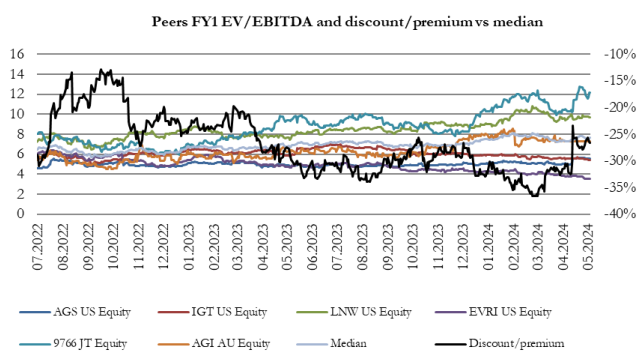
- Moody's Ratings places AP Gaming's ratings on review for downgrade on proposed acquisition by Brightstar Capital Partners
- New York, May 13, 2024 -- Moody's Ratings ("Moody's") today placed the ratings of AP Gaming I, LLC ("AP Gaming", subsidiary of PlayAGS, Inc.) on review for downgrade including its B2 Corporate Family Rating ("CFR"), B2-PD Probability of Default Rating ("PDR"), and B2 ratings on its backed senior secured first lien revolving credit facility and senior secured first lien term loan. The SGL-2 Speculative Grade Liquidity Rating remains unchanged. Previously, the outlook was stable.
- On May 9, 2024, AGS announced that Brightstar Capital Partners ("Brightstar") plans to acquire the company for approximately \$1.1 billion. The proposed transaction is expected to close in the second half of 2025 and is subject to regulatory and shareholder approvals.
- The ratings under review reflects Moody's expectation that if the acquisition is completed, AP Gaming will no longer be a public company and instead will be owned by a private equity sponsor, Brightstar. As such, governance risk considerations are material to this rating action.

Valuation

STANDALONE VALUE

- AGS has been trading substantially below peers. AGS has a superior margin compared to peers. In recent quarters AGS's revenue has been steadily growing, with a focus on selling to tribal casinos and diversifying its product lines. The overall outlook for the gaming industry is positive, providing room for growth for small equipment makers like PlayAGS.
- Assuming a 20% control premium to recent months' a longer average FY1 EBITDA multiple a takeout price is justified around \$14.00.
- AGS underperformed in previous quarters mainly due to below-expectation results, increased opex and lowered profit targets.

Company	Price	Mkt Cap (mn)	FY1 EV/ EBITDA	FY2 EV/ EBITDA	EBITDA CAGR	FY1 EBITDA Margin	FY1 PE	FY2 PE	EPS CAGR
PLAYAGS INC	11.52	455	5.7x	5.4x	5.8%	45.3%	25.9x	17.7x	36.7%
INTERNATIONAL GA	19.65	3 939	5.6x	5.2x	3.3%	39.5%	11.3x	8.9x	17.9%
LIGHT & WONDER I	92.87	8 371	9.7x	8.7x	9.7%	38.3%	22.6x	17.1x	55.2%
EVERI HOLDINGS I	6.80	572	3.7x	3.6x	0.6%	43.9%	8.0x	6.5x	2.8%
KONAMI GROUP COR	10 965.00	1 569 890	12.2x	11.2x	8.8%	28.9%	23.4x	21.3x	11.4%
AINSWORTH GAME T	0.90	304	-	4.8x	19.0%	-	-	10.3x	49.2%
GALAXY GAMING IN	1.58	39	-	-	-	-	-	-	-
Average			7.8x	6.7x	8.3%	37.6%	16.3x	12.8x	27.3%



PRECEDENTS

- Precedent deals were struck at around low teens EBITDA multiples:
 - Kindred was taken private at a multiple of 10.9x 2023 Underlying EBITDA
 - NeoGames / Aristocrat Leisure (2023) takeout offer implied a 12x EV/FW EBITDA multiple.
 - Aspire Global (2022) 13.9x EV/LTM EBITDA 13.7x EV/FW EBITDA
 - LeoVegas / MGM (2022) 13.3x EV/LTM EBITDA 11.6x EV/FW EBITDA
 - Gamesys (2021) 11.2x EV/LTM EBITDA 10.3x EV/FW EBITDA
 - WMH / Caesars (2020) 9.5x EV/LTM EBITDA 12.6x EV/FW EBITDA
 - NetEnt AB (NETB SS) / Evolution Gaming Group (EVO SS) (2020): 24.6x EV/LTM EBITDA, 18.8x EV/FW EBITDA
 - William Hill (WMH LN) / Caesars Entertainment (CZR US) (2020): 15.6x EV/LTM EBITDA, 23.8x EV/FW EBITDA
- The takeout multiples for AGS are: 6.4x LTM EV EBITDA and 5.9x FY1 EV/EBITDA.

LBO

- We see room for PE bidders to offer a takeout price substantially above the \$12.50/AGS offer price. An improved offer of up to \$14.00-\$15.00 would result in a low/mid-teens IRR.
- Our assumptions include
 - Offer at \$12.50/AGS share
 - 2% LT growth rate
 - Net debt as of March 31, 2024
 - LT EBITDA margin 46%
 - Equity participation 20%
 - Leverage 4.7x in FY1
 - Interest coverage 2.8x in FY1
 - Credit spread 3.5%

- 21% tax rate
- 5-year IRR of 17.7%
- No synergies

Sensitivity tables

		Bid Price							Bid Price				
		\$12.50	\$13.00	\$14.00	\$15.00	\$16.00			\$12.50	\$13.00	\$14.00	\$15.00	\$16.00
EBITDA Marg	40.0%	13.3%	13.0%	12.3%	11.6%	11.0%	LT Growth	0.0%	16.8%	16.5%	15.9%	15.3%	14.7%
	44.0%	16.3%	16.0%	15.4%	14.8%	14.2%		1.0%	17.2%	16.9%	16.3%	15.7%	15.2%
	46.0%	17.7%	17.4%	16.8%	16.2%	15.7%		2.0%	17.7%	17.4%	16.8%	16.2%	15.7%
	48.0%	18.9%	18.7%	18.1%	17.5%	17.0%		3.0%	18.1%	17.8%	17.2%	16.7%	16.1%
	50.0%	20.2%	19.9%	19.3%	18.8%	18.3%		5.0%	18.9%	18.6%	18.1%	17.5%	17.0%

		Bid Price							Bid Price				
		\$12.50	\$13.00	\$14.00	\$15.00	\$16.00			\$12.50	\$13.00	\$14.00	\$15.00	\$16.00
EV/EBITDA	5.5x	14.3%	12.9%	10.0%	6.9%	3.6%	Equity Part.	15.0%	20.7%	20.3%	19.6%	19.0%	18.3%
	5.7x	16.1%	14.8%	12.0%	9.2%	6.1%		20.0%	17.7%	17.4%	16.8%	16.2%	15.7%
	5.9x	17.6%	16.3%	13.7%	11.0%	8.2%		30.0%	14.3%	14.1%	13.6%	13.2%	12.8%
	6.1x	19.3%	18.1%	15.7%	13.1%	10.4%		40.0%	12.4%	12.3%	11.9%	11.6%	11.2%
	6.3x	20.8%	19.6%	17.3%	14.8%	12.3%		50.0%	11.3%	11.1%	10.8%	10.5%	10.3%

		Bid Price				
		\$12.50	\$13.00	\$14.00	\$15.00	\$16.00
Interest Margin	3.0%	18.5%	18.2%	17.6%	17.1%	16.6%
	3.3%	18.0%	17.7%	17.1%	16.6%	16.0%
	3.5%	17.7%	17.4%	16.8%	16.2%	15.7%
	3.7%	17.3%	17.0%	16.4%	15.8%	15.3%
	4.0%	16.8%	16.5%	15.9%	15.3%	14.7%

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