
MARYLAND LOTTERY and GAMING CONTROL COMMISSION

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

COMMISSION REPORT



PROPOSED AGREEMENT AND PLAN OF MERGER

Acquisition of
GAN Nevada, Inc.
by
SEGA Sammy Creation, Inc.

Report Date: December 2, 2024

PUBLIC REPORT

INTRODUCTION

We are conducting a hearing on the proposed merger of GAN Nevada, Inc. (“GAN”) and SEGA Sammy Creation, Inc. (“SEGA”). The Agreement and Plan to Merger transaction is between SEGA Sammy Creation, Inc., Arc Bermuda Limited (“Arc”) and GAN Nevada, Inc. The Maryland Lottery and Gaming Control Agency (“MLGCA”) is required by the Gaming and Sports Wagering Law, State Government Article (“SG”), Title 9, Subtitles 1A and 1E, Annotated Code of Maryland, and the regulations of the Maryland Lottery and Gaming Control Commission (“Commission”), found in the Code of Maryland Regulations (“COMAR”) 36.03 and 36.10, to conduct an investigation to determine whether the proposed owners are qualified under the Gaming or Sports Wagering Law pursuant to SG § 9-1A-19(b)(ii) and as applied to the Sports Wagering Law by SG § 9-1E-03(a)(1).

The Commission must determine whether: (1) SEGA and Arc has proven, by clear and convincing evidence, their qualifications; and (2) the proposed merger and resulting acquisition of GAN and transfer of a licensee’s interests meets, and is consistent with the policies and intent of the Gaming and Sports Wagering Law. SG § 9-1A-19(b)(iii).

BACKGROUND

SEGA was established on June 3, 2013, as a successor company to a business started in November 1975. Its principal office is located in Tokyo, Japan. SEGA is a wholly-owned subsidiary of SEGA Sammy Holdings, Inc. (“SEGA Holdings” or the “Company”), which was established on October 1, 2004 and operates from the same location in Tokyo. SEGA Holdings is the ultimate parent company of numerous subsidiaries operating extensively throughout Japan, the United States and Canada, including its U.S. subsidiary SEGA Sammy Creation USA, Inc., with offices in Las Vegas, Nevada.

The Company and its subsidiaries have three business segments. Their entertainment content business is responsible for the development and sale of consumer game software and amusement machines, animated machines, and toys. The second segment is the development, manufacture and sale of pachislot and pachinko machines. Lastly, the Company has an integrated resort business focused on the development and operation of hotels and golf courses.

SEGA Holdings is currently licensed by 13 state gaming regulatory authorities, five tribal gaming agencies and commissions and by gaming authorities in several Canadian provinces. SEGA and SEGA Holdings have each filed a Sports Wagering Principal Entity Disclosure Form with the Maryland Lottery and Gaming Control Commission.

OWNERSHIP OF APPLICANT

SEGA Holdings is publicly traded on the Tokyo Stock Exchange. As of March 31, 2024, SEGA Holdings had 241,229,476 shares of common stock outstanding and the following entities held a 5% or greater share of the outstanding stock:

- HS Company
- The Master Trust Bank
- FSC Company

HS Company and FSC Company are institutional investors and each has filed a Sports Wagering Institutional Investor Waiver Application with the Commission. The Master Trust Bank holds shares of SEGA Holdings only as a custodian of shares owned by customers and does not have the authority to trade or vote the shares it holds. As such, the Master Trust Bank is not an institutional investor.

MERGER TRANSACTION

On November 7, 2023, SEGA and Arc entered into an Agreement and Plan of Merger (the “Merger Agreement”) with GAN. GAN is a provider of enterprise online gaming software, online game content, content development services and operational support services, and is currently licensed as a Sports Wagering Contractor by the Commission.

Arc is a wholly-owned subsidiary of SEGA Holdings created solely to effect the merger with GAN. Under the terms of the Merger Agreement, shareholders of GAN common stock will receive a cash payment for each ordinary share owned, with total consideration for the merger estimated to be \$107.6 million. Arc will be merged with and into GAN with GAN continuing as the surviving company, and Arc will cease to exist. Because Arc is a wholly-owned subsidiary of SEGA Holdings which filed a Principal Entity Disclosure Form with the Commission and will cease to exist after the Merger Agreement takes effect, further filings were not required of Arc. GAN will then become a wholly-

owned subsidiary of SEGA and its stock will be delisted from the NASDAQ. All requisite approvals to effect the merger have been received by SEGA and GAN.

DISCUSSION OF FINANCIAL PERFORMANCE

SEGA Holdings' overall operating performance during the five-year period reviewed has been solid and very consistent, with net profits totaling \$1.02 billion. These positive operating results have produced substantial cash flows from operations which the Company has used to acquire property and equipment and intangible assets, repay long-term borrowings, redeem bonds and pay cash dividends. Additionally, SEGA Holdings' financial condition is very sound and has remained so throughout the review period despite taking on considerable long-term debt during fiscal year 2024, with extensive shareholder equity amounting to \$2.36 billion as of March 31, 2024. The Company has made several strategic purchases and sales of subsidiaries in recent years and the proposed merger with GAN will further increase its presence and financial performance in the United States.

SEGA Holdings has sufficient liquidity to meet its financial obligations and working capital requirements in the ordinary course of business for the foreseeable future. Additionally, the Company's financial ratios and margins compare favorably with those of its competitors and its auditors have expressed no concern with its results of operations, financial condition or continuation as a going concern.

CONCLUSION AND RECOMMENDATIONS

MLGCA Staff's investigation confirms that GAN maintains its qualification and good standing with its current Maryland Sports Wagering Contractor License. MLGCA Staff has found no derogatory information regarding SEGA, and SEGA Holdings qualifications and no issue with them meeting the requirements in the Gaming or Sports Wagering Law as required by SG § 9-1A-19(b)(ii).

The merger of GAN and SEGA and resulting ownership changes from the proposed Merger Agreement, are consistent with the policies and intent of SG § 9-1A-19 and requirements of the Gaming and Sports Wagering Law. MLGCA Staff concludes that SEGA and SEGA Holdings have established by clear and convincing evidence their qualifications

for Sports Wagering Principal Entities in Maryland and as required for their merger with GAN.

GAN and SEGA seek the Commission approval as follows: (i) for GAN and SEGA to consummate the Merger Agreement, and perform their obligations thereunder; and (ii) for the merger to occur wherein GAN becomes a wholly owned subsidiary of SEGA because the proposed merger is consistent with the policies and intend of the Gaming and Sports Wagering Law.