POLLARD banknote limited

News Release

POLLARD BANKNOTE ANNOUNCES 1ST QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, May 10, 2017 /CNW/ — **Pollard Banknote Limited** (TSX: PBL) ("Pollard") today released its financial results for the three months ended March 31, 2017, generating strong cash flow and solid earnings.

HIGHLIGHTS	Three months ended March 31, 2017	Three months ended March 31, 2016
Sales	$ 57.4 million	$ 64.0 million
Gross profit	$ 11.4 million	$ 11.4 million
Gross profit % of sales	*19.9%*	*17.8 %*
Administration expenses	$ 5.3 million	$ 5.3 million
Selling expenses	$ 2.0 million	$ 1.9 million
Net income	$ 1.8 million	$ 3.6 million
Adjusted EBITDA	$ 6.3 million	$ 6.8 million

"We are pleased with our financial and operating results for the first quarter of 2017," commented Co-Chief Executive Officer John Pollard. "During the quarter we generated very strong cash flow and our production volumes achieved a quarterly record, reflecting increased orders from our customers. However, approximately 15% of this ticket production was not recognized in revenue in the quarter. This was due to the timing of shipments, including a significant portion being in-transit to our international customers at quarter end which will be recognized in revenue in the second quarter of 2017."

"Our cash flow was extremely strong during this quarter reflecting our good operating results as well as a reduction of non-cash working capital investment, reversing a significant portion of the build-up which had occurred in 2016. Our debt leverage position is at its lowest in many years, providing us substantial financial flexibility to pursue our investment and acquisition strategy."

“Improved manufacturing efficiency remains a focus and we continue to see production improvements in all of our operations including with the Tresu press in our Ypsilanti facility. We remain very encouraged for 2017 and the critical importance of this investment in our new press can be seen in the achievement of our record volumes produced in this quarter.”

“Our iLottery operation in Michigan maintains its enviable growth record and is a great calling card to discuss this opportunity with other lotteries. Indeed, a number of states in the U.S. are currently reviewing this business opportunity and we are hopeful these jurisdictions and more will formally adopt this distribution method.”

“We continue to forge our identity as partner of choice within the lottery industry and the ongoing expansion in our product portfolio to meet our customers’ needs reflects that,” added Co-Chief Executive Officer Doug Pollard. “Our focus on lottery allows us the unique leadership position to assist and support lotteries around the world as they develop comprehensive strategies to serve their retail customer base. Our industry leading instant ticket innovations, as well as our offerings in iLottery, loyalty clubs, digital apps, customer relationship management (CRM), retail support and alternative gaming products are all expanding, providing the ability for lotteries to ensure relevance for consumers both today and in the future.”

“Of course the underlying instant ticket market is growing solidly as it has for a number of years. We expect this trend to continue, providing us opportunities to grow our main business of producing instant tickets for our core lottery customers. There are a number of ticket contracts coming up for bid in the next 18 months that present the potential for us to increase our contract portfolio. More importantly we are seeing our portion of work with lotteries that have multiple suppliers increase, due to our innovative, high selling products gaining market share.”

“2017 will be an exciting year for Pollard as our continuing investments in all areas of our business provide us the base for future operational and financial growth,” concluded John Pollard. “Healthy cash flow offers important flexibility in achieving our growth objectives, both organically and through acquisition, and we are confident of ongoing success.”

POLLARD BANKNOTE LIMITED

Pollard is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts, and certain non-recurring items including start-up costs and acquisition costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to net income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of Pollard's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended March 31, 2017**	**Three months ended March 31, 2016**
	(unaudited)	(unaudited)
Sales	$57.4	$64.0
Cost of sales	46.0	52.6
Gross profit	11.4	11.4
Administration expenses	5.3	5.3
Selling expenses	2.0	1.9
Other expense	0.3	-
Income from operations	3.8	4.2
Finance costs	1.0	1.0
Finance income	-	(1.0)
Income before income taxes	2.8	4.2
Income taxes:		
Current	1.3	1.1
Deferred reduction	(0.3)	(0.5)
	1.0	0.6
Net income	$1.8	$3.6
Adjustments:		
Amortization and depreciation	2.6	2.8
Interest	0.7	0.9
Acquisition costs	0.4	-
Unrealized foreign exchange gain	(0.2)	(1.1)
Income taxes	1.0	0.6
Adjusted EBITDA	$6.3	$6.8

	March 31, 2017	December 31, 2016
Total Assets	$170.9	$176.8
Total Non-Current Liabilities	$87.2	$94.4

The selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard, for the three months ended March 31, 2017. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

Results of Operations – Three months ended March 31, 2017

During the three months ended March 31, 2017, Pollard achieved sales of $57.4 million, compared to $64.0 million in the three months ended March 31, 2016. A number of factors resulted in the $6.6 million sales decrease:

- Instant ticket sales volumes for the first quarter of 2017 were lower than the first quarter of 2016 by 13.0% which decreased sales by $6.7 million. On March 31, 2017, there was a significant amount of goods in transit as the production mix in the quarter was weighted highly toward international customers. The sale of these tickets will be recognized in revenue in the second quarter 2017. Production volumes during the first quarter of 2017 were higher than the comparable quarter of 2016 by approximately 6.1%.

- Sales of ancillary instant ticket products and services for the first quarter of 2017 were lower than the first quarter of 2016 by $0.1 million. Increases in revenues from iLottery and digital products were offset by lower licensed products sales and one-time lottery management systems sales in the prior year. Higher instant ticket average selling price compared to 2016 increased sales by $1.4 million. Charitable gaming volumes were higher in the quarter by $0.3 million, primarily as a result of higher pull-tab ticket and vending machine sales. In addition, an increase in the average selling price of charitable gaming products further increased sales by $0.5 million.

- During the three months ended March 31, 2017, Pollard generated approximately 68.3% (2016 – 70.7%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2017 the actual U.S. dollar value was converted to Canadian dollars at $1.327, compared to a rate of $1.383 during the first quarter of 2016. This 4.1% decrease in the U.S. dollar value resulted in an approximate decrease of $1.7 million in revenue relative to the first quarter of 2016. Also during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.3 million in revenue relative to the first quarter of 2016.

Cost of sales was $46.0 million in the first quarter of 2017 compared to $52.6 million in the first quarter of 2016. The decrease in instant ticket sales volumes was the primary reason for the decrease in cost of goods sold. Improvements in production efficiency in the quarter also reduced cost of sales as compared to 2016. Additionally, lower exchange rates on U.S. dollar transactions in the first quarter of 2017 further decreased cost of sales approximately $1.3 million when compared to the first quarter of 2016.

Gross profit earned in the first quarter of 2017 was $11.4 million (19.9% of sales) as compared $11.4 million (17.8% of sales) earned in the first quarter of 2016. The increase in gross profit percentage was due to the instant ticket sales mix weighted to higher margin products and improvements in production efficiency.

Administration expenses totaled $5.3 million in the first quarter of 2017 which was similar to $5.3 million in the first quarter of 2016. Professional fees, primarily legal costs, were lower by $0.4 million in the first quarter of 2017 compared to the first quarter of 2016. This decrease was offset by $0.4 million in acquisition costs relating to ongoing acquisition activities.

Selling expenses totaled $2.0 million in the first quarter of 2017 which was similar to $1.9 million in the first quarter of 2016.

Interest expense decreased to $0.7 million in the first quarter of 2017 from $0.9 million in the first quarter of 2016 primarily as a result lower interest rates and higher cash flow reducing long-term debt in 2017.

The net foreign exchange loss was $0.2 million in the first quarter of 2017 compared to a gain of $1.0 million in the first quarter of 2016. Within the 2017 net foreign exchange loss was a realized loss of $0.4 million, primarily as a result of the decreased value of U.S. denominated receivables at collection. Partially offsetting the realized loss, was an unrealized gain of $0.2 million primarily as a result of the unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2017).

Within the 2016 net foreign exchange gain was an unrealized foreign exchange gain of $1.1 million predominately as a result of the unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2016) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. Partially offsetting the unrealized gain was a realized loss of $0.1 million, primarily as a result of the decreased value of U.S. denominated receivables at collection.

Adjusted EBITDA was $6.3 million in the first quarter of 2017 compared to $6.8 million in the first quarter of 2016. The primary reasons for the decrease in Adjusted EBITDA were lower sales due to timing of instant ticket shipments offset by higher gross profit percentage, the increase in other expenses of $0.3 million, primarily the loss on equity investment, and the increase in realized foreign exchange loss of $0.3 million.

Income tax expense was $1.0 million in the first quarter of 2017, an effective rate of 36.0%, higher than Pollard’s expected effective rate of 27.0% due primarily to the impact of permanent differences from non-deductible expenditures.

Income tax expense was $0.6 million in the first quarter of 2016, an effective rate of 15.4%, lower than Pollard’s expected effective rate of 26.8% due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The strengthening of the Canadian dollar versus the U.S. dollar results in a future loss on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax recovery with no related income (as the loss is eliminated on consolidation). This decreased the effective tax rate by approximately 28 percentage points. Other differences relating to changes in the expected income tax rate, including permanent differences relating to the foreign exchange translation of property, plant and equipment, increased the effective tax rate by approximately 14 percentage points on a net basis.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $2.6 million during the first quarter of 2017 which decreased from $2.8 million during the first quarter of 2016 primarily as a result of decreased depreciation of property, plant and equipment.

Net income decreased to $1.8 million in the first quarter of 2017 from $3.6 million in the first quarter of 2016. The primary reasons were lower sales due to timing of instant ticket shipments offset by higher gross profit percentage, the $1.2 million decrease in foreign exchange gains, the increase in income tax expense of $0.4 million and the $0.3 million increase in other expense, primarily the loss on equity investment. These increases were partially offset by the decreased interest expense of $0.2 million.

Net income per share (basic and diluted) decreased to $0.08 per share in the first quarter of 2017 from $0.15 per share in the first quarter of 2016.

Offer to Purchase INNOVA Gaming Group Inc.

On April 17, 2017, Pollard announced that a wholly-owned subsidiary has formally commenced an offer (the “Offer”) to acquire all of the issued and outstanding common shares (“Shares”) of INNOVA Gaming Group Inc. (“INNOVA”) for cash consideration of $2.10 per Share. The Offer will be open for acceptance until August 3, 2017, being 105 days following the formal filing of our offer to purchase, unless the Offer is extended or withdrawn. INNOVA has the ability to shorten the deposit period to 35 days to allow shareholders to sell their common shares under the Offer without delay.

The Offer is subject to customary conditions, including, among other things: (i) there having been validly deposited under the Offer and not withdrawn that number of Shares representing more than 50% of the outstanding Shares, excluding those Shares beneficially owned, or over which control or direction is exercised, by Pollard or by any person acting jointly or in concert with Pollard, which is a non-waivable condition, (ii) Pollard having determined, in its sole judgment, that there does not exist and there shall not have occurred or been publicly disclosed since the date of the Offer, a material adverse effect in respect of INNOVA, and (iii) certain regulatory approvals having been obtained and/or waiting periods expired. The Offer is not subject to any due diligence or financing condition. Full details of the Offer are included in the formal offer and take-over bid circular that has been filed with securities regulatory authorities. The Offer documents are available under INNOVA’s profile at www.sedar.com.

In addition to cash resources and unused credit facility available for drawdown, Pollard Equities Limited has committed to provide an additional subordinated term loan should it be required to assist in the financing of this acquisition.

Outlook

The lottery industry remains very healthy, with strong retail consumer demand driving lotteries to grow and diversify their product offerings. Instant tickets remain the workhorse of the industry, generating greater revenue for many lotteries when compared to the traditional draw based games, and this product strength is expected to continue. In addition to growing their traditional products, lotteries are increasingly implementing new strategies to supplement and expand their product offering and distribution methods, which provides new opportunities for partners such as Pollard to grow our business.

During the quarter our first loyalty offering went live with the Kansas Lottery and, combined with our digital apps and iLottery operations, highlights the importance of an increased presence for lotteries in the digital ecosystem. Our full iLottery operation for the Michigan Lottery is generating record revenues for the lottery. We expect the lottery industry to look to the digital world to help them expand their revenue streams and improve their understanding of the customer base.

Our production and sales outlook looks very strong for 2017, with continued higher volumes scheduled when compared to 2016. Overall industry growth in instant ticket sales, combined with our increasing market share within our existing portfolio of clients, provides for a strong foundation for increasing our volumes. Timing of revenue recognition of this production varies based on the mix of product and timing of deliveries, but it is expected that second quarter sales volumes this year should be higher than the first quarter, reflecting the in transit volumes at March 31, 2017, produced in the first quarter, being recognized in sales in the second quarter.

The mix of products within our volumes do vary slightly based on the time of year, with our sales and margin in the third and fourth quarters of the year generally being higher, reflecting a greater mix of higher valued proprietary work in the lead up to the holidays.

Our manufacturing capacity and production capability is benefitting from the improving operation of our Tresu press in our Ypsilanti facility as we gain efficiencies each month through increased experience. Our overall results are benefitting from higher volumes through the leveraging of our fixed cost component of our cost platform, and as our volumes grow this should continue.

Our capital expenditures were low during the first quarter and our budget for 2017 continues to show an expected capital expenditure level similar to that which occurred in 2016. We have made the large investment in additional capacity during the 2014-2015 years and are now beginning to reap some of the benefits, both through greater production capacity and lower ongoing capital expenditures.

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

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