News Release

POLLARD BANKNOTE ANNOUNCES 4TH QUARTER AND ANNUAL FINANCIAL RESULTS

WINNIPEG, Manitoba, March 12, 2018 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2017, reporting record revenue during the year.

"We are extremely pleased with our financial results achieved in the fourth quarter and indeed our success throughout 2017," commented John Pollard, Co-Chief Executive Officer. "Robust consumer demand was reflected in continued strong orders from our lottery customers, and our production and sales volumes remained very high in the fourth quarter, continuing the trend from fiscal 2017."

"The year saw a number of key strategies coming together to support growth in all areas of our business in addition to the increased sales volumes of our core instant ticket product. Our industry leading innovative proprietary products and unique tickets yielded strong average selling prices helping to further drive revenue growth. Our ancillary products such as our digital offerings also gained significant traction and are a key development for the future."

"The fourth quarter of 2017 saw the impact of our first full quarter of INNOVA and its Diamond Game operating results, and while still early, the integration of our businesses is going well. Initial overhead cost savings have been achieved and our marketing and operating teams are working together to develop new sales opportunities and maximize our operating efficiencies."

"We are particularly proud of the improvements in our utilization of our Tresu press in our Ypsilanti facility. Our higher volumes were only achieved due to the expanded capacity provided in that operation, and with each month our efficiency and cost structure improved, becoming an important factor in our increased margin."

"Subsequent to year end we completed a key strategic acquisition of International Gamco, Inc., a successful long time charitable gaming supplier. The combination of Gamco with our existing American Games business will provide a strong platform for growing success in this sector and we are very excited about the possibilities for 2018 and beyond."

“Cash flow was very strong throughout the year with over $28 million in net operating cash flow generated in fiscal 2017. This internally generated flow of capital allowed us to maintain a very conservative capital structure and low debt leverage even while financing our significant organic and acquisition growth.”

“To strengthen our capital structure, on February 21, 2018, we closed a successful common share offering raising approximately $38 million, before expenses, in our first capital markets transaction since our IPO in 2005. This additional capital allows us to repay debt incurred for our recent acquisitions and ensure we have ready access to sufficient capital to further invest in and grow our business.”

“Equally as impressive as our financial results in 2017,” added Co-Chief Executive Officer Doug Pollard, “has been the strong reception Pollard has received from the lottery and charitable gaming markets. From industry conferences to direct client feedback, the lottery industry continues to see our organization as the real thought leader and go-to resource to help grow their own business, enabling them to generate greater funds to invest in a variety of good causes. We are very fortunate to be focused on an industry that continues to grow and we look to expand aggressively in many new areas including increased use of digital resources that can be used by our customers.”

“2017 was a very successful year for our organization,” concluded John Pollard, “and the first quarter of 2018 has already witnessed a number of key transactions to build on our foundation for continued success throughout 2018 and beyond. We will continue to focus on the fundamentals that helped us achieve our strong results in 2017: higher volumes of instant tickets, resilient selling prices through innovation and unique products, expanding the universe of lottery and charitable gaming products, improving our manufacturing efficiencies and pursuing strategic acquisitions.”

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 severance 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.

HIGHLIGHTS	Three months ended December 31, 2017	Three months ended December 31, 2016
Sales	$ 79.6 million	$ 65.7 million
Gross profit	$ 17.5 million	$ 14.2 million
Gross profit % of sales	*22.0%*	*21.6 %*
Administration expenses	$ 7.5 million	$ 4.9 million
Selling expenses	$ 2.6 million	$ 2.2 million
Net income	$ 4.3 million	$ 3.8 million
Adjusted EBITDA:		
Pollard Banknote Limited	$ 10.1 million	$ 9.1 million
Diamond Game (INNOVA)	$ 2.9 million	$ –
Total adjusted EBITDA	$ 13.0 million	$ 9.1 million

	Year ended December 31, 2017	Year ended December 31, 2016
Sales	$ 285.6 million	$ 246.4 million
Gross profit	$ 65.7 million	$ 49.2 million
Gross profit % of sales	*23.0 %*	*20.0 %*
Administration expenses	$ 28.6 million	$ 20.9 million
Selling expenses	$ 9.4 million	$ 8.0 million
Net income	$ 16.8 million	$ 12.3 million
Adjusted EBITDA:		
Pollard Banknote Limited	$ 40.0 million	$ 29.7 million
Diamond Game (INNOVA)	$ 4.0 million	$ –
Total adjusted EBITDA	$ 44.0 million	$ 29.7 million

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.

Results of Operations – Year ended December 31, 2017

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Year ended December 31, 2017	Year ended December 31, 2016
Sales	$285.6	$246.4
Cost of sales	219.9	197.2
Gross profit	65.7	49.2
Administration expenses	28.6	20.9
Selling expenses	9.4	8.0
Other expenses	0.7	-
Income from operations	27.0	20.3
Finance costs	4.1	4.3
Finance income	(1.1)	(1.1)
Income before income taxes	24.0	17.1
Income taxes:		
Current	7.9	5.1
Future (reduction)	(0.7)	(0.3)
	7.2	4.8
Net income	$16.8	$12.3
Adjustments:		
Amortization and depreciation	13.1	10.6
Interest	3.9	3.6
Unrealized foreign exchange gain	(1.4)	(1.6)
Acquisition costs	2.7	-
Severance costs	1.7	-
Income taxes	7.2	4.8
Adjusted EBITDA	$44.0	$29.7
Pollard Banknote Limited	$40.0	$29.7
Diamond Game (INNOVA)	4.0	-
Total Adjusted EBITDA	$44.0	$29.7

	December 31, 2017	December 31, 2016
Total Assets	$228.3	$176.8
Total Non-Current Liabilities	$124.8	$94.4

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

On August 3, 2017, Pollard acquired INNOVA Gaming Group Inc.. Therefore, Diamond Game (INNOVA) financial results have been included in Pollard's consolidated financial statements for the remainder of the year.

Results of Operations – Year ended December 31, 2017

Sales

During the year ended December 31, 2017 ("Fiscal 2017" or "2017"), Pollard achieved sales of $285.6 million, compared to $246.4 million in the year ended December 31, 2016 ("Fiscal 2016" or "2016"). Factors impacting the $39.2 million sales increase were:

Higher instant ticket sales volumes increased sales by $17.3 million in Fiscal 2017 compared to Fiscal 2016 due to higher volumes from existing customers. Additionally, higher instant ticket average selling price increased sales by $8.0 million when compared to 2016. This increase was a result of the higher proportion of instant tickets sales coming from Pollard's proprietary products such as Scratch FX® and Playbook®.

Higher sales of our ancillary instant ticket products and services increased sales by $6.6 million from 2016. The increase in these sales was due primarily to higher sales of licensed products, greater revenues from iLottery and added sales from our loyalty solution. As well, the addition of Diamond Game (INNOVA) added $10.3 million in sales. An increase in the average selling price for charitable games increased sales by $0.8 million from 2016, while a decrease in charitable gaming volumes reduced sales by $0.3 million from 2016.

During Fiscal 2017, Pollard generated approximately 69.4% (2016 – 68.8%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2017 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.304 compared to an average rate of $1.328 during Fiscal 2016. This 1.8% decrease in the U.S. dollar value resulted in an approximate decrease of $3.5 million in revenue relative to Fiscal 2016.

Cost of sales and gross profit

Cost of sales was $219.9 million in Fiscal 2017 compared to $197.2 million in Fiscal 2016. Cost of sales was higher in Fiscal 2017 relative to Fiscal 2016 as a result of an increase in instant ticket volumes and increased ancillary lottery products and services sales, partially offset by lower exchange rates on U.S. dollar transactions in 2017. A portion of the increase also related to the inclusion of Diamond Game (INNOVA) financial results which amounted to $6.8 million, including $0.8 million of additional amortization related to intangible assets recognized on the acquisition.

Gross profit was $65.7 million (23.0% of sales) in Fiscal 2017 compared to $49.2 million (20.0% of sales) in Fiscal 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher instant ticket average selling price, higher ancillary instant ticket products and services sales and the addition of Diamond Game (INNOVA). The higher gross profit percentage was due to the larger volumes of instant tickets, the instant ticket sales mix weighted to higher margin products, increased sales of ancillary instant ticket products and services, including higher iLottery sales, and improved manufacturing efficiencies. Pollard produced a record level of instant tickets in 2017, exceeding 2016 volumes by over 13%, thereby reducing our cost per unit by spreading its fixed manufacturing overhead over the greater volume.

Administration expenses

Administration expenses increased to $28.6 million in Fiscal 2017 from $20.9 million in Fiscal 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $3.3 million (which includes $1.7 million in severance costs related to the departure of two former executives). Additional reasons for the increase were the $2.7 million in acquisition costs incurred in Fiscal 2017 and an increase in compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals compared to 2016. These increases were partially offset by lower professional fees, primarily legal costs, which were lower by $0.7 million in 2017 compared to 2016.

Selling expenses

Selling expenses increased to $9.4 million in Fiscal 2017 from $8.0 million in Fiscal 2016 due to higher compensation costs and $1.0 million from the addition of Diamond Game (INNOVA).

Other expenses

Other expenses in Fiscal 2017 increased to $0.7 million, primarily due to the increase in the loss on equity investment, compared to $nil in 2016.

Interest expense

Interest expense, including deferred financing amortization, increased to $3.9 million in Fiscal 2017 from $3.6 million in Fiscal 2016 primarily as a result of the additional interest expense related to long term and subordinated debt incurred with the acquisition of Diamond Game (INNOVA). The increase was partially offset by lower interest rates and higher cash flow reducing long-term debt in 2017 prior to the acquisition.

Foreign exchange gain

The net foreign exchange gain was $0.9 million in Fiscal 2017 compared to a net gain of $0.4 million in Fiscal 2016. The 2017 net foreign exchange gain consisted of a $1.4 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $0.5 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2016 net foreign exchange gain consisted of a $1.6 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. This gain was partially offset by the realized foreign exchange loss of $1.2 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled $13.1 million during Fiscal 2017 which increased from $10.6 million during Fiscal 2016. The increase was primarily as a result of the inclusion of Diamond Game (INNOVA), with $1.6 million of amortization and depreciation and $0.8 million of additional amortization related to intangible assets recognized upon the acquisition.

Adjusted EBITDA

Adjusted EBITDA was $44.0 million in Fiscal 2017 compared to $29.7 million in Fiscal 2016. The primary reasons for the increase in Adjusted EBITDA of $14.3 million were the increase in gross profit of $19.0 million (net of amortization and depreciation) and a decrease in realized foreign exchange loss of $0.7 million. These increases were partially offset by higher administration expenses (net of acquisition and severance costs) of $3.3 million, an increase in selling expenses of $1.4 million and an increase other expenses of $0.7 million.

Income taxes

Income tax expense was $7.2 million in Fiscal 2017, an effective rate of 30.0%, which was higher than our expected effective rate of 27.0% due primarily to adjustments relating to the acquisition of INNOVA, the effect of higher tax rates in the United States in 2017 and non-deductible amounts primarily relating to expenses incurred in the acquisition of INNOVA. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States.

Income tax expense was $4.8 million in Fiscal 2016, an effective rate of 28.1%, which was similar to our expected effective rate of 27.0%.

Net income

Net income was $16.8 million in Fiscal 2017 compared to net income of $12.3 million in Fiscal 2016. The primary reasons for the increase in net income were the increase in gross profit of $16.5 million and the increase in net foreign exchange gain of $0.5 million. Partially offsetting these increases in net income were the increase in administration expenses of $7.7 million, which includes $2.9 million in acquisition costs and $1.7 million in severance costs. Also reducing net income were the increase in selling expenses of $1.4 million, the increase in other expenses of $0.7 million, the increase in interest expense of $0.3 million and the increase in income taxes of $2.4 million.

Earnings per share (basic and diluted) increased to $0.71 per share in Fiscal 2017 from $0.52 per share in Fiscal 2016.

Results of Operations – Three months ended December 31, 2017

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended December 31, 2017	Three months ended December 31, 2016
	(unaudited)	(unaudited)
Sales	$79.6	$65.7
Cost of sales	62.1	51.5
Gross profit	17.5	14.2
Administration	7.5	4.9
Selling	2.6	2.2
Other expenses	-	0.3
Income from operations	7.4	6.8
Finance costs	1.3	1.2
Income before income taxes	6.1	5.6
Income taxes:		
Current	1.5	1.2
Future	0.3	0.6
	1.8	1.8
Net income	$4.3	$3.8
Adjustments:		
Amortization and depreciation	4.5	2.2
Interest	1.3	0.9
Unrealized foreign exchange loss	0.5	0.4
Acquisition costs	0.3	-
Severance costs	0.3	-
Income taxes	1.8	1.8
Adjusted EBITDA	$13.0	$9.1
Pollard Banknote Limited	$10.1	$9.1
Diamond Game (INNOVA)	2.9	-
Total Adjusted EBITDA	$13.0	$9.1

Results of Operations – Three months ended December 31, 2017

During the three months ended December 31, 2017, Pollard achieved sales of $79.6 million, compared to $65.7 million in the three months ended December 31, 2016. Factors impacting the $13.9 million sales increase were:

Instant ticket sales volumes for the fourth quarter of 2017 were higher than the fourth quarter of 2016 by 19.8%, which increased sales by $10.6 million, due to higher volumes from existing customers. In addition, an increase in our ancillary instant ticket products and services volumes, primarily sales from iLottery and licensed products, increased revenue by $1.6 million. As well, the addition of Diamond Game (INNOVA) added $6.4 million in sales. Higher average price of charitable game sales added $0.3 million in revenue compared to the fourth quarter of 2016. Partially offsetting these increases in sales was a slight decrease in average selling price of instant tickets compared to 2016 which reduced sales by $1.6 million and a decrease in the volume of charitable game sales which further decreased sales by $1.2 million.

During the three months ended December 31, 2017, Pollard generated approximately 67.1% (2016 – 68.2%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2017 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.266, compared to an average rate of $1.332 during the fourth quarter of 2016. This 5.0% decrease in the value of the U.S. dollar resulted in an approximate decrease of $2.3 million in revenue relative to 2016. Also during the fourth quarter of 2017, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.1 million in revenue relative to 2016.

Cost of sales was $62.1 million in the fourth quarter of 2017 compared to $51.5 million in the fourth quarter of 2016. Cost of sales was higher in the quarter relative to the fourth quarter of 2016 as a result of an increase in instant ticket volumes and higher ancillary instant ticket products and services volumes, partially offset by lower exchange rates on U.S. dollar transactions in the fourth quarter of 2017. A portion of the increase also related to the inclusion of Diamond Game (INNOVA) financial results which amounted to $4.2 million, including $0.6 million of additional amortization related to intangible assets recognized on the acquisition.

Gross profit was $17.5 million (22.0% of sales) in the fourth quarter of 2017 compared to $14.2 million (21.6% of sales) in the fourth quarter of 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, higher ancillary instant ticket products and services sales and the addition of Diamond Game (INNOVA). The higher gross profit percentage was due to the larger volumes of instant tickets, increased sales of ancillary instant ticket products and services, including higher iLottery sales, and improved manufacturing efficiencies. Pollard produced over 17% more tickets in the fourth quarter of 2017 as compared to the comparable quarter of 2016, thereby reducing our cost per unit by spreading its fixed manufacturing overhead over the greater volume.

Administration expenses were $7.5 million in the fourth quarter of 2017 which was higher compared to $4.9 million in the fourth quarter of 2016. The increase was partly a result of the inclusion of Diamond Game (INNOVA) of $1.2 million (which includes $0.3 million in severance costs related to the departure of a former executive). Additional reasons for the increase were $0.3 million in acquisition costs in the fourth quarter of 2017 and an increase in compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals compared to 2016. In addition, 2016 administration expenses include a credit for recovery of legal fees.

Selling expenses increased to $2.6 million in the fourth quarter of 2017 from $2.2 million in the fourth quarter of 2016 primarily as a result of the $0.6 million in expenses resulting from the addition of Diamond Game (INNOVA), partially offset by a decrease in contract support costs.

Interest expense, including deferred financing amortization, increased to $1.3 million in the fourth quarter of 2017 compared to $0.9 million in the fourth quarter of 2016 primarily as a result of the additional interest expense related to long term and subordinated debt incurred with the purchase of Diamond Game (INNOVA).

The net foreign exchange loss was $nil in the fourth quarter of 2017 compared to a net loss of $0.3 million in the fourth quarter of 2016. The 2017 net foreign exchange loss consisted of a $0.5 million unrealized loss which was primarily a result of the decreased Canadian equivalent value of U.S. denominated accounts receivables with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was fully offset by the realized foreign exchange gain of $0.5 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchanges rates.

The 2016 net foreign exchange loss consisted of a $0.4 million unrealized loss which was primarily a result of the increased Canadian equivalent value of U.S. denominated debt with the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by the realized foreign exchange gain of $0.1 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of intangible assets, increase to $4.5 million during the fourth quarter of 2017 as compared to $2.2 million during the fourth quarter of 2016. The increase was primarily as a result of the inclusion of Diamond Game (INNOVA), with $1.0 million of amortization and depreciation and $0.6 million of additional amortization related to intangible assets recognized upon the acquisition.

Adjusted EBITDA was $13.0 million in the fourth quarter of 2017 compared to $9.1 million in the fourth quarter of 2016. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of $5.6 million, the decrease in other expenses of $0.3 million and an increase in realized foreign exchange gain of $0.4 million. Partially offsetting the increases were higher administration expenses (net of severance and acquisition costs) of $2.0 million and an increase in selling expenses of $0.4 million.

Income tax expense was $1.8 million in the fourth quarter of 2017, an effective rate of 28.8% which was higher than our expected effective rate of 27.0% due primarily to adjustments relating to the acquisition of INNOVA, the effect of higher tax rates in the United States in 2017, the effect of foreign exchange and non-deductible amounts primarily relating to expenses incurred in the acquisition of INNOVA. Partially offsetting these increases was the reduction in the future federal income tax rates in the United States.

Income tax expense was $1.8 million in the fourth quarter of 2016, an effective rate of 32.5% which was higher than our expected effective rate of 27.0% 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 significant weakening of the Canadian dollar versus the U.S. dollar in the fourth quarter results in a future gain on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax expense with no related income (as the gain is eliminated on consolidation). This increased the consolidated provision percentage by about 8%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment decreased the provision by approximately 4%.

Net income was $4.3 million in the fourth quarter of 2017 compared to $3.8 million in the fourth quarter of 2016. The primary reasons for the increase in net income were the higher gross profit of $3.3 million, a reduction in other expenses of $0.3 million and the decrease in net foreign exchange loss of $0.3 million. Partially offsetting these increases were the increase in administration expenses of $2.6 million which included $0.3 million in acquisition costs and $0.3 million in severance costs. Also reducing net income were the increase in selling expenses of $0.4 million and higher interest expense of $0.4 million.

Earnings per share (basic and diluted) increased to $0.18 per share in the fourth quarter of 2017 from $0.16 per share in the fourth quarter of 2016.

Outlook

The lottery industry continued to achieve good growth during 2017 and we anticipate this trend to continue in 2018. Of particular strength were instant tickets, as lotteries increasingly look to expand and grow this area of their operations to generate greater proceeds for their various good causes. Consumer demand for instant tickets and related services like digital products are expected to remain robust as lotteries expand their offerings and gaming platforms to meet this demand.

2017 saw our instant ticket volumes increase significantly when compared to the prior year, reflecting overall strong demand across our lottery portfolio. The additional production capacity from our Tresu press allowed us to produce the additional volume created by that demand. To help support further additional volumes, during 2018 we are also recommissioning the original press line in our Ypsilanti facility in order to provide some incremental production capacity. While we don't expect to see the same growth rate profile in 2018 that was achieved in 2017, we anticipate building on these higher levels achieved throughout the upcoming fiscal year. Our focus on manufacturing efficiencies is critical to our success and we expect to see additional improvements in our cost platform going forward, however, significant improvements were already captured during 2017. As a result, 2018 will not see the same level of improvements as achieved in 2017.

One of the drivers of the increased demand was the success of many of our proprietary products such as Scratch FX® and Playbook® products. These value-added products have proven to be very successful in growing the revenue of lotteries and allows us to maintain our average selling prices in a price competitive industry. We have new exciting innovative instant ticket products rolling out in 2018 and are hopeful our ongoing innovations will continue to be a positive factor driving our future revenue growth.

Our core instant ticket business is driven by formal contracts and in 2018 there are a number of large instant ticket lottery contracts coming up for bid, particularly in the United States. Our current contract portfolio is extremely well positioned with existing terms and renewals providing important visibility to our revenue streams for the next number of years. Our recently announced contract extension with the Western Canada Lottery Corporation extends our current contract for an additional ten years and during 2017 the Ontario Lottery Corporation extended our contract for another five years. Both of these events illustrate the strengths of our existing customer relationships and the value of our long-term contracts. Our contract with the British Columbia Lottery Corporation expires in December 2018. We have been the primary supplier to this important customer for over 30 years and we are hopeful of continuing this relationship in future contracts.

The charitable gaming market remains very steady relative to the last few years and, with low capital expenditure requirements, it continues to generate positive cash flows. With the recent addition of International Gamco, Inc. to our existing American Games business, we are uniquely positioned to benefit from this important business line. We believe the combination of these two companies will bring significant synergies and enhanced revenue opportunities in the future as their integration is fully developed.

Our Diamond Game operation continues the integration process with Pollard after being acquired in the fall of 2017. Their unique product is strategically situated to provide revenue for charitable organizations directly or through lottery organizations. The sales development cycle is very long and currently we do not see any major new jurisdiction opportunities in the short term, but continue to focus on key states and provinces, educating them on the benefits of this product. We have achieved expected savings in corporate and public company overhead and will benefit from these lower costs throughout 2018.

Excluding our two recent acquisitions, our budgeted capital expenditures for 2018 are expected to be similar to the expenditures incurred in 2017. As well, we do not anticipate major capital expenditures to be required for Diamond Game or Gamco this upcoming year. We would anticipate strong operating cash flows available for investments in future acquisitions, growth in working capital, as required, and continued reductions in outstanding debt. On February 21, 2018, we raised approximately $38.2 million, before expenses, in new capital through a common share offering, the proceeds from which were used to pay down existing debt. This transaction ensures we have significant capital available to support our future growth plans.

Acquisitions are an important component of our strategy and we have recently been active in this area. We will continue to be disciplined in our search for additional acquisition opportunities, with our focus being organizations that can assist in our vision of being the partner of choice to the lottery and charitable gaming industry.

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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