

**POLLARD BANKNOTE ANNOUNCES
1ST QUARTER FINANCIAL RESULTS**

WINNIPEG, Manitoba, May 8, 2019 /CNW/ — Pollard Banknote Limited (TSX: PBL) (“Pollard”) today released its financial results for the three months ended March 31, 2019, generating positive quarterly revenue and net income trends.

“Our first quarter generated strong financial results reflecting the return of our instant ticket orders to levels similar to those achieved in the first three quarters of 2018 and significantly higher than those of the fourth quarter 2018,” stated John Pollard, Co-Chief Executive Officer. “Our consolidated revenue was over \$97 million, a quarterly record, benefitting from the full three months of our recent acquisitions and strong instant ticket revenue including sales from our ancillary products and iLottery operations.”

“Our emphasis on high-value proprietary innovations such as Scratch FX[®], laminated and pouched products generated continued sales interest from a number of lotteries and helped us achieve solid results in an important metric, average selling price.”

“Net income for the quarter was over \$8 million, 77% higher than the same period last year, while Adjusted EBITDA, excluding the impact of IFRS 16, exceeded \$15 million, reflecting the strong selling prices of our instant ticket products and contributions of our acquisitions. All of our business lines, including iLottery and ancillary products, generated very positive results. Our current indications for instant ticket sales orders in the second quarter and throughout 2019 are strong and reflect volumes consistent with our expectations from the first three quarters of 2018, however, with industry growth and continued success developing innovative products, we are hopeful to achieve incremental growth in 2019.”

“Our charitable gaming businesses, including American Games and International Gamco, continue to work together to integrate their operations and management teams. All indications suggest the market has received the combination of these two respected brands positively. The overall market for charitable gaming is showing some positive growth signs and we’re seeing opportunities to expand gaming in certain jurisdictions to include digital formats through etabs and other electronic gaming. This has resulted in increased revenue and future opportunities for our Diamond Game and Oasis charitable gaming machines.”

"Consumer demand for instant tickets continues to grow and lotteries are very open to work with suppliers who can demonstrate products and services to help grow their business," stated Doug Pollard, Co-Chief Executive Officer. "All of our material contracts remain in place and we are very pleased with a pair of important new contract announcements. The Interprovincial Lottery Corporation, consisting of all of the lottery organizations in Canada, recently awarded us a new 5 year contract after the expiry of our previous contract. We are also very excited to be awarded a new contract to manage the inventory, warehousing and distribution of instant tickets for the Arizona Lottery. This lottery management contract is an important confirmation from the lottery industry of their confidence in Pollard Banknote's ability to be the partner of choice for lotteries and charitable gaming organizations."

"On May 1, 2019, we completed the acquisition of Fastrak Retail (UK) Limited, one of the leading instant ticket dispensing and merchandising companies based in the United Kingdom. We are looking forward to combining these new resources with our existing Schafer Systems merchandising focused business to provide a world class innovative force in driving retail change in the lottery sector."

"Our first quarter results were very positive and reflect the ongoing strength in our lottery business," concluded John Pollard. "Our recent acquisitions continue to perform to our expectations. We will continue to focus our resources on growing our organic expertise and capitalizing on strategic acquisitions, to maintain our vision of partner of choice to the lottery and charitable gaming industries."

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, purchase accounting amortization, unrealized foreign exchange gains and losses, 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.

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.

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.

HIGHLIGHTS	Three months ended <u>March 31, 2019</u>	Three months ended <u>March 31, 2018</u>
Sales	\$ 97.5 million	\$ 80.3 million
Gross profit	\$ 22.9 million	\$ 19.4 million
<i>Gross profit % of sales</i>	<i>23.5%</i>	<i>24.2%</i>
Administration expenses	\$ 8.7 million	\$ 8.0 million
Selling expenses	\$ 3.5 million	\$ 2.8 million
Net income	\$ 8.0 million	\$ 4.5 million
Net income per share	\$ 0.31	\$ 0.18
Adjusted EBITDA*:		
Lotteries and charitable gaming	\$ 12.6 million	\$ 10.6 million
Diamond Game	2.5 million	2.4 million
Total adjusted EBITDA	<u>\$ 15.1 million</u>	<u>\$ 13.0 million</u>

* excludes impact of IFRS 16 implemented effective January 1, 2019

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three month ended March 31, 2019	Three months ended March 31, 2018
	(unaudited)	(unaudited)
Sales	\$97.5	\$80.3
Cost of sales	74.6	60.9
Gross profit	<u>22.9</u>	<u>19.4</u>
Administration expenses	8.7	8.0
Selling expenses	3.5	2.8
Other expenses	0.2	-
Income from operations	<u>10.5</u>	<u>8.6</u>
Finance costs	1.5	2.4
Finance income	(1.5)	-
Income before income taxes	<u>10.5</u>	<u>6.2</u>
Income taxes:		
Current	1.8	3.1
Future (reduction)	0.7	(1.4)
	<u>2.5</u>	<u>1.7</u>
Net income	<u>\$8.0</u>	<u>\$4.5</u>
Adjustments:		
Amortization and depreciation	6.3	4.1
Interest	1.5	1.2
Unrealized foreign exchange (gain) loss	(1.9)	1.0
Acquisition costs	-	0.1
Severance costs	-	0.4
Income taxes	2.5	1.7
Adjusted EBITDA	<u>\$16.4</u>	<u>\$13.0</u>
Less impact of implementation of IFRS 16 Leases:		
IFRS 16 related depreciation	1.1	-
IFRS 16 related interest	0.2	-
Adjusted EBITDA without IFRS 16 impact	<u>\$15.1</u>	<u>\$13.0</u>

	March 31, 2019	December 31, 2018
Total Assets	\$317.0	\$305.6
Total Non-Current Liabilities	\$155.4	\$142.9

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 as at and for the three months ended March 31, 2019. 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, 2019

During the three months ended March 31, 2019, Pollard achieved sales of \$97.5 million, compared to \$80.3 million in the three months ended March 31, 2018. Factors impacting the \$17.2 million sales increase were:

- An increase in the instant ticket average selling price in the first quarter of 2019 compared to the first quarter of 2018 increased sales by \$8.2 million. This increase was, in part, a result of record sales of Pollard's proprietary Scratch FX[®] product in the quarter. Sales of ancillary instant ticket products and services increased revenue in 2019 by \$3.7 million. This increase was primarily from the addition of Schafer Systems (2018) Inc. ("Schafer") and increased iLottery revenues, partially offset by lower licensed product sales. Partially offsetting these increases was a slight decrease in instant ticket sales volume in the quarter which reduced sales by \$2.3 million. Certain instant ticket production volume from the fourth quarter of 2018 was recognized in revenue in the first quarter of 2019 as expected, however similar volumes of instant tickets produced later in the first quarter of 2019 will be recognized in the second quarter of 2019.
- Diamond Game's sales increased in the first quarter of 2019, which added an additional \$0.2 million to sales when compared to 2018. In addition, the increase in charitable gaming volumes, primarily as a result of including three months of International Gamco, Inc. ("Gamco") sales in 2019 as compared to two months in 2018, increased sales by \$3.0 million from 2018. A higher average selling price for charitable games in 2019 further increased sales by \$0.6 million.
- During the three months ended March 31, 2019, Pollard generated approximately 73.1% (2018 – 67.3%) 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 2019, the actual U.S. dollar value was converted to Canadian dollars at \$1.333, compared to a rate of \$1.256 during the first quarter of 2018. This 6.1% increase in the U.S. dollar value resulted in an approximate increase of \$3.9 million in revenue relative to the first quarter of 2018. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.1 million in revenue relative to the first quarter of 2018.

Cost of sales was \$74.6 million in the first quarter of 2019 compared to \$60.9 million in the first quarter of 2018. The increase in cost of sales was partially as a result of higher

exchange rates on U.S. dollar denominated transactions in 2019 and higher input costs relating to increased Scratch FX[®] sales. The majority of the remaining increase related to the inclusion of Schafer in 2019, as well as the inclusion of Gamco for three months in the first quarter of 2019 as compared to two months in 2018.

Gross profit was \$22.9 million (23.5% of sales) in the first quarter of 2019 compared to \$19.4 million (24.2% of sales) in the first quarter of 2018. This increase of \$3.5 million in gross profit was primarily the result of the addition of Schafer, and a full quarter of Gamco, which increased gross margin by approximately \$2.0 million. Gross profit generated from the lotteries and charitable gaming business (excluding Gamco and Schafer) increased approximately \$1.6 million due to the higher instant ticket average selling price and increased profits from digital and iLottery offerings. These increases were partially offset by lower licensed games sales. The gross profit percentage was slightly lower due to the change in instant ticket sales mix and a reduction in license product sales, partially offset by higher iLottery sales and the addition of Schafer.

Administration expenses increased to \$8.7 million in the first quarter of 2019 from \$8.0 million in the first quarter of 2018. The increase of \$0.7 million was partially a result of the inclusion of Schafer and including Gamco for an entire quarter in 2019. Additional reasons for the increase, totaling approximately \$0.5 million, were higher compensation expenses to support Pollard's growth strategies of acquisition and digital innovation and increased professional fees. These increases were partially offset by the \$0.1 million reduction in acquisition costs and \$0.4 million reduction in severance costs as compared to 2018.

Selling expenses increased to \$3.5 million in the first quarter of 2019 from \$2.8 million in the first quarter of 2018 primarily due to the addition of Schafer and including Gamco for an entire quarter in 2019, as well as higher compensation costs. These increases were partially offset by a decrease in contract support costs.

Other expenses increased to \$0.2 million in in the first quarter of 2019 from \$nil in 2018, primarily due to the increased loss on equity investment of \$0.4 million, partially offset by the increased other income of \$0.2 million.

The net foreign exchange gain was \$1.5 million in the first quarter of 2019 compared to a net loss of \$1.2 million in the first quarter of 2018. The 2019 net foreign exchange gain consisted of a \$1.9 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. In fiscal 2018 Pollard added almost US\$29 million of U.S. dollar denominated debt, with the acquisitions of Gamco and Schafer, which is subject to revaluation through the income statement. The strengthening of the Canadian dollar relative to the U.S. dollar in the first quarter of 2019 resulted in the substantial unrealized foreign exchange gain. In addition to the unrealized foreign exchange gain in 2019, Pollard incurred a realized foreign exchange loss of \$0.4 million as a result of foreign currency denominated accounts

receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2018 net foreign exchange loss of \$1.2 million consisted of an unrealized foreign exchange loss of \$1.0 million primarily as a result of the unrealized loss on U.S. dollar denominated debt which was a result of the weakening of the value of the Canadian dollar versus the U.S. dollar during the first quarter of 2018. In addition to the unrealized loss, there was a realized loss of \$0.2 million, primarily as a result of the decreased value of U.S. denominated receivables at collection.

Adjusted EBITDA increased to \$16.4 million in the first quarter of 2019 compared to \$13.0 million in the first quarter of 2018. The classification of operating lease costs under IFRS 16 Leases, which was implemented effective January 1, 2019, increased Adjusted EBITDA by \$1.3 million in the first quarter of 2019.

The primary reason for the remaining increase in Adjusted EBITDA of \$2.1 million was the increase in gross profit of \$4.4 million (net of amortization and depreciation and IFRS 16 impact). This increase to Adjusted EBITDA was partially offset by higher administration expenses (net of acquisition and severance costs) of \$1.2 million, an increase in selling expenses of \$0.7 million, an increase in other expenses of \$0.2 million and an increase in realized foreign exchange loss of \$0.2 million.

Interest expense increased to \$1.5 million in the first quarter of 2019 from \$1.2 million in first quarter of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition Schafer and additional interest expense with the implementation of IFRS 16 on January 1, 2019 of \$0.2 million.

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled \$6.3 million during the first quarter of 2019 which increased from \$4.1 million during the first quarter of 2018. The increase was primarily as a result of \$1.0 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of a Schafer and a full quarter of Gamco, including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Income tax expense was \$2.5 million in the first quarter of 2019, an effective rate of 23.3%, lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in the United States and the effect of foreign exchange.

Income tax expense was \$1.7 million in the first quarter of 2018, an effective rate of 27.2%, which was similar to our domestic rate of 27.0%.

Net income increased to \$8.0 million in the first quarter of 2019 from \$4.5 million in the first quarter of 2018. The primary reasons for the increase in net income were the

increase in gross profit of \$3.5 million, due to the addition of Schafer, a full quarter of Gamco and the increase in instant ticket average selling price, and the increase in foreign exchange gain of \$2.7 million. Partially offsetting these increases were the increase in administration expenses of \$0.7 million, the increase in selling expenses of \$0.7 million, higher interest expense of \$0.3 million and the increase in income taxes of \$0.8 million.

Net income per share (basic and diluted) increased to \$0.31 per share in the first quarter of 2019 from \$0.18 per share in the first quarter of 2018.

Outlook

Our instant ticket order levels have returned to similar levels previously seen in the first three quarters of 2018 as expected. Based on our expectations and current schedules we believe these order levels will continue through the second quarter and the remainder of 2019. In addition, with industry growth and continued success developing innovative products, we are hopeful to achieve incremental growth over and above the volume levels achieved in the first three quarters of 2018.

The lottery industry remains robust with growing consumer demand, particularly as it relates to instant tickets and digital offerings. Our contract portfolio remains strong with no material contracts expiring in 2019. Over the past year we have been awarded a number of long-term instant ticket contracts with key lotteries including the Western Canada Lottery Corporation and the British Columbia Lottery Corporation. We have also recently been awarded a new contract with the Arizona Lottery to manage their instant ticket warehousing, distribution and inventory management operations. This award represents growing recognition of our expanding product offering.

As previously disclosed, there are currently large instant ticket contracts up for bid in 2019 where Pollard is not a major supplier. These contract bid processes are underway and, although lotteries don't regularly replace their primary supplier, we are hopeful at a minimum that these upcoming contract awards may offer Pollard the opportunity to provide incremental levels of instant tickets going forward.

iLottery continues to be very active, with state and provincial lotteries looking into opportunities in this space, while work continues on the roll out of our North Carolina iLottery operation targeted to go live late in 2019. The court process we initiated to clarify that the Wire Act only applies to sports betting, and thereby confirming lotteries can continue to provide lawful gaming over the internet, remains before the New Hampshire circuit court. A ruling is not expected before the summer of 2019. We remain confident the court will find in favour of the lotteries, although we anticipate the initial court ruling will likely be appealed.

A foundation of our success has been, and continues to be, the development of innovative proprietary products with regard to both our instant tickets as well as our other offerings, including digital and other ancillary products. We continue to invest resources in

developing these value-added products and services in order to help lotteries maximize their proceeds for good causes and differentiate Pollard Banknote from other suppliers.

The integration of our most recent acquisition, Schafer Systems, with our instant ticket business continues to move forward positively, with cross-company development teams working together on innovative merchandising concepts for instant tickets.

In 2018 we recommissioned our original printing press in Ypsilanti and we are currently adding some additional equipment in order to increase its capacity. The resulting capacity increase will position us to provide efficient, flexible scheduling for our current level of orders as well as ensure sufficient available capacity for growth.

No major individual CAPEX projects are anticipated for 2019 and we expect our CAPEX for the next year will be similar to the levels incurred in 2018. Our business remains a strong generator of free cash flow and after funding our CAPEX and current dividend, free cash flow will be used to pay down debt and to help fund any future acquisitions.

Acquisitions remain a critical component in our strategic plan and we continue to actively review strategic opportunities that will assist us in key areas such as technology, ancillary lottery products and charitable gaming.

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