Pollard Banknote

News Release

POLLARD BANKNOTE MORE THAN DOUBLES NET INCOME IN 2012

WINNIPEG, Manitoba, March 6, 2013 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2012.

"We are delighted to report our 2012 results, including a significant increase in Net Income to $6.7 million from $3.1 million last year. Our production volumes exceeded the record levels we achieved in 2011, growing approximately 4%. Our Change Initiative focus achieved major improvements in our cost structure including dramatically reduced spoilage, improved press uptime, higher labour efficiency and lower re-work. The combined effect resulted in significantly increased profits in 2012. While we are very pleased with the solid progress we have made in these areas over the past year, we are equally excited about the opportunities for further improvements going forward."

"Our volume growth has been driven by new contract wins and growth within existing customer relationships. A number of our innovations have generated noteworthy traction in the marketplace, including such proprietary products as Scratch FX™ and our popular Playbooks, which combine a number of instant games in a user friendly book format."

"Our industry remains very robust, both in terms of continued growth of traditional printed instant win tickets and in emerging opportunities in new areas such as interactive internet based gaming."

"All of these factors make us very optimistic about continued improvement in our financial results in 2013, which includes an expected very busy first quarter."

HIGHLIGHTS	Three months ended December 31, 2012	Three months ended December 31, 2011
Sales	$ 40.9 million	$ 44.6 million
Gross Profit	$ 8.6 million	$ 8.8 million
Gross Profit % of sales	*21.0 %*	*19.7 %*
Administration expenses	$ 3.5 million	$ 3.7 million
Selling expenses	$ 1.6 million	$ 1.7 million
Realized foreign exchange gain	$ (0.1 million)	$ -
Net Income	$ 1.5 million	$ 1.7 million
Adjusted EBITDA	$ 5.6 million	$ 5.2 million

	Year ended December 30, 2012	Year ended December 31, 2011
Sales	$ 162.4 million	$ 172.0 million
Gross Profit	$ 32.9 million	$ 30.1 million
Gross Profit % of sales	*20.3 %*	*17.5%*
Administration expenses	$ 13.6 million	$ 13.8 million
Selling expenses	$ 6.1 million	$ 6.3 million
Realized foreign exchange loss (gain)	$ 0.3 million	$ (3.2 million)
Net Income	$ 6.7 million	$ 3.1 million
Adjusted EBITDA	$ 20.1 million	$ 22.6 million
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange loss (gain)	$ 20.4 million	$ 17.9 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, 2012

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Year ended December 31, 2012	Year ended December 31, 2011
Sales	$162.4	$172.0
Cost of Sales	129.5	141.9
Gross Profit	32.9	30.1
Administration expenses	13.6	13.8
Selling expenses	6.1	6.3
Gain on sale of property, plant and equipment	-	(1.5)
Other expense	-	1.1
Income from operations	13.2	10.4
Finance costs	4.8	6.4
Finance income	(0.6)	(0.8)
Income before income taxes	9.0	4.8
Income taxes:		
Current	1.1	0.8
Future	1.2	0.9
	2.3	1.7
Net Income	$6.7	$3.1
Adjustments:		
Amortization and depreciation	7.8	8.4
Interest	3.4	4.4
Unrealized foreign exchange loss (gain)	(0.1)	3.8
Settlement loss on pension curtailment	-	0.7
Restructuring expense	-	0.5
Income taxes	2.3	1.7
Adjusted EBITDA	$20.1	$22.6
Gain on sale of property, plant and equipment	-	1.5
Realized foreign exchange (loss) gain	(0.3)	3.2
Adjusted EBITDA excluding gain on sale of property, plant and equipment and realized foreign exchange (loss) gain	$20.4	$17.9

	December 31, 2012	December 31, 2011
Total Assets	$127.0	$121.6
Total Long-Term Liabilities	$83.4	$77.2

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, 2012. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS"or "GAAP").

Results of Operations – Year ended December 31, 2012

Sales

During the year ended December 31, 2012 ("Fiscal 2012" or "2012"), Pollard achieved sales of $162.4 million, compared to $172.0 million in the year ended December 31, 2011 ("Fiscal 2011" or "2011"). Factors impacting the $9.6 million sales decrease were:

Instant ticket sales volumes for Fiscal 2012 were slightly lower than Fiscal 2011 by 0.8% which decreased sales by $1.1 million. A reduction in our ancillary instant ticket products and services, primarily licensed games and lottery management services, decreased sales by $5.0 million. In addition, a decrease in average selling price compared to 2011 reduced sales by $2.6 million. Charitable Gaming average selling prices increased slightly compared to 2011, increasing sales by $0.2 million and a volume decrease reduced sales by $0.7 million. A decrease in the volume of machine sales decreased sales $0.2 million when compared to 2011.

During Fiscal 2012, Pollard generated approximately 66.9% (2011 – 65.5%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During Fiscal 2012 the actual U.S. dollar value was converted to Canadian dollars at $1.003 compared to a rate of $0.995 during Fiscal 2011. This 0.8% increase in the U.S. dollar value resulted in an approximate increase of $0.9 million in revenue relative to Fiscal 2011. Also during Fiscal 2012, the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $1.1 million relative to Fiscal 2011.

Cost of sales and gross profit

Cost of sales was $129.5 million in Fiscal 2012 compared to $141.9 million in Fiscal 2011. Cost of sales was lower in Fiscal 2012 relative to Fiscal 2011 as a result of the cost savings generated by our Change Initiative process, including improved manufacturing yields and labour efficiencies, and a reduction in sales of ancillary instant ticket products. These reductions were partially offset by higher exchange rates on U.S. dollar transactions in 2012 which increased cost of sales approximately $0.5 million. Instant ticket production volumes in 2012 exceeded Fiscal 2011 by approximately 4%.

Gross profit was $32.9 million (20.3% of sales) in Fiscal 2012 compared to $30.1 million (17.5% of sales) in Fiscal 2011. This increase is due mainly to the cost savings generated by our Change Initiative process, partially offset by reduced ancillary instant ticket volume and lower average selling prices.

Administration expenses

Administration expenses of $13.6 million in Fiscal 2012 were similar to $13.8 million in Fiscal 2011.

Selling expenses

Selling expenses of $6.1 million in Fiscal 2012 were similar to $6.3 million in Fiscal 2011.

Other (income) expense

Other income was nil in Fiscal 2012 compared to income of $0.4 million in Fiscal 2011.

Within Fiscal 2011 other income was a $1.5 million gain on sale of property, plant and equipment, partially offset by restructuring expenses of $0.5 million and $0.7 million related to the settlement loss on pension curtailment.

Finance costs and income

Under IFRS, included in the income statement classification “finance costs” are interest, amortization of deferred financing costs and foreign exchange losses. Included in the income statement classification “finance income” are foreign exchange gains.

Interest expense

Interest expense decreased to $3.4 million in Fiscal 2012 from $4.4 million in Fiscal 2011 due primarily to the elimination of higher interest rates relating to certain interest rate swaps which expired on August 31, 2011, and the reduced average amount of long-term debt over the year compared to Fiscal 2011.

Foreign exchange loss

The net foreign exchange loss was $0.2 million in Fiscal 2012 compared to a net loss of $0.6 million in Fiscal 2011. Within the 2012 net foreign exchange loss are realized foreign exchange losses of $0.3 million comprised of $0.5 million realized loss on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars, partially offset by $0.2 million of realized gain relating to payments made on U.S. dollar denominated debt. Partially offsetting the realized foreign exchange losses are unrealized foreign exchange gains of $0.1 million comprised of an unrealized foreign exchange gain of $0.4 million on U.S. dollar denominated debt, partially offset by $0.3 million unrealized foreign exchange loss on U.S. denominated cash.

Within the 2011 foreign exchange loss are unrealized losses of $3.8 million relating to the unrealized foreign exchange loss on U.S. dollar denominated debt (caused by the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment and the weakening of the value of the Canadian dollar versus the U.S. dollar at December 31, 2011, as compared to December 31, 2010). Partially offsetting this is a realized gain of $3.2 million, consisting of a $3.7 million realized gain relating to payments made on U.S. dollar denominated debt, offset by realized losses of $0.5 million on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Adjusted EBITDA

Adjusted EBITDA was $20.1 million in Fiscal 2012 compared to $22.6 million in Fiscal 2011. The primary reasons for the decrease in Adjusted EBITDA were the absence of a gain on sale of property, plant and equipment of $1.5 million and lower realized foreign exchange gains (primarily related to the repayment of U.S. dollar denominated debt in 2011) of $3.5 million, partially offset by an increase in gross margin (net of amortization and depreciation) of $2.2 million.

Adjusted EBITDA excluding the gain on sale of property plant and equipment and realized foreign exchange gains and losses was $20.4 million in Fiscal 2012 compared to $17.9 million in Fiscal 2011.

Income taxes

Income tax expense was $2.3 million in Fiscal 2012, an effective rate of 26.0%, consistent with the expected domestic tax rate.

Income tax expense was $1.7 million in Fiscal 2011, an effective rate of 34.7%, as a result of permanent differences relating to the translation of the company’s U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $7.8 million during Fiscal 2012 which decreased from $8.4 million during Fiscal 2011 due to certain intangible assets becoming fully amortized in Fiscal 2011.

Net Income

Net Income was $6.7 million in Fiscal 2012 compared to Net Income of $3.1 million in Fiscal 2011. The primary reasons for the increase were an increase in gross profit of $2.8 million, a combined decrease in selling and administrative expenses of $0.4 million, a decrease in interest expense of $1.0 million, a reduction in other expense of $1.1 million (as a result of an absence of $0.5 million restructuring expense and $0.7 million loss on pension curtailment) and a decrease in foreign exchange loss of $0.4 million. These increases in Net Income were partially offset by the absence of the $1.5 million gain on sale of property, plant and equipment and increased income taxes of $0.6 million.

Earnings per share increased to $0.28 per share in Fiscal 2012 from $0.13 in Fiscal 2011.

Results of Operations – Three months ended December 31, 2012

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended December 31, 2012**	**Three months Ended December 31, 2011**
	(unaudited)	(unaudited)
Sales	$40.9	$44.6
Cost of Sales	32.3	35.8
Gross Profit	8.6	8.8
Administration	3.5	3.7
Selling	1.6	1.7
Other expense	0.1	0.8
Income from operations	3.4	2.6
Finance costs	1.3	1.1
Income before income taxes	2.1	1.5
Income taxes:		
Current (recovery)	0.1	(0.1)
Future (reduction)	0.5	(0.1)
	0.6	(0.2)
Net Income	$1.5	$1.7
Adjustments:		
Amortization and depreciation	2.2	2.0
Interest	0.9	1.0
Unrealized foreign exchange loss	0.4	-
Settlement loss on pension curtailment	-	0.7
Income taxes (recovery)	0.6	(0.2)
Adjusted EBITDA	$5.6	$5.2

Results of Operations – Three months ended December 31, 2012

During the three months ended December 31, 2012, Pollard achieved sales of $40.9 million, compared to $44.6 million in the three months ended December 31, 2011. Factors impacting the $3.7 million sales decrease were:

Instant ticket sales volumes for the fourth quarter of 2012 were lower than the fourth quarter of 2011 by 2.8%, which combined with a decrease in our ancillary instant ticket products and services, primarily licensed games and lottery management services, decreased sales by $1.7 million. Instant ticket sales volumes were lower due to the timing of certain shipments produced in the fourth quarter scheduled for delivery in 2013. In addition, a slight decrease in average selling price of instant tickets compared to 2011 decreased sales by $1.1 million. Charitable Gaming average selling prices for the quarter increased sales compared to 2011 by $0.3 million.

During the three months ended December 31, 2012, Pollard generated approximately 65.0% (2011 – 61.7%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the fourth quarter of 2012 the actual U.S. dollar value was converted to Canadian dollars at $0.997, compared to the rate of $1.029 during the fourth quarter of 2011. This 3.2% decrease in the value of the U.S. dollar value resulted in an approximate decrease of $0.9 million in revenue relative to 2011. 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 fourth quarter of 2011.

Cost of sales was $32.3 million in the fourth quarter of 2012 compared to $35.8 million in the fourth quarter of 2011. Cost of sales was lower in the quarter relative to 2011 as a result of the cost savings generated by our Change Initiative process, including improved manufacturing yields and labour efficiencies, a reduction in sales of ancillary instant ticket products and lower exchange rates on U.S. dollar transactions. Production volumes in the fourth quarter of 2012 exceeded those in the comparable quarter of 2011 by approximately 3%.

Gross profit was $8.6 million (21.0% of sales) in the fourth quarter of 2012 compared to $8.8 million (19.7% of sales) in the fourth quarter of 2011. This decrease in absolute gross profit is due mainly to lower sales of ancillary instant ticket products and services and lower average selling price for instant tickets, largely offset by cost savings.

Administration expenses were $3.5 million in the fourth quarter of 2012 which decreased compared to $3.7 million in the fourth quarter of 2011 as a result of reduced professional expenses

Selling expenses were $1.6 million in the fourth quarter of 2012 which decreased compared to $1.7 million in the fourth quarter of 2011 as a result of reduced salary expenses.

Interest expense decreased to $0.9 million in the fourth quarter of 2012 from $1.0 million in the fourth quarter of 2011 due primarily to lower interest rates in the fourth quarter of 2012 compared to the fourth quarter of 2011.

The net foreign exchange loss was $0.3 million in the fourth quarter of 2012 compared to nil in the fourth quarter of 2011. Within the 2012 fourth quarter net foreign exchange loss was an unrealized foreign exchange loss of $0.4 million consisting of $0.2 million relating to unrealized foreign exchange loss on U.S. dollar denominated debt and

$0.2 million relating to the unrealized loss on U.S. dollar denominated receivables. Partially offsetting the unrealized foreign exchange loss was $0.1 million realized foreign exchange gain on the increased value of Euro denominated receivables.

Adjusted EBITDA was $5.6 million in the fourth quarter of 2012 compared to $5.2 million in the fourth quarter of 2011. The primary reasons for the increase in Adjusted EBITDA were the reduction in selling and administrative expenses of $0.3 million.

Income tax expense was $0.6 million in the fourth quarter of 2012, an effective rate of 28.6%, similar to the expected domestic tax rate.

Income tax recovery was ($0.2) million in the fourth quarter of 2011, an effective rate of (13.3%), as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $2.2 million during the fourth quarter of 2012 which increased from $2.0 million during the fourth quarter of 2011 due to greater additions of property, plant and equipment in Fiscal 2012.

Net Income was $1.5 million in the fourth quarter of 2012 compared to $1.7 million in the fourth quarter of 2011. The primary reasons for the decrease were an increase in foreign exchange loss and an increase in income taxes. These decreases to Net Income were partially offset by reduction in selling and administration expenses and a decrease in other expense (decrease in the pension settlement costs incurred in Fiscal 2011 of $0.7 million).

Earnings per share decreased to $0.06 per share in the fourth quarter of 2012 from $0.07 in the fourth quarter of 2011.

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 interest rate swaps, and certain non-recurring items including Conversion expenses, warranty reserve accruals, settlement loss on pension curtailment and restructuring 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.

Outlook

The instant ticket market experienced good growth in 2012 and indications are that this trend has continued in early 2013. Instant tickets have been one of the most successful product lines for lotteries around the world. Jurisdictions are using these games to maximize their returns, which generates opportunities for Pollard to work in partnership with lotteries in achieving their objectives.

Our volumes for the first quarter in 2013 are expected to be significantly higher than has traditionally occurred in the first quarter in previous years. This reflects both higher overall order quantities from our customer base and higher volumes of some of our proprietary products. We expect to see higher volume levels continue throughout 2013.

We anticipate our industry will continue to be extremely competitive with pricing being an important factor in winning work. To offset this, our focus will continue to be on both innovation, to develop proprietary, value-added features to bolster our selling prices, and reducing our cost structure to protect our gross margin.

2012 witnessed lower sales in our licensed games product line, however licensed games sales are expected to generate much higher revenue in 2013 due to a number of key licensed products including *Star Trek*™ and Cadillac® themed tickets.

Our pull-tab and bingo paper product lines (charitable gaming) continue to generate solid returns and we anticipate similar results in 2013. While the overall market for charitable gaming products is not growing, we will continue our focus on effective cost management to maintain our margins. Within this product line our vending machine business has shown some strong growth driven by some new product introduction coupled with the ongoing increase in the acceptance of self retailing. While still a small part of our overall business, incremental sales will have a positive impact on our operating margins and profit.

The lottery industry itself is seeing a number of new developments mirroring other changes in the technological, political and economic landscape. Lottery involvement with gaming on the internet (or "Igaming") continues to be an area of ongoing interest within lotteries, particularly in North America. A rapidly evolving regulatory environment, coupled with pressures on lotteries to generate greater funds, has resulted in a number of lotteries actively working on gaming products delivered through this media. Frequent players clubs, second chance drawings, interactive games and other products are examples of offerings being marketed by lotteries. Similarly there has been an increase in lotteries, again particularly in the U.S., looking to outsource more of their activities, including the overall management of the lottery operation. The model of increased roles for the private sector has been successfully used in lotteries around the world for many years and we expect this trend to continue. Increased private sector involvement (often referred to as “privatization”) provides opportunities for Pollard to expand our role in our customer’s operations and increase our revenue base.

While these developments are relatively new, we will continue to monitor and develop unique products that will allow us to take advantage of these new opportunities to partner with lotteries in their pursuit of maximizing their ability to generate funds for good causes.

2013 will be the third year of our Change Initiatives, a formal management process used to both improve our cost structure and grow our volumes. The success achieved under this program has been a key factor in our improved operating and financial results and will continue to be front and center in 2013.

We are focused on improving the strength of our balance sheet through utilizing our free cash flow to pay down our debt, allowing increased flexibility for future investment in business opportunities and expansion capital expenditures.

Pollard Banknote believes that its credit facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at existing business levels.

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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