POLLARD banknote limited

News Release

POLLARD BANKNOTE ANNOUNCES 3RD QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, November 14, 2016 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months ended September 30, 2016, with strong revenue and higher levels of net income and EBITDA compared to the third quarter of 2015.

"Traditionally our third quarter has generated solid financial results and the third quarter for 2016 continued this trend," commented John Pollard, Co-Chief Executive Officer. "Our instant ticket sales volumes were greater than last year and combined with higher sales of our ancillary lottery products and services, produced near record revenue levels. Significant sales of our specialty products, particularly our Scratch FX® premium instant tickets, and ongoing growth in iLottery helped lead the way."

"We continue to work on improving our efficiencies, particularly relating to our new press in Ypsilanti, Michigan. Improvements have been made in attaining greater production capacity and we are seeing positive trends in our press efficiencies including reduced spoilage. There remains significant progress to be achieved, however, and we are working diligently to maximize the press capabilities and reduce our production costs."

"During the quarter we generated significant operating cash flow which was in turn re-invested in the business through expanding our investment in working capital. Our investment in receivables and finished goods inventory increased significantly during the quarter as a result of our increasing volumes."

"The results of the third quarter highlight the importance of our specialty, value added products which assist lotteries to maximize their results," added Doug Pollard, Co-Chief Executive Officer. "We are focused on being an innovative company and this is reflected in the strong sales of our unique, patented products during this past quarter. Customer feedback at such recent events as the North American State and Provincial Lottery (NASPL) conference has been overwhelmingly positive and is reflected in our revenue increase during 2016."

"New contracts with the South Dakota Lottery (instant tickets), the Iowa Lottery (pull-tab vending machines) and an extension of our instant ticket supply contract with the Massachusetts Lottery have all been recently finalized. We are honoured to partner with these lotteries moving forward which will allow us to continue to grow, while at the same time assisting them in maximizing their returns for good causes."

"Recently we hosted our very first "digital only" lottery focused client conference and were delighted with the number of attendees and the extent of digital knowledge present among the participants. While our mantra is "never fall out of love with our core printed instant ticket products", the opportunities to employ interactive digital products along with our printed tickets to grow total lottery sales are very significant. Pollard will continue to be on the forefront of new initiatives in this space through ongoing commitment of dedicated resources."

"We are pleased with the financial results of this past quarter and we are very pleased with the foundation we have established," concluded John Pollard. "We believe our organization is well suited to build on all of our recent investments and continue to serve the lottery industry in generating funds for good causes. We look forward to the future with confidence as the industry leader in providing innovative, quality products and services to lotteries and charitable gaming organizations around the world."

HIGHLIGHTS

	3rd Quarter ended September 30, 2016	3rd Quarter ended September 30, 2015
Sales	$ 62.7 million	$ 57.9 million
Gross profit	$ 12.6 million	$ 11.9 million
Gross profit % of sales	*20.1%*	*20.6%*
Administration expenses	$ 5.5 million	$ 5.0 million
Selling expenses	$ 2.1 million	$ 2.0 million
Net income	$ 2.8 million	$ 1.9 million
Adjusted EBITDA	$ 7.8 million	$ 7.5 million
Adjusted EBITDA excluding realized foreign exchange gain	$ 7.7 million	$ 7.0 million

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Sales	$ 180.7 million	$ 163.8 million
Gross profit	$ 34.9 million	$ 32.7 million
Gross profit % of sales	*19.3 %*	*20.0%*
Administration expenses	$ 15.9 million	$ 13.5 million
Selling expenses	$ 5.8 million	$ 5.4 million
Net income	$ 8.5 million	$ 6.2 million
Adjusted EBITDA	$ 20.6 million	$ 20.5 million
Adjusted EBITDA excluding realized foreign exchange (loss) gain	$ 21.9 million	$ 20.0 million

POLLARD BANKNOTE LIMITED

Pollard is one of the leading providers of products and services to the 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.

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended September 30, 2016**	**Three months ended September 30, 2015**	**Nine months ended September 30, 2016**	**Nine months ended September 30, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$62.7	$57.9	$180.7	$163.8
Cost of sales	50.1	46.0	145.8	131.1
Gross profit	12.6	11.9	34.9	32.7
Administration expenses	5.5	5.0	15.9	13.5
Selling expenses	2.1	2.0	5.8	5.4
Other income	-	(0.2)	(0.4)	(0.4)
Income from operations	5.0	5.1	13.6	14.2
Finance costs	1.0	1.9	3.2	4.5
Finance income	-	-	(1.1)	(0.5)
Income before income taxes	4.0	3.2	11.5	10.2
Income taxes:				
Current	1.3	1.6	3.9	3.9
Deferred (recovery)	(0.1)	(0.3)	(0.9)	0.1
	1.2	1.3	3.0	4.0
Net income	$2.8	$1.9	$8.5	$6.2
Adjustments:				
Amortization and depreciation	2.8	2.0	8.5	6.0
Interest	0.9	0.8	2.6	2.1
Mark-to-market gain on foreign currency contracts	-	-	-	(0.5)
Unrealized foreign exchange (gain) loss	0.1	1.5	(2.0)	2.7
Income taxes	1.2	1.3	3.0	4.0
Adjusted EBITDA	$7.8	$7.5	$20.6	$20.5
Realized foreign exchange (loss) gain	0.1	0.5	(1.3)	0.5
Adjusted EBITDA excluding realized foreign exchange (loss) gain	$7.7	$7.0	$21.9	$20.0

	September 30, 2016	December 31, 2015
Total Assets	$173.9	$164.1
Total Non-Current Liabilities	$96.0	$96.3

The previous 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 and nine months ended September 30, 2016. These financial statements have been prepared in accordance with International Financial Accounting Standards ("IFRS" or "GAAP").

Results of Operations – Three months ended September 30, 2016

During the three months ended September 30, 2016, Pollard achieved sales of $62.7 million, compared to $57.9 million in the three months ended September 30, 2015. Factors impacting the $4.8 million sales increase were:

- Instant ticket volumes for the third quarter of 2016 were higher than the third quarter of 2015 which increased sales by $1.9 million. Sales of ancillary lottery products and services were higher in 2016, improving sales by $1.6 million due primarily to better iLottery sales. In addition, the instant ticket average selling price was higher than in 2015 which increased sales by $0.3 million. The higher charitable gaming volumes during the quarter increased sales by $0.4 million when compared to 2015, while an improved average selling price increased sales by $0.2 million when compared to the third quarter of 2015.

- During the three months ended September 30, 2016, Pollard generated approximately 67.3% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2016 the actual U.S. dollar value was converted to Canadian dollars at $1.303, compared to a rate of $1.295 during the third quarter of 2015. This 0.6% increase in the U.S. dollar value resulted in an approximate increase of $0.3 million in revenue relative to the third quarter of 2015. Also during the quarter, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.1 million in revenue relative to the third quarter of 2015.

Cost of sales was $50.1 million in the third quarter of 2016 compared to $46.0 million in the third quarter of 2015. Cost of sales were higher in the quarter relative to 2015 as a result of increased instant ticket volumes, increased ancillary lottery products and services sales, higher amortization and higher exchange rates on U.S. dollar transactions.

Gross profit was $12.6 million (20.1% of sales) in the third quarter of 2016 compared to $11.9 million (20.6% of sales) in the third quarter of 2015. This increase in gross profit was due primarily to the increase in sales of instant ticket and ancillary lottery products and services. The lower gross profit percentage was due to the impact of higher amortization, primarily relating to the new press, and additional production costs related to the ramp up of the new press.

Administration expenses increased to $5.5 million in the third quarter of 2016 compared to $5.0 million in the third quarter of 2015 primarily as a result of increased compensation expenses, which primarily related to expansion of our lottery management system and ancillary lottery product sales.

Selling expenses of $2.1 million in the third quarter of 2016 were similar to $2.0 million in the third quarter of 2015.

Interest expense of $0.9 million in the third quarter of 2016 was similar to $0.8 million in the third quarter of 2015.

The net foreign exchange impact was nil in the third quarter of 2016 compared to a net loss was $1.0 million in the third quarter of 2015. The 2016 net foreign exchange impact consisted of an unrealized foreign exchange loss of $0.1 million primarily as a result of the increased Canadian equivalent value of U.S. denominated debt due to the weakening of the Canadian dollar relative to the U.S. dollar. This loss was offset by a realized foreign exchange gain of $0.1 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at favorable foreign exchange rates.

The 2015 net foreign exchange loss consisted of an unrealized foreign exchange loss of $1.5 million primarily as a result of the increased Canadian equivalent value of U.S. denominated debt due to the weakening of the Canadian dollar relative to the U.S. dollar. This loss was partially offset by a realized foreign exchange gain of $0.5 million, predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at favorable foreign exchange rates.

Adjusted EBITDA was $7.8 million in the third quarter of 2016 compared to $7.5 million in the third quarter of 2015. The primary reason for the increase in Adjusted EBITDA of $0.3 million was the increase in gross profit (net of amortization and depreciation) of $1.5 million. Partially offsetting the increase was the increase in administration expenses of $0.5 million, the decrease in realized foreign exchange gain of $0.4 million and the decrease in other income of $0.2 million.

Income tax expense was $1.2 million in the third quarter of 2016, an effective rate of 28.5%, which was similar to our expected effective rate of 27.0%.

Income tax expense was $1.3 million in the third quarter of 2015, an effective rate of 41.8%, which was higher than our expected effective rate of 26.7% 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 weakening of the Canadian dollar versus the U.S. dollar 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).

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled $2.8 million during the third quarter of 2016 which increased from $2.0 million during the third quarter of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press in our Ypsilanti facility.

Net income was $2.8 million in the third quarter of 2016 compared to a net income of $1.9 million in the third quarter of 2015. The primary reasons for the $0.9 million increase were an increase in gross profit of $0.7 million and the decrease in the net foreign exchange loss of $1.0 million. These increases were partially offset by an increase of $0.5 million in administration expenses and the decrease in other income of $0.2 million.

Net income per share (basic and diluted) increased to $0.12 per share in the third quarter of 2016 from $0.08 in the third quarter of 2015.

Results of Operations – Nine months ended September 30, 2016

During the nine months ended September 30, 2016, Pollard achieved sales of $180.7 million, compared to $163.8 million in the nine months ended September 30, 2015. Factors impacting the $16.9 million sales increase were:

- Higher instant ticket average selling price increased sales by $5.5 million in the first nine months of 2016 compared to the first nine months of 2015. Also higher sales of our ancillary lottery products and services increased sales by $4.6 million from the first nine months of 2015 due primarily to increased sales from iLottery. Charitable gaming volumes were higher in the first nine months of 2016 which increased sales by $1.1 million. An increase in the charitable gaming average selling price increased sales by $0.7 million when compared to the first nine months of 2015. Partially offsetting these increases, lower instant ticket sales volumes decreased sales by $3.1 million when compared to 2015.

- During the nine months ended September 30, 2016, Pollard generated approximately 69.0% of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first nine months of 2016 the actual U.S. dollar value was converted to Canadian dollars at $1.327, compared to a rate of $1.248 during the first nine months of 2015. This 6.3% increase in the U.S. dollar value resulted in an approximate increase of $7.4 million in revenue relative to the first nine months of 2015. In addition, during the nine months ended September 30, 2016, the strengthening of the Euro against the Canadian dollar resulted in an approximate increase of $0.7 million in revenue relative to the first nine months of 2015.

Cost of sales was $145.8 million in the nine months ended September 30, 2016, compared to $131.1 million in the nine months ended September 30, 2015. Cost of sales was higher in the first nine months of 2016 relative to 2015 as a result of higher amortization, increased ancillary lottery products and services sales and higher exchange rates on U.S. dollar transactions.

Gross profit increased to $34.9 million (19.3% of sales) in the first nine months of 2016 from $32.7 million (20.0% of sales) in the first nine months of 2015. This increase in gross profit was due primarily to the increase in ancillary lottery products and services sales and the positive impact from higher exchange rates on net U.S. dollar transactions. The lower gross profit percentage was due to the impact of higher amortization and additional production costs related to the ramp up of the new press.

Administration expenses increased to $15.9 million in the first nine months of 2016 from $13.5 million in the first nine months of 2015 due primarily to higher professional fees, increased compensation expenses (which primarily related to expansion of our lottery management system and ancillary lottery product and services sales) and the increased Canadian dollar equivalent of U.S. dollar denominated expenses.

Selling expenses increased to $5.8 million in the first nine months of 2016 compared to $5.4 million in the first nine months of 2015 due primarily to higher compensation expense in our charitable gaming division to support increased sales and the increased Canadian dollar equivalent of U.S. dollar denominated expenses.

Interest expense increased to $2.6 million in the first nine months of 2016 from $2.1 million in the first nine months of 2015 primarily as a result of no longer capitalizing borrowing costs related to the new press project.

The net foreign exchange gain was $0.7 million in the first nine months of 2016 compared to a loss of $2.2 million in the first nine months of 2015. The 2016 net foreign exchange gain consisted of an unrealized foreign exchange gain of $2.0 million primarily as a result of the decreased Canadian equivalent value of U.S. denominated debt and accounts payable 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 $1.3 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2015 net foreign exchange loss consists of an unrealized foreign exchange loss of $2.7 million primarily as 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 $0.5 million, as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at favorable foreign exchange rates.

Adjusted EBITDA was $20.6 million in the first nine months of 2016 compared to $20.5 million in the first nine months of 2015. The primary reason for the increase in Adjusted EBITDA of $0.1 million was the increase in gross profit (net of amortization and depreciation) of $4.7 million. Partially offsetting the increase was the increase in administration expenses of $2.4 million, the increase in realized foreign exchange loss of $1.8 million and the increase in selling expenses of $0.4 million.

Income tax expense was $3.0 million in the first nine months of 2016, an effective rate of 26.0%, which was similar to our expected effective rate of 27.0%.

Income tax expense was $4.0 million in the first nine months of 2015, an effective rate of 39.0%, which was higher than our expected effective rate of 26.7% 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 weakening of the Canadian dollar versus the U.S. dollar 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).

Amortization and depreciation, including amortization of deferred financing costs and intangible assets, and depreciation of property and equipment, totaled $8.5 million during the first nine months of 2016 which increased from $6.0 million during the first nine months of 2015 primarily as a result of increased depreciation of property, plant and equipment due to the commissioning of the new press in our Ypsilanti facility.

Net income was $8.5 million in the first nine months of 2016 compared to $6.2 million in the first nine months of 2015. The primary reasons for the higher net income of $2.3 million were the $2.2 million increase in gross profit, the $2.9 million additional foreign exchange gains and the decrease in income tax expense of $1.0 million. These increases were partially offset by higher administration expenses of $2.4 million, higher selling expenses of $0.4 million and increased interest expense of $0.5 million, as well as the reduction in the gain on the non-cash mark-to-market adjustment on foreign currency contracts of $0.5 million.

Net income per share (basic and diluted) increased to $0.36 per share in the nine months ended September 30, 2016, from $0.26 in the first nine months of 2015.

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. 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 lottery market, and specifically the market for instant tickets, continues to be robust, with numerous lotteries recently announcing record sales and proceeds for good causes for their most recent fiscal years. Consumer demand for instant lottery tickets remains strong and is expected to remain a growth product for lotteries.

Lotteries continue to look to expand their operations including related activities to increase their customer engagement. Using technology to connect with their customers through social media, interactive apps and loyalty programs are increasingly important to help drive growth in both the instant ticket and draw games product lines. Opportunities for Pollard to provide expertise in this space will increase as lotteries expand their focus in these areas. Other programs supporting lotteries, including technology infrastructure, distribution services and warehousing, retail support, CRM and promotional and licensed games, continue to be important and represent opportunities to expand our footprint with lotteries.

iLottery continues to be a much talked about opportunity throughout the lottery world, particularly in the United States. State lotteries continue to be cautious in their approach however, and we do not anticipate a significant number of request for proposal prospects in the short term. In the longer term we believe lotteries will ultimately avail themselves of this additional sales channel in order to achieve their mandates. Our Michigan iLottery joint venture continues to perform very well and our second iLottery installation just went live in Virginia this month. We continue to monitor the environment and educate the lottery industry on the benefits of iLottery in order to position ourselves as a top of mind resource for iLottery implementation and operation.

Work on improving the efficiencies and integration of our new press continues and while significant progress has been achieved, the process is ongoing and incremental in nature. Objectives in spoilage reduction, operating cost enhancements, improved scheduling and achieving lower per-unit fixed costs through increasing production volumes have been identified. As our operator experience increases, we expect our cost structure to improve. We believe these improvements will be realized throughout the remainder of 2016 and 2017.

Our existing contract portfolio provides a solid foundation supporting our current level of volumes and we are focused on strategically bidding on new contract opportunities as they come due. Our only major existing contract that expires in the next year is our contract with the Michigan Lottery (which expires December 31, 2016) and we are confident of maintaining our strong relationship with the lottery in the future.

Timing of individual orders and the related revenue can vary quarter to quarter and as noted our third quarter tends to have slightly higher revenue as lotteries order higher value specialty work in the pre-holiday period. Fourth quarter volumes and product mix may generate slightly lower revenue streams as the level of higher value specialty products returns to more normal levels. Similarly the first half of the year generally will reflect a more balanced mix of products with selling prices more consistent with our long term averages and we would expect that trend to continue in 2017. The exact timing of revenue recognition can also be impacted between quarters based on the timing of receipt of the product by our customers.

During the third quarter, the Canadian dollar remained relatively stable against the U.S. dollar. As a result, the impact on our financial statements in the third quarter from foreign exchange gains and losses was very small. In the future, fluctuations in this relationship can impact the short term financial results including the operating cash flow and creating gains/losses on our monetary assets and liabilities on our balance sheet. We maintain a significant array of internal hedges to offset our net exposure to the U.S. dollar and do not anticipate utilizing any financial hedges in the near future. We also maintain a small net exposure to the Euro, therefore major fluctuations in this currency will also impact our financial results.

American Games, our charitable gaming division, continues to generate solid returns in the market for pull-tab tickets, bingo paper and vending machines. We expect the market for these products, and American Games financial results, to remain stable.

We anticipate having to initiate additional special pension plan payments likely in the later part of 2017 in the range of between $2.4 million to $3.0 million annually, as a result of historically low mandated discount rates. These payments will not have any direct impact on our net income or EBITDA and will be funded through our existing organic cash flow. Our budgeted capital expenditures for the remainder of 2016 and expected levels of capital expenditures in 2017 should remain at similar levels as experienced in the first three quarters of 2016. Assuming no additional significant investments in non-cash working capital, strong positive cash flow is still expected going forward notwithstanding our ongoing pension and capital expenditure obligations.

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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