POLLARD banknote limited

News Release

POLLARD BANKNOTE
ANNOUNCES STRONG FOURTH QUARTER AND ANNUAL FINANCIAL RESULTS

WINNIPEG, Manitoba, March 5, 2014 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2013.

"We are very pleased with our financial results for both the 4th quarter and for all of 2013," commented Co-Chief Executive Officer John Pollard. "The final quarter of the year continued the trend of strong sales volumes and revenue that we have experienced throughout the year."

"We recorded record sales volumes for 2013 and significant increases in our licensed games product line. Our sales volumes were up approximately 8% and our average selling prices were consistent with 2012. Sales of our licensed games products were up significantly and sales of our digital applications, while small in absolute value, began gaining traction in 2013."

"Our revenue increased by $22.5 million, or 13%, a tremendous accomplishment reflective of our strong team of employees and our unique approach to the industry. It also reflects a recognition in the marketplace of the ability of Pollard to assist lotteries in maximizing funds they can generate for their various good causes. We gained a number of key new contracts in 2013 and continue to see success in this area in 2014. More importantly we have seen a number of situations of increased share of work for Pollard with lotteries which have multiple suppliers. All of these factors look to continue into 2014."

"Throughout 2013 we made a number of investments and upgrades to our business, particularly in adding key staff resources in the marketing and technical areas, in order to lay the foundation to grow our business. The impact of these investments in the short term has been to limit the growth of margins relative to the growth in our revenue line. However, we are confident that these investments will allow us to generate increasing margins and profits in the future."

"The instant ticket industry remains very strong. Lotteries continue to grow their traditional paper based instant ticket products lines while at the same time quickly developing opportunities to provide their gaming products on the internet. We are very excited about our new contract to provide the iLottery internet based product offering for the Michigan Lottery and are looking forward to expanding this product line."

"We continue to be very optimistic looking ahead to 2014, both for the opportunities developing within our industry, and our ability to take advantage of these opportunities to grow the business and profitability of Pollard."

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.

HIGHLIGHTS	Three months ended December 31, 2013	Three months ended December 31, 2012 (Restated)
Sales	$ 47.6 million	$ 40.9 million
Gross profit	$ 9.2 million	$ 8.3 million
Gross profit % of sales	*19.3 %*	*20.3 %*
Administration expenses	$ 4.2 million	$ 3.5 million
Selling expenses	$ 1.7 million	$ 1.6 million
Realized foreign exchange gain	$ (0.2 million)	$ (0.2 million)
Net income	$ 0.9 million	$ 1.3 million
Adjusted EBITDA	$ 6.3 million	$ 5.4 million

	Year ended December 30, 2013	Year ended December 31, 2012 (Restated)
Sales	$ 184.9 million	$ 162.4 million
Gross profit	$ 35.2 million	$ 32.7 million
Gross profit % of sales	*19.0 %*	*20.1 %*
Administration expenses	$ 15.2 million	$ 13.6 million
Selling expenses	$ 6.8 million	$ 6.1 million
Realized foreign exchange loss (gain)	$ (0.9 million)	$ 0.3 million
Net income	$ 5.4 million	$ 6.5 million
Adjusted EBITDA	$ 22.7 million	$ 19.9 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, 2013

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Year ended December 31, 2013**	**Year ended December 31, 2012 (Restated)**
Sales	$184.9	$162.4
Cost of sales	149.7	129.7
Gross profit	35.2	32.7
Administration expenses	15.2	13.6
Selling expenses	6.8	6.1
Other income	(0.3)	-
Income from operations	13.5	13.0
Finance costs *	4.7	4.8
Finance income	(0.5)	(0.6)
Income before income taxes	9.3	8.8
Income taxes:		
Current	2.2	1.1
Future	1.7	1.2
	3.9	2.3
Net income	$5.4	$6.5
Adjustments:		
Amortization and depreciation	8.6	7.8
Interest	3.4	3.4
Unrealized foreign exchange loss (gain)	1.0	(0.1)
Mark-to-market loss on foreign currency contracts	0.4	-
Income taxes	3.9	2.3
Adjusted EBITDA	$22.7	$19.9

* Included in finance costs for 2013 was a non-cash mark-to-market loss on foreign currency contracts of $0.4 million (2012 – nil).

See page 5 for restatement.

	December 31, 2013	December 31, 2012
Total Assets	$133.4	$127.0
Total Non-Current Liabilities	$79.2	$83.4

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, 2013. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

RESTATEMENT:

In June 2011, the International Accounting Standards Board ("IASB") published an amended version of International Accounting Standard ("IAS") 19 *Employee Benefits*. The amendments require actuarial gains and losses, renamed remeasurements, to be recognized immediately in other comprehensive income and past service cost must be recognized immediately in profit or loss. This amendment also requires that the expected return on plan assets recognized in profit or loss be calculated based on the rate used to discount the defined benefit obligation. IAS 19 is required for fiscal years beginning on or after January 1, 2013, with retrospective application.

As a result the reported results for the year ended December 31, 2012, have been restated and cost of sales increased $0.19 million and deferred income taxes decreased by $0.05 million. This was offset by corresponding defined pension plan remeasurement gain of $0.14 million, net of $0.05 million of related income taxes, both of which were recorded within other comprehensive income.

Results of Operations – Year ended December 31, 2013

Sales

During the year ended December 31, 2013 ("Fiscal 2013" or "2013"), Pollard achieved sales of $184.9 million, compared to $162.4 million in the year ended December 31, 2012 ("Fiscal 2012" or "2012"). Factors impacting the $22.5 million sales increase were:

Instant ticket sales volumes for Fiscal 2013 were significantly higher than Fiscal 2012 by 8.3% which increased sales by $11.6 million. An increase in our ancillary instant ticket products and services, primarily licensed games, further increased sales by $4.1 million. In addition, higher average selling prices compared to 2012 improved sales by $1.3 million. Charitable Gaming average selling prices were slightly higher compared to 2012, increasing sales by $0.2 million and greater volume further increased sales by $0.8 million. An increase in the volume of machine sales raised sales $0.6 million when compared to 2012.

During Fiscal 2013, Pollard generated approximately 64.9% (2012 – 66.9%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2013 the actual U.S. dollar value was converted to Canadian dollars at $1.028 compared to a rate of $1.003 during Fiscal 2012. This 2.5% increase in the U.S. dollar value resulted in an approximate increase of $2.9 million in revenue relative to Fiscal 2012. Also during Fiscal 2013, the Canadian dollar weakened against the Euro resulting in an approximate increase of $1.0 million relative to Fiscal 2012.

Cost of sales and gross profit

Cost of sales was $149.7 million in Fiscal 2013 compared to $129.7 million in Fiscal 2012. Cost of sales was higher in Fiscal 2013 relative to Fiscal 2012 primarily as a result of increased sales volumes. In addition, higher exchange rates on U.S. dollar transactions in 2013 increased cost of sales approximately $2.0 million when compared to Fiscal 2012.

Gross profit was $35.2 million (19.0% of sales) in Fiscal 2013 compared to $32.7 million (20.1% of sales) in Fiscal 2012. This absolute increase in gross profit dollars was due mainly to the higher instant ticket and licensed games sales volumes. The reduction in gross profit percentage occurred as a result of lower instant ticket production volumes relative to sales in Fiscal 2013, higher employee benefit costs, primarily pension expense, and increased machine costs.

Administration expenses

Administration expenses increased to $15.2 million in Fiscal 2013 from $13.6 million in Fiscal 2012 due primarily to increased compensation costs, including incentive accruals, as well as higher professional fees.

Selling expenses

Selling expenses increased to $6.8 million in Fiscal 2013 from $6.1 million in Fiscal 2012 primarily as a result of increased compensation expenses, including incentive accruals, to support new marketing opportunities including digital and iLottery initiatives.

Interest expense

Interest expense was $3.4 million in Fiscal 2013 which was similar to $3.4 million in Fiscal 2012.

Foreign exchange loss

The net foreign exchange loss was $0.1 million in Fiscal 2013 compared to a net loss of $0.2 million in Fiscal 2012. Within the 2013 net foreign exchange loss were realized foreign exchange gains of $0.9 million comprised of $1.0 million realized gain on the increased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars, partially offset by $0.1 million of realized loss relating to payments made on U.S. dollar denominated payables. Offsetting the realized foreign exchange gains were unrealized foreign exchange losses of $1.0 million comprised of an unrealized foreign exchange loss of $0.9 million on U.S. dollar denominated debt and $0.1 million unrealized foreign exchange loss on net U.S. denominated receivables and payables.

Within the 2012 net foreign exchange loss were 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 were 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.

Adjusted EBITDA

Adjusted EBITDA was $22.7 million in Fiscal 2013 compared to $19.9 million in Fiscal 2012. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of $3.3 million and the higher realized foreign exchange gains of $1.2 million. Partially offsetting these increases in Adjusted EBITDA were the increase in administration and selling expenses of $1.6 million and $0.7 million respectively.

Income taxes

Income tax expense was $3.9 million in Fiscal 2013, an effective rate of 41.8%, due primarily to differences relating to the foreign exchange impact of Canadian dollar denominated debt in its U.S. subsidiaries. Pollard has capitalized its U.S. operations using intercompany Canadian dollar debt. The 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). This increased the consolidated provision percentage by about 9%. Other permanent differences relating to the foreign exchange translation of property, plant and equipment increased the provision by approximately 3%.

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

Amortization and depreciation

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $8.6 million during Fiscal 2013 which increased from $7.8 million during Fiscal 2012 due to increased depreciation of property, plant and equipment as well as additional amortization of development costs and license fees.

Net income

Net income was $5.4 million in Fiscal 2013 compared to net income of $6.5 million in Fiscal 2012. The primary reasons for the decrease were the increase in income tax expense of $1.6 million, the increase in administration and selling expenses of $1.6 million and $0.7 million respectively and the $0.4 million of non-cash mark-to-market loss on foreign currency contracts. Partially offsetting these reductions to net income were the increase in gross profit of $2.5 million, a reduction in deferred financing costs of $0.3 million and an increase in other income of $0.3 million.

Earnings per share decreased to $0.23 per share in Fiscal 2013 from $0.28 in Fiscal 2012.

Results of Operations – Three months ended December 31, 2013

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended December 31, 2013**	**Three months Ended December 31, 2012 (Restated)**
	(unaudited)	(unaudited)
Sales	$47.6	$40.9
Cost of sales	38.4	32.6
Gross profit	9.2	8.3
Administration	4.2	3.5
Selling	1.7	1.6
Other (income) expense	(0.2)	0.1
Income from operations	3.5	3.1
Finance costs *	1.6	1.3
Income before income taxes	1.9	1.8
Income taxes:		
Current	0.5	0.1
Future	0.5	0.4
	1.0	0.5
Net income	$0.9	$1.3
Adjustments:		
Amortization and depreciation	2.7	2.2
Interest	0.8	0.9
Unrealized foreign exchange loss	0.5	0.5
Mark-to-market loss on foreign currency contracts	0.4	-
Income taxes	1.0	0.5
Adjusted EBITDA	$6.3	$5.4

* Included in finance costs for 2013 was a non-cash mark-to-market loss on foreign currency contracts of $0.4 million (2012 – nil).

See page 5 for restatement.

Results of Operations – Three months ended December 31, 2013

During the three months ended December 31, 2013, Pollard achieved sales of $47.6 million, compared to $40.9 million in the three months ended December 31, 2012. Factors impacting the $6.7 million sales increase were:

Instant ticket sales volumes for the fourth quarter of 2013 were higher than the fourth quarter of 2012 by 5.7%, which combined with an increase in our ancillary instant ticket products and services, primarily licensed games and lottery management services, improved sales by $3.1 million. In addition, an increase in average selling price of instant tickets compared to 2012 increased sales by $1.3 million. Higher charitable gaming volumes for the quarter increased sales compared to 2012 by $0.3 million. As well, machine volumes increased slightly in the fourth quarter of 2013 compared to final quarter of 2012, which increased sales by $0.1 million.

During the three months ended December 31, 2013, Pollard generated approximately 59.8% (2012 – 65.0%) 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 2013 the actual U.S. dollar value was converted to Canadian dollars at $1.047, compared to the rate of $0.997 during the fourth quarter of 2012. This 5.1% increase in the value of the U.S. dollar value resulted in an approximate increase of $1.4 million in revenue relative to 2012. Also during the quarter, the value of the Canadian dollar weakened against the Euro, compared to the fourth quarter of 2012, resulting in an approximate increase of $0.5 million in revenue.

Cost of sales was $38.4 million in the fourth quarter of 2013 compared to $32.6 million in the fourth quarter of 2012. Cost of sales was higher in the quarter relative to the fourth quarter of 2012 primarily as a result of increased sales volumes. In addition, higher exchange rates on U.S. dollar transactions in the fourth quarter of 2013 increased cost of sales approximately $1.1 million when compared to fourth quarter of 2012.

Gross profit was $9.2 million (19.3% of sales) in the fourth quarter of 2013 compared to $8.3 million (20.3% of sales) in the fourth quarter of 2012. This absolute increase in gross profit dollars was due mainly to the higher instant ticket and licensed games sales volumes. The reduction in gross profit percentage occurred as a result of lower instant ticket production volumes relative to sales in fourth quarter of 2013 as compared to 2012, higher employee benefit costs, primarily pension expense, and increased machine costs.

Administration expenses were $4.2 million in the fourth quarter of 2013 which was higher compared to $3.5 million in the fourth quarter of 2012 due primarily to increased compensation costs, including incentive accruals, as well as increased professional fees.

Selling expense was $1.7 million in the fourth quarter of 2013 which was similar to $1.6 million in the fourth quarter of 2012.

Interest expense was $0.8 million in the fourth quarter of 2013 which was similar to $0.9 million in the fourth quarter of 2012.

The net foreign exchange loss was $0.3 million in the fourth quarter of 2013 compared to a net loss of $0.3 million in the fourth quarter of 2012. Within the 2013 fourth quarter net foreign exchange loss was an unrealized foreign exchange loss of $0.5 million consisting of $0.4 million relating to unrealized foreign exchange loss on U.S. dollar denominated debt and $0.1 million relating to the unrealized foreign exchange loss on net U.S. dollar denominated receivables and payables. Partially offsetting the unrealized foreign exchange loss was a $0.2 million realized foreign exchange gain on the increased value of U.S. and Euro denominated receivables.

Within the 2012 fourth quarter the net foreign exchange loss was an unrealized foreign exchange loss of $0.5 million consisting of $0.2 million relating to unrealized foreign exchange loss on U.S. dollar denominated debt and $0.3 million relating to the unrealized foreign exchange loss on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized foreign exchange loss was $0.2 million realized foreign exchange gain on the increased value of Euro denominated receivables.

Adjusted EBITDA was $6.3 million in the fourth quarter of 2013 compared to $5.4 million in the fourth quarter of 2012. The primary reasons for the increase in Adjusted EBITDA were the increase in gross profit (net of amortization and depreciation) of $1.4 million and a $0.3 million increase in other income, partially offset by higher administration expenses of $0.7 million.

Income tax expense was $1.0 million in the fourth quarter of 2013, an effective rate of 52.6%, 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 16%. Other increases were due to permanent differences relating to the translation of the company's U.S. subsidiaries.

Income tax expense was $0.5 million in the fourth quarter of 2012, an effective rate of 27.8%, similar to the expected domestic tax rate.

Amortization and depreciation, including depreciation of property, plant and equipment and the amortization of deferred financing costs and intangible assets, totaled $2.7 million during the fourth quarter of 2013 which increased from $2.2 million during the fourth quarter of 2012 as a result of increased amortization of development costs and license fees in 2013.

Net income was $0.9 million in the fourth quarter of 2013 compared to $1.3 million in the fourth quarter of 2012. The primary reasons for the decrease were the increase in administration expenses of $0.7 million, the increase in income tax expense of $0.5 million and the $0.4 million of non-cash mark-to-market loss on foreign currency contracts. Partially offsetting these reductions to net income were the increase in gross profit of $0.9 million and an increase in other income of $0.3 million.

Earnings per share decreased to $0.04 per share in the fourth quarter of 2013 from $0.06 in the fourth quarter of 2012.

Outlook

The lottery industry overall, and in particular the instant ticket product line, continues to have a very positive outlook. Retail sales growth continues to be very strong across many jurisdictions and this trend is expected to carry on. Governments are looking for ways to increase and maximize the money they generate for their good causes. As lotteries look for more ways to increase returns, this creates opportunities for suppliers like Pollard to provide solutions to those needs. Unique and proprietary instant tickets, better marketing strategies, extensive retail support, internet support and promotional ideas are examples of ways lotteries are looking to their suppliers to add value to the instant ticket product line and these opportunities will increase in the future.

In terms of new opportunities, the recent development of selling lottery products on the internet is potentially significant. Prior to 2013, a few lotteries had begun sales via this distribution method and the number of lotteries initiating internet sales is expected to grow in 2014 and beyond. With the recent award of the Michigan Lottery iLottery contract to us, Pollard is well positioned to capitalize on these opportunities. While internet distribution is an exciting new opportunity, in the near term the strong growth in the traditional paper based instant tickets will continue to drive the success of the business.

We are projecting slightly higher volumes for 2014 based on our current expectations of customer order requirements and ongoing growth in retail sales. We are also anticipating higher sales in ancillary product areas including licensed games and in particular greater sales in our digital product line including individual game apps and other internet support. While still small in absolute terms, the digital area is a rapidly growing opportunity for Pollard. Sales of our premium and proprietary products are continuing to maintain the strong growth achieved in 2013. These premium products generate a positive impact on average selling prices and margins and this will continue in 2014.

Our contract portfolio reflects the success of a number of key new contract wins and important extensions over the course of 2013. The weakening of the Canadian dollar during 2013 and the early part of 2014 in addition to generating higher returns from our net cashflow, also allows us to be more competitive in our bidding. Ongoing Canadian dollar weakness would have a positive impact on our operating results in 2014. We have no material customer contracts that come due in 2014 (when extensions are considered) and will continue to aggressively pursue requests for proposals and other opportunities within the lottery industry as they come up for bid.

Our manufacturing operations are continuing on our Change Initiative plan to improve our efficiencies and lower our per-unit costs. 2014 will focus on a number of key areas, including improved finishing practices and new integrated information systems.

Charitable gaming generated strong results again in 2013 and we have identified some incremental geographic areas and ancillary product lines that should result in an opportunity to grow the top line in a market where overall sales remain challenged. In addition, select investments in newer technology during 2014 will allow our ongoing cost improvement initiative to continue.

Budgeted capital expenditures for 2014 are expected to be similar to the levels of expenditures incurred in 2013.

Pollard believes our ongoing cash flow from operations and our current bank facility capacity 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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