

# POLLARD

banknote limited



## INVESTOR PRESENTATION

*November 17, 2015*

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Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, depreciation and amortization, unrealized foreign exchange gains and losses, market-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including start up costs, conversion expenses, warranty reserve accruals, settlement loss on pension curtailment and restructuring costs. Adjusted EBITDA is a metric used by many investors to compare issuers on the basis of the ability to generate cash from operations. Management believes that, in addition to Net Income, Adjusted EBITDA is a useful supplementary measures.

Adjusted EBITDA, is a measure not recognized under GAAP and does not have standardized meanings 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 Banknote Limited’s performance or to cash flows from operating, investing, and financing activities as measures of liquidity and cash flows.



# Today's Agenda

- Overview
- Business of Pollard
- State of the Industry
- Competitors
- Growth Strategies
- Financial Update – 9 months 2015
- Expectations for 2016





# Pollard Banknote Overview

## Company Overview

- Founded in 1907
- 100% focus on the Lottery market for the last 25 years
- Publicly traded for 10 years
- Pollard family 73% ownership
- Over 1,150 employees

## Product Overview

- 2<sup>nd</sup> largest instant ticket provider in the world
- Over 12 billion tickets produced annually
- Growing presence in iLottery
- Leading presence in charitable gaming market
- Commitment to innovation

## Our Operations



Locations



# Financial Overview

(\$Millions)	2014	2013	2012	2011	2010
SALES	<b>\$194.5</b>	\$184.9	\$162.4	\$172.0	\$163.4
INCOME BEFORE INCOME TAXES	<b>\$12.5</b>	\$9.4	\$8.8	\$4.8	\$3.5
NET INCOME	<b>\$8.7</b>	\$5.4	\$6.5	\$3.1	\$1.8
ADJUSTED EBITDA	<b>\$25.6</b>	\$21.8	\$20.2	\$17.8	\$17.3



# Our Primary Product: Instant Win Scratch Lottery Tickets



- 90% of our revenue
- Diversified product mix and client mix
- Over 12 billion standard tickets produced per year (2" by 4")
- Almost 30 years of experience in producing instant win lottery tickets





# Our Primary Product:

## Instant Win Scratch Lottery Tickets

- Most business awarded through formal RFP
- Contracts are 3-5 years in length with usually 1-3 years in renewals
- Contracts can be exclusive, primary (supplier produces the majority) or secondary (less than majority)
- We currently serve approximately 50 lotteries around the world
- Our average length of our current contract portfolio is in excess of 4 years



# Largest Lotteries by Retail Sales of Instant Tickets (2014)

Rank	Lottery	Country	Total Sales (US\$MM)	Pollard Customer
1	Lottomatica S.p.A.	Italy	11,429	
2	La Française des Jeux	France	7,043	*
3	U.K. National Lottery	U.K.	3,866	
4	New York Lottery	United States	3,744	*
5	California Lottery	United States	3,545	*
6	Florida Lottery	United States	3,539	*
7	Massachusetts Lottery	United States	3,489	*
8	Texas Lottery	United States	3,333	*
9	China Welfare Lottery	China	3,020	
10	Georgia Lottery Corp	United States	2,801	*
11	China Sports Lottery	China	2,561	
12	Pennsylvania Lottery	United States	2,525	
13	Taiwan Lottery Company	Taiwan	2,184	*
14	Illinois Lottery	United States	1,765	
15	New Jersey Lottery	United States	1,584	*
16	Ohio Lottery	United States	1,532	*
17	North Carolina Education Lottery	United States	1,228	*
18	Tennessee Education Lottery Corp	United States	1,051	
19	Virginia Lottery	United States	1,022	*
20	Michigan Lottery	United States	981	*





# iLottery

Starting in 2012 individual U.S. state lotteries were allowed to sell lottery products over the Internet

So far only a handful have started and to date sales have been mixed, very low in most jurisdictions EXCEPT Michigan



**NEOPOLLARD**  
INTERACTIVE

Pollard has formed a joint venture with a technological provider to pursue iLottery opportunities in North America



- We won the RFP to operate the Michigan Lottery iLottery site which went live in 2014
- Early results have been very strong, capturing 10% of category sales



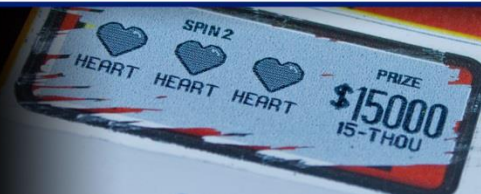
**VIRGINIA LOTTERY.**

- Recently awarded our 2nd iLottery contract for Virginia
- Initially for E-subscriptions only



# Charitable Games

- Approximately 10% of our revenue
- Overall industry is steady or shrinking slightly
- Our business generates solid profits
- Increasing market share in both pull tabs and bingo paper
- Opportunity for industry consolidation



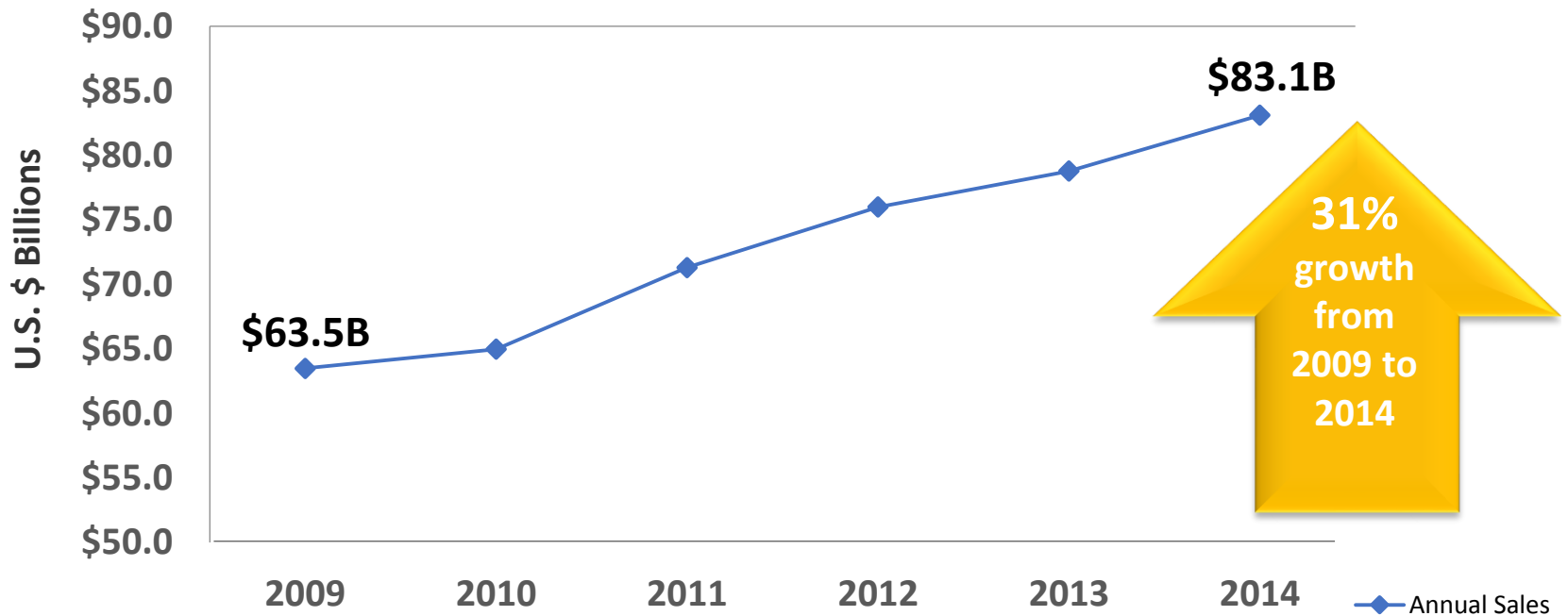
# Robust Industry

- Approximately 200 lotteries operate in the world
- Two main products: Instant Win Scratch tickets and Draw Based Games (649, Powerball, etc.)
- Instant ticket revenue have grown dramatically over the past decade, now generating 55% of lottery revenue
- Draw based games have remained relatively flat over this same time frame
- Instant tickets are very strong in North America, Europe and parts of Asia



# Worldwide Instant Sales 2009 – 2014

## Annual Retail Sales



Source: La Fleur's World Lottery Almanac

**Preliminary 2015 results indicate similar growth trend**





# Barriers to Entry

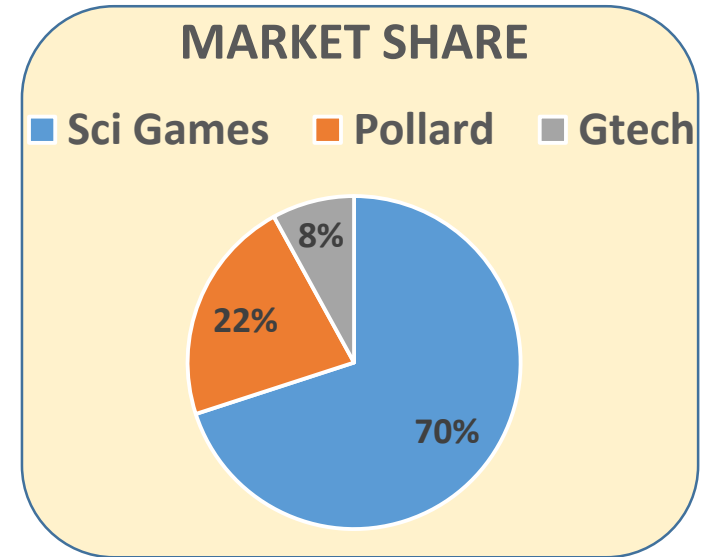
- Extremely difficult to produce, technological know how is very hard to learn
- Lotteries are very risk adverse and have no interest in trying a new supplier
- Most RFP's require extensive, long term experience
- Lotteries' business based on credibility, not willing to risk that
- Illegal to import tickets into the US (except from Canada due to NAFTA)
- Last greenfield new supplier to enter the business was Pollard back in the 1980's



# Few Competitors

Currently *only 2* other companies compete with Pollard in this space, a market situation that has been in place for over the last 5 years

20 years ago there were 10-12 producers, but economies of scale, technical proficiency and risk adverse customers all reduced that group to the current 3



Scientific Games Corporation (SGMS)



Gtech Corporation (IGT)



# Few Competitors

## *Scientific Games*

- Invented instant tickets 1974
- Market leader
- Historically large M & A focus
- Recently bought the #2 & #3 slot machine manufacturers
- Lottery tickets only 18% of revenue
- Moved HQ to Las Vegas
- \$2.7 B (US) revenue, \$8.4 B (US) debt

## *Gtech (IGT)*

- Dominant supplier of draw based terminals and systems
- Small instant ticket provider, to offer full suite of products
- Recently purchased IGT, largest slot machine manufacturer
- Changed name to IGT
- \$5.0 B (US) revenue, \$8.2 B (US) debt



# Pollard Growth Strategies

- **Grow revenue and market share**
- **Grow capacity to deliver instant tickets**
- **Expand offerings in mobile and interactive**
- **Increase commitment to innovation**
- **Extend product offerings in customer's value chain**
- **Increase our presence through additional strategic alliances including acquisitions**
- **Expand investment in human capital management**





# Expanded Capacity

- Purchased new Tresu 22 station inline press
- Installed in Ypsilanti, Michigan
  - Went live September 2015
- Relocate existing Ypsilanti press line to Winnipeg (2016)
- Investment of approximately C\$25MM in total
- Corporate net capacity increase of 35%



# Adjusted EBITDA

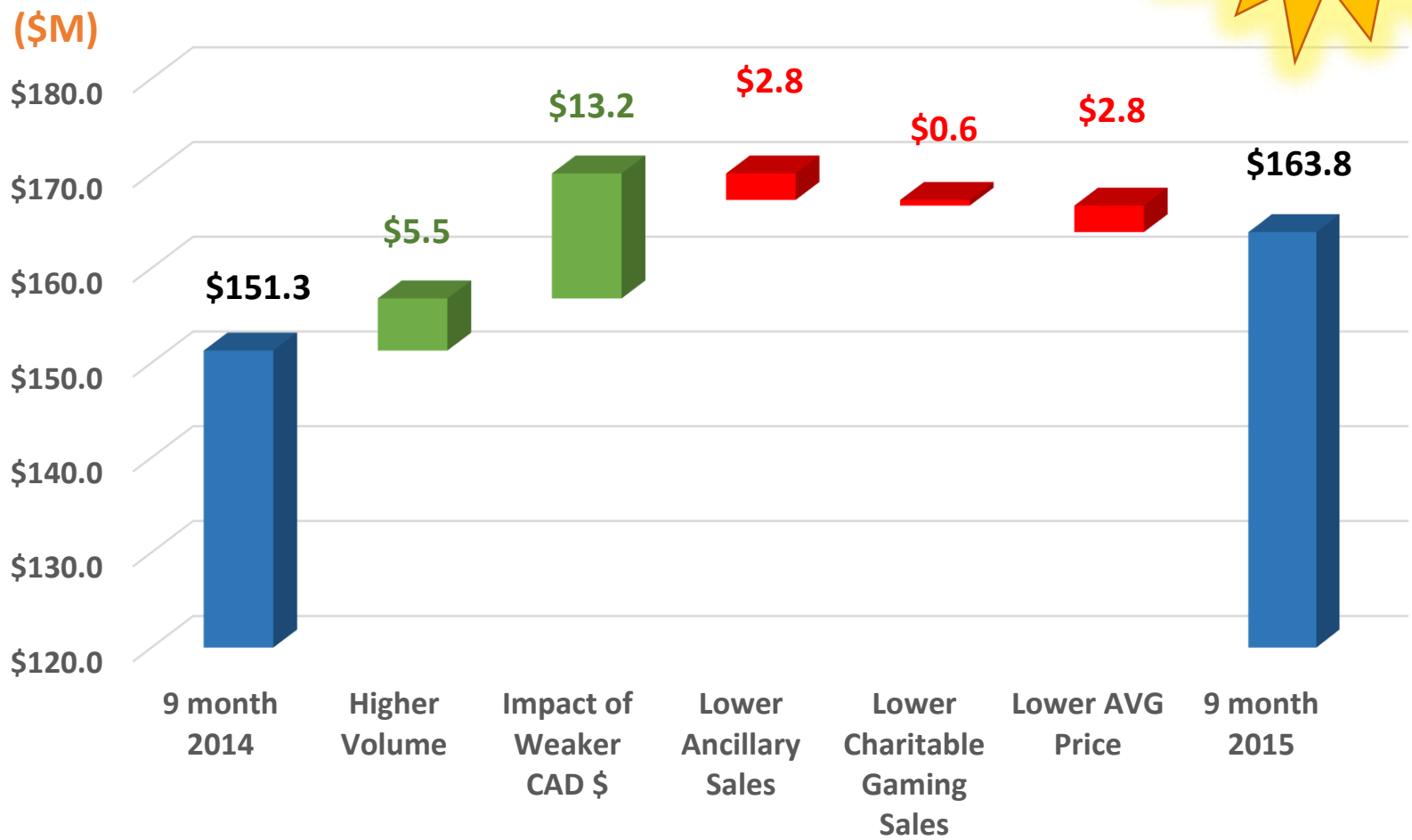


# 9 Months 2015 HIGHLIGHTS

(\$M)	9 months 2015	9 months 2014
<b>Sales</b>	<b>\$163.8</b>	<b>\$151.3</b>
<b>Gross Margin</b>	<b>\$32.7</b>	<b>\$31.3</b>
<b>Gross Margin %</b>	<b>20.0%</b>	<b>20.7%</b>
<b>SG + A</b>	<b>\$18.9</b>	<b>\$17.5</b>
<b>Income from Operations</b>	<b>\$14.2</b>	<b>\$14.0</b>
<b>Adjusted EBITDA</b>	<b>\$20.5</b>	<b>\$20.0</b>
<b>Net Income</b>	<b>\$6.2</b>	<b>\$6.7</b>

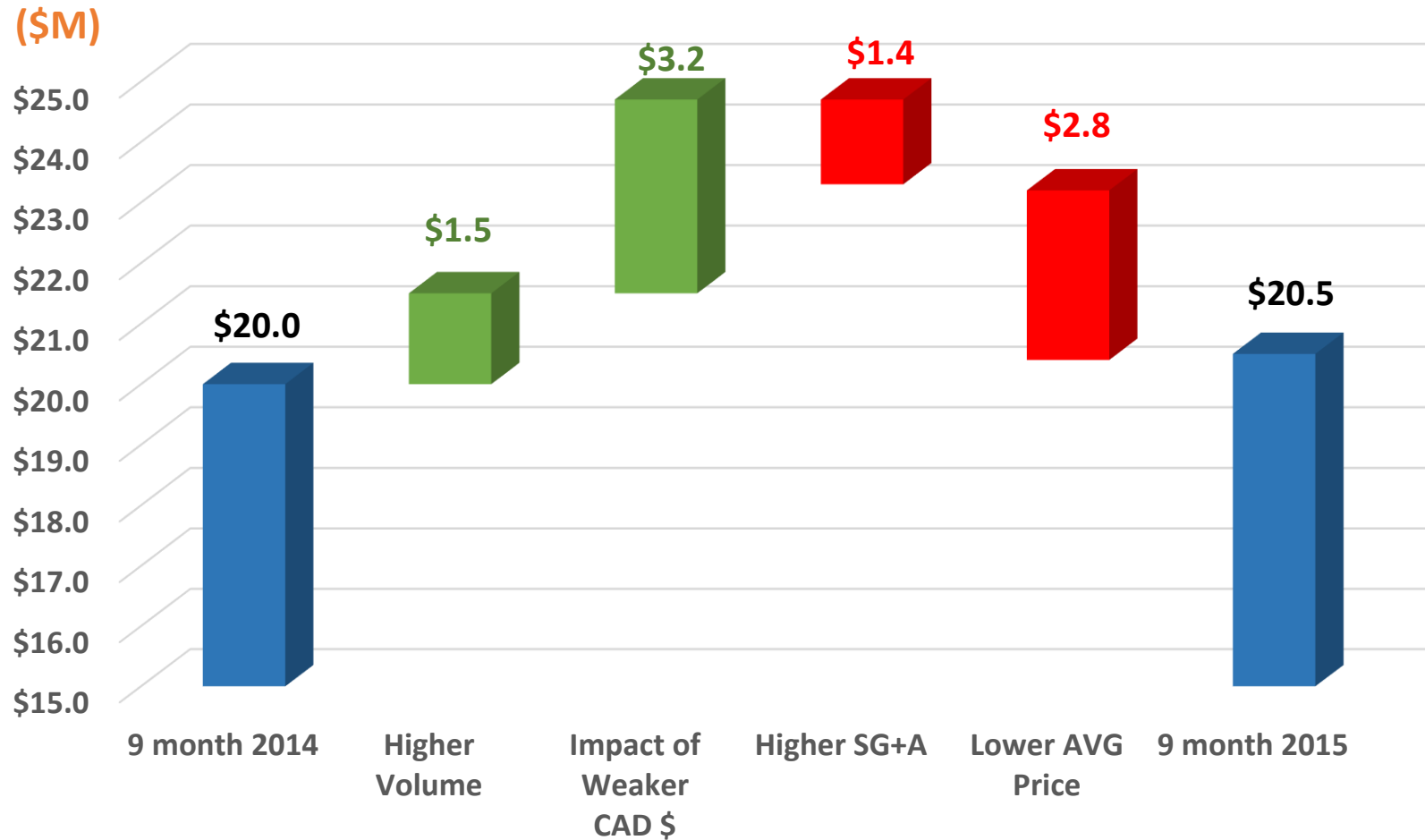


# 9 month 2015 Sales





# 9 month 2015 Adjusted EBITDA



## Capital Structure

- Approximately 73% owned by Pollard family, fully committed and supportive of the business
- Pollard family open to reduced % of ownership based on using additional treasury shares as currency for acquisitions or financings
- Committed to a dividend policy to generate return for investors
- Committed to increasing the size of our float as part of our future growth

## Strong Governance

- 50/50 split independent/Pollard family directors
- Independent lead director appointed
- Audit, Compensation and Governance and Nominating committees comprised of independent directors as members only
- Implemented retirement age and term limits for independent directors



# Looking Ahead

- Industry outlook remains very strong
- Contract portfolio and production capacity in place to efficiently produce higher volumes
- New press installed and in production of live tickets
- Michigan iLottery operation continuing to grow
- Weak Canadian dollar increases our cash flow and allows us to be more competitive
- Forecast for increased profits



# Investment Thesis

## POLLARD banknote limited

Revenue is  
recurring in  
nature

>\$200  
million in  
Revenue

Growing  
EBITDA

Government  
Contract  
Base

### Leading Lottery Supplier

- Leader in instant ticket market
- Strong world-wide relationships
- \$26 million EBITDA and growing

### Expanding Market

- Strong instant ticket growth
- Robust same store sales increases
- iLottery opportunities

### Large Barriers to Entry

- Complex technology
- Regulatory hurdles
- Unique security requirements

### Experienced Management

- Management has over 150 years gaming experience
- Pollard family support



*Thank you for your time and  
your attention today*

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