POLLARD banknote limited

News Release

POLLARD BANKNOTE ANNOUNCES RECORD REVENUE AND STRONG EBITDA IN 3RD QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, November 4, 2015 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months ended September 30, 2015, with record quarterly revenue and continuing strong trends in EBITDA.

"We are pleased to announce our third quarter results and are very proud of the operational accomplishments achieved during our third quarter," commented Co-Chief Executive Officer John Pollard. "For the second time in the last three quarters we have achieved record sales, reaching almost $58 million and our adjusted EBITDA of $7.5 million was also very strong. We recorded significant sales of our premium products such as Scratch FX® and our PlayBook® products which is traditionally the case in the third quarter."

"During the quarter we were very excited to commission our new Tresu press, allowing us to provide our customers a state of the art capability on a more efficient foundation. As our new capacity continues to ramp up over the next few months we will begin to see the positive financial impact as we build our volumes and move some of our existing volumes onto this new platform."

"Our strong operating results allowed us to continue to generate the levels of cash flow necessary to finance our large CAPEX initiatives. Indeed, despite investing $30 million since the beginning of 2014, our net bank debt level has not increased significantly."

"The lottery industry is a growing, progressive business looking for creative partners," stated Co-Chief Executive Officer Doug Pollard, "and we are dedicated to meeting these high expectations. Our approach to supporting lotteries through all channels and products is critical for our success. Products such as our new Eco Scratch™ environmentally friendly ticket is a great example of an innovative product gaining significant lottery acceptance."

"We are especially excited our joint venture NeoPollard Interactive won our second iLottery contract with the award of a contract to run the e-subscriptions service for the Virginia Lottery. Our success in the growing iLottery space in the United States is well recognized throughout the industry and we look forward to continue in setting the standard in successful iLottery operations."

"As one of the few gaming suppliers dedicated solely to the lottery industry, we feel Pollard is well positioned to understand the unique perspective that lotteries have in this ever expanding world of gaming. All of our resources and efforts are focused on supporting their objectives and because of this keen concentration, we believe we are situated to continue to be a leader in the lottery world."

John Pollard concluded, "A number of key initiatives were accomplished during the third quarter while at the same time our operating results continued achieving strong positive trends. The commissioning of our new press, continued expansion of our iLottery product line and ongoing development of innovative products are all important milestones in our strategic focus of maximizing our lottery customers' revenues generated for good causes. We will continue to build on these foundations established during the last three months and look forward to continued positive results."

HIGHLIGHTS	3rd Quarter ended September 30, 2015	3rd Quarter ended September 30, 2014
Sales	$ 57.9 million	$ 53.5 million
Gross profit	$ 11.9 million	$ 11.1 million
Gross profit % of sales	*20.6%*	*20.7%*
Administration expenses	$ 5.0 million	$ 4.3 million
Selling expenses	$ 2.0 million	$ 1.8 million
Income from operations	$ 5.1 million	$ 5.1 million
Net income	$ 1.9 million	$ 1.7 million
Adjusted EBITDA	$ 7.5 million	$ 7.3 million

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Sales	$ 163.8 million	$ 151.3 million
Gross profit	$ 32.7 million	$ 31.3 million
Gross profit % of sales	*20.0 %*	*20.7%*
Administration expenses	$ 13.5 million	$ 12.4 million
Selling expenses	$ 5.4 million	$ 5.1 million
Income from operations	$ 14.2 million	$ 14.0 million
Net income	$ 6.2 million	$ 6.7 million
Adjusted EBITDA	$ 20.5 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, 2015**	**Three months ended September 30, 2014**	**Nine months ended September 30, 2015**	**Nine months ended September 30, 2014**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$57.9	$53.5	$163.8	$151.3
Cost of sales	46.0	42.4	131.1	120.0
Gross profit	11.9	11.1	32.7	31.3
Administration expenses	5.0	4.3	13.5	12.4
Selling expenses	2.0	1.8	5.4	5.1
Other income	(0.2)	(0.1)	(0.4)	(0.2)
Income from operations	5.1	5.1	14.2	14.0
Finance costs	1.9	2.0	4.5	4.5
Finance income	-	-	(0.5)	(0.9)
Income before income taxes	3.2	3.1	10.2	10.4
Income taxes:				
Current	1.6	1.2	3.9	2.9
Deferred (recovery)	(0.3)	0.2	0.1	0.8
	1.3	1.4	4.0	3.7
Net income	$1.9	$1.7	$6.2	$6.7
Adjustments:				
Amortization and depreciation	2.0	2.0	6.0	5.9
Interest	0.8	0.7	2.1	2.2
Mark-to-market (gain) loss on foreign currency contracts	-	0.3	(0.5)	0.1
Unrealized foreign exchange loss	1.5	0.6	2.7	0.8
Start-up costs iLottery operations	-	0.6	-	0.6
Income taxes	1.3	1.4	4.0	3.7
Adjusted EBITDA	$7.5	$7.3	$20.5	$20.0

	September 30, 2015	December 31, 2014
Total Assets	$163.5	$149.3
Total Non-Current Liabilities	$92.9	$89.2

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, 2015. These financial statements have been prepared in accordance with International Financial Accounting Standards ("IFRS" or "GAAP").

Results of Operations – Three months ended September 30, 2015

During the three months ended September 30, 2015, Pollard achieved sales of $57.9 million, compared to $53.5 million in the three months ended September 30, 2014. Factors impacting the $4.4 million sales increase were:

- During the three months ended September 30, 2015, Pollard generated approximately 62.0% 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 2015 the actual U.S. dollar value was converted to Canadian dollars at $1.295, compared to a rate of $1.075 during the third quarter of 2014. This 20.5% increase in the U.S. dollar value resulted in an approximate increase of $6.1 million in revenue relative to the third quarter of 2014. The average rate of conversion of the Euro to Canadian dollar was consistent between the third quarter of 2015 and the third quarter of 2014.

- Instant ticket volumes for the third quarter of 2015 were slightly higher than the third quarter of 2014 which increased sales by $0.2 million, which was offset by a decrease in our ancillary instant ticket products and services of $0.2 million. In addition, the instant ticket average selling price was lower than 2014 which decreased sales by $1.5 million due to product mix. The reduction in charitable gaming volumes during the quarter decreased sales by $0.6 million when compared to 2014, while an increase in the average selling price increased sales by $0.3 million when compared to the third quarter of 2014. Sales of machines increased in the third quarter of 2015 by $0.1 million.

Cost of sales was $46.0 million in the third quarter of 2015 compared to $42.4 million in the third quarter of 2014. Cost of sales was higher in the quarter relative to 2014 as a result of higher exchange rates on U.S. dollar transactions in the third quarter of 2015. Included in cost of sales in the third quarter of 2014 was $0.6 million of non-recurring start-up costs related to Pollard's new iLottery operations.

Gross profit was $11.9 million (20.6% of sales) in the third quarter of 2015 compared to $11.1 million (20.7% of sales) in the third quarter of 2014. This increase was due mainly to the weakening of the Canadian dollar against the U.S. dollar and the elimination of the non-recurring start-up costs incurred in 2014.

Administration expenses increased to $5.0 million in the third quarter of 2015 compared to $4.3 million in the third quarter of 2014 primarily as a result of the increased Canadian dollar equivalent of U.S. dollar denominated expenses, increased compensation expenses, primarily related to increased resources focused on our digital initiatives, and higher professional fees.

Selling expenses increased to $2.0 million in the third quarter of 2015 compared to $1.8 million in the third quarter of 2014 primarily as a result of the increased cost of U.S. dollar denominated expenses as a result of their strengthening against the Canadian dollar.

Interest expense was $0.8 million in the third quarter of 2015 which was similar to $0.7 million in the third quarter of 2014.

The net foreign exchange loss was $1.0 million in the third quarter of 2015 compared to a net loss of $0.9 million in the third quarter of 2014. 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.

The 2014 net foreign exchange loss consisted of a realized foreign exchange loss of $0.3 million, predominately a result of foreign currency converted into Canadian dollars during the quarter. An unrealized foreign exchange loss of $0.6 million was 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 at the end of the quarter.

Adjusted EBITDA was $7.5 million in the third quarter of 2015 compared to $7.3 million in the third quarter of 2014. The primary reasons for the increase in Adjusted EBITDA of $0.2 million were the increase in the realized foreign exchange gain of $0.8 million and the increase in gross profit of $0.2 million, excluding non-recurring iLottery start-up costs. Partially offsetting these increases were an increase in administration expenses of $0.7 million and an increase in selling expense of $0.2 million.

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).

Income tax expense was $1.4 million in the third quarter of 2014, an effective rate of 46.1%, 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 $2.0 million during the third quarter of 2015 which was similar to $2.0 million during the third quarter of 2014.

Net income was $1.9 million in the third quarter of 2015 compared to a net income of $1.7 million in the third quarter of 2014. The primary reasons for the $0.2 million increase were an increase in gross profit of $0.8 million and the decrease in the mark-to-market loss on foreign currency contracts of $0.3 million. These increases were partially offset by an increase of $0.7 million in administration expenses and an increase in selling expenses of $0.2 million.

Net income per share (basic and diluted) increased to $0.08 per share in the third quarter of 2015 from $0.07 in the third quarter of 2014.

Results of Operations – Nine months ended September 30, 2015

During the nine months ended September 30, 2015, Pollard achieved sales of $163.8 million, compared to $151.3 million in the nine months ended September 30, 2014. Factors impacting the $12.5 million sales increase were:

- Instant ticket sales volume increased sales by $5.5 million in the first nine months of 2015 compared to the first nine months of 2014, while lower sales of our ancillary instant ticket products and services reduced sales by $2.8 million. Lower instant ticket average selling price decreased sales by $2.8 million in 2015 when compared to the nine months ended September 30, 2014, due to product mix. Charitable gaming volumes were lower in the first nine months of 2015 decreasing sales by $1.4 million, which offset the increase in average selling price which increased sales by $0.4 million. An increase in machine volumes in the first nine months of 2015 added $0.4 million to sales when compared to 2014.

- During the nine months ended September 30, 2015, Pollard generated approximately 66.0% 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 2015 the actual U.S. dollar value was converted to Canadian dollars at $1.248, compared to a rate of $1.087 during the first nine months of 2014. This 14.8% increase in the U.S. dollar value resulted in an approximate increase of $14.0 million in revenue relative to the first nine months of 2014. In addition, during the nine months ended September 30, 2015, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.8 million in revenue relative to the first nine months of 2014.

Cost of sales was $131.1 million in the nine months ended September 30, 2015, compared to $120.0 million in the first nine months of 2014. Cost of sales was higher in 2015 relative to 2014 predominately as a result of higher exchange rates on U.S. dollar transactions in the nine months ending September 30, 2015, and an increase in instant ticket volumes. Included in cost of sales in the nine months ended September 30, 2014, was $0.6 million of non-recurring start-up costs related to Pollard's new iLottery operations.

Gross profit increased to $32.7 million (20.0% of sales) in the first nine months of 2015 from $31.3 million (20.7% of sales) in the first nine months of 2014. This increase was due mainly to the increase in instant ticket volumes as well as a result of the weakening of the Canadian dollar relative to the U.S. dollar and the elimination of the non-recurring start-up costs incurred in 2014. The decrease in gross profit percentage was primarily the result of the decrease in the average selling price for instant tickets and lower sales of ancillary instant ticket products, partially offset by the impact of the weakening Canadian dollar.

Administration expenses increased to $13.5 million in the first nine months of 2015 from $12.4 million in the first nine months of 2014 primarily as a result of the increased Canadian dollar equivalent of U.S. dollar denominated expenses, increased compensation expenses, primarily related to increased resources focused on our digital initiatives, and higher professional fees.

Selling expenses increased to $5.4 million in the first nine months of 2015 compared to $5.1 million in the first nine months of 2014 primarily as a result of the increased cost of U.S. dollar denominated expenses as a result of their strengthening against the Canadian dollar.

Interest expense was $2.1 million in the first nine months of 2015 which was similar to $2.2 million in the first nine months of 2014.

The net foreign exchange loss was $2.2 million in the first nine months of 2015 compared to a net loss of $1.1 million in the first nine months of 2014. 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.

The 2014 net foreign exchange loss consisted of a realized foreign exchange loss of $0.3 million, predominately a result of the timing of decreased value of foreign currency converted into Canadian dollars during the first nine months of 2014. The unrealized foreign exchange loss of $0.8 million was 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 at the end of the quarter.

Adjusted EBITDA was $20.5 million in the first nine months of 2015 compared to $20.0 million in the first nine months of 2014. The primary reasons for the increase in Adjusted EBITDA of $0.5 million were the increase in gross profit of $0.8 million (excluding $0.6 million in non-recurring iLottery start-up costs) and the increase in the realized foreign exchange gains of $0.8 million. These increases were partially offset by increased administration expenses of $1.1 million and an increase in selling expenses of $0.3 million.

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).

Income tax expense was $3.7 million in the first nine months of 2014, an effective rate of 36.0%, 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, was $6.0 million during the first nine months of 2015 which was similar to $5.9 million during the first nine months of 2014.

Net income was $6.2 million in the first nine months of 2015 compared to $6.7 million in the first nine months of 2014. The primary reasons for the decrease in net income of $0.5 million were the increase of $1.1 million in administration expenses, an increase in foreign exchange losses of $1.1 million, an increase in selling expenses of $0.3 million and the increase in income tax expense of $0.3 million. These decreases were partially offset by an increase in gross profit of $1.4 million and the increase in the mark-to-market gains on foreign currency contracts of $0.6 million.

Net income per share (basic and diluted) decreased to $0.26 per share in the nine months ended September 30, 2015, from $0.28 in the first nine months of 2014.

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 instant ticket market is a strong market, with growing consumer demand underpinning lotteries continued requirement for more tickets and related services. While growth varies among individual jurisdictions, retail sales growth of instant tickets remain in the mid to high single digit percentages, a level of growth witnessed for a number of years and we expect no change in the near future. In addition, with regard to instant ticket products, lotteries are particularly keen to acquire innovative, creative products and services to engage and enhance their relationship with the ultimate consumer. Pollard will continue to invest resources on developing groundbreaking initiatives to meet these ongoing expectations.

Our expected volumes over the remainder of 2015 and early 2016 are expected to be slightly higher than those experienced in the first three quarters of 2015 based on higher order levels from existing clients. As our new press continues to ramp up and move to its expected capacity, we will strategically bid for new work and opportunities to continue to build our volumes. The long term nature of the sales cycle in the instant ticket industry will also impact the timing of our volume growth.

Our new Tresu press began printing live product in the third quarter and we will continue to increase its capacity and efficiency over the next number of months. In addition to increasing our overall capacity, we will be transitioning existing volumes to this new production platform in order to capitalize on the advantages of the new press. Improved print yields, lower overtime and improved print quality will be ultimately achieved over the next year as the transition is completed. We would expect our capital expenditures going forward to be significantly lower than experienced during the last 18 months.

The North American iLottery industry continues to develop as lotteries look to new avenues to expand their products and services. Lotteries will continue to cautiously investigate this evolving area and we believe over the long term we will continue to see increased participation. In the short term we will continue to provide information to the industry regarding the effectiveness and the benefits achievable under a responsibly managed, regulated internet lottery distribution. While not currently material to our overall financial results, our Michigan iLottery joint venture operation continues to perform well and sets the standard for other lotteries.

The Canadian dollar continues to be weak relative to the U.S. dollar. Continued weakness will have a positive impact on our cash flows, both in terms of greater amounts of Canadian dollars on conversion and allowing us to bid competitively for new work. We currently have no financial hedges in place offsetting this risk and we have no plans currently to enter into any further foreign currency forward contracts.

Our charitable gaming business, supplying bingo paper, pull-tabs and vending machines to various private sector customers, continues to generate good returns. While the overall market is not growing, we expect our own positive financial trends to continue.

We anticipate our internal operating cash flow over the next 12 months to generate sufficient funds to satisfy all of our requirements including capital expenditures. Our current credit facility was formally renewed at the end of the second quarter 2015, which provides flexibility and capacity to support our various strategic initiatives. All excess cash flow will be used to reduce our senior bank debt.

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.

For Further Information Please Contact:

John Pollard
Co-Chief Executive Officer
Telephone: (204) 474-2323 ext 204
Facsimile: (204) 453-1375

Doug Pollard
Co-Chief Executive Officer
Telephone: (204) 474-2323 ext 275
Facsimile: (204) 453-1375

Rob Rose
Chief Financial Officer
Telephone: (204) 474-2323 ext 250
Facsimile: (204) 453-1375

SEDAR: 00022394
(PBL)

CO: Pollard Banknote Limited