

**POLLARD**  
banknote limited

2020

ANNUAL GENERAL MEETING

## **FORWARD-LOOKING STATEMENTS**

Certain statements in this presentation 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 presentation, such statements include such words as “may”, “will”, “expect”, “believe”, “plan”, and other similar terminology. This presentation reflects management’s current expectations regarding future events and operating performance and speaks only as of the date of this presentation. 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.

## **USE OF NON-GAAP FINANCIAL MEASURES**

Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, depreciation and amortization, purchase accounting amortization, unrealized foreign exchange gains and losses, gains on sales of fixed assets, market-to-market gains and losses on foreign currency contracts, and certain non-recurring items including severance costs, acquisition costs and contingent consideration fair value adjustments. 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

Financial Highlights

State of the Industry

Company Vision and Strategy

2019 Results

Q1 Results

Impact of COVID-19

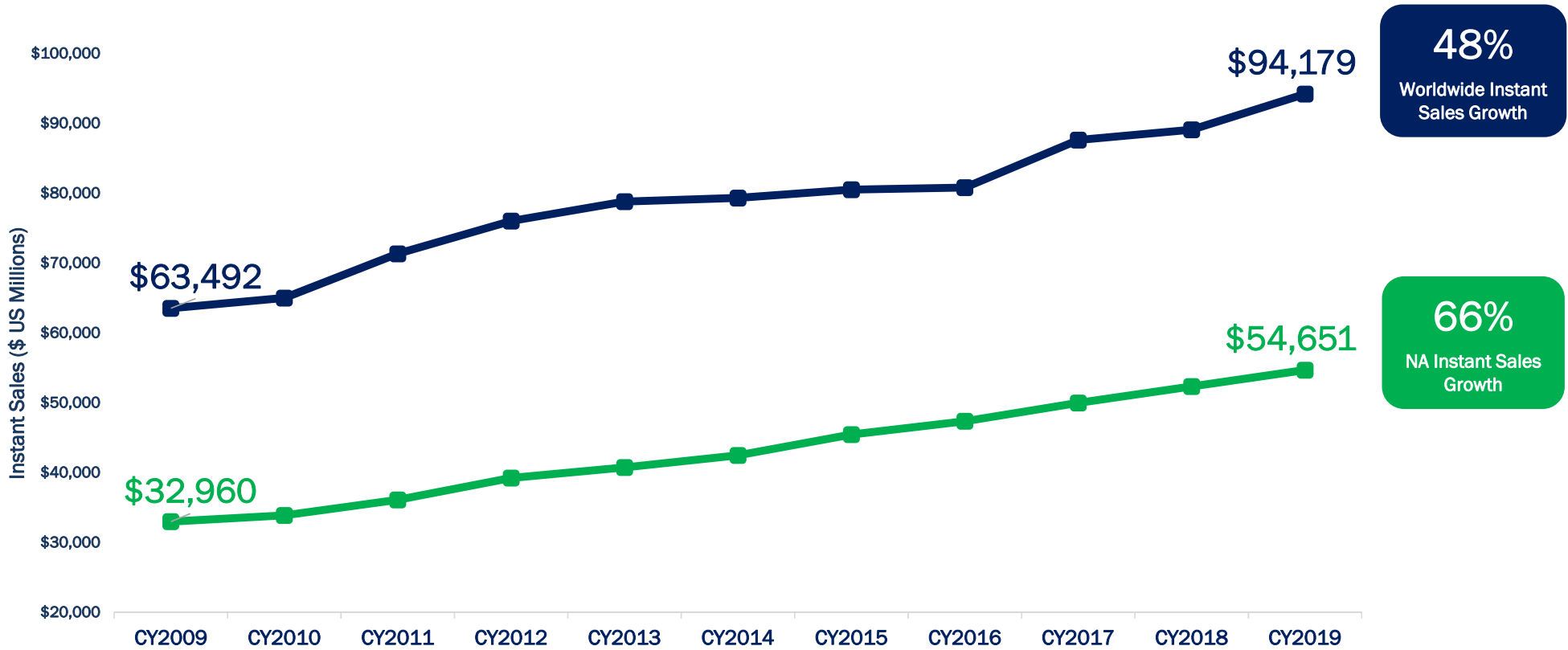
# Financial Highlights

(\$ Millions)	2019	2018	2017	2016	2015
SALES	\$397.8	\$331.9	\$285.7	\$246.4	\$221.0
NET INCOME	\$22.0	\$14.9	\$16.8	\$12.3	\$7.5
ADJUSTED EBITDA	\$54.8	\$48.8	\$44.0	\$29.7	\$26.8
NET DEBT	\$119.8	\$104.6	\$79.0	\$63.4	\$65.7

Adjusted EBITDA not including the impact of IFRS16  
 Source: Pollard Banknote financial statements and MD&A

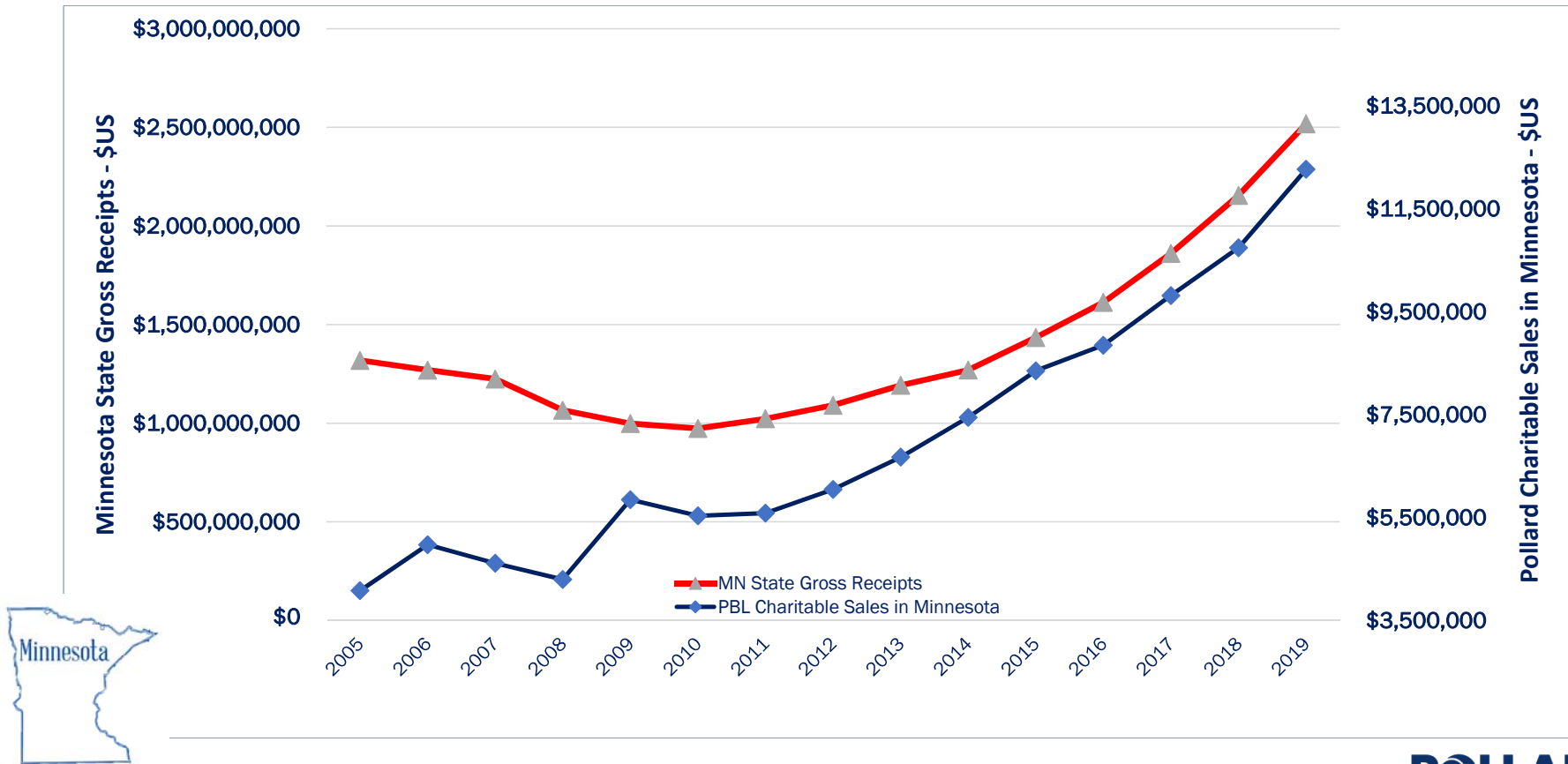
# STATE OF THE INDUSTRY

# Instant Ticket Sales Growth



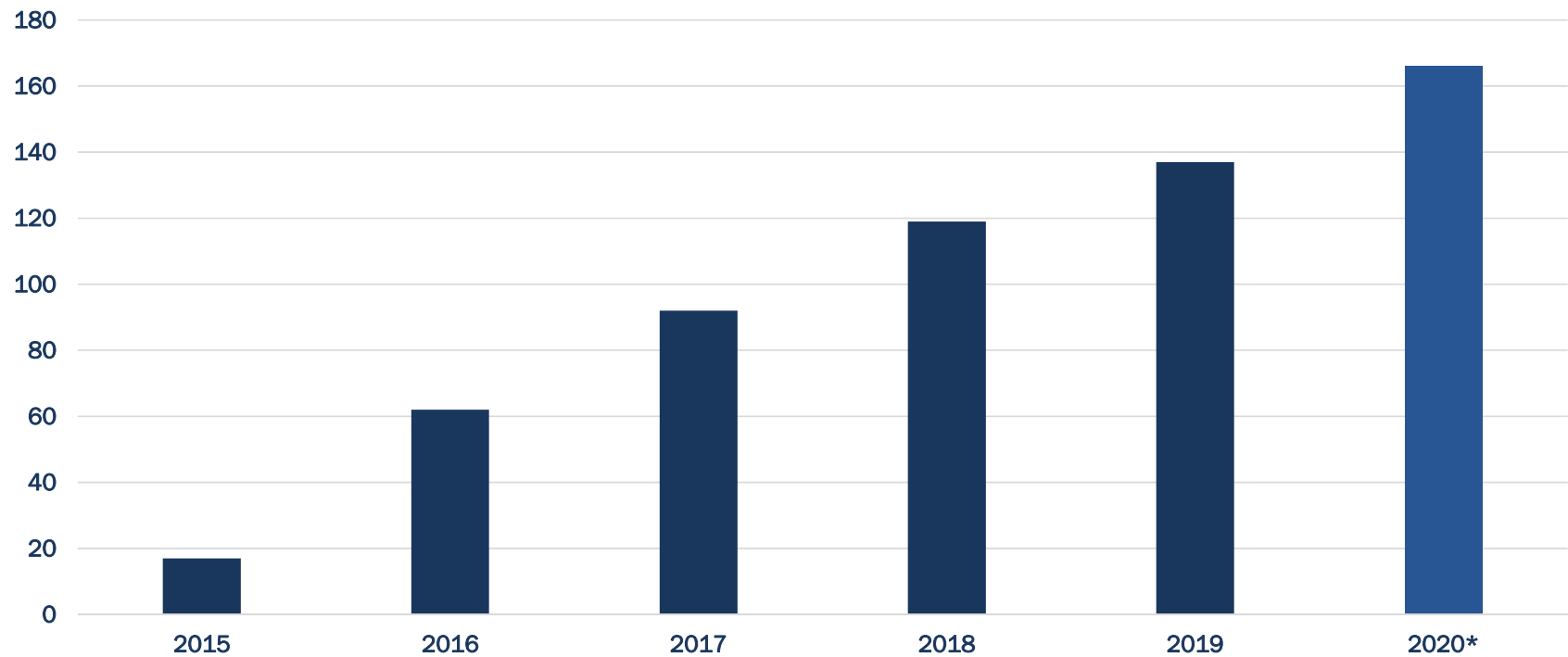
Source: La Fleur's World Lottery Almanac  
Note: Includes Pulltab sales

# Growth of Charitable Gaming Market



# Annual Michigan iLottery Net Gaming Revenue

(\$ US M)



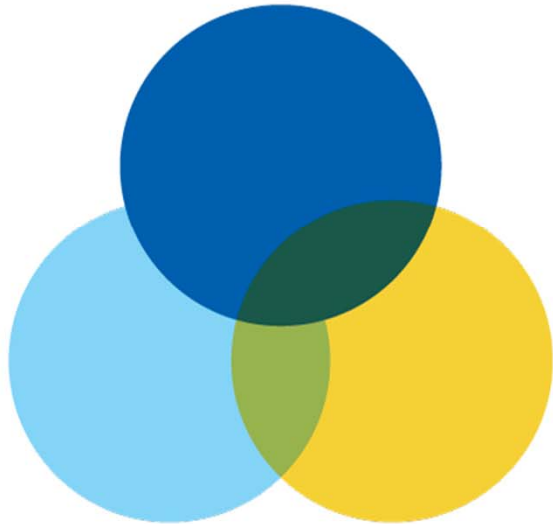
\*Q1 Sales Annualized

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# VISION & STRATEGY

We will be the partner of choice in the lottery & charitable gaming market by offering digital and retail games and solutions that attract and engage players.

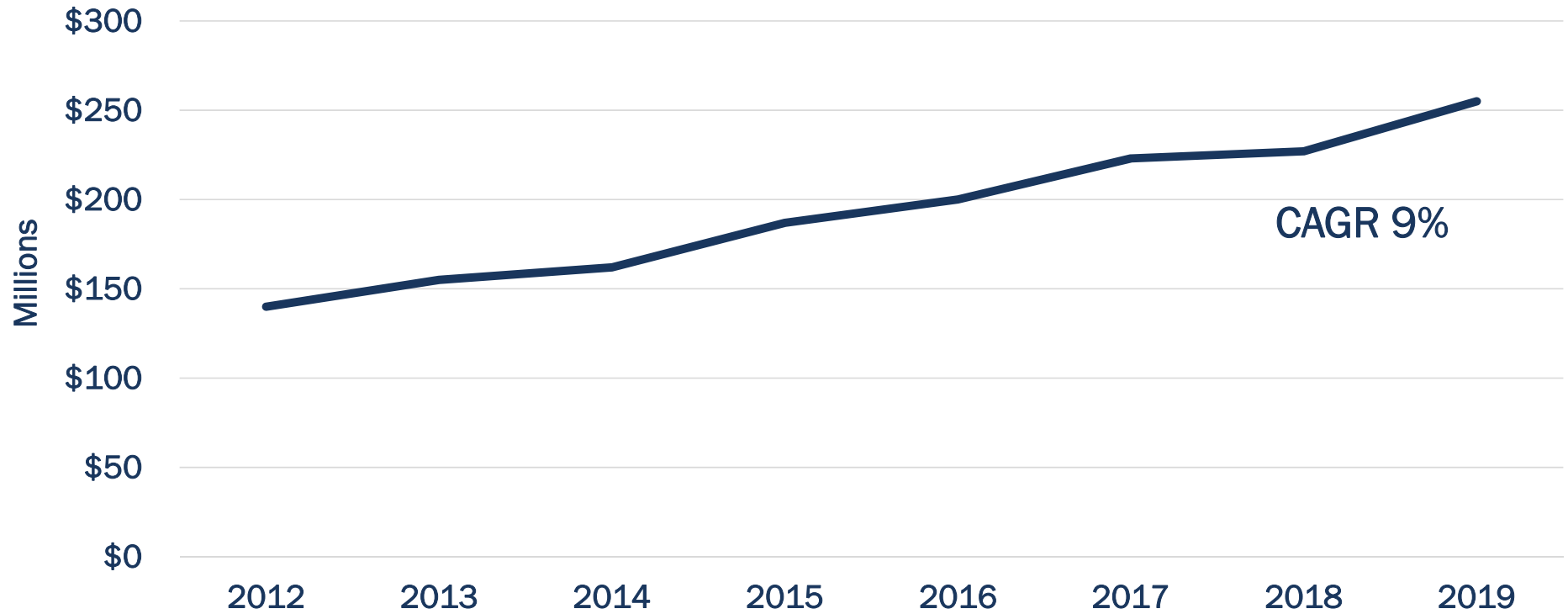


Outstanding Games.  
Retail Excellence.  
Digital Innovation.

# Facilities & Companies



# Pollard Instant Ticket Sales



# Leading Print Innovation



SCRATCHFXtra™

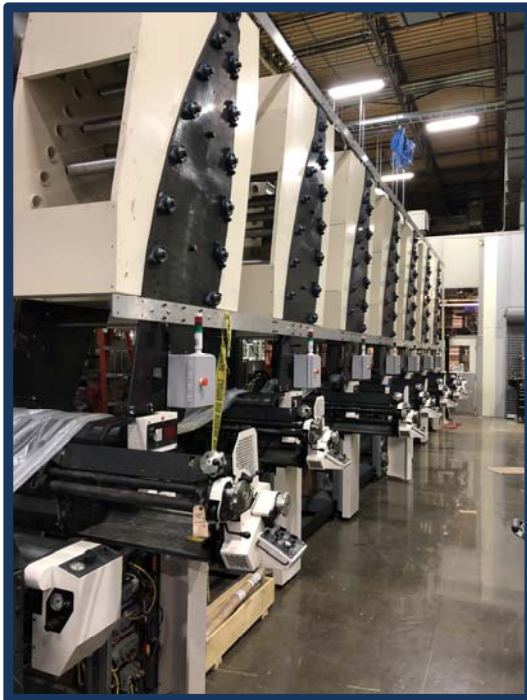
clearPLAY™

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# Manufacturing Investments

2019/2020 commitment to improved efficiencies and greater capacity

Expanding Original Press - Ypsilanti



FS2 Auto Cut Folder



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Schafer  
Systems

A POLLARD BANKNOTE COMPANY

Fastrak<sup>TM</sup>  
RETAIL  
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# Fastrak & Schafer Update

- Our two retail merchandising subsidiaries, Schafer Systems and Fastrak Retail, continue to dominate instant ticket merchandising (Schafer acquired October 2018 & Fastrak May 2019).
- Lotteries are increasingly focusing attention and resources on managing their retail footprint, an aspect of their business that has been underdeveloped historically.
- Schafer and Fastrak bring unique skill sets, to allow lotteries to generate greater per store sales using a variety of leading-edge merchandising techniques.
- Both companies provide ongoing products and services to maximize instant ticket sales, in addition to supporting major refresh or rebrands of lottery brands.
- Research and development have been a key area where Schafer and Fastrak have seamlessly combined resources to maximize opportunities.



# iLottery Portfolio



Michigan



Virginia



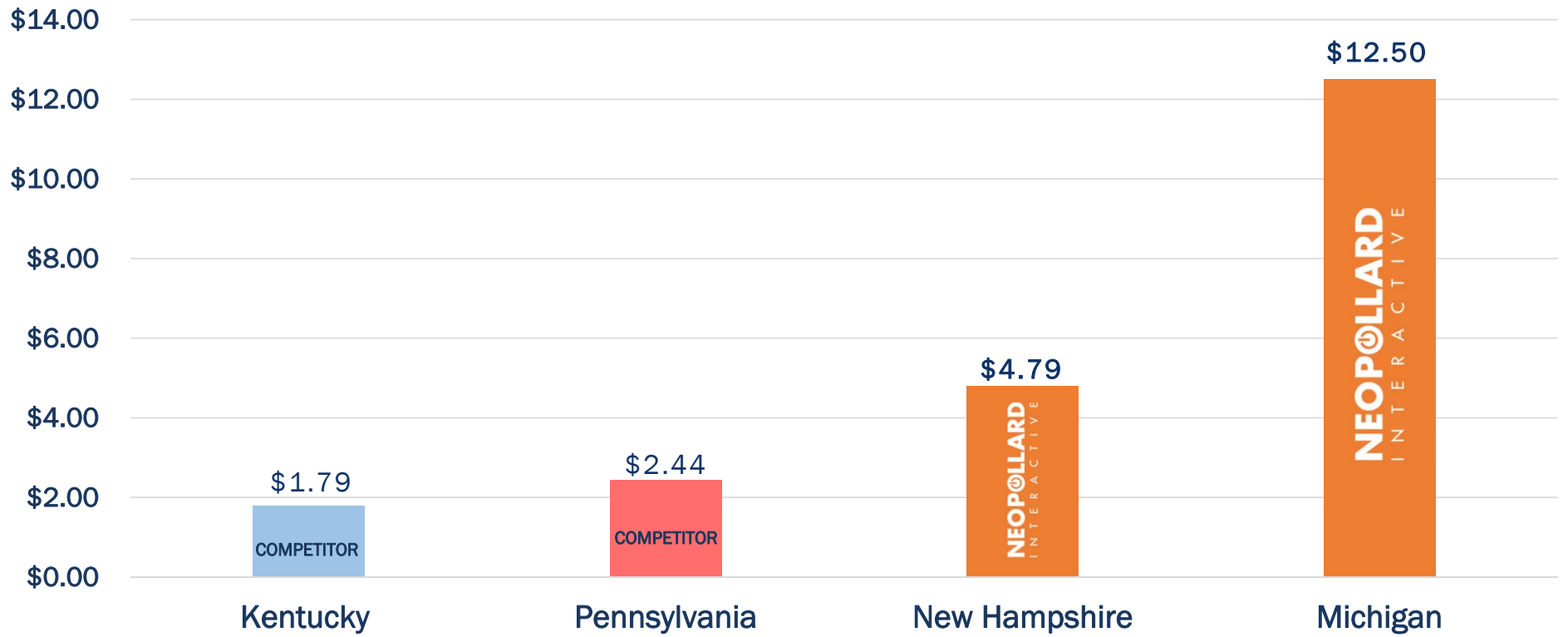
New Hampshire



North Carolina\*

\* North Carolina launched October 2019

# Estimated Per Capita iLottery Contribution to the State FY19 (\$US)



# iLottery Regulatory Status (U.S.)

- In 2011 the US Department of Justice (“DOJ”) issued an opinion that the Wire Act only applied to sports betting, which opened the door for US state lotteries to begin selling via the internet.
- In January 2019, the DOJ issued a new opinion reversing the 2011 view, indicating the Wire Act applies to all forms of gambling, including potentially lotteries.
- Pollard Banknote Limited and NeoPollard Interactive successfully challenged the 2019 DOJ opinion in the US District Court for the District of New Hampshire. As a result, the 2019 DOJ opinion was vacated and the 2011 opinion was reinstated.
- The DOJ has appealed the District Court decision, and a decision on that appeal is expected in late 2020 or early 2021 . Pollard Banknote and NeoPollard Interactive are confident that the District Court decision will be upheld and the DOJ’s appeal will be rejected.
- If the DOJ is unsuccessful, they could decide to petition the US Supreme Court to hear the case.

# mkodo

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mkodo delivers world-class apps & digital products in the betting, gaming and lottery sectors.

A trusted digital partner to a global portfolio of sportsbook, lottery, casino, bingo and retail clients.



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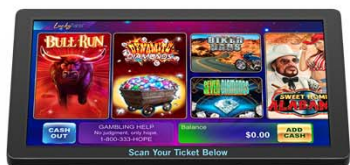
# mkodo Update

- On February 1, 2020, we acquired 100% of mkodo Limited.
- Based in the U.K. (Newcastle and London), mkodo was founded in 2001 and has approximately 65 employees.
- Expertise in mobile app and user interfaces for the Lottery and Gaming industries.
- Currently supplies products and services to major lotteries including BCLC and OLG and important private sector gaming companies such as Rank PLC (Mecca Bingo and Grosvenor Casinos).
- Acquisition price £7.8 million plus working capital adjustment and future earn-outs based on specific targets.
- mkodo expands our digital product offering significantly and adds experienced technology resources focused on iLottery applications.



# DiamondGame

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# Diamond Game Update

Acquired August 2017

- Expanded machine count in key jurisdictions of Missouri and North Dakota.
- Louisiana, a new jurisdiction, opened up during the year with 62 machines placed and expectations of more.
- Expanded game library maintaining Diamond Game machines consistently among the highest performing e-gaming machines.
- In certain jurisdictions, we've accepted lower pricing in conjunction with opportunity to place more machines.
- Completed internal integration of Oasis e-gaming division transferred from International Gamco.
- Significant negative impact of COVID-19 on Diamond Game business starting in mid-March 2020. All machines shut down and very limited reopening begun in May.

# Charitable Gaming





# Charitable Gaming Update

- Charitable Gaming represents 22% of our current revenue.
- International Gamco and American Games integration extremely well received in the marketplace (International Gamco acquired February 2018).
- 2019 increased volumes and market share.
- Significant capital investments in new press capacity in 2019 with additional investments in additional efficient machine capacity in Q1 2020.
- Future additional integration synergy potential through bringing both manufacturing facilities into one.
- Underlying retail sales showing positive growth including in key states such as Minnesota, prior to the influx of COVID-19.
- Significant negative impact of COVID-19 on Charitable Gaming business starting in mid-March 2020.

# Acquisition Strategy

- Key component of our overall strategy for profitable growth and broadening our product offering to our customers.
- Dedicated senior resources are focused on our acquisition strategy.
- Areas of interest include: ancillary lottery products; digital and iLottery; charitable gaming and other services to the lottery market.
- Five acquisitions completed in the last 32 months.
- Several actionable opportunities have been identified and are being pursued.
- Operating results of all of our recent acquisitions have met or exceeded our expectations.

# Capital Strategy

- Sufficient available capital to support our strategy.
- New 3-year committed senior debt facility, approximately \$250 million including accordion feature.
- Over \$115 million available liquidity at December 31, 2019 (including accordion).
- Significant free cash flow available to fund investments in product development, CAPEX, dividend and future acquisitions.
- Low leverage ratio of approximately 2.0 at December 31, 2019, focused on maintaining a conservative leverage profile.
- Increased dividend 33% in Q1 2019.
- Committed over the long term to increasing public float of shares through new share offerings to fund growth.

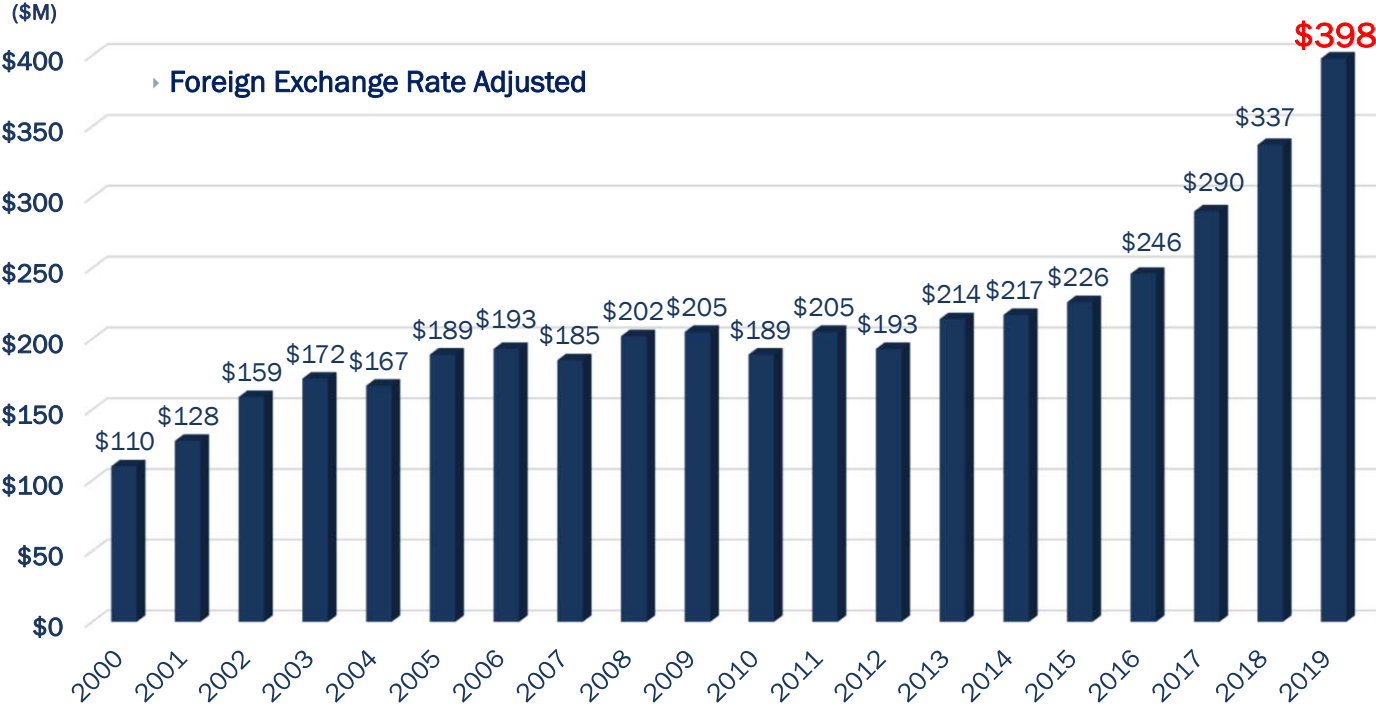
# FINANCIAL UPDATE: 2019 ANNUAL RESULTS

# 2019 Highlights

(\$M)	2019	2018
Sales	\$397.8	\$331.9
Gross Margin	\$91.1	\$75.7
Gross Margin %	22.9%	22.8%
SG + A	\$56.5	\$45.4
Income from Operations	\$32.6	\$29.7
Adjusted EBITDA	\$54.8	\$48.8
Net Income	\$22.0	\$14.9

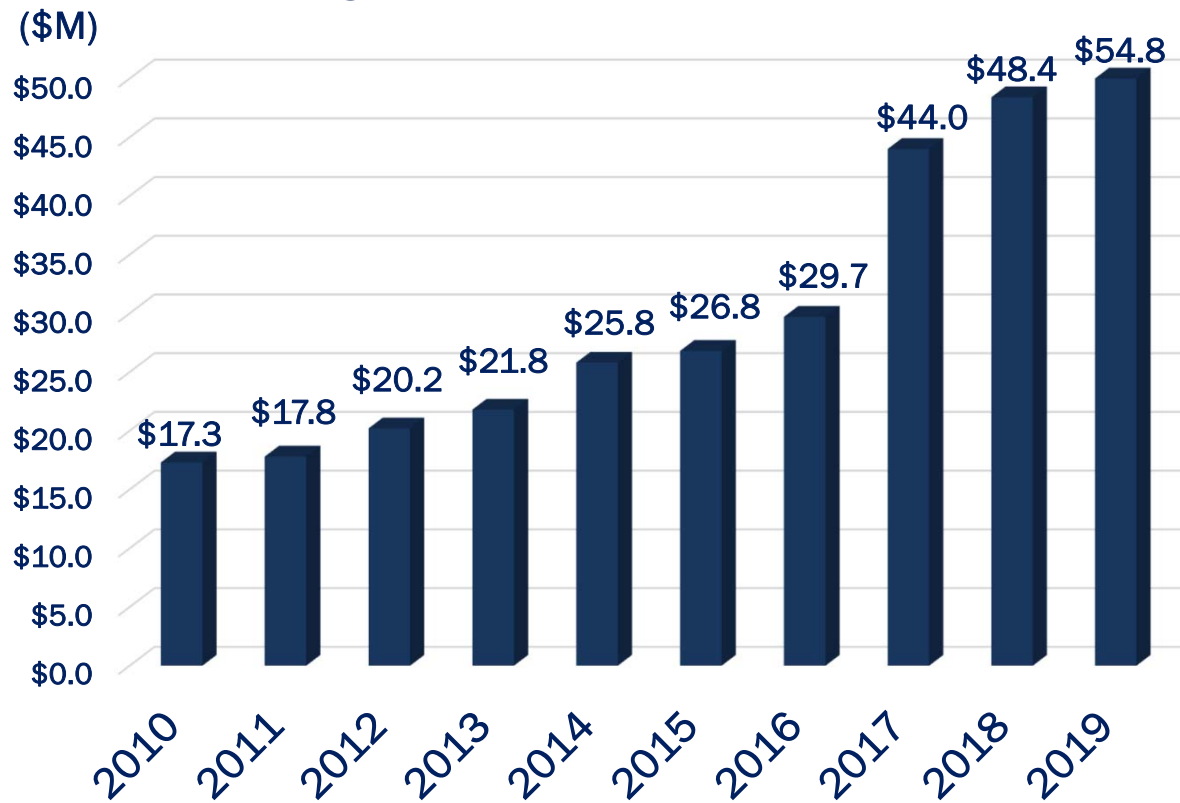
Adjusted EBITDA not including impact of IFRS 16

# Fiscal Sales



Annual sales adjusted to 2019 average rate of \$1.33 CDN per USD

# Adjusted EBITDA \*



\* Adjusted EBITDA not including impact of IFRS 16

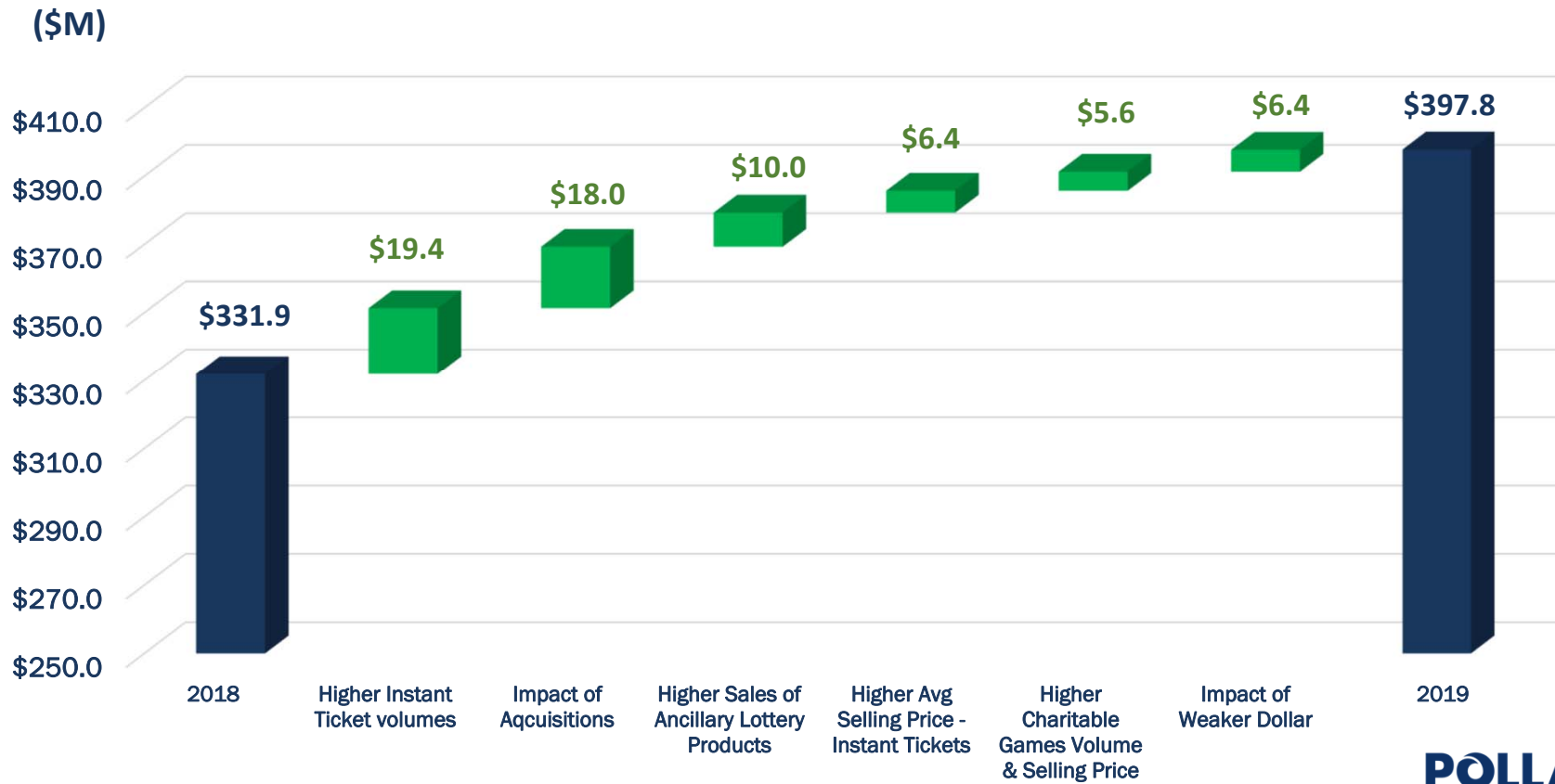
# Strong Cashflow

(\$M)	2019	2018
Cash Flow before CAPEX & W/C	\$51.8	\$35.7
Change in Working Capital	(\$22.5)	\$4.0
Net Cash Flow before CAPEX	\$29.3	\$39.7
CAPEX	(\$25.8)	(\$22.2)
Net Cash Flow (b4 dividend, debt repayment & acquisitions)*	\$3.5	\$17.5

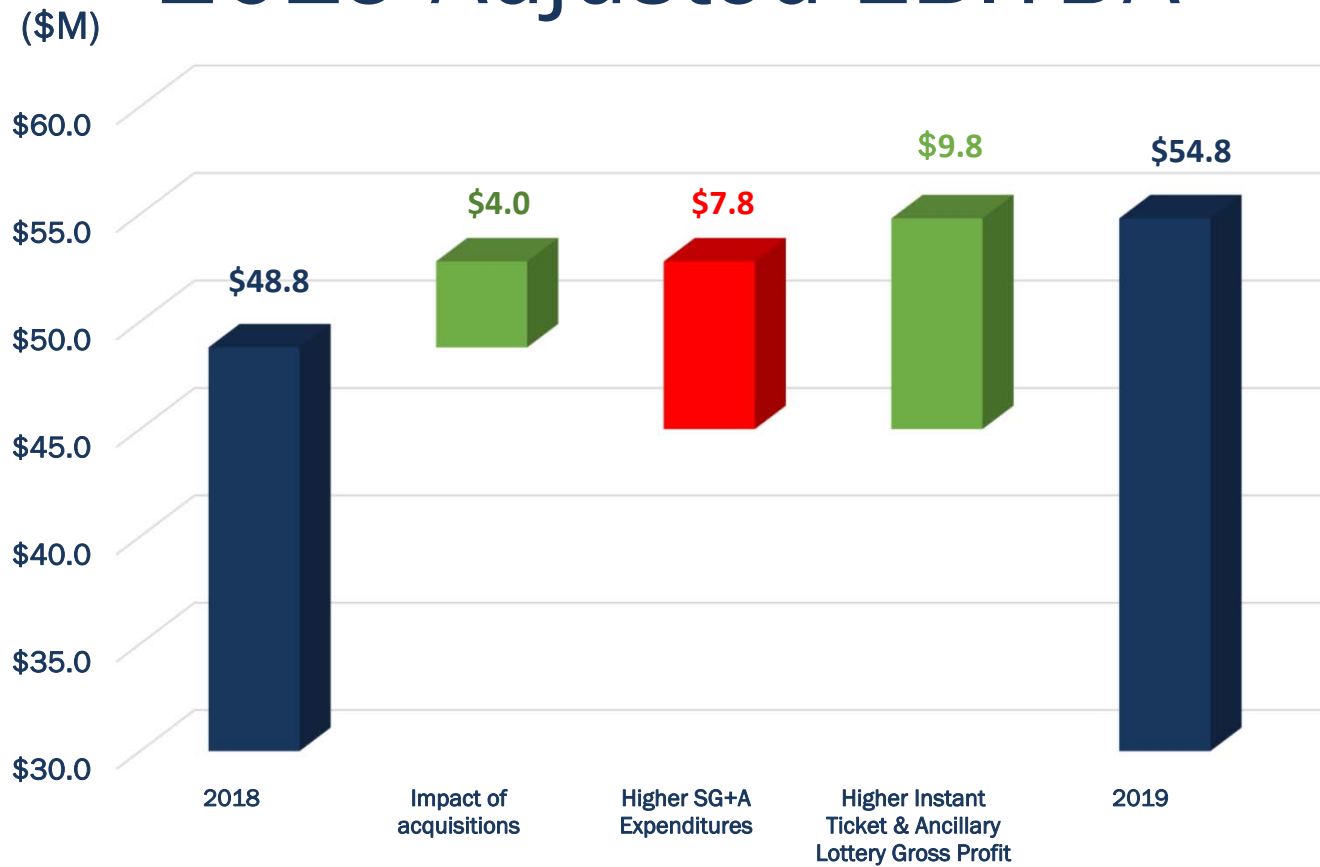
\*Source: 2019 PBL Statement of Cash Flow



# Fiscal 2019 Sales



# 2019 Adjusted EBITDA



Adjusted EBITDA not including impact of IFRS 16

# 2019 Highlights

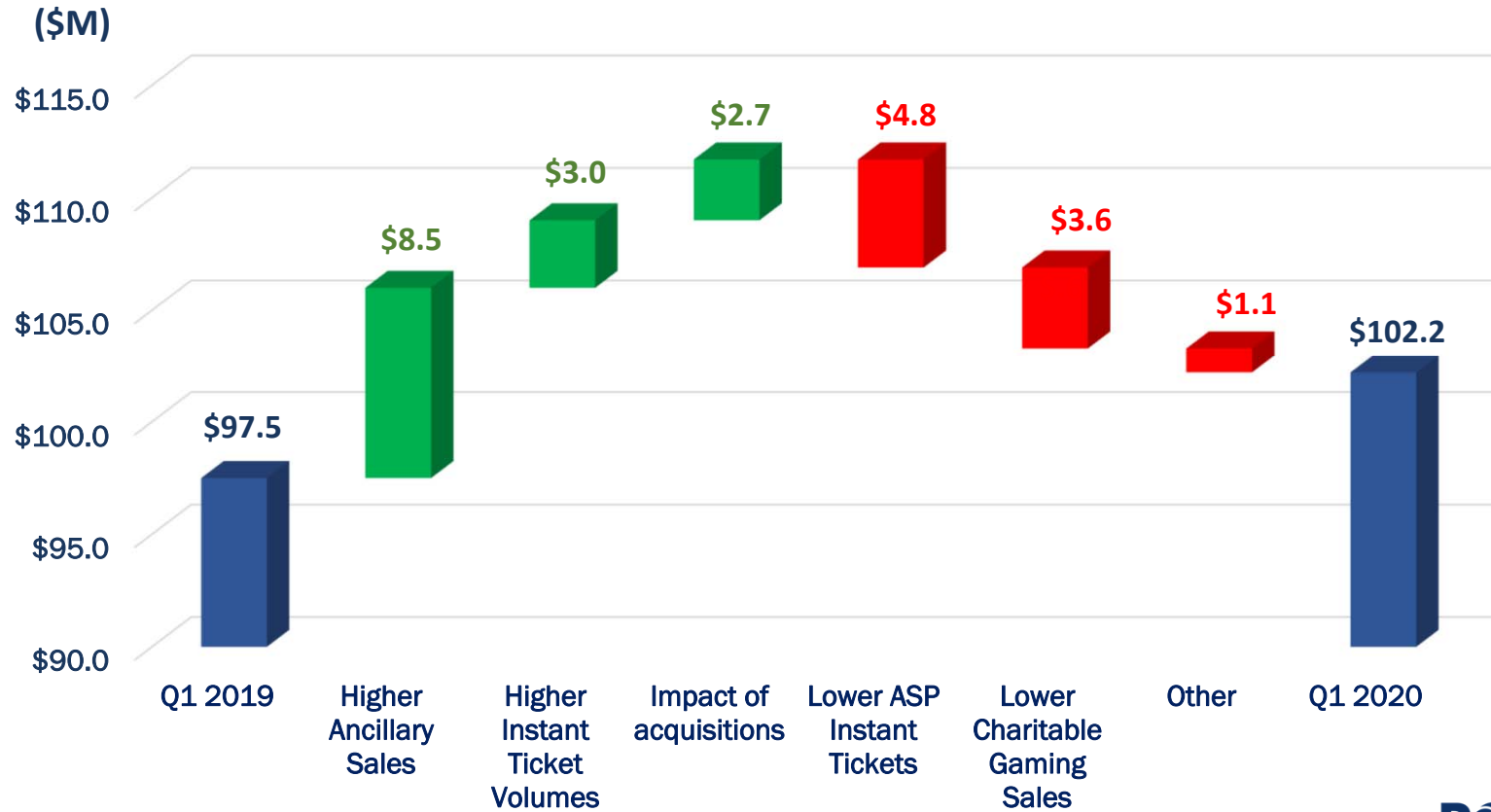
- Record volumes of instant tickets.
- Proprietary specialty products continued to lead our sales with strong sales of Scratch FX, Clear Play see through tickets and laminated playbooks.
- Expanded ancillary product revenue including key sales of our loyalty club PlayOn.
- Ongoing investment in developing digital products and solutions.
- Completed the acquisition of Fastrak and integrated with our Schafer Systems merchandising business.
- Fourth iLottery operation initiated, North Carolina, and continued industry leading iLottery performance for lottery customers.

# FINANCIAL UPDATE: 2020 FIRST QUARTER RESULTS

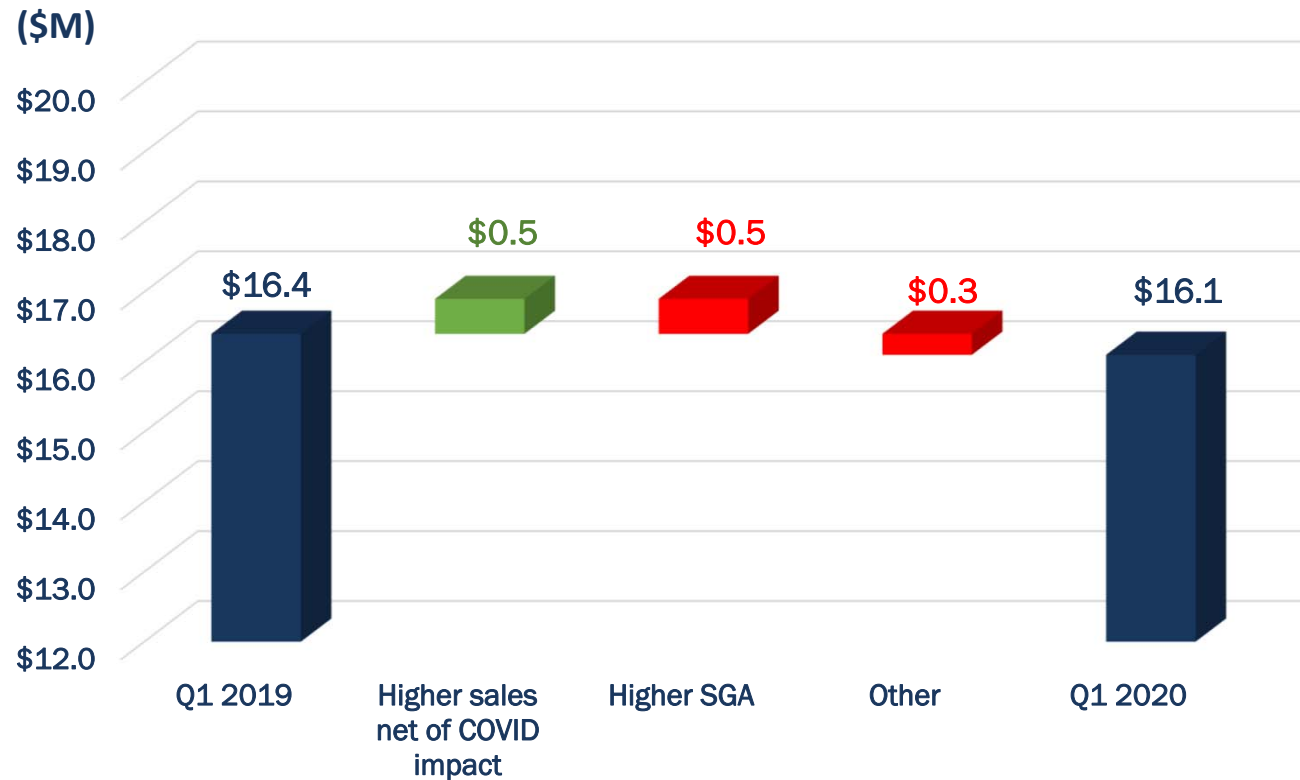
# Q1 2020 Highlights

(\$M)	Q1 2020	Q1 2019
Sales	\$102.3	\$97.6
Gross Margin	\$21.7	\$22.9
Gross Margin %	21.2%	23.5%
SG + A	\$14.9	\$12.2
Income from Operations	\$7.7	\$10.5
Adjusted EBITDA	\$16.1	\$16.4
Net Income (Loss)	(\$1.3)	\$8.0

# Q1 2020 Sales



# Q1 2020 Adjusted EBITDA



# Strong Q1 Cashflow

(\$M)	2020	2019
Cash Flow before CAPEX & W/C	\$14.5	\$14.1
Change in Working Capital	\$12.9	(\$8.6)
Net Cash Flow before CAPEX	\$27.4	\$5.5
CAPEX	(\$5.1)	(\$5.4)
Net Cash Flow (b4 dividend, debt repayment & acquisitions)*	\$22.3	\$0.1

\*Source: 2020 PBL Statement of Cash Flow



# Q1 Highlights

- Solid revenue and underlying volumes in all product lines prior to the impact of COVID-19 in mid-March.
- Strong Licensed Games sales.
- Closed the acquisition of mkodo Limited.
- Invested in significant additional charitable gaming production capacity.
- Generated robust positive cashflow, maintaining low leverage ratio despite large investments in the quarter.
- Successfully launched the operation of warehousing and instant ticket distribution for the Arizona Lottery.
- COVID-19 impacted charitable gaming revenue negatively beginning mid-March.

# IMPACT OF COVID-19 FOR 2020

# COVID-19 Impact: Market

- Almost all lotteries around the world have remained open and continue to sell instant tickets at retail, while competing forms of gaming from casino and others are shut down.
- From mid-March to mid-April, North American lotteries reported retail instant ticket sales declines of 15-20%, on average, compared to the same period last year.
- In the latter half of April, retail instant ticket sales have returned to comparable levels from 2019.
- Charitable establishments – bars, fraternal, bingo halls – shut down in mid-March. This mostly eliminated the revenue for Diamond Game machines, as well as American Games and Gamco products.
- Gradual reopening of charitable establishments beginning early May.
- iLottery sales have noticeably increased in comparison with the same periods from last year. Overall iLottery sales are a relatively small portion of our business and it is too early to determine if these higher sales will continue as part of a longer trend.

# COVID-19 Impact: Operations

- Prioritized the health of our employees: daily staff temperature screening, safe distancing, and extensive work-from-home.
- To enhance safe distancing in our Ypsilanti plant, we temporarily reduced a portion of our capacity, lowering our overall corporate capacity by approximately 10-15%.
- As retail instant ticket sales are recovering, we expect to return to full instant ticket production capacity to meet market demand.
- We have taken steps to reduce costs and mitigate the impact of COVID-19:
  - Reductions in discretionary expenses and reduced capital expenditures;
  - Across the board management salary reductions;
  - In certain operations the introduction of workshare programs and temporary staff furloughs;
  - Investigating and monitoring various government assistance programs to help support our employees and our business.

# COVID-19 Impact: Strategy

- Pollard has a very strong balance sheet to withstand these head winds, including access to approximately \$115 million in liquidity from our banking facility, healthy cash flow from our ongoing lottery operations, multiple expenditure reduction strategies throughout our organization and continued support from our majority shareholder.
- With the ongoing resilience of our industry, the strength of our balance sheet, and the opportunities available, we are confident in our strategy to continue growing our business through organic development and acquisitions.



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Outstanding Games.  
Retail Excellence.  
Digital Innovation.



*International Gamco, Inc.*



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Thank you for your time and  
your attention today.

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# APPENDICES

# Adjusted EBITDA Reconciliation

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net income	\$22.0	\$14.9	\$16.8	\$12.3	\$7.5	\$8.7	\$5.4	\$6.5	\$3.1	\$1.8
<b>Adjustments:</b>										
Amortization & depreciation	\$22.4	\$18.0	\$13.1	\$10.6	\$8.4	\$7.9	\$8.6	\$7.8	\$8.4	\$8.6
Interest	\$5.7	\$4.2	\$3.9	\$3.6	\$2.9	\$2.9	\$3.4	\$3.4	\$4.4	\$5.2
Income taxes	\$7.0	\$5.9	\$7.2	\$4.8	\$4.7	\$3.7	\$3.9	\$2.3	\$1.7	\$1.9
Unrealized foreign exchange	-\$3.3	\$4.6	-\$1.4	<u>-\$1.6</u>	\$3.8	\$1.7	\$1.0	<u>-\$0.1</u>	\$3.8	-\$1.2
Acquisition costs	\$1.2	\$0.8	\$2.7							
Severance costs		<u>\$0.4</u>	<u>\$1.7</u>							
Other	<u>-\$0.2</u>				<u>-\$0.5</u>	<u>\$0.7</u>	<u>\$0.4</u>		<u>\$1.2</u>	<u>\$1.9</u>
Adjusted EBITDA	<u>\$54.8</u>	<u>\$48.8</u>	<u>\$44.0</u>	<u>\$29.7</u>	<u>\$26.8</u>	<u>\$25.6</u>	<u>\$22.7</u>	<u>\$19.9</u>	<u>\$22.6</u>	<u>\$18.2</u>

# IFRS 16 New Lease Standard

- New standard implemented from January 1, 2019.
- Majority of leases now set up as an asset and offsetting liability on the Statement of Financial Position.
- Property Plant and Equipment Charge to the Statement of Income is split between depreciation and interest versus historic rent expense.
- Under the new standard income before income tax and net income is not materially different than the previous accounting standard.
- EBITDA increased by approximately \$5.4 million in 2019 due to the increased interest and depreciation and reduce rent expense.
- We have provided disclosure identifying the impact of the new accounting standard for consistency in our audited financial statement.
- The Statement of Financial Position will include a right-to-use asset and corresponding lease liability on implementation which increased approximately \$17.8 million at December 31, 2019.