

**POLLARD BANKNOTE ANNOUNCES
1ST QUARTER FINANCIAL RESULTS**

WINNIPEG, Manitoba, May 6, 2020 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months ended March 31, 2020, reporting strong quarterly results.

"Given the disruption from COVID-19 that began in March, we are very pleased with our first quarter results. Our lottery business lines generated good volumes of instant tickets and we saw ongoing market traction of ancillary products," stated John Pollard, Co-Chief Executive Officer. "We attained consolidated revenue of \$102.2 million, a 4.8% increase over the same period last year. Excluding the sales of our new acquisition, mkodo Limited, our revenue increased by 3.3%. Income from operations for the quarter was \$7.7 million, while our Adjusted EBITDA of \$16.1 million reflected the underlying strength of our business. Our strategy focusing on proprietary products including high-value ticket features has continued to be a key component of our success."

"During this quarter, our ancillary products continue to produce positive results, with increased revenue from our licensed games product line contributing strongly. While these sales tend to be fairly lumpy, individual sales add incrementally to our profitability and provide a unique way to engage new lottery customers. Our new contract to provide warehousing and distribution services to the Arizona Lottery began operations in this past quarter and the transition has gone very smoothly."

"Throughout the quarter, and in particular during March, the Canadian dollar weakened significantly relative to the U.S. dollar. While this change does not significantly impact our operations or cashflow, it does impact our reported net income. Through the acquisition of a number of U.S. based businesses over the last few years, we have expanded our U.S. dollar denominated debt to fund these purchases. This provides a valuable economic hedge offsetting the exposure to our investment in U.S. dollar denominated assets. However, this significant and sudden weakening of the Canadian dollar generated an unrealized foreign exchange loss of \$6.2 million in the first quarter, primarily due to the change in value of our U.S. dollar denominated debt, reducing our income before income taxes. It does not reflect any negative aspects of our underlying business or our ability to generate cashflow."

"Our iLottery operations saw increased revenue towards the end of March and this trend has continued through April. While still relatively small in overall absolute financial terms,

this growing trend is a positive reflection of the importance for lotteries to provide multiple distribution channels for their lottery products.”

“While Q1 was on pace for a very strong quarter in January and February in all product lines, the COVID-19 virus influx beginning mid-March did negatively impact our results. Our lottery business line was only modestly affected during the first quarter, however revenue from our charitable gaming business was mostly eliminated over the last two weeks of March. Our charitable gaming products are sold at retail through various venues including bars, veteran organizations and bingo halls. In mid-March all of these venues were shut down in jurisdictions throughout North America, essentially eliminating our revenue from these product lines.”

“As a result, our charitable gaming revenue was lower by 17% compared to the same period of last year and profitability was negatively impacted. Instant ticket revenue declined approximately 2-3% compared to the first quarter in 2019 due to lower volumes in the last half of March. These levels of reduced revenue have continued to date in the second quarter. Subsequent to the first quarter we have implemented a number of strategies to mitigate the financial impact of reduced revenue, including management salary and directors’ fee reductions, reduced hours through workshare programs and temporary furloughs of employees. We are using various government support initiatives to provide financial assistance for our affected staff and will continue to monitor for ongoing programs.”

“On February 3, 2020, we completed the acquisition of mkodo Limited, a specialized technology organization focused on providing mobile interfaces and digital apps exclusively to the lottery and gaming world. While still early, we are very pleased with the natural fit of their team within the Pollard group and with the critical technical expertise and strong client relationships they bring us.”

“In addition, during the first quarter we closed our acquisition of the charitable gaming equipment and intellectual property assets of one of our competitors sold under a bankruptcy process. These assets will provide some important incremental capacity when our markets re-open.”

“We are very proud and thankful for the hard work and sacrifices that all our employees have made throughout this difficult period,” stated Doug Pollard, Co-Chief Executive Officer. “We continue to monitor our business and look to all programs and government assistance opportunities that can support our employees and our company during these challenging times. Throughout our operations the safety of our team is paramount, and we continue to implement rigorous best practices to maintain a healthy and safe environment.”

“To date the lottery industry has withstood the impact of COVID-19 reasonably well and we anticipate this trend to continue. Lottery retail locations have mostly remained open, while other gaming opportunities have been forced to close because of COVID-19. As

well, governments and various charities need financial resources now more than ever and the ability of our products to generate these funds for various good causes is critically important.”

“Given the circumstances, our first quarter results were very strong,” concluded John Pollard, “and notwithstanding these current challenges with COVID-19, we remain very confident in the strength of our company and our ability to pursue our vision of being the partner of choice for lotteries and charitable organizations throughout North America and the world. We look forward to continue serving our customers and supporting their critical fundraising needs.”

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, and certain non-recurring items including severance costs, acquisition costs and contingent consideration fair value adjustments. 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.

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.

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.

HIGHLIGHTS	Three months ended <u>March 31, 2020</u>	Three months ended <u>March 31, 2019</u>
Sales	\$ 102.2 million	\$ 97.5 million
Gross profit	\$ 21.7 million	\$ 22.9 million
<i>Gross profit % of sales</i>	<i>21.2%</i>	<i>23.5%</i>
Administration expenses	\$ 10.2 million	\$ 8.7 million
Selling expenses	\$ 3.8 million	\$ 3.5 million
Unrealized foreign exchange loss (gain)	\$ 6.2 million	(\$ 1.9 million)
Net income (loss)	(\$ 1.3 million)	\$ 8.0 million
Net income (loss) (basic and diluted) per share	(\$ 0.05)	\$ 0.31
Adjusted EBITDA *:		
Lotteries and charitable gaming	\$ 14.5 million	\$ 13.2 million
Diamond Game	1.6 million	3.2 million
Total adjusted EBITDA	<u>\$ 16.1 million</u>	<u>\$ 16.4 million</u>

* Effective January 1, 2020, the Oasis egaming division was transferred from International Gamco (Charitable) to Diamond Game (Gaming Systems), comparative figures have been restated.

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three month ended March 31, 2020 (unaudited)	Three months ended March 31, 2019 (unaudited)
Sales	\$102.2	\$97.5
Cost of sales	80.5	74.6
Gross profit	<u>21.7</u>	<u>22.9</u>
Administration expenses	10.2	8.7
Selling expenses	3.8	3.5
Other expenses	-	0.2
Income from operations	<u>7.7</u>	<u>10.5</u>
Foreign exchange loss (gain)	6.1	(1.5)
Interest expense	1.6	1.5
Income before income taxes	<u>-</u>	<u>10.5</u>
Income taxes:		
Current	2.2	1.8
Future (reduction)	(0.9)	0.7
	<u>1.3</u>	<u>2.5</u>
Net income (loss)	<u>(\$1.3)</u>	<u>\$8.0</u>
Adjustments:		
Amortization and depreciation	7.6	6.3
Interest	1.6	1.5
Unrealized foreign exchange loss (gain)	6.2	(1.9)
Acquisition costs	0.7	-
Income taxes	1.3	2.5
Adjusted EBITDA	<u>\$16.1</u>	<u>\$16.4</u>
	<u>March 31,</u>	<u>December 31,</u>
	<u>2020</u>	<u>2019</u>
Total Assets	\$385.7	\$352.3
Total Non-Current Liabilities	\$183.3	\$175.6

On February 3, 2020, Pollard completed the previously announced acquisition of mkodo Limited ("mkodo"). On December 6, 2019, Pollard signed a definitive agreement to purchase 100% of the share capital of mkodo for a purchase price of £7.8 million prior to standard working capital adjustments and potential future earn-out payments based on certain EBITDA targets. mkodo is a leading provider of digital apps and user interfaces for the lottery and gaming industry.

On February 6, 2020, Pollard entered into an agreement, approved by the courts, to acquire certain assets which were being sold under a bankruptcy process. The transaction was subject to certain closing conditions and closed on March 20, 2020. These assets had previously been used in the operation of a business producing pull-tab tickets for the lottery and charitable gaming business. The total purchase price, including estimated transportation, disassembly and reassembly, and related costs, was \$4.9 million.

The 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 months ended March 31, 2020. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

Results of Operations – Three months ended March 31, 2020

During the three months ended March 31, 2020, Pollard achieved sales of \$102.2 million, compared to \$97.5 million in the three months ended March 31, 2019. Factors impacting the \$4.7 million sales increase were:

- Higher sales of ancillary instant ticket products and services increased revenue in 2020 by \$11.2 million. This increase was primarily from higher licensed product sales and increased iLottery revenues. Also, the addition of mkodo and Fastrak further increased sales. In addition, an increase in instant ticket volumes in the quarter increased sales by \$3.0 million. Partially offsetting these increases was a decrease in the instant ticket average selling price in the first quarter of 2020 compared to the first quarter of 2019 which decreased sales by \$4.8 million, due to the customer sales mix, including lower sales of our Scratch FX[®] product compared to the first quarter of 2019.
- Charitable gaming revenue, including revenue generated from our Diamond Game and Oasis egaming machines, was significantly affected by the impact of COVID-19 beginning in mid-March. Our products are distributed through various retail establishments including bars, veteran organizations and bingo halls throughout North America. These businesses were effectively shut down in the middle of March which resulted in our revenue being mostly eliminated. As a result, Diamond Game sales decreased by \$1.8 million in the first quarter of 2020 when compared to 2019 and reduced sales volumes of our other charitable gaming products decreased our revenue by \$1.6 million as compared to 2019. In addition,

a slightly lower average selling price for charitable games in 2020 further decreased sales by \$0.3 million.

- During the three months ended March 31, 2020, Pollard generated approximately 68.5% (2019 – 73.1%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first quarter of 2020, the actual U.S. dollar value was converted to Canadian dollars at \$1.317, compared to a rate of \$1.333 during the first quarter of 2019. This 1.2% decrease in the U.S. dollar value resulted in an approximate decrease of \$0.8 million in revenue relative to the first quarter of 2019. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.2 million in revenue relative to the first quarter of 2019.

Cost of sales was \$80.5 million in the first quarter of 2020 compared to \$74.6 million in the first quarter of 2019. The increase in cost of sales was primarily a result of the higher ancillary instant ticket product sales, including the addition of Fastrak and mkodo. These increases in cost of sales were partially offset by the reduction in charitable gaming volumes.

Gross profit was \$21.7 million (21.2% of sales) in the first quarter of 2020 compared to \$22.9 million (23.5% of sales) in the first quarter of 2019. This decrease of \$1.2 million in gross profit was primarily a result of decreased charitable gaming sales volumes in the quarter and the reduction in the instant ticket average selling price. These decreases were partially offset by higher licensed games and iLottery sales, as well as the inclusion of Fastrak and mkodo. The gross profit percentage was lower due to the reduction in Diamond Game and charitable gaming sales at the end of March while costs remained generally fixed, partially offset by higher license product and iLottery sales.

Administration expenses increased to \$10.2 million in the first quarter of 2020 from \$8.7 million in the first quarter of 2019. The increase of \$1.5 million was primarily a result of higher acquisition costs of \$0.7 million and greater compensation and licensing expenses to support Pollard's growth strategies of developing innovative digital products. Additionally, the inclusion of Fastrak and mkodo further increased administration expenses.

Selling expenses increased to \$3.8 million in the first quarter of 2020 from \$3.5 million in the first quarter of 2019 primarily due to the addition of Fastrak and mkodo, as well as higher compensation costs.

Other expenses decreased to \$nil in the first quarter of 2020 from \$0.2 million in 2019, primarily due to the decrease in the loss on equity investment of \$0.4 million, partially offset by the decrease in other income of \$0.2 million.

Our net foreign exchange loss was \$6.1 million in the first quarter of 2020 compared to a net gain of \$1.5 million in the first quarter of 2019. The Canadian dollar weakened significantly relative to the U.S dollar in the month of March, which generated a large unrealized foreign exchange loss of \$6.2 million due to the large balance of U.S. dollar denominated accounts payable and long-term debt incurred with the acquisitions of U.S. based businesses over the past few years.

The 2019 net foreign exchange gain consisted of a \$1.9 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. In addition to the unrealized foreign exchange gain in 2019, Pollard incurred a realized foreign exchange loss of \$0.4 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA decreased to \$16.1 million in the first quarter of 2020 compared to \$16.4 million in the first quarter of 2019. The primary reason for the decrease in Adjusted EBITDA of \$0.3 million was the decrease in gross profit in the quarter from the reduction in Diamond Game and charitable gaming sales at the end of March, due to closures resulting from Covid-19, and the reduction in our instant ticket average selling price. These reductions in gross profit were partially offset by increased licensed product and iLottery sales. Additionally, higher administration expenses, net of acquisition costs, of \$0.8 million and an increase in selling expenses of \$0.3 million further reduced Adjusted EBITDA in the quarter. These decreases to Adjusted EBITDA were partially offset by a decrease in other expenses of \$0.2 million and an increase in realized foreign exchange gain of \$0.5 million.

Interest expense increased to \$1.6 million in the first quarter of 2020 from \$1.5 million in the first quarter of 2019 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisitions Fastrak and mkodo, partially offset by lower interest rates in 2020.

Amortization and depreciation, including depreciation of property and equipment and the amortization of intangible assets, totaled \$7.6 million during the first quarter of 2020 which increased from \$6.3 million during the first quarter of 2019. The increase was primarily as a result the addition of Fastrak and mkodo, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment, and higher depreciation and amortization on new equipment and intangible assets.

Income tax expense was \$1.3 million in the first quarter of 2020, which was higher than the recovery expected based on Pollard's domestic rate of 27.0%. This increased expense was due primarily to the impact of foreign exchange and certain non-tax-deductible expenses.

Income tax expense was \$2.5 million in the first quarter of 2019, an effective rate of 23.3%, lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in the United States and the effect of foreign exchange.

Net loss was \$1.3 million in the first quarter of 2020 compared to net income of \$8.0 million in the first quarter of 2019. The primary reason for the decrease in net income of \$9.3 million was the increase in the foreign exchange loss of \$7.6 million, consisting of a \$6.1 million foreign exchange loss in 2020 compared to a \$1.5 million foreign exchange gain in 2019. Also reducing net income in the quarter was the decrease in gross profit from the reduction in Diamond Game and charitable gaming sales at the end of March, due to closures resulting from Covid-19, and the reduction in our instant ticket average selling price. These reductions in gross profit were partially offset by increased licensed product and iLottery sales. In addition, an increase in administration expenses of \$1.5 million, including \$0.7 million of acquisition costs, and the increase in selling expenses of \$0.3 million further reduced net income in the first quarter of 2020. Partially offsetting these decreases to net income were an increase in other income of \$0.2 million and the decrease in income tax expense of \$1.2 million.

Net income (loss) per share (basic and diluted) decreased to (\$0.05) per share in the first quarter of 2020 from \$0.31 per share in the first quarter of 2019.

Business Update

The impact of COVID-19 on all businesses has been truly unprecedented and continues to be a challenge for all organizations including Pollard.

Currently, almost all lotteries have remained operational and are continuing to sell lottery products including instant tickets at retail. The impact of the virus on the retail sale of instant tickets has varied from jurisdiction to jurisdiction, however on average, during the period from mid-March to mid-April, North American lotteries were reporting between 15-20% reductions in retail sales of instant tickets compared to the same period last year. Over the latter half of April retail sales have improved and overall are trending at comparable levels to 2019. While this more recent data covers a short period of time, it is a positive sign that may indicate a strong recovery and the underlying resilience of instant ticket sales. Traditionally lottery products, and in particular instant tickets, have been very resilient in difficult economic times and so far we are seeing evidence that this trend continues.

Our scheduled production and related sales are generally for product that will be sold at retail a number of months into the future. As such, current retail sale trends in instant tickets do not immediately translate into changes in Pollard revenue.

All of our lottery operations remain open and are producing tickets to support our lottery customers. To ensure a safe work environment, including maintaining proper social distancing, we have partially reduced our staffing and production capacity in our Ypsilanti,

Michigan facility. The combined impact of this temporary reduction in capacity and some softening in our orders has resulted in reduced instant ticket production of approximately 15% from mid-March to date. We expect our Ypsilanti operation to return to full capacity, as our orders return to normal levels. Nonetheless, if there was a significant future reduction in instant ticket sales at retail Pollard's revenue would be impacted negatively.

Sales from our iLottery operations, which are generated through revenue sharing, have grown noticeably over the past number of weeks as consumers increasingly move their purchases to the internet. As noted previously, only a small number of lotteries have developed iLottery portals and as a result, our increased revenue from iLottery will only modestly mitigate reduced sales in other areas of our business. It is too early to determine if increases in iLottery sales are a long-term trend, however the increased sales of iLottery demonstrate the strength of this lottery distribution channel.

Our charitable gaming products, pull-tabs, bingo paper and egaming machines, represent approximately 22% of our revenue and are sold to distributors who in turn provide them to charities to sell at various retail locations including bars, veteran organizations and bingo halls. These locations remain mostly shut down throughout North America, effectively eliminating retail sales of the products. Reductions in retail sales for this product line have quickly translated to reduced revenue for Pollard, resulting in the majority of our charitable gaming revenue being eliminated during the shutdown period.

Our pull-tab and bingo paper operations continue to produce inventory to address backlogs which had developed over the past few quarters due to strong customer demand. We will maintain our paper based charitable gaming production in the short term to ensure we are in a strong position to service our customers when markets reopen.

Our Diamond Game egaming business has implemented a number of cost mitigation strategies including reduction of discretionary expenses, salary reductions, workshare programs and temporary furlough of staff to help mitigate the loss of revenue.

While we have initiated policies to reduce our cost structure, our income from charitable gaming is expected to be significantly negatively affected during the period that COVID-19 results in closure of retail establishments.

It is unknown how long the shutdowns of distribution points for the retail sales of charitable gaming products will continue or, once open, how long it will be to return to the previous levels of consumer demand. During 2019 a number of jurisdictions generated positive retail sales growth and we believe the ultimate underlying fundamentals of the charitable gaming industry remains strong.

Our balance sheet and available liquidity remain very robust and positions Pollard extremely well to support our operations during the period that COVID-19 impacts our business. Our current cash resources and undrawn senior debt facilities, including our accordion feature, provides approximately \$116 million in available financial liquidity. We

have introduced policies to reduce discretionary expenditures and lowered capital outlays to the minimum required to maintain operations and key ongoing projects. We have introduced a number of payroll cost mitigation strategies in applicable operations including workshare programs, staff furloughs and corporatwide management salary reductions. Our lottery operations continue to generate solid cash flows as the lottery industry weathers these challenging times reasonably well. We are using and continue to monitor various government assistance programs for applicability to our situation.

COVID-19 has generated significant uncertainty which makes it difficult for companies, including Pollard, to confidently project the near and medium-term impacts. Further changes and developments with COVID-19 could ultimately impact our operations and financial results accordingly.

Notwithstanding the head winds and challenges faced in the near term, we believe the fundamentals of the lottery and charitable gaming industries remain very positive in the long term and we believe our organization is uniquely situated to not only manage through this difficult period, but lay the ground work to return to solid growth as markets and the economy open up. Our strategy has been to expand our product lines through organic development and acquisitions, and we have the balance sheet strength and the market opportunities to pursue this strategy even more aggressively. We are confident in our ability to withstand these short-term challenges and we are excited about the opportunity we have to flourish in the long term.

For Further Information Please Contact:

John Pollard
Co-Chief Executive Officer
E-mail: jpollard@pbl.ca

Doug Pollard
Co-Chief Executive Officer
E-mail: dpollard@pbl.ca

Rob Rose
Chief Financial Officer
E-mail: rrose@pbl.ca

Pollard Banknote Limited
Telephone: (204) 474-2323

SEDAR: 00029950
(PBL)

CO: Pollard Banknote Limited