POLLARD banknote limited

News Release

POLLARD BANKNOTE ANNOUNCES 2ND QUARTER RESULTS

WINNIPEG, Manitoba, August 9, 2017 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three and six months ended June 30, 2017, achieving record quarterly levels of Revenue and Adjusted EBITDA.

"We are extremely pleased with our financial results for the second quarter," commented Co-Chief Executive Officer John Pollard. "Very strong orders from our existing client portfolio generated significantly higher production volumes compared to last year, continuing the impressive levels achieved in the first quarter. Robust sales of our specialty products contributed positively to our average sales prices and gross margin. This highlights the importance of our ongoing innovation focus and the success of our creative process in developing unique products and services that generate market leading returns for our customers."

"Our second quarter sales were up by 44% from last year to $77.9 million and Adjusted EBITDA increased 118% to $13.1 million. As discussed last quarter, our second quarter sales volumes were boosted by the significant amount of product in transit at the end of the first quarter. This in transit volume had accounted for approximately 15% of our first quarter production and the incremental revenue relating to this work provided an extra boost to our revenue for the second quarter. One needs to really look at the first half results for 2017 in total rather than the individual quarters to more clearly understand our current year's results. Nevertheless, for the first six months our sales are up by 15% and Adjusted EBITDA by 52%. These results clearly illustrate our ongoing success of growing our share of the instant ticket market and the impact of additional ancillary products sales in categories such as iLottery and licensed games."

"Our manufacturing operations continue to yield positive results through increased productivity and improving cost structures as we continue to more efficiently utilize our expanded capacity to produce increased volumes. Once again our operating results generated considerable cash flow which was used to lower our net financial debt although in the quarter there was some investment in working capital to support our growth. In the first six months of this year we have generated sufficient cash to pay down our total net debt (long-term debt plus subordinated debt less cash) by $13.1 million to $56.4 million. We expect this positive cash generation to continue in the longer term allowing us to lower our debt leverage even further and provide funding for future investments."

"On August 3rd, 2017, we acquired 17,929,021 common shares (89.3%) of INNOVA Gaming Group Inc. in conjunction with our friendly bid to acquire the company. The mandatory 10 day extension for the remaining shareholders to tender their shares will end August 15th. We encourage all remaining shareholders to tender their shares in accordance with the bid instructions. We expect to commence the normal steps to privatize the company upon completion of the extension. The addition of INNOVA and its Diamond Game business is a very exciting new chapter for Pollard and we look forward to the combined strengths of the two companies serving the lottery and charitable gaming sectors in the future."

"The lottery market remains very healthy and we are thrilled with the traction and support we are receiving from lotteries around the world," stated Doug Pollard, Co-Chief Executive Officer. "During this past year we have renewed a number of our important instant ticket lottery contracts and are actively pursuing additional opportunities through the RFP process. We are very pleased to see a number of lotteries increasing Pollard's share of their instant ticket business in situations with multiple ticket suppliers and believe this is a reflection of the products, services and knowledge we're bringing to our customers. Our vision is to be the best partner to help our customers grow their lottery sales and our results for the first six months of 2017 demonstrate that we are achieving our vision. We look forward to continuing to expand the depth and breadth of products and services that we offer lotteries, as we help our customers continue to achieve record sales levels."

"The first half of 2017 has been very gratifying for us, as many of the investments and developments in process for some time have produced some very encouraging results," concluded John Pollard. "Going forward our existing business is well positioned to continue to organically generate successful results and to provide a solid foundation for additional growth through acquisitions. We are thrilled with the addition of INNOVA and their operating business Diamond Game to our family and we look forward to their future contributions."

HIGHLIGHTS

	Three months ended June 30, 2017	Three months ended June 30, 2016
Sales	$ 77.9 million	$ 54.0 million
Gross Profit	$ 18.6 million	$ 10.9 million
Gross Profit % of sales	*23.9%*	*20.2%*
Administration expenses	$ 6.6 million	$ 5.1 million
Selling expenses	$ 2.1 million	$ 1.8 million
Net Income	$ 6.0 million	$ 2.0 million
Adjusted EBITDA	$ 13.1 million	$ 6.0 million

	Six months ended June 30, 2017	Six months ended June 30, 2016
Sales	$ 135.3 million	$ 118.0 million
Gross Profit	$ 30.0 million	$ 22.3 million
Gross Profit % of sales	*22.2 %*	*18.9%*
Administration expenses	$ 12.0 million	$ 10.4 million
Selling expenses	$ 4.1 million	$ 3.7 million
Net Income	$ 7.8 million	$ 5.6 million
Adjusted EBITDA	$ 19.4 million	$ 12.8 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.

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 and six months ended June 30, 2017. These financial statements have been prepared in accordance with the International Financial Accounting Standards (“IFRS” or “GAAP”).

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$77.9	$54.0	$135.3	$118.0
Cost of sales	59.3	43.1	105.3	95.7
Gross profit	18.6	10.9	30.0	22.3
Administration expenses	6.6	5.1	12.0	10.4
Selling expenses	2.1	1.8	4.1	3.7
Other (income) expense	0.6	(0.4)	0.9	(0.4)
Income from operations	9.3	4.4	13.0	8.6
Finance costs	0.8	1.2	1.7	2.1
Finance income	(0.1)	-	(0.1)	(1.0)
Income before income taxes	8.6	3.2	11.4	7.5
Income taxes:				
Current	2.8	1.6	4.1	2.7
Deferred recovery	(0.2)	(0.4)	(0.5)	(0.8)
	2.6	1.2	3.6	1.9
Net income	$6.0	$2.0	$7.8	$5.6
Adjustments:				
Amortization and depreciation	2.6	2.9	5.2	5.6
Interest	0.7	0.8	1.5	1.7
Acquisition costs	0.7	-	1.0	-
Unrealized foreign exchange (gain) loss	0.5	(0.9)	0.3	(2.0)
Income taxes	2.6	1.2	3.6	1.9
Adjusted EBITDA	$13.1	$6.0	$19.4	$12.8

	June 30, 2017	December 31, 2016
Total Assets	$173.5	$176.8
Total Non-Current Liabilities	$86.6	$94.4

Results of Operations – Three months ended June 30, 2017

During the three months ended June 30, 2017, Pollard achieved sales of $77.9 million, compared to $54.0 million in the three months ended June 30, 2016. Factors impacting the $23.9 million sales increase were:

- Instant ticket sales volumes in the quarter increased significantly when compared to the second quarter of 2016 increasing sales by $19.0 million. The record sales volume was partially a result of a significant amount of goods in transit to international customers at March 31, 2017, being recognized in sales in this quarter, and partially reflective of the record amount of production in the quarter, based on greater orders from existing customers. Sales of ancillary instant ticket products and services increased in 2017, increasing sales by $3.7 million due primarily to higher sales of licensed products as well as from iLottery. An increase in the charitable gaming average selling price improved sales by $0.2 million when compared to the second quarter of 2016.

- Partially offsetting these increases was a decrease in the instant ticket average selling price in the second quarter of 2017 compared to the prior year which decreased sales by $1.2 million. A slight decrease in the charitable gaming volumes decreased sales by $0.3 million when compared to the second quarter of 2016.

- During the three months ended June 30, 2017, Pollard generated approximately 75.0% (2016 – 69.0%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2017 the actual U.S. dollar value was converted to Canadian dollars at $1.347, compared to a rate of $1.288 during the second quarter of 2016. This 4.5% increase in the U.S. dollar value resulted in an approximate increase of $2.5 million in revenue relative to the second quarter of 2016.

Cost of sales was $59.3 million in the second quarter of 2017 compared to $43.1 million in the second quarter of 2016. Cost of sales were higher in the quarter relative to 2016 as a result of higher volumes of instant tickets, increased ancillary instant ticket products and services sales and the impact of higher exchange rates on U.S. dollar transactions.

Gross profit was $18.6 million (23.9% of sales) in the second quarter of 2017 compared to $10.9 million (20.2% of sales) in the second quarter of 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes, greater ancillary instant ticket products and services sales and higher exchange rates on net U.S. dollar transactions. The higher gross profit percentage was due to the higher instant ticket volumes, the instant ticket sales mix weighted to higher margin products, increased sales of ancillary instant ticket products and services and improved manufacturing efficiencies.

Administration expenses increased to $6.6 million in the second quarter of 2017 from $5.1 million in the second quarter of 2016. The increase was primarily a result of $0.7 million in acquisition costs in the second quarter of 2017 compared to 2016 and increased compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals. This increase was partially offset by lower professional fees, primarily legal costs, of $0.3 million in the first quarter of 2017 compared to the first quarter of 2016.

Selling expenses increased to $2.1 million in the second quarter of 2017 from $1.8 million in the second quarter of 2016 primarily as a result of increased compensation costs.

Interest expense decreased to $0.7 million in the second quarter of 2017 from $0.8 million in the second quarter of 2016 primarily as a result of lower interest rates and higher cash flow reducing long-term debt in 2017.

The net foreign exchange gain was $0.1 million in the second quarter of 2017 compared to a net loss of $0.3 million in the second quarter of 2016. The 2017 net foreign exchange gain of $0.1 million resulted from a $0.6 million realized foreign exchange gain relating to the increased value on the collections of U.S. dollar denominated receivables. Partially offsetting the realized gain was the unrealized foreign exchange loss of $0.5 million, comprised predominately of an unrealized loss on U.S. dollar denominated receivables, partially offset by an unrealized gain on U.S. dollar denominated liabilities.

The 2016 net foreign exchange loss was due to the strengthening of the Canadian dollar. Partially offsetting the realized foreign exchange loss of $1.2 million, relating to the decreased value on the collections of U.S. dollar denominated receivables, was the reversal of $0.9 million unrealized loss recognized in prior quarters.

Adjusted EBITDA was $13.1 million in the second quarter of 2017 compared to $6.0 million in the second quarter of 2016. The primary reasons for the increase in Adjusted EBITDA of $7.1 million were the increase in gross profit (net of amortization and depreciation) of $7.4 million and a decrease in realized foreign exchange loss of $1.8 million. These increases were partially offset by the increase in administration costs (net of acquisition costs) of $0.8 million, the increase in selling costs of $0.3 million, the increase in loss of equity investment of $0.4 million and the reduction in other income of $0.5 million.

Income tax expense was $2.6 million in the second quarter of 2017, an effective rate of 30.1%, higher than our expected effective rate of 27.0% due primarily to the impact of permanent differences from non-deductible expenditures.

Income tax expense was $1.2 million in the second quarter of 2016, an effective rate of 36.9%, which was higher than our expected effective rate of 27.0% due primarily to differences relating to the foreign exchange impact relating to permanent differences on the foreign exchange translation of property, plant and equipment and other net liabilities.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $2.6 million during the second quarter of 2017 which decreased from $2.9 million during the second quarter of 2016 primarily as a result of decreased depreciation of property, plant and equipment.

Net income increased to $6.0 million in the second quarter of 2017 from $2.0 million in the second quarter of 2016. The primary reasons for the increase of $4.0 million in net income were the increase in gross profit of $7.7 million and the decrease in foreign exchange loss of $0.4 million. These increases were partially offset by increase in administration expenses of $1.5 million the increase in selling costs of $0.3 million, the increase in loss of equity investment of $0.4 million, the reduction in other income of $0.5 million and the increase in income tax expense of $1.4 million.

Net income per share (basic and diluted) increased to $0.25 per share in the second quarter of 2017 from $0.09 per share in the second quarter of 2016.

Results of Operations – Six months ended June 30, 2017

During the six months ended June 30, 2017, Pollard achieved sales of $135.3 million, compared to $118.0 million in the six months ended June 30, 2016. Factors impacting the $17.3 million sales increase were:

- Higher instant ticket sales volumes increased sales by $8.8 million in the first six months of 2017 compared to the first six months of 2016 due to a record amount of production this year, based on increased orders from existing customers. Additionally, the higher instant ticket average selling price increased sales by $4.5 million when compared to the first half of 2016.

- Higher sales of our ancillary instant ticket products and services increased sales by $3.7 million from the first half of 2016. The increase in sales was due primarily to higher sales of licensed products, greater revenues from iLottery and added sales from our loyalty solution. These increases were partially offset by the reduction in lottery management systems sales compared to the prior year. An increase in the charitable gaming average selling price increased sales by $0.6 million when compared to the first half of 2016.

- During the six months ended June 30, 2017, Pollard generated approximately 72.1% (2016 – 70.0%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of 2017 the actual U.S. dollar value was converted to Canadian dollars at $1.339, a similar rate to the first six months of 2016. As a result, there was no change in sales resulting from changes in the U.S. dollar value. However, during the first half of 2017, the value of the Euro weakened against the Canadian dollar resulting in an approximate decrease of $0.3 million in revenue relative to the first half of 2016.

Cost of sales was $105.3 million in the six months ended June 30, 2017, compared to $95.7 million in the six months ended June 30, 2016. Cost of sales was higher in the first half of 2017 relative to 2016 as a result of higher volumes of instant tickets and increased ancillary instant ticket products and services sales.

Gross profit increased to $30.0 million (22.2% of sales) in the six months ended June 30, 2017, from $22.3 million (18.9% of sales) in the six months ended June 30, 2016. This increase in gross profit was primarily the result of the increase in instant ticket volumes and higher ancillary instant ticket products and services sales. The higher gross profit percentage was due to the larger volumes of instant tickets, the instant ticket sales mix weighted to higher margin products, increased sales of ancillary instant ticket products and services and improved manufacturing efficiencies.

Administration expenses increased to $12.0 million in the first six months of 2017 from $10.4 million in the first six months of 2016. The increase was a result of $1.0 million in acquisition costs in the first half of 2017 compared to 2016 and increased compensation expenses (which primarily related to expansion of our ancillary lottery product and services sales and acquisition efforts) including incentive accruals. This increase was partially offset by lower professional fees, primarily legal costs, which were lower by $1.0 million in the first quarter of 2017 compared to the first quarter of 2016.

Selling expenses increased to $4.1 million in the first six months of 2017 from $3.7 million in the first six months of 2016 primarily as a result of increased compensation costs.

Interest expense decreased to $1.5 million in the first six months of 2017 from $1.7 million in the first six months of 2016 primarily as a result of lower interest rates and higher cash flow reducing long-term debt in 2017.

The net foreign exchange gain was $nil in the first six months of 2017 compared to a net gain of $0.7 million in the first half of 2016. The 2017 foreign exchange gain resulted from a net unrealized foreign exchange loss of $0.3 million, comprised predominately of an unrealized loss on U.S. denominated receivables, partially offset by an unrealized gain on U.S. denominated liabilities. The unrealized loss was fully offset by a realized gain of $0.3 million, relating to the increased value on the collections of U.S. dollar denominated receivables.

The 2016 foreign exchange gain resulted from unrealized foreign exchange gain of $2.0 million, comprised predominately of an unrealized gain on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar) in addition to an unrealized gain on other U.S. dollar denominated accounts payable. The unrealized gain was partially offset by a realized loss of $1.3 million, relating to the decreased value on the collections of U.S. dollar denominated receivables.

Adjusted EBITDA was $19.4 million in the first six months of 2017 compared to $12.8 million in the first six months of 2016. The primary reason for the increase in Adjusted

EBITDA of $6.6 million were the increase in gross profit (net of amortization and depreciation) of $7.3 million and a decrease in realized foreign exchange loss of $1.6 million. These increases were partially offset by the increase in administration costs (net of acquisition costs) of $0.6 million, the increase in selling costs of $0.4 million, the increase in loss of equity investment of $0.6 million and the reduction in other income of $0.6 million.

Income tax expense was $3.6 million in the first six months of 2017, an effective rate of 31.6%, which was higher than our expected effective rate of 27.0% due primarily to the impact of permanent differences from non-deductible expenditures.

Income tax expense was $1.9 million in the first six months of 2016, an effective rate of 24.7%, which was lower than our expected effective rate of 27.0% 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 strengthening of the Canadian dollar versus the U.S. dollar results in a future loss on debt repayment for U.S. tax purposes in the subsidiary, creating a deferred tax recovery with no related income (as the loss is eliminated on consolidation). This decreased the effective tax rate by approximately 13 percentage points. Other differences relating to permanent differences on the foreign exchange translation of property, plant and equipment, and other net liabilities increased the effective tax rate by approximately 10 percentage points on a net basis.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $5.2 million during the first six months of 2017 which decreased from $5.6 million during the first six months of 2016 primarily as a result of decreased depreciation of property, plant and equipment.

Net income increased to $7.8 million in the first six months of 2017 from $5.6 million in the first six months of 2016. The primary reason for the increase was the increase in gross profit of $7.7 million. This increase was partially offset by the increase in administration expenses of $1.6 million, the increase in selling costs of $0.4 million, the increase in loss of equity investment of $0.6 million, the reduction in other income of $0.6 million, the decrease in foreign exchange gain of $0.7 million and the increase in income tax expense of $1.7 million.

Net income per share (basic and diluted) increased to $0.33 per share in the six months ending June 30, 2017, as compared to $0.24 per share in the six months ending June 30, 2016.

Use of Non-GAAP Financial Measures

Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, amortization and depreciation, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts, and certain non-recurring items including start-up and acquisition 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

Our outlook for the lottery industry, and in particular the market for instant tickets, continues to be very positive. Consumer demand for lottery products including instant tickets is strong and lotteries continue to look for new ways to generate additional funds to support their good causes. This includes looking at new distribution methods and developing unique and innovative products, in addition to maximizing the effectiveness of the traditional instant win scratch lottery tickets. Sales of instant tickets continue to grow across many jurisdictions and we anticipate this trend to continue.

Our volume expectation for 2017 remains strong. We anticipate we will remain at similar levels to those achieved in the first half of the year. Longer term, we are confident our success in the marketplace, combined with our additional available capacity, is a solid recipe for continued long term volume growth.

As noted previously our second quarter revenue figures and related earnings numbers were positively impacted by the tickets in transit at the end of the first quarter being recognized in revenue in the second quarter, an impact that is not expected to be recurring. As a result our revenue and related earnings figures in the near term should be more consistent with results generated by the first half of 2017 in total rather than the second quarter taken in isolation.

Our current contract portfolio remains solid with no major existing contracts coming due in the next year, while conversely there are a number of major lotteries for which Pollard does not have a contract (or is only a minor secondary supplier) which have contracts that are expiring in the next 18 months. This presents an opportunity for us to bid strategically on these new contracts.

A factor in our improved results was our ongoing improvements in our manufacturing efficiencies. Increasing production volumes allow a certain amount of margin leverage relative to our fixed costs, but also our continued improvements in the operation of our

Tresu press in our Ypsilanti facility played an important role in our improved cost structure and we expect this trend to continue.

Approximately 60% to 70% of our revenue is sourced in U.S. dollars and changes in the exchange rate between the Canadian and U.S. dollar will have an impact on our financial results. Recently the Canadian dollar has strengthened considerably relative to the U.S. dollar and assuming that trend continues, there will be a negative impact on our financial results. Over time we have transitioned substantial cost inputs into U.S. dollars as a natural hedge which helps mitigate the net impact, including the costs relating to our facilities in the United States as well as significant amounts of our manufacturing inputs utilized in our Canadian facilities.

On August 3, 2017, we acquired 17,929,021 common shares (89.3%) of INNOVA Gaming Group Inc. in conjunction with our board supported bid to acquire the company. The mandatory 10 day extension for the remaining shareholders to tender their shares will end August 15, 2017. We encourage all remaining shareholders to tender their shares in accordance with the bid instructions. We expect to commence the normal steps to privatize the company upon completion of the extension. We look forward to combining the two businesses going forward, which will include consolidating INNOVA's financial results with Pollard Banknote starting in the third quarter of 2017. In addition we remain committed to growth through external acquisitions where appropriate and remain very active in sourcing and investigating ongoing opportunities.

Our budgeted capital expenditures for the remainder of 2017 should remain at similar levels as experienced the first half of the year, with no major projects anticipated. Strong positive cash flow is expected going forward, which will provide us with important flexibility to invest in the areas of our business as needed, manage our debt levels and provide us appropriate financing to pursue and complete acquisitions.

In the second quarter our growth resulted in the use of a portion of our free cash flow to increase working capital. As is typical in our business, our investment in working capital does vary quarter to quarter based on the timing of shipments and the impact of few in number but large individual dollar sized transactions. Over a period of time we expect the variation in working capital levels to stabilize, allowing our free cash flow to be used for additional investments in our business.

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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