POLLARD banknote limited

News Release

POLLARD BANKNOTE ANNOUCES STRONG GROWTH IN FIRST QUARTER 2013 RESULTS

WINNIPEG, Manitoba, May 8, 2013 /CNW/ — **Pollard Banknote Limited** (TSX: PBL) ("Pollard") today released its financial results for the three months ended March 31, 2013.

"We are extremely pleased with the very strong results achieved in our first quarter of 2013," said John Pollard, Co-Chief Executive Officer. "We sold record volumes of instant tickets for the first quarter, generating a 21% increase in revenue compared to the first quarter in 2012, which combined with our continued emphasis on cost improvements produced a large increase in our EBITDA and pre-tax income. Our volume growth stemmed from increased order levels from our existing stable of customers, as well as higher sales generated from some of our key proprietary products, including our popular Scratch FX® premium instant tickets. Improved production yields and other manufacturing efficiencies helped lead to these impressive returns, which are particularly gratifying in a period that has been traditionally our slowest quarter of the year."

"While we don't anticipate the remainder of 2013 to achieve the same level of year over year growth as experienced in the first quarter of 2013, we do believe that our volumes will continue at levels higher than achieved in 2012."

"The instant ticket market continues to be very healthy with strong retail sales growth generating new opportunities for us to assist our customers in their pursuit of generating funds for good causes. We remain very optimistic the remainder of 2013 will continue to generate solid financial results."

HIGHLIGHTS	Three months ended March 31, 2013	Three months ended March 31, 2012
Sales	$ 44.4 million	$ 36.6 million
Gross Profit	$ 8.1 million	$ 6.6 million
Gross Profit % of sales	*18.2 %*	*18.0 %*
Administration expenses	$ 3.4 million	$ 3.4 million
Selling expenses	$ 1.6 million	$ 1.5 million
Income from Operations	$ 3.2 million	$ 1.7 million
Net Income	$ 0.9 million	$ 0.8 million
Adjusted EBITDA	$ 5.1 million	$ 3.4 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.

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended March 31, 2013**	**Three months ended March 31, 2012**
	(unaudited)	(unaudited)
Sales	$44.4	$36.6
Cost of Sales	36.3	30.0
Gross Profit	8.1	6.6
Administration expenses	3.4	3.4
Selling expenses	1.6	1.5
Other income	(0.1)	-
Income from operations	3.2	1.7
Finance costs	1.3	1.1
Finance income	-	(0.2)
Income before income taxes	1.9	0.8
Income taxes:		
Current	0.4	0.4
Future (reduction)	0.6	(0.4)
	1.0	-
Net Income	$0.9	$0.8
Adjustments:		
Amortization and depreciation	1.9	1.9
Interest	0.9	0.9
Unrealized foreign exchange loss (gain)	0.4	(0.2)
Income taxes	1.0	-
Adjusted EBITDA	$5.1	$3.4

	March 31, 2013	December 31, 2012
Total Assets	$125.9	$127.0
Total Non-Current Liabilities	$85.0	$83.4

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, for the three months ended March 31, 2013. 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, 2013

During the three months ended March 31, 2013, Pollard achieved sales of $44.4 million, compared to $36.6 million in the three months ended March 31, 2012. A number of factors impacted the $7.8 million sales increase.

- Instant ticket volumes for the first quarter of 2013 were 24.5% higher than the first quarter of 2012, which combined with an increase in ancillary instant ticket products and services, increased sales by $7.7 million. Volumes increased due to significantly higher orders from existing customers and increased sales of a number of our proprietary specialty products. In addition, a slight increase in average selling price compared to 2012 further increased sales by $0.1 million. Charitable Gaming average selling prices for the quarter increased sales compared to 2012 by $0.3, while a decrease in volume reduced revenue by $0.1 million. An increase in the volume of machine sales in the quarter increased revenue by $0.2 million when compared to the first quarter of 2012.

- During the three months ended March 31, 2013, Pollard generated approximately 64.8% (2012 - 69.5%) of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first quarter of 2013 the actual U.S. dollar value was converted to Canadian dollars at $1.003, compared to a rate of $1.007 during the first quarter of 2012. This 0.3% decrease in the U.S. dollar value resulted in an approximate decrease of $0.1 million in revenue relative to the first quarter of 2012. Also during the quarter, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.3 million in revenue relative to the first quarter of 2012.

Cost of sales was $36.3 million in the first quarter of 2013 compared to $30.0 million in the first quarter of 2012. Cost of sales was higher by $6.3 million as a result of the substantial increase in volumes, partially mitigated by continued improvements in manufacturing yields and labour efficiencies.

Gross profit earned in the first quarter of 2013 was $8.1 million (18.2% of sales) as compared to $6.6 million (18.0% of sales) earned in the first quarter of 2012. This increase was due mainly to the increase in instant ticket volumes as well as additional cost reductions, including reduced waste and improved labour efficiency.

Administration expenses were $3.4 million in the first quarter of 2013 which was similar to $3.4 million in the first quarter of 2012.

Selling expenses were $1.6 million in the first quarter of 2013 which was similar to $1.5 million in the first quarter of 2012.

Interest expense was $0.9 million in the first quarter of 2012 which was similar to $0.9 million in the first quarter of 2012.

The net foreign exchange loss was $0.2 million in the first quarter of 2013 compared to a gain of $0.2 million in the first quarter of 2012. Within the 2013 net foreign exchange loss was an unrealized foreign exchange loss of $0.4 million comprised of a $0.5 million unrealized loss on U.S. dollar denominated debt (caused by the weakening of the value of the Canadian dollar versus the U.S.) which was partially offset by an unrealized gain on U.S. denominated receivables. Partially offsetting the unrealized loss was a realized gain of $0.2 million relating to the increased value of U.S. dollar denominated receivables.

Within the 2012 foreign exchange gain was an unrealized foreign exchange gain of $0.2 million on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar toward the end of the quarter partially offset by losses relating to the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment). Also within the foreign exchange gain was a realized gain of $0.2 million relating to payments made on U.S. dollar denominated debt and an offsetting realized foreign exchange loss of $0.2 million on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Adjusted EBITDA was $5.1 million in the first quarter of 2013 compared to $3.4 million in the first quarter of 2012. The primary reason for the increase in Adjusted EBITDA was the increased gross profit due to higher sales volumes.

Income tax expense was $1.0 million in the first quarter of 2013, an effective rate of 51.3%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries due to a weakening Canadian dollar during the period.

Income taxes were nil in the first quarter of 2012 as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries due to a strengthening Canadian dollar during the period.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $1.9 million during the first quarter of 2013 which was similar to $1.9 million during the first quarter of 2012.

Net Income increased to $0.9 million in the first quarter of 2013 from $0.8 million in the first quarter of 2012. The primary reason for the increase was the increase in gross profit of $1.5 million, which was largely offset by the increases in foreign exchange loss of $0.4 million and income tax expense of $1.0 million.

Net Income per share increased to $0.04 per share in the first quarter of 2013 from $0.03 in the first quarter of 2012.

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 interest rate swaps, and certain non-recurring items including Conversion expenses, warranty reserve accruals, settlement loss on pension curtailment and restructuring 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 for lotteries continues to be very robust, with year over year retail sales growth in the high single digits. We anticipate demand for our product at the retail level will continue to be strong as lotteries worldwide find ongoing success with both the existing products and developing additional features to drive demand such as second chance drawings, interactive internet related features and improved understanding of the ultimate consumer's wants. Lotteries will continue to reach out to suppliers such as Pollard to help them capitalize on the opportunities presented by this growing market.

Our expected order volume for the remainder of 2013 is strong and we anticipate our production and sales volumes over the next three quarters to be higher than the record levels achieved in 2012. Traditionally our volumes are higher in the later part of the year when compared to the first quarter and we anticipate this trend to continue, albeit in a slightly less pronounced fashion this year.

There are a number of instant ticket contracts up for bid in 2013 and we have been responding to these proposal requests during the first and second quarter. While our industry remains extremely competitive, we are selectively focusing on the critical opportunities where we can generate an appropriate return on investment and will continue to do so as our competitor contracts expire over the course of the rest of the year.

Our New Jersey Lottery contract continues to run until December 31, 2013. Recently the New Jersey Lottery announced plans to potentially award a new contract to outsource the management of the Lottery to a private consortium. While it is too early to determine how this might impact our future volumes and revenue from this contract after it expires at the end of 2013, we will continue to position ourselves as an important supplier for the years 2014 and beyond. Recently the Western Canada Lottery Corporation awarded Pollard a new five year contract (with an additional five year option to renew) to provide instant ticket products and services. We have no other material customer contracts that come due in 2013 (when extensions are considered).

Lotteries around the world continue to look to their supplier partners to provide innovative ideas and solutions to help them maximize their funds generated for good causes. One of our key success factors is our ongoing investment and development of innovative products and services, allowing us to grow our business while at the same time growing our lottery customers' business. We are investing in new and innovative product ideas such as interactive games over the internet, loyalty clubs and other tools to help our customers. While still in its infancy, these areas will offer interesting possibilities for future growth. Though we are excited about new opportunities like interactive gaming, the traditional bricks and mortar business of retail lottery distribution remains the most critical business platform for lotteries and various retail improvement strategies will continue to be an important area for Pollard to pursue.

The lottery industry continues to look towards expanding their instant ticket product lines through the use of additional distribution channels, maximizing merchandising programs and leveraging the use of the internet. Pollard will continue to pursue opportunities in these areas. Our Social Instants™, a tool allowing lotteries to maximize the use of social media to expand and grow their instant ticket sales, continues to generate interest among lotteries. A number of other innovative products and services have been developed and are being aggressively marketed to the lottery industry.

The charitable gaming market remains relatively flat compared to the past number of years and we expect this to continue. While smaller than our instant ticket operations, our business in this product line operates very efficiently and as a result earns a strong level of profitability. Bingo paper, pull-tab tickets and related vending machines are an important generator of funds for various good causes and charities and we anticipate our results from this operation will continue to yield a good return.

Our Change Initiative process generated significant achievements in 2012 and our results in the first quarter of 2013 mirror those successes. We have a number of important initiatives in our 2013 strategic plan targeted at improving our key performance indicators and believe there are many opportunities in both our direct manufacturing and our overall support operations to continue to lower our cost structures.

We anticipate our capital expenditures during 2013 to be similar to the amounts expended during 2012. Our capital improvement focus includes projects developing and modernizing our information and manufacturing systems to provide the foundation for future expansion and growth in our business. We will continue to invest in critical areas of improving manufacturing efficiencies and as well are making some further commitments to expanding capacity to produce some of our in-demand proprietary value added products.

Pollard Banknote believes that its credit facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at existing business levels.

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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