POLLARD banknote limited

News Release

POLLARD BANKNOTE ANNOUNCES HIGHER 3RD QUARTER REVENUE AND ADJUSTED EBITDA

WINNIPEG, Manitoba, November 6, 2013 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three and nine months ended September 30, 2013.

"We are very pleased with our 3rd quarter results," commented Co-Chief Executive Officer John Pollard, "with significant growth in top line revenue and operating EBITDA. Our instant ticket volumes were very strong during the quarter and higher sales of our specialty products also impacted very positively on our revenue."

"All of our product lines witnessed positive growth during the 3rd quarter, with our instant tickets generating stronger revenue on higher volumes. We are very pleased to announce during the quarter the Vermont Lottery has named Pollard as the successful bidder for its primary instant ticket contract. This will be our first contract with the Vermont Lottery and demonstrates the continuing growth in our contract portfolio."

"Our Licensed Games also generated near record sales reflecting a number of key licensed properties. In addition, our charitable gaming segment, featuring breakopen tickets and bingo paper, also generated strong earnings based on solid volume growth throughout their product lines. Overall we expect our fourth quarter to be consistent with the levels of production we have seen over the past three quarters, and we remain very positive for the outlook heading into 2014."

"Our growth in volumes during the quarter impacted our net debt position as our investment in receivables grew in conjunction with our revenue growth. Future periods will see the benefit as these higher sales generate higher cash inflows and reductions to our net debt position."

HIGHLIGHTS	3rd Quarter ended September 30, 2013	3rd Quarter ended September 30, 2012
Sales	$ 48.1 million	$ 44.1 million
Gross profit	$ 9.7 million	$ 9.2 million
Gross profit % of sales	*20.2%*	*20.9%*
Administration expenses	$ 3.9 million	$ 3.3 million
Selling expenses	$ 1.9 million	$ 1.4 million
Realized foreign exchange loss (gain)	$ (0.5 million)	$ 0.5 million
Net income	$ 2.6 million	$ 3.3 million
Adjusted EBITDA	$ 6.3 million	$ 5.9 million

	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Sales	$ 137.4 million	$ 121.5 million
Gross profit	$ 26.0 million	$ 24.3 million
Gross profit % of sales	*18.9 %*	*20.0%*
Administration expenses	$ 11.0 million	$ 10.0 million
Selling expenses	$ 5.1 million	$ 4.6 million
Realized foreign exchange loss (gain)	$ (0.7 million)	$ 0.4 million
Net income	$ 4.6 million	$ 5.2 million
Adjusted EBITDA	$ 16.4 million	$ 14.5 million

POLLARD BANKNOTE LIMITED

Pollard is one of the leading providers of products and services to the lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world.

Results of Operations – Three and Nine months ended September 30, 2013

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$48.1	$44.1	$137.4	$121.5
Cost of sales	38.4	34.9	111.4	97.2
Gross profit	9.7	9.2	26.0	24.3
Administration expenses	3.9	3.3	11.0	10.0
Selling expenses	1.9	1.4	5.1	4.6
Other income	-	(0.1)	(0.1)	-
Income from operations	3.9	4.6	10.0	9.7
Finance costs	0.9	0.9	3.1	3.4
Finance income	(0.5)	(0.4)	(0.5)	(0.7)
Income before income taxes	3.5	4.1	7.4	7.0
Income taxes:				
Current	0.8	0.4	1.6	1.0
Deferred	0.1	0.4	1.2	0.8
	0.9	0.8	2.8	1.8
Net income	$2.6	$3.3	$4.6	$5.2
Adjustments:				
Amortization and depreciation	2.0	1.9	5.9	5.6
Interest	0.8	0.8	2.6	2.5
Unrealized foreign exchange (gain) loss	-	(0.9)	0.5	(0.6)
Income taxes	0.9	0.8	2.8	1.8
Adjusted EBITDA	$6.3	$5.9	$16.4	$14.5

	September 30, 2013	December 31, 2012
Total Assets	$132.6	$127.0
Total Non-Current Liabilities	$85.0	$83.4

The previous selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard, as at and for the three and nine months ended September 30, 2013.

Results of Operations – Three months ended September 30, 2013

During the three months ended September 30, 2013, Pollard achieved sales of $48.1 million, compared to $44.1 million in the three months ended September 30, 2012. Factors impacting the $4.0 million sales increase were:

- Instant ticket volumes for the third quarter of 2013 were higher than the third quarter of 2012 by 0.9% which, combined with an increase in our ancillary instant ticket products and services, increased sales by $2.3 million. In addition, a decrease in average selling price compared to 2012 reduced sales by $0.3 million. Charitable Gaming volumes increased during the quarter increasing sales by $0.3 million when compared to 2012, in addition, machine volumes also increased in the quarter relative to 2012 which further increased sales by $0.1 million.

- During the three months ended September 30, 2013, Pollard generated approximately 64.6% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the third quarter of 2013 the actual U.S. dollar value was converted to Canadian dollars at $1.044, compared to a rate of $1.004 during the third quarter of 2012. This 4.0% increase in the U.S. dollar value resulted in an approximate increase of $1.2 million in revenue relative to the third quarter of 2012. Also during the third quarter of 2013, the Canadian dollar weakened against the Euro resulting in an approximate increase of $0.4 million in revenue relative to the third quarter of 2012.

Cost of sales was $38.4 million in the third quarter of 2013 compared to $34.9 million in the third quarter of 2012. Cost of sales was higher in the quarter relative to 2012 as a result of increased instant ticket volumes and higher exchange rates on U.S. dollar transactions in the third quarter of 2013.

Gross profit was $9.7 million (20.2% of sales) in the third quarter of 2013 compared to $9.2 million (20.9% of sales) in the third quarter of 2012. This increase was due mainly to increased volumes of instant ticket and ancillary instant ticket products and services.

Administration expenses increased to $3.9 million in the third quarter of 2013 compared to $3.3 million in the third quarter of 2012 primarily as a result of increased compensation expenses, including incentive accruals, and higher professional fees.

Selling expenses increased to $1.9 million in the third quarter of 2013 compared to $1.4 million in the third quarter of 2012 primarily as a result of increased compensation expenses, including incentive accruals.

Interest expense was $0.8 million in the third quarter of 2013 which was similar to $0.8 million in the third quarter of 2012.

The net foreign exchange gain was $0.5 million in the third quarter of 2013 compared to a net gain of $0.4 million in the third quarter of 2012. The 2013 foreign exchange gain consisted of a realized foreign exchange gain of $0.5 million, comprised of a realized gain of $0.3 million on the increased value of U.S. dollar denominated receivables and $0.3 million realized gain on the sale of U.S. dollar forward contacts, partially offset by a $0.1 million realized loss on U.S. dollar denominated payables.

Within the 2012 foreign exchange gain was an unrealized foreign exchange gain of $0.9 million, relating to a $0.8 million unrealized foreign exchange gain on U.S. dollar denominated debt and a $0.1 million unrealized gain on U.S. dollar denominated payables. The realized loss of $0.5 million was comprised of realized losses on the decreased value of U.S. dollar denominated receivables.

Adjusted EBITDA was $6.3 million in the third quarter of 2013 compared to $5.9 million in the third quarter of 2012. The primary reasons for the increase in Adjusted EBITDA of $0.4 million were the increase in gross profit of $0.5 million and the increase in the realized foreign exchange gains of $1.0 million, partially offset by increased administration and selling expenses of $1.1 million.

Income tax expense was $0.9 million in the third quarter of 2013, an effective rate of 24.9%, compared to the statutory rate of 26.3%, due to 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.

Income tax expense was $0.8 million in the third quarter of 2012, an effective rate of 18.7%, compared to the statutory rate of 26.8%, due to 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.

Amortization and depreciation, including depreciation of property and equipment and the amortization of deferred financing costs and intangible assets, totaled $2.0 million during the third quarter of 2013 as compared to $1.9 million during the third quarter of 2012, the increase was due primarily to higher depreciation of property, plant and equipment.

Net income was $2.6 million in the third quarter of 2013 compared to a Net income of $3.3 million in the third quarter of 2012. The primary reasons for the $0.7 million decrease were an increase of $1.1 million in selling and administrative expenses, partially offset by an increase in gross profit of $0.5 million.

Net income per share decreased to $0.11 per share in the third quarter of 2013 from a Net income per share of $0.14 in the third quarter of 2012.

Results of Operations – Nine months ended September 30, 2013

During the nine months ended September 30, 2013, Pollard achieved sales of $137.4 million, compared to $121.5 million in the nine months ended September 30, 2012. Factors impacting the $15.9 million sales increase were:

- Instant ticket volumes for the first nine months of 2013 were higher by 9.2% than the first nine months of 2012 which, combined with an increase in our ancillary instant ticket products and services, increased sales by $12.5 million. Charitable Gaming volumes were higher than the first nine months of 2012 increasing sales by $0.6 million. In addition, an increase in average selling price further increased sales by $0.1 million. An increase in machine volumes in the first nine months of 2013 increased sales by $0.6 million when compared to 2012.

- During the nine months ended September 30, 2013, Pollard generated approximately 66.7% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first nine months of 2013 the actual U.S. dollar value was converted to Canadian dollars at $1.022, compared to a rate of $1.005 during the first nine months of 2012. This 1.7% increase in the U.S. dollar value resulted in an approximate increase of $1.5 million in revenue relative to the first nine months of 2012. In addition, during the nine months ended September 30, 2013, the weakening of the Canadian dollar against the Euro resulted in an approximate increase of $0.6 million in revenue relative to the first nine months of 2012.

Cost of sales was $111.4 million in the nine months ended September 30, 2013, compared to $97.2 million in the first nine months of 2012. Cost of sales were higher in 2013 relative to 2012 as a result of increased instant ticket volumes and higher exchange rates on U.S. dollar transactions in the nine months ending September 30, 2013.

Gross profit increased to $26.0 million (18.9% of sales) in the first nine months of 2013 from $24.3 million (20.0% of sales) in the nine months ended September 30, 2012. This increase was due mainly to increased volumes of instant ticket and ancillary instant ticket products and services.

Administration expenses increased to $11.0 million in the first nine months of 2013 from $10.0 million in the first nine months of 2012 primarily as a result of increased compensation expenses, including incentive accruals, and higher professional fees.

Selling expenses increased to $5.1 million in the first nine months of 2013 from $4.6 million in the first nine months of 2012 primarily as a result of increased compensation expenses, including incentive accruals.

Interest expense was $2.6 million in the first nine months of 2013 which was similar to $2.5 million in the first nine months of 2012.

The net foreign exchange gain was $0.2 million in the first nine months of 2013 compared to a net gain of $0.2 million in the first nine months of 2012. Within the 2013 net foreign exchange gain was unrealized losses of $0.5 million, relating to unrealized foreign exchange loss on U.S. dollar denominated debt. Within the net foreign exchange gain was a realized gain of $0.7 million, consisting of $0.6 million in realized gains on the increased value of U.S. dollar denominated receivables and $0.3 million realized gain on the sale of U.S. dollar forward contacts, partially offset by a $0.2 million realized loss on U.S. dollar denominated payables.

Within the 2012 net foreign exchange gain are unrealized gains of $0.6 million, relating to unrealized foreign exchange gains on U.S. dollar denominated debt. Within the net foreign exchange gain was a realized loss of $0.4 million consisting of $0.6 million in realized losses on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars, partially offset by realized gains of $0.2 million relating to payments made on U.S. dollar denominated debt.

Adjusted EBITDA was $16.4 million in the first nine months of 2013 compared to $14.5 million in the first nine months of 2012. The primary reasons for the increase in Adjusted EBITDA of $1.9 million were the increase in gross profit of $2.2 million (net of amortization and depreciation) and the increase in the realized foreign exchange gains of $1.1 million, partially offset by increased administration and selling expenses of $1.5 million.

Income tax expense was $2.8 million in the first nine months of 2013, an effective rate of 38.2%, compared to the statutory rate of 26.3%, due to 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.

Income tax expense was $1.8 million in the first nine months of 2012, an effective rate of 25.3%, compared to the statutory rate of 26.8%, due to 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.

Amortization and depreciation, including depreciation of property and equipment and amortization of deferred financing costs and intangible assets, totaled $5.9 million during the first nine months of 2013 compared to $5.6 million during the first nine months of 2012, the increase was due primarily to increased depreciation of property, plant and equipment.

Net income was $4.6 million in the first nine months of 2013 compared to $5.2 million in the first nine months of 2012. The primary reasons for the decrease in Net income of $0.6 million were the increase in selling and administration expenses of $1.5 million and the increase in income tax expense of $1.0 million, partially offset by an increase in gross profit of $1.7 million.

Net income per share decreased to $0.19 per share in the nine months ending September 30, 2013, from $0.22 in the first nine months 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 lottery market continues to show robust growth as lotteries worldwide seek to maximize funds for their various good causes. Consistent with these goals, many lotteries are looking for ways to maintain their strong growth records including reaching out to their suppliers for new innovative ways to assist these objectives. Areas such as outsourcing management services, improved management of retail spaces, expanded distribution and additional involvement of the internet and social media are all avenues of opportunity for both the lotteries and the suppliers serving them, such as Pollard. The underlying sales of instant tickets have shown strong growth over the course of the last few years and we anticipate this growth will continue at these strong levels for the foreseeable future.

Our volumes for the remainder of 2013 and into 2014 are expected to be at similar or slightly higher levels than those experienced in 2013. In addition, sales of premium and proprietary products have grown generating a positive impact on average selling prices and margins. We expect these value-added items to continue to play an important role moving forward.

Our strong volumes are supported by our very extensive contract portfolio. During the past quarter we were very pleased to be awarded a new primary contract with the Maryland Lottery, an important long standing customer of Pollard whose new contract was won in a competitive bid process after the completion of our existing contract. The successful bid award for a new primary contract with the Vermont Lottery and key contract extensions with leading lotteries like the Ohio Lottery and the Norwegian Lottery highlights the continued strength of the Pollard franchise within the lottery sector. We have no other material customer contracts that come due in 2013 (when extensions are considered) and will continue to aggressively pursue requests for proposals and other opportunities within the lottery industry as they come up for bid.

Unique proprietary premium products such as our patented Scratch FX® and Playbook games as well as licensed properties have been instrumental in driving sales for our lottery customers which in turn has allowed Pollard to build relationships with new customers and generate higher sales with existing customers. We expect these key difference makers to continue to be very significant in the future and Pollard is committed to invest the appropriate resources in developing innovative ideas into new products and services such as those noted above in order to generate additional sales opportunities.

Our charitable gaming segment continues to perform well in the face of an overall market that is flat. Charitable gaming products consist of bingo paper, pull-tabs and related vending machines chiefly sold in bingo halls, taverns, legions and other venues often supported by various charities. We expect the overall market to continue to be stable, with ongoing internal focus on cost improvements, efficiency gains and select introduction of new products and niche markets expected to support ongoing results in this area.

Budgeted capital expenditures for the remainder of 2013 and early 2014 are expected to be at similar levels to expenditures incurred in the first nine months of 2013.

Pollard believes our ongoing cash flow from operations and our current bank facility capacity 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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