

**POLLARD BANKNOTE ANNOUNCES  
2<sup>ND</sup> QUARTER FINANCIAL RESULTS**

**WINNIPEG, Manitoba, August 12, 2020 /CNW/ — Pollard Banknote Limited** (TSX: PBL) (“Pollard”) today released its financial results for the three months ended June 30, 2020, reporting strong net income and record Adjusted EBITDA.

“Despite negative impacts from COVID-19 during the second quarter, we were able to achieve exceptional financial results this past quarter,” stated John Pollard, Co-Chief Executive Officer. “Our pre-tax income was \$12.4 million, Adjusted EBITDA attained a record \$19.8 million, and revenue still achieved a robust \$91.5 million notwithstanding significantly lower charitable gaming and Diamond Game revenue due to the pandemic. We are very proud of our financial results during the height of COVID-19, which reflect the dedication and hard work of our entire team during some very challenging circumstances and the underlying resilience of our lottery and charitable gaming products and services.”

“At the start of the pandemic, from mid-March to mid-April, the overall lottery market experienced a reduction of approximately 15-20% in retail sales of instant tickets. Subsequent to this period however, the lottery market underwent significant growth in retail sales of instant tickets which has continued to date. In addition, iLottery sales began to increase significantly from the start of the pandemic as consumers increased their on-line purchases of lottery products, with overall iLottery revenue approximately doubling during the second quarter compared to the second quarter of 2019. As noted previously, even though our charitable gaming revenue was initially severely impacted, during the latter part of the quarter this market was returning to pre-COVID-19 levels, as jurisdictions began to reopen.”

“Our pre-tax income and Adjusted EBITDA were higher partly due to the receipt of the Canada Emergency Wage Subsidy (“CEWS”) in our Canadian operations. During the quarter, Pollard qualified for \$5.8 million of which we recognized a net amount of approximately \$5.5 million in income. The CEWS provided a 75% wage subsidy, up to certain limits, for wages in qualifying businesses whose revenue was lower in certain periods during 2020 compared to certain historical benchmarks. Due to lower revenues in the early part of the pandemic, Pollard qualified for two months of subsidies at the start of the second quarter. The subsidy program has been extended to the end of 2020

with new criteria, although we do not anticipate that we will qualify for material additional subsidies going forward. Approximately \$300,000 of the CEWS amount received was deferred as it related to closing inventory that will be recognized in income in the third quarter when the related inventory is sold. In conjunction with the CEWS program we are pleased to report that we were able to retain 100% of our Canadian employees at full wages for the entirety of the second quarter."

"After reduced retail sales experienced in the early part of the pandemic, instant ticket sales at retail have rebounded significantly, setting records in many lottery jurisdictions. During the four weeks starting mid-March lotteries generally experienced a 15-20% reduction in retail sales of instant tickets. Since the beginning of May retail sales have grown by approximately 20-25% when compared to the same periods last year."

"These higher retail sales had not yet translated into additional orders for Pollard in Q2, as our production schedule is usually about 2-3 months ahead of lotteries releasing the game onto the market. In fact, Pollard's instant ticket volumes were slightly lower than the second quarter last year, based on the early pandemic situation and timing of orders among our clients. Offsetting this slightly lower volume were higher average selling prices due to the mix of work sold. However, if the robust sales growth of instant tickets at retail continues, this will have a positive impact on our volumes and revenue in the upcoming quarters."

"Our cost containment strategies introduced in April achieved significant savings, resulting in lower overhead costs for manufacturing and significant reductions in administration and selling expenses. These strategies helped offset some of the negative impact of COVID-19 on our revenue and included meaningful expenditure reductions in areas of reduced travel and entertainment, advertising and promotion and lower overtime. Our limited staff furlough and workshare programs in our U.S. operations allowed us to effectively manage the impact on work volumes and revenue, and we are pleased to note that virtually all of our staff impacted by furloughs and workshare programs have been recalled back to work."

"Our charitable gaming business, including paper-based pull-tabs and bingo paper from American Games and International Gamco, and our egaming machine business from Diamond Game, were severely impacted beginning in mid-March, as most retail outlets selling these products and services were shut down. Revenue was reduced to close to zero through the end of April. Beginning in May, as jurisdictions slowly reopened, our revenue began to return and continued to recover throughout June, as bars, legions and bingo halls began to reopen. For the quarter, our total revenue of both these businesses reached \$7.6 million, only about 32% of the level achieved in the same period last year."

"On a positive note, in jurisdictions that have reopened we are seeing similar or higher individual sales data, suggesting previous consumer behavior surrounding the purchase

of these products is returning. Continuing through July, additional jurisdictions have reopened to the point that our charitable gaming revenue has now nearly returned fully to pre-COVID levels. We caution, however, that potential future closures could have a negative impact on our revenue if jurisdictions return to retail shutdown scenarios.”

“The pandemic had a beneficial impact on our iLottery operations as consumers turned to this distribution method to purchase lottery products in levels never experienced before,” stated Doug Pollard, Co-Chief Executive Officer. “Our iLottery revenue approximately doubled in the second quarter compared to the same period last year, and with a high proportion of fixed costs, our margin grew significantly. All of the iLottery jurisdictions in our joint venture operation experienced substantial revenue growth during the pandemic and this growth has been sustained to date.”

“In addition to the much stronger financial results experienced in our iLottery operations, we are very proud to highlight two new iLottery contracts coming on stream after Q2. On July 1, 2020, our joint venture began operations of a full iLottery business for the Virginia Lottery. Previously we had been operating a version that only sold multiple-draw subscriptions for draw based games like Powerball®. We have now transitioned this operation to a full suite of iLottery games including individual draw-based game play and instant tickets, and early results are exceeding expectations.”

“It was also recently announced that the Alberta Gaming, Liquor and Cannabis Commission has awarded our joint venture a new contract to initiate and operate a full iGaming solution for the province of Alberta. Targeted to go live in the third quarter, this new engagement will become our market-leading 5<sup>th</sup> iLottery operation throughout North America.”

“As we go forward into the third quarter, we continue to see strong retail sales for our instant tickets and iLottery products. However, in these uncertain times it is unknown if these sale levels will continue as alternative forms of entertainment and gaming, such as land-based casinos, reopen. With respect to charitable gaming and egaming, we are currently seeing a number of jurisdictions contemplate reversing their reopening of their economies and potentially mandating closures of retail outlets that sell our pull-tabs and bingo paper, and operate our revenue sharing egaming machines. Increased restrictions in these businesses would have a negative impact on our charitable gaming and egaming revenue and cash flow.”

“Our liquidity remained very strong throughout the second quarter despite the significantly reduced charitable gaming revenue,” continued John Pollard. “A number of factors led to a healthy positive cashflow during this period, with the result being our available liquidity at the end of June, and still as of early August, is higher than we experienced prior to the COVID-19 outbreak. Continued strong operating cash flow, effective cost containment strategies, more restrained capital expenditures, significantly

higher iLottery business and effective management of our investment in working capital all led to positive cashflow.”

“The resilience of our lottery and charitable gaming products was clearly evident during the second quarter and we are extremely proud of the dedication and work ethic displayed by our entire team throughout this challenging time. We believe we are well positioned to continue following our strategic vision of being the partner of choice for the lottery and charitable gaming industry.”

### **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.

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 unaudited condensed consolidated interim financial statements of Pollard as at and for the three and six months ended June 30, 2020. These financial statements have been prepared in accordance with the International Financial Accounting Standards (“IFRS” or “GAAP”).

**HIGHLIGHTS**

	Three months ended <u>June 30, 2020</u>	Three months ended <u>June 30, 2019</u>
<b>Sales</b>	\$ 91.5 million	\$ 97.1 million
<b>Gross Profit</b>	\$ 18.8 million	\$ 21.6 million
<b><i>Gross Profit % of sales</i></b>	<i>20.5%</i>	<i>22.2%</i>
<b>Administration expenses</b>	\$ 9.5 million	\$ 10.5 million
<b>Selling expenses</b>	\$ 3.4 million	\$ 4.1 million
<b>Other (income) expenses</b>	(\$ 5.7 million)	\$ 0.7 million
<b>Unrealized foreign exchange gain</b>	(\$ 1.8 million)	(\$ 1.2 million)
<b>Net income</b>	\$ 9.2 million	\$ 5.0 million
<b>Net income per share (basic and diluted)</b>	\$ 0.36	\$ 0.20
<b>Adjusted EBITDA <sup>(1)</sup>:</b>		
<b>Lotteries and charitable gaming</b>	\$ 20.2 million	\$ 10.0 million
<b>Diamond Game</b>	(0.4 million)	3.6 million
<b>Total adjusted EBITDA</b>	<u>\$ 19.8 million</u>	<u>\$ 13.6 million</u>

	Six months ended <u>June 30, 2020</u>	Six months ended <u>June 30, 2019</u>
<b>Sales</b>	\$ 193.8 million	\$ 194.7 million
<b>Gross Profit</b>	\$ 40.5 million	\$ 44.5 million
<b><i>Gross Profit % of sales</i></b>	<i>20.9 %</i>	<i>22.9%</i>
<b>Administration expenses</b>	\$ 19.7 million	\$ 19.2 million
<b>Selling expenses</b>	\$ 7.1 million	\$ 7.6 million
<b>Other (income) expenses</b>	(\$ 5.6 million)	\$ 0.9 million
<b>Unrealized foreign exchange loss (gain)</b>	\$ 4.4 million	(\$ 3.0 million)
<b>Net income</b>	\$ 8.0 million	\$ 13.0 million
<b>Net income per share (basic and diluted)</b>	\$ 0.31	\$ 0.51
<b>Adjusted EBITDA <sup>(1)</sup>:</b>		
<b>Lotteries and charitable gaming</b>	\$ 34.1 million	\$ 23.2 million
<b>Diamond Game</b>	1.7 million	6.8 million
<b>Total adjusted EBITDA</b>	<u>\$ 35.8 million</u>	<u>\$ 30.0 million</u>

(1) 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)

	<b>Three months ended June 30, 2020</b>	<b>Three months ended June 30, 2019</b>	<b>Six months ended June 30, 2020</b>	<b>Six months ended June 30, 2019</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$91.5	\$97.1	\$193.8	\$194.7
Cost of sales	72.7	75.5	153.3	150.2
Gross profit	18.8	21.6	40.5	44.5
Administration expenses	9.5	10.5	19.7	19.2
Selling expenses	3.4	4.1	7.1	7.6
Other (income) expenses	(5.7)	0.7	(5.6)	0.9
Income from operations	11.6	6.3	19.3	16.8
Foreign exchange (gain) loss	(2.0)	(1.4)	4.1	(2.8)
Interest expense	1.2	1.6	2.9	3.1
Income before income taxes	12.4	6.1	12.3	16.5
Income taxes:				
Current (recovery)	1.9	(0.7)	4.0	1.1
Deferred	1.3	1.8	0.3	2.4
Net income	\$9.2	\$5.0	\$8.0	\$13.0
Adjustments:				
Amortization and depreciation	7.8	6.7	15.4	13.0
Interest	1.2	1.6	2.9	3.1
Unrealized foreign exchange (gain) loss	(1.8)	(1.2)	4.4	(3.0)
Acquisition costs	0.2	0.4	0.8	0.4
Income taxes	3.2	1.1	4.3	3.5
Adjusted EBITDA	<b>\$19.8</b>	<b>\$13.6</b>	<b>\$35.8</b>	<b>\$30.0</b>

	June 30, 2020	December 31, 2019
Total Assets	\$390.8	\$352.3
Total Non-Current Liabilities	\$191.4	\$175.6

## Results of Operations – Three months ended June 30, 2020

During the three months ended June 30, 2020, Pollard achieved sales of \$91.5 million, compared to \$97.1 million in the three months ended June 30, 2019. Factors impacting the \$5.6 million sales decrease were:

- Charitable gaming sales volumes decreased by \$9.4 million in the second quarter of 2020. Our charitable gaming products are sold at retail through various bars, veteran organizations and bingo halls, which were closed in the middle of March in response to the onset of the COVID-19 virus. Additionally, Diamond Game's machines are located in similar establishments and with their closure in response to COVID-19 Diamond's sales decreased by \$6.9 million in the quarter compared to 2019. Additionally, the slightly lower average selling price of charitable games in 2020 further decreased sales by \$0.1 million. Many U.S. jurisdictions began to reopen these retail locations towards the end of the second quarter, however, for the majority of the three months ended June 30, 2020, our charitable gaming and egaming machine revenue was severely limited. By the end of July, continued reopenings have resulted in overall charitable gaming and egaming revenues approaching levels achieved pre-COVID-19.
- An increase in the instant ticket average selling price in the quarter compared to the second quarter of 2019 increased sales by \$6.9 million. This increase was a result of the sales mix in the quarter, including higher sales of Pollard's proprietary Scratch FX<sup>®</sup> product. Higher sales of ancillary lottery products and services increased revenue in the second quarter of 2020 by \$3.3 million. This increase was primarily from the substantially higher revenues from iLottery, as well as increased sales of licensed product, digital and loyalty products, including revenue from mkodo, and distribution services which further contributed to the increase in sales. Partially offsetting these was a decrease in Schafer's and Fastrak's merchandising product sales in the second quarter of 2020. Also, a slight decrease in instant ticket sales volume in the quarter reduced sales by \$1.9 million.
- During the three months ended June 30, 2020, Pollard generated approximately 72.5% (2019 – 71.6%) 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 2020 the actual U.S. dollar value was converted to Canadian dollars at \$1.393, compared to a rate of \$1.343 during the second quarter of 2019. This 3.7% increase in the U.S. dollar value resulted in an approximate increase of \$2.4 million in revenue relative to the second quarter of 2019. During the quarter the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.1 million in revenue relative to the second quarter of 2019.

Cost of sales was \$72.7 million in the second quarter of 2020 compared to \$75.5 million in the second quarter of 2019. Cost of sales was lower in the quarter as a result of the significant reduction in charitable and Diamond Game sales due to venue closures related



to COVID-19, as well as reduced merchandising product sales in 2020. These decreases were partially offset by higher ancillary instant ticket product sales, including the addition of mkodo. In addition, higher exchange rates on U.S. dollar denominated transactions and increased amortization and depreciation further offset the decrease in cost of sales.

Gross profit was \$18.8 million (20.5% of sales) in the second quarter of 2020 compared to \$21.6 million (22.2% of sales) in the second quarter of 2019. This decrease in gross profit was primarily the result of the significant reduction in charitable and Diamond Game's sales in the quarter. These reductions were partially offset by the significant increase in iLottery, digital and loyalty sales. The lower gross profit percentage was due to the substantial reduction in charitable and Diamond Game's sales, partially offset by increased iLottery sales and higher sales of Pollard's proprietary Scratch FX<sup>®</sup> product.

Administration expenses decreased to \$9.5 million in the second quarter of 2020 from \$10.5 million in the second quarter of 2019. The decrease of \$1.0 million was primarily due to the reduction in travel and conference related costs due to cost containment strategies implemented in response to COVID-19, lower professional fees and a \$0.2 million reduction in acquisition costs. These reductions in administration expenses were partially offset by the addition of mkodo, as well as higher compensation and licensing expenses to support Pollard's growth strategies of developing innovative digital products.

Selling expenses decreased to \$3.4 million in the second quarter of 2020 from \$4.1 million in the second quarter of 2019 primarily due to the reduction in travel related costs due to cost containment strategies implemented in response to COVID-19, partially offset by the addition of mkodo.

Other income increased to \$5.7 million in the second quarter of 2020 compared to the \$0.7 million other expenses in the second quarter of 2019. The increase of \$6.4 million was primarily due to \$5.5 million of Canada Emergency Wage Subsidy ("CEWS") earned in the quarter. In addition, the loss on equity investment in the quarter decreased by \$0.8 million in comparison to 2019.

The net foreign exchange gain was \$2.0 million in the second quarter of 2020 compared to a net gain of \$1.4 million in the second quarter of 2019. The 2020 net foreign exchange gain of \$2.0 million resulted in part from a \$1.8 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar. This unrealized gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. In addition, a \$0.2 million realized foreign exchange gain as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates increased the net foreign exchange gain.

The 2019 net foreign exchange gain of \$1.4 million resulted from a \$1.2 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar

denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter. This gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. In addition a \$0.2 million realized foreign exchange gain as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates increased the net foreign exchange gain.

Adjusted EBITDA increased to \$19.8 million in the second quarter of 2020 compared to \$13.6 million in the second quarter of 2019. The primary reasons for the \$6.2 million increase were the increase in other income of \$6.4 million, primarily due to the inclusion of \$5.5 million in CEWS support, lower administration expenses (net of acquisition costs) of \$0.8 million and a decrease in selling expenses of \$0.7 million. These increases to Adjusted EBITDA were partially offset by the decrease in gross profit (net of amortization and depreciation) of \$1.7 million, primarily due to the reduction in charitable gaming and egaming sales caused by the impact of COVID-19, partially offset by higher iLottery revenues.

Interest expense decreased to \$1.2 million in the second quarter of 2020 from \$1.6 million in the second quarter of 2019 primarily as a result of the lower interest rates in 2020, partially offset by the increase in long-term debt.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$7.8 million during the second quarter of 2020 which increased from \$6.7 million during the second quarter of 2019. The increase was primarily as a result the addition of 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 \$3.2 million in the second quarter of 2020, an effective rate of 25.4%, lower than our domestic rate of 27.0% due primarily to the effect of foreign exchange and lower tax rates in foreign jurisdictions.

Income tax expense was \$1.1 million in the second quarter of 2019, an effective rate of 17.3%, lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in foreign jurisdictions and the effect of foreign exchange.

Net income increased to \$9.2 million in the second quarter of 2019 from \$5.0 million earned in the second quarter of 2019. The primary increases in net income were the increase in other income of \$6.4 million, primarily due to the inclusion of \$5.5 million in CEWS support, lower administration expenses of \$1.0 million, a decrease in selling expenses of \$0.7 million, a reduction in interest expense of \$0.4 million and an increase in the foreign exchange gain of \$0.6 million. These increases to net income were partially offset by the decrease in gross profit of \$2.8 million, primarily due to the reduction in

charitable gaming and egaming sales due to the impact of COVID-19, partially offset by higher iLottery revenues, and an increase in income taxes of \$2.1 million.

Net income per share (basic and diluted) increased to \$0.36 per share in the second quarter of 2020 from \$0.20 per share in the second quarter of 2019.

### **Results of Operations – Six months ended June 30, 2020**

During the six months ended June 30, 2020, Pollard achieved sales of \$193.8 million, compared to \$194.7 million in the six months ended June 30, 2019. Factors impacting the \$0.9 million sales decrease were:

- Charitable gaming sales volumes decreased by \$10.9 million in the six months ended 2020. Our charitable gaming products are sold at retail through various bars, veteran organizations and bingo halls, which were closed in the middle of March in response to the onset of the COVID-19 virus. Additionally, Diamond Game's machines are located in similar establishments and with their closure in response to COVID-19 Diamond Game's sales decreased by \$8.8 million in 2020 compared to the first six months of 2019. Additionally, the lower average selling price of charitable games in 2020 further decreased sales by \$0.7 million. Many U.S. jurisdictions began to reopen these retail locations towards the end of the second quarter, however, for the majority of the three months ended June 30, 2020, our charitable gaming and egaming machine revenue was severely limited. By the end of July continued reopenings have resulted in overall charitable gaming and egaming revenues approaching levels achieved pre-COVID-19.
- Higher sales of ancillary lottery products and services increased revenue in the first six months of 2020 by \$14.7 million compared to 2019. This increase was primarily due to the substantially higher revenues from iLottery and licensed products, as well as increased sales from digital and loyalty products, including revenue from mkodo, and distribution services. Partially offsetting these increases was a decrease in Schafer's and Fastrak's merchandising product sales in 2020.
- An increase in the instant ticket average selling price in the six months ended June 30, 2020, compared to 2019 increased sales by \$2.7 million. In addition, a slight increase in instant ticket sales volume in 2020, as compared to the first six months of 2019, further increased sales by \$0.7 million.
- During the six months ended June 30, 2020, Pollard generated approximately 70.4% (2019 – 72.3%) 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 2020 the actual U.S. dollar value was converted to Canadian dollars at \$1.353, compared to a rate of \$1.338 the first six months of 2019. This 1.1% increase in the U.S. dollar value resulted in an approximate increase of \$1.4 million in revenue relative to the first six months of 2019.

Cost of sales was \$153.3 million in the six months ended June 30, 2020, compared to \$150.2 million in the six months ended June 30, 2019. Cost of sales was higher as a result of higher ancillary instant ticket product sales, including the addition of mkodo in 2020. As well, higher exchange rates on U.S. dollar denominated transactions and increased amortization and depreciation further increased cost of sales in the first six months of 2020. These increases to cost of sales were partially offset by the reduction in charitable and Diamond Game sales due to venue closures related to COVID-19, as well as reduced merchandising product sales in 2020.

Gross profit decreased to \$40.5 million (20.9% of sales) in the six months ended June 30, 2020, from \$44.5 million (22.9% of sales) in the six months ended June 30, 2019. This decrease in gross profit was primarily the result of the significant reduction in charitable and Diamond Game's sales in 2020. These reductions were partially offset by a significant increase in iLottery and, digital and loyalty sales. The lower gross profit percentage was due to the substantial reduction in charitable and Diamond Game's sales, partially offset by increased iLottery and license product sales.

Administration expenses increased to \$19.7 million in the first six months of 2020 from \$19.2 million in the first six months of 2019. The increase of \$0.5 million was a result of higher acquisition costs of \$0.4 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. Partially offsetting these increases were the reduction in travel and conference related costs due to cost containment strategies implemented in response to COVID-19 and lower professional fees.

Selling expenses decreased to \$7.1 million in the first six months of 2020 from \$7.6 million in the first six months of 2019 primarily due to the reduction in travel related costs due to cost containment strategies implemented in response to COVID-19, partially offset by the additions of mkodo and Fastrak, and higher compensation costs.

Other income increased to \$5.6 million in the first six months of 2020 compared to \$0.9 million other expenses in the first six months of 2019. This increase of \$6.5 million was primarily due to \$5.5 million of CEWS earned in the first six months of 2020. In addition, the loss on equity investment in the quarter decreased by \$1.2 million in comparison to 2019.

The net foreign exchange loss was \$4.1 million in the first six months of 2020 compared to a net foreign exchange gain of \$2.8 million in the first six months of 2019. The 2020 net foreign exchange loss of \$4.1 million resulted from a net unrealized foreign exchange loss of \$4.4 million, comprised predominately of an unrealized loss on U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar. Partially offsetting the unrealized loss was a \$0.3 million realized foreign exchange gain as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates.

The 2019 net foreign exchange gain of \$2.8 million resulted in part from a net unrealized foreign exchange gain of \$3.0 million, comprised predominately of an unrealized gain on U.S. denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter. This gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. Partially offsetting the unrealized gain was a \$0.2 million realized foreign exchange loss as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA increased to \$35.8 million in the first six months of 2020 compared to \$30.0 million in the first six months of 2019. The primary reasons for the increase of \$5.8 million were the increase in other income of \$6.5 million, primarily due to the inclusion of \$5.5 million in CEWS support, a decrease in selling expenses of \$0.5 million and an increase in realized foreign exchange gain of \$0.5 million. These increases to Adjusted EBITDA were partially offset by the decrease in gross profit (net of amortization and depreciation) of \$1.6 million, primarily due to the reduction of charitable gaming and egaming sales caused by the impact of COVID-19, partially offset by higher iLottery revenues.

Interest expense decreased to \$2.9 million in the first six months of 2020 from \$3.1 million in the first six months of 2019 primarily as a result of the lower interest rates in 2020, partially offset by the increase in long-term debt.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$15.4 million during the first six months of 2020 which increased from \$13.0 million during the first six months of 2019. The increase was primarily as a result of the additions of mkodo and Fastrak, 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 \$4.3 million in the first six months of 2020, an effective rate of 35.5%, which was higher than our domestic rate of 27.0% due primarily to the effect of foreign exchange and non-deductible expenses.

Income tax expense was \$3.5 million in the first six months of 2019, an effective rate of 21.1%, which was lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in foreign jurisdictions and the effect of foreign exchange.

Net income decreased to \$8.0 million in the first six months of 2020 from \$13.0 million in the first six months of 2019 primarily as a result of the increase in foreign exchange loss of \$6.9 million, a decrease in gross profit of \$4.0 million, due to the reduction in charitable gaming and egaming sales caused by the impact of COVID-19, partially offset by higher iLottery revenues, the increase in income tax expense of \$1.8 million and higher administration expenses of \$0.5 million. These decreases in net income were partially

offset by the increase in other income of \$6.5 million, primarily due to the inclusion of \$5.5 million in CEWS support, the decrease in selling costs of \$0.5 million and the reduced interest expense of \$0.2 million.

Net income per share (basic and diluted) decreased to \$0.31 per share in the six months ending June 30, 2020, as compared to \$0.51 per share in the six months ending June 30, 2019.

## **Outlook**

After an initial decline in March and April, the lottery industry impressively rebounded, with many lottery organizations generating record sales of instant tickets at retail during June, July and August to date. Higher retail sales do not immediately translate into higher revenue for Pollard as our production schedule is usually 2-3 months in advance of the lottery's retail launch schedule. However, ongoing elevated retail sales over extended periods of time will lead to greater volumes of tickets ordered and greater revenue for manufacturers like Pollard.

Our third quarter has traditionally been a busy quarter for our instant ticket product line as we produce games for the holiday season and this timing, combined with strong industry retail sales, will provide positive dynamics for our production schedule going forward. Our Ypsilanti facility is returning to full capacity by starting up production on our second printing press, which was temporarily idled during the pandemic.

As noted previously our iLottery operations experienced a doubling of sales during the pandemic and these higher revenue levels have continued into the third quarter. Interest from the lottery industry, particularly in North America, for internet distribution of lottery products is very high. On July 1, 2020, our existing iLottery operation for the Virginia Lottery transitioned from just providing a subscription service for draw based games to a complete suite of iLottery products including einstants and individual draw based games. To date, results have exceeded expectations. It was also recently announced that the Alberta Gaming, Liquor and Cannabis Commission has awarded a contract to our NeoPollard Interactive joint venture to provide a complete iGaming solution to the province of Alberta, anticipated to go live in the third quarter.

Sales of our charitable gaming products, pull-tabs and bingo paper were significantly affected by COVID-19. Our revenue was effectively reduced to nil mid-March. Beginning in May, and increasingly in June, most jurisdictions began reopening their economies, including most of the retail outlets that sell our charitable gaming products to consumers. By the end of the second quarter sales of our paper-based products were returning to our pre-COVID levels.

Similarly, locations hosting our Diamond Game and Oasis branded egaming machines began reopening in May and by the end of the second quarter the majority of our machines were generating revenue. The remainder of our machines, primarily machines

located in Ontario, are expected to be in operation by mid-third quarter. Our experience so far has seen the level of consumer play at individual machines meet or exceed levels seen pre-COVID. While recognizing that the COVID-19 situation is fluid, the return of our charitable gaming and egaming businesses approaching pre-COVID levels, as early as the beginning of the third quarter, is a very positive development.

Our balance sheet and overall cash flow remained very strong throughout the second quarter and, as a result, Pollard has greater available liquidity currently than compared to the end of the first quarter. At June 30, 2020, our current cash resources and undrawn senior debt facility, including our accordion feature, provided approximately \$121 million in available financial liquidity. During the pandemic our robust lottery operations generated significant operating cash flow which included effective management of working capital. As our charitable gaming and egaming revenues return to pre-COVID levels in the third quarter, our cash flow will continue to be strong and position us well to invest in our business.

During the second quarter we qualified for the Canada Emergency Wage Subsidy program. This program has been extended to December 31, 2020, with revised qualification criteria. It is still to be determined to what extent, if any, Pollard will qualify under these new guidelines, however, we do not anticipate qualifying for any further material amounts.

COVID-19 continues to generate unprecedented uncertainty for all organizations including Pollard. Our lottery operations have demonstrated impressive resilience throughout this challenging period and with the significant reopening of the charitable gaming and egaming retail outlets, our overall business expectations remain very positive. However, some jurisdictions have, or are actively considering, rolling back reopening protocols, including closing retail outlets that sell our charitable gaming products. Such additional closures or roll back of reopenings could have a significant negative impact on our financial results through a reduction of charitable gaming and egaming sales. Similarly, although we are not currently aware of any jurisdictions contemplating these actions, any reduction or limitation in retail outlets selling lottery products, and specifically impacting the sale of instant tickets, could also have a material effect on our financial results.

We have been and continue to be very proactive in ensuring the safety and health of our 2,000 team members throughout all of our operations. Extensive protocols based on local and national health directives are in place including daily temperature screenings, extensive social distancing conventions and mandatory remote working for all employees who are capable. We are currently implementing a multi-phase workplace safety plan in all our locations to recognize the ongoing risks of COVID-19, focusing on the safety of our employees while continuing to meet the needs of our customers. We want to express our extreme gratitude to all of our staff who have demonstrated such dedication and shown remarkable ability to help us adapt to new work protocols during these difficult and complicated times.

An important piece of our strategic plan is the addition of critical assets through appropriate acquisitions. We continue to actively research opportunities and will pursue strategic business combinations that support our vision of being the partner of choice to the lottery and charitable gaming community.

Our confidence in the resilience of the lottery and charitable gaming industries has been confirmed during these last few months with significant retail sales growth in instant tickets and iLottery operations, and a strong recovery of sales of charitable gaming products upon reopening of retail outlets. The short and long-term fundamentals of lottery and charitable gaming are extremely positive as evidenced by the financial results generated during the pandemic. Our strong financial position and robust cash flow have uniquely positioned Pollard to continue to capitalize on opportunities and grow our business.

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