

POLLARD BANKNOTE REPORTS
4TH QUARTER AND ANNUAL FINANCIAL RESULTS

WINNIPEG, Manitoba, March 10, 2021 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2020, reporting record revenue, net income and Adjusted EBITDA for the year.

Results and Highlights for the Fourth Quarter ended December 31, 2020

- Revenue reached \$103.7 million, highest revenue amount in any 4th quarter and up 4% from the 4th quarter last year
- Net income of \$12.2 million, an increase of 165% from \$4.6 million earned in the 4th quarter 2019
- Adjusted EBITDA of \$20.3 million reflects the positive revenue and margin trends and is up 43% from the same period last year
- Core instant ticket business remained strong, driven by positive average selling price ("ASP")
- Sales from our combined iLottery operations increased to \$14.7 million from \$5.6 million in 2019
- Charitable gaming and Diamond Game revenue, while robust in the beginning of the quarter, was negatively impacted by retail closures brought on by COVID-19 later in the quarter
- Completed the acquisition of Compliant Gaming LLC on December 30, 2020

Results and Highlights for 2020

- Established a new record for revenue at \$414.1 million, up 4% from last year, despite the negative COVID-19 related impact on our charitable gaming and Diamond Game sales
- Charitable gaming and Diamond Game revenues were negatively impacted by COVID-19 related retail shutdowns, reducing revenue \$23.0 million year over year
- Net income of \$33.3 million, an increase of \$11.3 million, 51%, compared to 2019
- Adjusted EBITDA achieved a new record at \$80.6 million, \$20.4 million or 34% higher than the previous year
- Cash flow from operations generated \$59.7 million during the year, a new annual record
- Sales from our combined iLottery operations increased to \$46.1 million from \$18.9 million in 2019
- Acquired mkodo Limited February 3, 2020

- Successfully renewed a number of key contracts including extending the Michigan iLottery contract until 2026
- Overall withstood the business challenges brought on by COVID-19 while maintaining a healthy and safe work environment

Subsequent to Quarter End

- Completed the acquisition of Next Generation Lotteries SA
- Raised approximately \$34.5 million, before expenses, in a successful bought deal offering of common shares
- A number of charitable gaming jurisdictions reopened their markets in January and February 2021 after COVID-19 related shutdowns

“We are extremely proud of our Pollard team, and their efforts and successes during 2020,” remarked John Pollard, Co-Chief Executive Officer. “We not only maintained a safe and healthy workplace in the face of COVID-19, but Pollard was able to attain records in a number of key financial metrics including revenue, net income and Adjusted EBITDA among others. For the first time in our history, revenue exceeded \$400 million, reaching \$414.1 million for the year.”

“Our business has traditionally been able to translate Adjusted EBITDA into cash flow and 2020 continued this trend, with almost \$70.6 million generated from operations before our investments in working capital, CAPEX and acquisitions. Indeed, our net debt only increased slightly year over year despite two acquisitions during the year, effectively financing a large portion of these investments with internally generated funds.”

“Our fourth quarter continued the strong results generated in the first nine months of 2020, with robust revenue in both lottery and iLottery operations more than offsetting some negative results in charitable gaming and Diamond Game due to COVID-19 related retail shutdowns in certain key jurisdictions starting mid-quarter.”

“After an initial drop at the onset of COVID-19 in mid-March, retail lottery sales rebounded quickly and have maintained this strong level of sales throughout all of 2020. The majority of North American lotteries have seen double-digit retail sales growth versus 2019, week after week, as consumer demand increased considerably compared to growth levels experienced in recent years. Similar sales strength was experienced by many international lottery organizations.”

“In 2020 our acquisition strategy continued its success with two key organizations joining Pollard. Early in the year mkodo Limited (“mkodo”) was acquired, bringing to our product portfolio expertise in mobile apps and user interfaces, a critical component in the iLottery world. At year end we purchased Compliant Gaming LLC (“Compliant”) which provides electronic tablet-based gaming to the charitable market, an important addition with the charitable market increasing its interest in electronic and digital gaming.”

"Our initial investments in the iLottery business go back more than 7 years," added Doug Pollard, Co-Chief Executive Officer, "and 2020 saw this commitment pay dividends as the iLottery business grew dramatically. Beginning early in the second quarter revenue generated from this business, operated through our 50% owned joint venture, grew significantly as consumers were drawn to this distribution outlet and unique play aspects of the lottery style games. Our fifth operation started up on September 30, 2020, in Alberta and one of our existing accounts, Virginia, added eInstant games to their existing draw based game lineup starting July 1, 2020. All of these factors helped boost revenue and margins to new levels throughout 2020."

"The combined results of our Michigan joint operation, whose results are proportionately consolidated into the overall Pollard results on a line by line basis, and our joint venture NeoPollard Interactive LLC contributed \$20.1 million to our income before income taxes in 2020, up from \$3.4 million in 2019. Our share of the underlying revenue of the combined iLottery operations increased by 144% in 2020 compared to 2019."

"Despite our organization's general resilience to the effects of COVID-19, aspects of our business have nonetheless been negatively impacted, like most companies. Some of our ancillary businesses like retail merchandising have seen reduced sales as lotteries reduced their discretionary expenditures. Large scale retail shutdowns between March and June and, then again, certain shutdowns in key jurisdictions starting mid-November also had significant negative impacts on our charitable gaming and Diamond Game revenue and profitability. We are pleased to see when these charitable gaming retail sites were open during 2020, consumer demand for our products has been very strong, even exceeding pre-COVID levels. Many of these jurisdictions which closed in late 2020 have now reopened in early 2021."

"The safety and wellbeing of our employees remains our main focus throughout 2020 and continues into 2021. Early in 2020 we implemented extensive health and safety practices in all of our facilities including widespread remote work practices, mandatory temperature and health checks, mask wearing and the use of electronic contact tracing tools to manage social distancing throughout our operations. We continue to follow all of the local health authority proclamations and will continue to support our team members with rigorous health and safety measures in all of our locations."

"Subsequent to year-end we completed the acquisition of Next Generation Lotteries AS ("NGL"), a leading-edge lottery solution organization with a state-of-the-art retail lotto system and iLottery platform. We are very excited to add to our digital and iLottery portfolio with the NGL team as well as mkodo and Compliant. Adding this expertise to Pollard will further solidify our position as partner of choice to lotteries worldwide."

"In addition, on March 2, 2021, we closed an offering for 933,800 common shares, raising approximately \$34.5 million in capital, before expenses, to further invest in our growth."

The great success of the offering is a reflection of our accomplishments in recent years and we appreciate the support shown by our existing and new shareholders.”

“2020 has been a year unlike all others, and our belief and faith in our business and our staff has been confirmed through our many achievements,” concluded John Pollard. “Our business set a number of financial records during the year and, more importantly, we achieved many long term foundational objectives through product development, acquisitions and expansion of customer relationships. Both our existing business and newly acquired businesses have exciting expansion opportunities and we believe the markets that we focus on, lottery and charitable gaming, will continue to present Pollard with significant opportunities for growth.”

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 International Financial Reporting Standards (“GAAP” or “IFRS”) 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. In addition, management believes Pollard is also the second largest supplier of charitable gaming products in North America and, through its 50% joint venture, the largest supplier of iLottery solutions to the U.S. lottery market.

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 equity of mkodo for a purchase price of £7.8 million (\$13.4 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 transportation, disassembly and reassembly, and related costs, was \$4.9 million.

On December 30, 2020, Pollard signed and closed a definitive agreement to purchase 100% of the equity of Compliant Gaming, LLC ("Compliant") for a purchase price of \$19.0 million U.S. dollars (\$24.3 million) prior to standard working capital adjustments and potential future earn-out payments based on certain EBITDA targets. Compliant is a leading provider of electronic pull-tab gaming systems and products to the charitable gaming market.

On January 14, 2021, Pollard completed the previously announced acquisition of Next Generation Lotteries AS ("NGL"). On December 31, 2020, Pollard signed a definitive agreement to acquire 100% of the equity of NGL for a purchase price of €36.0 million (\$56.5 million), prior to standard working capital adjustments and certain deferred cash considerations, of which €32.0 million (\$50.0 million) was paid at the time of closing and the remaining €4.0 million (\$6.3 million) of which will be paid upon the achievement of certain gross margin targets in 2021. The purchase price was funded from existing Pollard Banknote cash resources and availability under our existing senior credit facilities for approximately €27.4 million (\$43.0 million) and the issuance of treasury shares of Pollard Banknote for approximately €4.6 million (7.2 million).

On February 9, 2021, Pollard announced that it had entered into an agreement with a syndicate of underwriters to purchase, on a bought deal basis, 812,000 common shares of Pollard at a price of \$36.95 per share. Pollard also granted the underwriters an over-allotment option exercisable at any time up to 30 days following the closing of the

offering, to purchase up to an additional 121,800 common shares. The offering, including the full over-allotment, closed on March 2, 2021. The total gross proceeds, prior to any commissions and offering expenses, from the sale of 933,800 common shares was approximately \$34.5 million. Pollard used the net proceeds to repay indebtedness under Pollard's credit facility incurred in the recent acquisitions of Compliant and NGL.

HIGHLIGHTS

	<u>Three months ended December 31, 2020</u>	<u>Three months ended December 31, 2019</u>
Sales	\$ 103.7 million	\$ 100.0 million
Gross profit	\$ 23.0 million	\$ 22.0 million
Gross profit % of sales	22.2%	22.0 %
Administration expenses	\$ 10.4 million	\$ 10.9 million
Selling expenses	\$ 3.8 million	\$ 4.1 million
(Gain) loss on NPi equity investment	(\$ 1.6 million)	\$ 0.7 million
Other income	(\$ 3.7 million)	(\$ 0.5 million)
Unrealized foreign exchange gain	(\$ 3.5 million)	(\$ 1.1 million)
Net income	\$ 12.2 million	\$ 4.6 million
Net income per share (basic and diluted)	\$ 0.47	\$ 0.18
Adjusted EBITDA ⁽¹⁾:		
Lotteries and charitable gaming	\$ 18.2 million	\$ 11.2 million
Diamond Game	\$ 2.1 million	\$ 3.0 million
Total adjusted EBITDA	<u>\$ 20.3 million</u>	<u>\$ 14.2 million</u>

	<u>Year ended December 31, 2020</u>	<u>Year ended December 31, 2019</u>
Sales	\$ 414.1 million	\$ 397.8 million
Gross profit	\$ 91.0 million	\$ 91.1 million
Gross profit % of sales	22.0 %	22.9 %
Administration expenses	\$ 40.3 million	\$ 40.6 million
Selling expenses	\$ 14.6 million	\$ 15.9 million
(Gain) loss on NPi equity investment	(\$ 1.6 million)	\$ 4.0 million
Other income	(\$ 12.3 million)	(\$ 2.0 million)
Unrealized foreign exchange gain	(\$ 1.9 million)	(\$ 3.3 million)
Net income	\$ 33.3 million	\$ 22.0 million
Net income per share (basic)	\$ 1.30	\$ 0.86
Net income per share (diluted)	\$ 1.28	\$ 0.86
Adjusted EBITDA ⁽¹⁾:		
Lotteries and charitable gaming	\$ 74.2 million	\$ 48.0 million
Diamond Game	\$ 6.4 million	\$ 12.2 million
Total adjusted EBITDA	<u>\$ 80.6 million</u>	<u>\$ 60.2 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.

Results of Operations – Year ended December 31, 2020
SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Year ended December 31, 2020	Year ended December 31, 2019
Sales	\$414.1	\$397.8
Cost of sales	323.1	306.7
Gross profit	91.0	91.1
Administration expenses	40.3	40.6
Selling expenses	14.6	15.9
(Gain) loss on equity investment	(1.6)	4.0
Other income	(12.3)	(2.0)
Income from operations	50.0	32.6
Foreign exchange gain	(0.9)	(2.8)
Interest expense	4.8	6.4
Income before income taxes	46.1	29.0
Income taxes:		
Current	10.9	2.1
Future	1.9	4.9
	12.8	7.0
Net income	\$33.3	\$22.0
Adjustments:		
Amortization and depreciation	31.5	27.1
Interest	4.8	6.4
Unrealized foreign exchange gain	(1.9)	(3.3)
Acquisition costs	2.2	1.2
Contingent consideration fair value adjustment	(2.1)	(0.2)
Income taxes	12.8	7.0
Total Adjusted EBITDA	\$80.6	\$60.2
	December 31, 2020	December 31, 2019
Total Assets	\$404.6	\$352.3
Total Non-Current Liabilities	\$191.3	\$175.6

Results of Operations – Year ended December 31, 2020

Sales

During the year ended December 31, 2020 ("Fiscal 2020" or "2020"), Pollard achieved sales of \$414.1 million, compared to \$397.8 million in the year ended December 31, 2019 ("Fiscal 2019" or "2019"). Factors impacting the \$16.3 million sales increase were:

Higher sales from Michigan iLottery increased revenue in Fiscal 2020 by \$17.1 million. Additionally, higher ancillary lottery product sales further increased revenue by \$10.0 million, primarily due to greater sales of licensed products. As well, increased sales from digital and loyalty products, including revenue from mkodo, and distribution services further contributed to the increase in ancillary sales. Partially offsetting these increases was a decrease in Schafer's and Fastrak's merchandising product sales in 2020.

Charitable gaming sales volumes decreased by \$13.4 million in 2020. As well, Diamond Game sales decreased by \$9.6 million in 2020 compared to 2019. Our charitable gaming and Diamond Game 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. 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. With the reopening of these locations our charitable gaming and Diamond Game revenues returned to pre-COVID levels during the third quarter. However, a number of jurisdictions in Canada and the U.S. once again temporarily shut down retail outlets starting in mid-November. Many of these jurisdictions began to reopen in January and February 2021.

An increase in the instant ticket average selling price in Fiscal 2020, compared to 2019, increased sales by \$11.0 million. This increase was partially a result of record sales of Pollard's proprietary Scratch FX[®] product in 2020. Partially offsetting this increase, was a slight decrease in instant ticket sales volume in 2020, as compared to 2019, decreased sales by \$1.9 million.

During Fiscal 2020, Pollard generated approximately 71.3% (2019 – 71.8%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2020 the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.338 compared to an average rate of \$1.327 during Fiscal 2019. This 0.8% increase in the U.S. dollar value resulted in an approximate increase of \$2.4 million in revenue relative to Fiscal 2019. During 2020 the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.8 million in revenue relative to 2019.

Cost of sales and gross profit

Cost of sales was \$323.1 million in Fiscal 2020 compared to \$306.7 million in Fiscal 2019. Cost of sales was higher as a result of higher ancillary lottery products and services, 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 2020. These increases to cost of sales were partially offset by the reduction in charitable and Diamond Game cost of sales due to reduced revenue, predominately in the second quarter and the second half of the fourth quarter, related to temporary COVID-19 closures, as well as reduced merchandising product sales in 2020.

Gross profit was \$91.0 million (22.0% of sales) in Fiscal 2020 compared to \$91.1 million (22.9% of sales) in Fiscal 2019. This decrease of \$0.1 million in gross profit was primarily the result of the significant reduction in charitable and Diamond Game sales in 2020. In addition, a reduction in Fastrak and Schafer merchandising product sales further reduced gross profit in Fiscal 2020. These decreases were substantially offset by the significant increase in Michigan iLottery revenues and the higher instant ticket average selling price. In addition, higher licensed products sales, as well as increased sales of digital and loyalty products, further increased gross profit. The lower gross profit percentage was due to the substantial reduction in charitable and Diamond Game sales, partially offset by increased Michigan iLottery and licensed product sales.

Administration expenses

Administration expenses decreased to \$40.3 million in Fiscal 2020 from \$40.6 million in Fiscal 2019. The decrease of \$0.3 million was partially a result of the reduction in travel and conference related costs due to COVID-19 and lower professional fees. These decreases were partially offset by higher acquisition costs of \$1.0 million, and greater compensation and licensing expenses to support Pollard's growth strategies of developing innovative digital products. Additionally, the inclusion of mkodo further increased administration expenses.

Selling expenses

Selling expenses decreased to \$14.6 million in Fiscal 2020 from \$15.9 million in Fiscal 2019 primarily due to the reduction in travel related costs due to COVID-19 and lower contract related costs. These decreases in selling expenses were partially offset by the additions of mkodo and higher compensation costs.

(Gain) loss on equity investment

Pollard's share of income from its 50% owned iLottery joint venture, NeoPollard Interactive LLC ("NPi"), increased to \$1.6 million in Fiscal 2020 from a loss of \$4.0 in Fiscal 2019. This \$5.6 million increase was primarily due to the increase in revenue in 2020. Contracts held by NPi experienced significant organic growth, in addition to the

added sales increase from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with Alberta Gaming, Liquor & Cannabis ("AGLC"), which went live with a limited product launch on September 30, 2020.

Other income

Other income increased to \$12.3 million in Fiscal 2020 compared to \$2.0 million in Fiscal 2019. The increase of \$10.3 million was primarily due to \$9.0 million of Canada Emergency Wage Subsidy ("CEWS") recognized in 2020. In addition, the reversal of the contingent consideration accrued as part of our mkodo acquisition increased other income by \$2.1 million. These increases were partially offset by the \$1.0 million reduction in the EBITDA support agreement in 2020, which expired on June 30, 2020.

Foreign exchange

The net foreign exchange gain was \$0.9 million in Fiscal 2020 compared to a net gain of \$2.8 million in Fiscal 2019. The 2020 net foreign exchange gain consisted of a \$1.9 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. Partially offsetting the unrealized foreign exchange gain, Pollard incurred a realized foreign exchange loss of \$1.0 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2019 net foreign exchange gain consisted of a \$3.3 million unrealized gain primarily a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt with the strengthening of the Canadian dollar relative to the U.S. dollar. Partially offsetting the unrealized foreign exchange gain, Pollard incurred a realized foreign exchange loss of \$0.5 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA

Adjusted EBITDA increased to \$80.6 million in Fiscal 2020 compared to \$60.2 million in Fiscal 2019. The primary reasons for the increase of \$20.4 million were the increase in other income (net of the reversal of the contingent consideration) of \$8.4 million, primarily due to the inclusion of \$9.0 million in CEWS support, and the increase in income from our 50% owned iLottery joint venture, NPi, of \$5.6 million. In addition, an increase in gross profit (net of amortization and depreciation) of \$4.3 million increased Adjusted EBITDA. Higher Michigan iLottery revenues and increased sales of ancillary lottery products contributed to the increase in gross profit, which were partially offset by the reduction in gross profit from reduced charitable and Diamond Game sales. Also, a decrease in administration expenses (net of acquisition costs) of \$1.3 million and lower

selling expenses of \$1.3 million further increased Adjusted EBITDA. These increases to Adjusted EBITDA were partially offset by the increase in the realized foreign exchange loss of \$0.5 million.

Interest expense

Interest expense decreased to \$4.8 million in Fiscal 2020 from \$6.4 million in Fiscal 2019 primarily as a result of the lower interest rates in 2020.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$31.5 million during Fiscal 2020 which increased from \$27.1 million during Fiscal 2019. The increase of \$4.4 million was primarily as a result of higher depreciation and amortization on new property, plant and equipment and intangible assets, as well as the addition of mkodo, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income taxes

Income tax expense was \$12.8 million in Fiscal 2020, an effective rate of 27.8%, which was higher than our domestic rate of 27.0% due primarily to non-deductible expenses. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States and the non-taxable income related to the reversal of contingent consideration, related to the acquisition of mkodo.

Income tax expense was \$7.0 million in Fiscal 2019, an effective rate of 24.1%, which was lower than our domestic rate of 27.0% due primarily to lower federal income tax rates in the United States and the effect of foreign exchange. Partially offsetting these reductions in effective rate was the non-deductible amounts relating to expenses incurred in the acquisitions.

Net income

Net income was \$33.3 million in Fiscal 2020 compared to net income of \$22.0 million in Fiscal 2019. The primary reasons for the increase in net income of \$11.3 million were increased income generated from Michigan iLottery of \$11.1 million and the increased contribution from our share of NPi joint venture of \$5.6 million. In addition, the increase in other income of \$10.3 million, primarily due to the inclusion of \$9.0 million in CEWS support, further increased net income. In addition, the decrease in selling costs of \$1.3 million and the reduced interest expense of \$1.6 million increased net income in 2020. These increases were partially offset by a decrease in gross profit of \$11.2 million, net of Michigan iLottery, primarily as a result of the significant reductions in charitable gaming

and Diamond Game sales. In addition, the decrease in the foreign exchange gain of \$1.9 million and the increase in income taxes of \$5.8 million further reduced net income.

Net income per share (basic and diluted) increased to \$1.30 and \$1.28 per share respectively in Fiscal 2020 from \$0.86 per share in Fiscal 2019.

iLottery

Pollard and its iLottery partner, Neogames S.A. ("Neogames"), provide iLottery services to the North American Lottery market. In 2013, Pollard was awarded an iLottery contract from the Michigan Lottery. As a result, Pollard entered into a contract with Neogames to provide its technology in return for a 50% financial interest in the operation. Under IFRS, Pollard recognizes its 50% share in the Michigan Lottery contract in its consolidated statements of income in revenue and cost of sales.

In 2014 Pollard, in conjunction with Neogames, established NeoPollard Interactive LLC ("NPi"). All iLottery related customer contracts, excluding the Michigan Lottery iLottery contract, have been awarded to NPi. Under IFRS, Pollard accounts for its investment in its joint venture, NPi, as an equity investment. Under the equity method of accounting, Pollard recognizes its share of the income and expenses of NPi separately as (gain) loss on equity investment.

SELECT iLOTTERY RELATED FINANCIAL INFORMATION

Year ended December 31, 2020	Pollard's share of		Combined
	Michigan iLottery	NPi	
Sales	\$33.5	\$12.6	\$46.1
Income before profit share and income taxes	\$18.5	\$1.6	\$20.1
Year ended December 31, 2019	Pollard's share of		Combined
	Michigan iLottery	NPi	
Sales	\$16.4	\$2.5	\$18.9
Income (loss) before profit share and income taxes	\$7.4	(\$4.0)	\$3.4

Sales recorded under Pollard's share of Michigan iLottery are included in Pollard's consolidated sales.

During 2020, with the onset of COVID-19, revenues from Pollard's contract with the Michigan Lottery increased substantially. Contracts held by NPi also experienced significant organic growth, in addition to the added sales growth from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with Alberta Gaming, Liquor & Cannabis ("AGLC"), which went live with a limited product launch on September 30, 2020.

Results of Operations – Three months ended December 31, 2020

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended December 31, 2020	Three months Ended December 31, 2019
	(unaudited)	(unaudited)
Sales	\$103.7	\$100.0
Cost of sales	80.7	78.0
Gross profit	<u>23.0</u>	<u>22.0</u>
Administration expenses	10.4	10.9
Selling expenses	3.8	4.1
(Gain) loss on equity investment	(1.6)	0.7
Other income	(3.7)	(0.5)
Income from operations	<u>14.1</u>	<u>6.8</u>
Foreign exchange gain	(3.2)	(1.0)
Interest expense	0.9	1.6
Income before income taxes	<u>16.4</u>	<u>6.2</u>
Income taxes:		
Current (recovery)	3.0	(0.9)
Future	1.2	2.5
	<u>4.2</u>	<u>1.6</u>
Net income	<u>\$12.2</u>	<u>\$4.6</u>
Adjustments:		
Amortization and depreciation	7.7	7.1
Interest	0.9	1.6
Unrealized foreign exchange gain	(3.5)	(1.1)
Acquisition costs	0.9	0.6
Contingent consideration fair value adjustment	(2.1)	(0.2)
Income taxes	4.2	1.6
Adjusted EBITDA	<u>\$20.3</u>	<u>\$14.2</u>

Results of Operations – Three months ended December 31, 2020

During the three months ended December 31, 2020, Pollard achieved sales of \$103.7 million, compared to \$100.0 million in the three months ended December 31, 2019. Factors impacting the \$3.7 million sales increase were:

Higher sales from Michigan iLottery increased revenue in the fourth quarter of 2020 by \$4.2 million as compared to the fourth quarter of 2019. Additionally, higher ancillary lottery products and services sales further increased revenue by \$0.4 million in 2020, including increased sales of digital and loyalty products, revenue from mkodo and higher distribution services sales. Partially offsetting these increases were lower license product sales and a decrease in Schafer's and Fastrak's merchandising product sales in the fourth quarter of 2020.

Additionally, an increase in the instant ticket average selling price in the quarter compared to the fourth quarter of 2019 increased sales by \$4.6 million. This increase was a result of the positive sales mix in the quarter, including higher sales of Pollard's proprietary Scratch FX® product. Partially offsetting this increase, was a decrease in instant ticket sales volume in the quarter reduced which sales by \$2.7 million.

During the fourth quarter, the retail establishments where our charitable gaming products are sold, and Diamond Game egaming machines are placed, once again temporarily closed in a number of key jurisdictions due to COVID-19. As a result, when compared to 2019, charitable gaming sales volumes decreased which reduced sales by \$2.2 million and Diamond Game revenue decreased \$1.3 million.

During the three months ended December 31, 2020, Pollard generated approximately 70.1% (2019 – 70.9%) of its revenue in U.S. dollars including a portion of international sales which were priced in U.S. dollars. During the fourth quarter of 2020 the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.319, compared to an average rate of \$1.314 during the fourth quarter of 2019. This 0.4% increase in the value of the U.S. dollar resulted in an approximate increase of \$0.3 million in revenue relative to 2019. During the fourth quarter of 2020 the value of the Canadian dollar weakened against the Euro resulting in an approximate increase of \$0.4 million in revenue relative to 2019.

Cost of sales was \$80.7 million in the fourth quarter of 2020 compared to \$78.0 million in the fourth quarter of 2019. Cost of sales was higher as a result of higher sales of ancillary lottery products and services, including the addition of mkodo in 2020. These increases were partially offset by a reduction in charitable sales and, Fastrak and Schafer merchandising product sales.

Gross profit was \$23.0 million (22.2% of sales) in the fourth quarter of 2020 compared to \$22.0 million (22.0% of sales) in the fourth quarter of 2019. This increase in gross profit was primarily the result of the increase in Michigan iLottery sales and distribution

services sales, as well as a result of the higher instant ticket average selling price. These increases were partially offset by reduced charitable gaming and merchandising product sales. The gross margin percentage in the fourth quarter of 2020 was higher than 2019 primarily as a result of increased Michigan iLottery sales and the higher instant ticket average selling price.

Administration expenses decreased to \$10.4 million in the fourth quarter of 2020 compared to \$10.9 million in the fourth quarter of 2019. The decrease of \$0.5 million was primarily a result of the reduction in travel and conference related costs due to COVID-19 and lower compensation expenses in the fourth quarter of 2020 due to the timing of incentive accruals. Partially offsetting these decreases were increased acquisition costs of \$0.3 million and higher compensation and licensing expenses to support Pollard's growth strategies of developing innovative digital products. Additionally, the inclusion of mkodo further increased administration expenses in 2020.

Selling expenses decreased to \$3.8 million in the fourth quarter of 2020 from \$4.1 million in the fourth quarter of 2019. The decrease was primarily due to the reduction in travel related costs due to COVID-19 and lower contract related costs. These decreases in selling expenses was partially offset by the addition of mkodo.

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to \$1.6 million in the fourth quarter of 2020 from a loss of \$0.7 in the fourth quarter of 2019. This \$2.3 million increase was primarily due to the increase in revenue. Contracts held by NPi experienced significant organic growth, in addition to the added sales increase from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with AGLC, which went live with a limited product launch on September 30, 2020.

Other income increased to \$3.7 million in the fourth quarter of 2020 compared to \$0.5 million in the fourth quarter of 2019. This increase of \$3.2 million was due in part to \$1.4 million of CEWS recognized in the quarter. In addition, the reversal of the contingent consideration previously accrued with the mkodo acquisition increased other income by \$2.1 million. These increases were partially offset by the \$0.5 million reduction in the EBITDA support agreement in 2020, which expired on June 30, 2020.

The net foreign exchange gain was \$3.2 million in the fourth quarter of 2020 compared to a net gain of \$1.0 million in the fourth quarter of 2019. The 2020 net foreign exchange gain consisted of a \$3.5 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar. The unrealized foreign exchange gain was partially offset by the realized foreign exchange loss of \$0.3 million, as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchanges rates.

The 2019 net foreign exchange gain consisted of a \$1.1 million unrealized gain primarily as a result of the decreased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the strengthening of the Canadian dollar relative to the U.S. dollar. The unrealized foreign exchange gain was partially offset by the realized foreign exchange loss of \$0.1 million, as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchanges rates.

Adjusted EBITDA increased to \$20.3 million in the fourth quarter of 2020 compared to \$14.2 million in the fourth quarter of 2019. The primary reasons for the \$6.1 million increase in Adjusted EBITDA were the increase in other income of \$1.3 million (net of the reversal of the contingent consideration), primarily due to the inclusion of \$1.4 million in CEWS support, and the increase in our share of income from our joint venture, NPi, of \$2.3 million. In addition, the increase in gross profit of \$1.6 million (net of amortization and depreciation) further increased Adjusted EBITDA. Higher Michigan iLottery revenues and increased sales of ancillary lottery products contributed to the increase in gross profit, which were partially offset by the reduction in gross profit from reduced charitable gaming and Diamond Game sales. Also, lower administration expenses (net of acquisition costs) of \$0.8 million and a decrease in selling expenses of \$0.3 million increased Adjusted EBITDA. These increases were partially offset by the higher realized foreign exchange loss of \$0.2 million.

Interest expense decreased to \$0.9 million in the fourth quarter of 2020 from \$1.6 million in the fourth quarter of 2019 primarily as a result of the lower interest rates in the fourth quarter of 2020 and the decrease in long-term debt as compared to the fourth quarter of 2019.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$7.7 million during the fourth quarter of 2020 which increased from \$7.1 million during the fourth quarter of 2019. The increase was primarily as a result of higher amortization on new intangible assets and the addition of mkodo, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income tax expense was \$4.2 million in the fourth quarter of 2020, an effective rate of 25.5% which was lower than our domestic rate of 27.0% due primarily to the non-taxable income related to the reversal of contingent consideration, related to the acquisition of mkodo, the effect of foreign exchange and lower federal income tax rates in the United States. Partially offsetting these reductions in effective rate was the non-deductible expenses.

Income tax expense was \$1.6 million in the fourth quarter of 2019, an effective rate of 25.5% which was lower than our domestic rate of 27.0% due primarily to lower federal income tax rates in the United States and the effect of foreign exchange. Partially

offsetting these reductions in effective rate was non-deductible amounts relating to expenses incurred in the acquisitions.

Net income was \$12.2 million in the fourth quarter of 2020 compared to \$4.6 million in the fourth quarter of 2019. The primary reasons for the increase in net income of \$7.6 million were increased income generated from Michigan iLottery of \$2.9 million and the increased contribution from our share of NPi joint venture of \$2.3 million. In addition, the increase in other income of \$3.2 million was primarily due to \$1.4 million of CEWS recognized in the quarter, and the reversal of the contingent consideration of \$2.1 million. The increase in the foreign exchange gain of \$2.2 million, a decrease in administration expenses of \$0.5 million, lower selling costs of \$0.3 million and the reduced interest expense of \$0.7 million further increased net income in 2020. These increases were partially offset by a decrease in gross profit of \$1.9 million, net of Michigan iLottery, primarily as a result of the significant reductions in charitable gaming and Diamond Game sales, as well as the increase in income taxes of \$2.6 million.

Net income per share (basic and diluted) increased to \$0.47 per share in the fourth quarter of 2020 from \$0.18 per share in the fourth quarter of 2019.

iLottery

SELECT ILOTTERY RELATED FINANCIAL INFORMATION

Three months ended December 31, 2020	Pollard's share of		
	Michigan iLottery	NPi	Combined
Sales	\$8.6	\$6.1	\$14.7
Income before profit share and income taxes	\$4.5	\$1.6	\$6.1
Three months ended December 31, 2019	Pollard's share of		
	Michigan iLottery	NPi	Combined
Sales	\$4.4	\$1.2	\$5.6
Income (loss) before profit share and income taxes	\$1.6	(\$0.7)	\$0.9

During 2020, with the onset of COVID-19, revenues from Pollard's contract with the Michigan Lottery increased substantially. Contracts held by NPi also experienced

significant organic growth, in addition to the added sales growth from the Virginia Lottery operation when it went live with e-Instants on July 1, 2020. In the spring of 2020, NPi was awarded a new contract with AGLC, which went live with a limited product launch on September 30, 2020.

Outlook

Lottery sales in the retail marketplace continue to be very strong in early 2021 and show no indication that this trend will change in the near future. In particular, instant tickets have continued to show significant year over year growth so far in 2021. Continued retail growth is driven by a number of factors that don't necessarily translate directly into similar growth in volumes at the manufacturing level, like higher retail price points. However, ultimately higher retail sales do translate to positive impacts on Pollard's revenue through greater sales in proprietary products such as Scratch FX[®], additional ancillary lottery product revenue, such as interactive digital support or licensed games, as well as positive impacts on instant ticket volumes. We believe we will continue to benefit from the continued growth in retail sales of instant lottery tickets going forward.

The importance of iLottery as a new revenue source for lotteries was confirmed with its significant growth during 2020 and we expect this trend to continue. We believe existing iLottery operations will continue to increase their organic growth through higher penetration of overall lottery sales as well as drawing in new players to lottery. In addition, greenfield opportunities to initiate new iLottery operations for lotteries currently not served by this solution, particularly in the United States, will generate new revenue opportunities. New iLottery opportunities develop slowly however, reflecting the complexity of the solution and many legislative and operational factors that Lotteries must consider.

The COVID-19 pandemic continues to impact all aspects of our lives and business. While our products and services have overall shown considerable resilience to these challenges, there are still aspects of our business that are negatively impacted. In the middle of the fourth quarter of 2020 a number of key jurisdictions implemented temporary retail shutdowns, which reduced our revenue in the charitable gaming and Diamond Game businesses. While a number of these jurisdictions reopened in early 2021, with retail consumer behavior returning strongly, the impact of further closures or other actions brought on due to COVID-19 remains uncertain. These events could have a negative impact, possibly significant, on charitable gaming, Diamond Game or other aspects of Pollard's business. We are unable to quantify the effect on Pollard's financial results should ongoing restrictions or closures expand to more parts of the economy for extended periods of time.

We remain extremely focused on ensuring a safe and healthy environment for all of our staff as our top priority. Our formal pandemic planning team continues to be proactive in ensuring the safety of all our staff, and they ensure the most up to date guidance from local health authorities are followed or exceeded in all instances. Among our continuing

policies are extensive remote work from home policies in place at all our facilities, detailed temperature and health screenings utilized daily, restricted access to our sites for non-Pollard staff, mandatory mask wearing and the use of electronic contact tracing tools to manage social distancing. These and other processes are the foundation of our COVID-19 response.

On January 14, 2021 we completed the acquisition of Next Generation Lotteries AS ("NGL"), a full solution supplier to the lottery industry, including providing a state-of-the-art retail lotto system and iLottery platform. Both NGL and Compliant Gaming LLC, our December 2020 acquisition, are early in the integration phase and we are confident of their long term strategic importance to the growth of our business. We will continue to follow our strategic plan to enhance our current business offerings through identifying and pursuing other acquisitions.

We will also continue to invest in our business through internal development of additional digital solutions as well as ensuring sufficient CAPEX to act on our organic growth opportunities and support new initiatives. Our CAPEX and investments in intangibles were lower in 2020 partly due to a conservative approach in light of the initial unknown impacts of COVID-19. We expect our expenditures in 2021 to be higher than 2020 as we continue investing in both short-term and long-term opportunities. Our ability to convert a significant portion of EBITDA to cash provides a strong internal source of funding. We do not anticipate qualifying for any significant subsidies under the Canada Emergency Wage Subsidy program during 2021.

On March 2, 2021, we completed a bought deal offering for 933,800 common shares that raised approximately \$34.5 million, before expenses, with the net proceeds being used to pay down debt incurred to fund our recent acquisitions, freeing up additional funds to reinvest in our businesses.

The outlook of both the lottery and charitable gaming industries is very positive, and we believe the positive trends experienced in 2020 will continue in 2021 and beyond. Our strategic plan has guided us to make the proper investments in our products and solutions to grow our partnership with our existing and new clients. We will ensure the appropriate resources are available to continue to be the partner for choice for lotteries and charitable gaming organizations around the world.

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