POLLARD banknote limited

News Release

POLLARD BANKNOTE REPORTS 4TH QUARTER AND ANNUAL FINANCIAL RESULTS

WINNIPEG, Manitoba, March 9, 2022 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2021.

Results and Highlights for the Fourth Quarter ended December 31, 2021

- Revenue reached a new 4th quarter record, $116.5 million, up 12.3% from the previous record last year
- Combined sales(1) in the quarter, including our share of our NeoPollard Interactive LLC ("NPi") joint venture sales, reached $127.0 million, up 15.7% from the $109.8 million in 2020
- Income from operations was $4.7 million, compared to $14.1 million in the 4th quarter of 2020 primarily due to a number of specific non-operational factors:
    - Included in the Q4 2021 results is a higher negative impact of $5.6 million due to the increase in expected contingent consideration relating to the earnout for our acquisition of Compliant Gaming due to continued success of that operation
    - The impact of lower Canadian Emergency Wage Subsidy ("CEWS") in the 4th quarter of 2021 compared to 2020 reduced other income by $1.6 million
- Adjusted EBITDA(1) of $18.7 million decreased from $20.3 million in the 4th quarter of 2020
- Our NPi iLottery joint venture continued to show solid growth when compared to the 3rd quarter of 2021 and significant growth when compared to the same period in 2020. Our Michigan iLottery operations generated similar results to Q3 of 2021
- Retail sales of our core instant ticket products remained very strong in the United States
- Our instant ticket margins were impacted negatively by a lower value mix of customer products and some manufacturing inefficiencies
- During the 4th quarter, we were also faced with inflationary price increases on all of our major ticket inputs including paper and ink, causing pressure on our instant ticket margins
- Our charitable gaming and eGaming systems continued to see unprecedented demand for their products, achieving record revenue and earnings

Results and Highlights for 2021

- Established a new record for revenue at $459.0 million, up 10.8% from last year
- Combined sales(1) in the year, including our share of NPi's joint venture sales, attained $499.2 million, up 17.0% from the $426.7 million in 2020
- Net income was $19.7 million, a decrease of $13.6 million from $33.3 million or 59% compared to 2020, due in large part to certain non-operational items including a $11.7 million negative impact due to higher contingent consideration expensed in 2021 due to the success of our Compliant Gaming LLC purchase and a $3.6 million net reduction of CEWS support compared to 2020
- Adjusted EBITDA(1) achieved a new record at $84.0 million, $3.4 million or 4.2% higher than the previous year
- Strong cash flow from operating activities generated $56.5 million during the year, similar to the record setting cash flow achieved in 2020
- Retail lottery sales including instant tickets remained strong throughout 2021
- Charitable gaming, including our eGaming operations, attained record revenue levels and very strong profitability due to extremely high customer demand, rebounding sharply from the negative COVID-19 pandemic impact in 2020
- Acquired Next Generation Lotteries AS on January 14, 2021
- Success with many key contract awards including an extension of the instant ticket contract with the Ontario Lottery and Gaming Corporation until 2032
- Raised approximately $34.5 million in a successful bought deal offering of common shares on March 2, 2021
- Continued with foundational investments in the development of our digital and ancillary lottery offerings

(1) See Non-GAAP measures for explanation

"2021 was a very successful year for Pollard Banknote on a number of critical fronts," declared John Pollard, Co-Chief Executive Officer, "and in light of the extreme challenges over the last two years with COVID-19, we could not be prouder of our employees. We remained singularly focused on the health and safety of our workplaces and team members through 2021."

"Our financial results reflect the achievements of 2021, with record sales, by a dramatic margin, and Adjusted EBITDA reaching new heights. After exceeding $400 million in revenue for the first time in 2020, our 2021 Combined Revenue was $499 million, just short of the milestone one-half billion benchmark, a strong measure of how we continue to help our lottery and charitable gaming partners grow and generate money for good causes".

"Our Adjusted EBITDA reached a record level at $84 million, with a number of individual business operations reaching record levels. Our focus on lottery and charitable gaming is the cornerstone of our success."

"Pollard generated very strong cash flow again this year, a hallmark of the strength of our business model. Pollard has now generated over $110 million from operating activities over the past two years, allowing us to complete a number of acquisitions and investments while maintaining a very low debt leverage capital structure, providing us with significant available resources going forward."

"We saw unprecedented consumer demand in all of our main lines of business through 2021:

- Retail sales of instant tickets continued to grow in 2021, with mid to high single digit retail sales growth experienced throughout most of the U.S. This comes on top of a 2020 year which saw large increases over 2019 in the range of 20-30%. Higher retail sales achieved in 2020 have not fallen back and indeed continue to grow.
- Charitable gaming including eGaming has seen extraordinary demand since recovering from COVID-19 related shutdowns in late 2020 into early 2021.
- iLottery and other digital products and solutions also continue to grow as lotteries worldwide continue to look to expand."

"Despite the increased demand for our instant tickets, our results in this area, particularly in the last half of 2021, have fallen short of our expectations.

- Due to timing differences, our mix of products produced and sold over the last six months of 2021 included a larger proportion of lower value work.
- We have suffered some inefficiencies in our manufacturing operations leading to lower volumes and higher costs.
- As a result of stresses placed on our supply chains, delayed shipments and delayed access to the required inputs, as well as increased challenges of staffing to meet the increased demand in our manufacturing operations, our manufacturing operations had lower volumes and higher costs.
- During the last two quarters, and particularly Q4 of 2021, we have experienced significant inflationary price increases in our key inputs into instant ticket production, including higher costs on paper, ink and other supplies. The direct impact on our 2021 financial results was partly mitigated due to lower price inventory already on hand, but these higher input costs have placed significant pressure on our instant ticket margins. The expectation is that these higher priced inputs will continue through 2022 and are difficult to pass through to customers, in the short term, given the fixed price nature of many of our customer contracts."

"A number of initiatives are underway to help mitigate the financial impact of the inflationary price increases including increasing capacity and volume of instant tickets, internal cost reviews and continued focus on improving our average selling prices through focus on innovation and selling proprietary products at higher margins."

"Our ability to increase volumes in ticket production is a critical factor in offsetting these cost increases. In addition, the very strong growth in the charitable gaming and eGaming product lines will also provide a significant offset to the margin pressures on the instant ticket business. Our strategy of having a very broad product portfolio to help balance our operating results has proven to be very beneficial as we move into 2022."

"Our fourth quarter results reflected a number of the themes impacting our 2021 full year results", noted Doug Pollard, Co-Chief Executive Officer, "with record 4th quarter revenue of $116.5 million, up 12.3%, driven by higher charitable gaming and eGaming sales. Demand for our charitable products and solutions remain extremely high."

"The iLottery market continues to be a very exciting opportunity for both Pollard and the lottery world. The results of the Michigan iLottery contract have stabilized in the last few quarters despite a number of headwinds, including increased iGaming competition from the casino sector and coming off of earlier peak sales during very strong jackpot runs in late 2020 and early 2021. Our 4 other iLottery contracts we share with our NPi joint venture partner have shown significant growth over 2021, with quarterly sales growing 72% from the start of the year and contribution doubling. This growth came despite similar headwinds experienced to that of our Michigan operation of declining jackpot runs and increased entertainment competition."

"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 NPi joint venture contributed $22.8 million to our income before income taxes in 2021, up from $20.1 million in 2020."

"Although no new iLottery opportunities were opened in the U.S. in 2021, we remain highly engaged with lotteries throughout the U.S. with a number of near term opportunities and we are confident that lotteries will continue to expand into iLottery, both in the U.S. as well as other non-U.S. lotteries."

"COVID-19 did have a negative impact on our operations during 2021, but to a much lower extent than in 2020. Some of our ancillary businesses like merchandising saw revenue at levels still below pre-pandemic levels. Some retail shutdowns did occur in key jurisdictions, like the province of Ontario, which impacted eGaming revenue and profitability. But despite these ongoing challenges, we are very pleased that our ultimate consumer demand always remained strong."

"We completed two acquisitions at the start of the year, Compliant Gaming LLC ("Compliant") and Next Generation Lotteries AS ("NGL")."

"On December 30, 2020, we completed the acquisition of Compliant, a provider of electronic tablet games in the charitable gaming market, and it has seen phenomenal success through all of 2021. With more engaging games developed by our internal teams and expanded sites throughout the market of Minnesota, we have experienced significant increases in revenue and profits in this operation, and we look forward to continuing growth in 2022."

"In January of 2021 we completed the acquisition of NGL, a leading-edge lottery solution organization with a retail lotto system and iLottery platform. We are now investing the necessary resources into their technology to ensure a state-of-the-art offering for lotteries around the world. This investment will continue in 2022 and we are very excited about the opportunities to support our current and future lottery customers with these products."

"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 success in recent years and we appreciate the support shown by our existing and new shareholders."

"2021 has been a very successful year for Pollard Banknote," concluded John Pollard. "All of our main business lines continue to see exceptional demand from our customers and we expect that to continue throughout 2022. Our investments in both our traditional areas, like instant tickets, as well as some of our new growth areas, like charitable gaming and digital, will continue and we believe there is great opportunity to increase both our topline and our profitability during next year, despite facing some headwinds in 2022. The inflationary price increases of our inputs will have a negative impact on our earnings, however we have a number of strategies to help reduce the impact, as well, charitable gaming growth is expected to be strong throughout 2022. Our strategy of expanding our product portfolio is a key tool to ensure our overall financial results continue to grow."

Use of GAAP and Non-GAAP Financial Measures

The selected financial and operating information has been derived from, and should be read in conjunction with, the audited consolidated financial statements of Pollard as at and for the year ended December 31, 2021. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

Reference to "EBITDA" is to earnings before interest, income taxes, depreciation, amortization and purchase accounting amortization. Reference to "Adjusted EBITDA" is to EBITDA before unrealized foreign exchange gains and losses, and certain non-recurring items including acquisition costs, litigation settlement costs, contingent consideration fair value adjustments and insurance proceeds (net). 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.

Reference to "Combined sales" is to sales recognized under GAAP plus Pollard's 50% proportionate share of NeoPollard Interactive LLC's ("NPi") sales, its iLottery joint venture operation. Reference to "Combined iLottery sales" is to sales recognized under GAAP for Pollard's 50% proportionate share of its Michigan Lottery joint iLottery operation plus Pollard's 50% proportionate share of NPi' s sales, its iLottery joint venture operation.

EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales are measures not recognized under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, these measures may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA, Adjusted EBITDA, Combined sales and Combined iLottery sales should not be construed as alternatives to net income or sales as 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 solutions 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 bingo paper and pull-tab supplier to the charitable gaming industry in North America and, through its 50% joint venture, the largest supplier of iLottery solutions to the U.S. lottery market.

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 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 €4.0 million ($6.3 million) will be paid upon the achievement of certain gross margin targets in 2021. The purchase price was funded from existing Pollard cash resources and availability under the existing credit facilities, and the issuance of treasury shares of Pollard for approximately €4.6 million ($8.0 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 acquisitions of Compliant and NGL.

HIGHLIGHTS	Three months ended December 31, 2021	Three months ended December 31, 2020
Sales	$ 116.5 million	$ 103.7 million
Gross profit	$ 20.7 million	$ 23.0 million
Gross profit % of sales	*17.8%*	*22.2 %*
Administration expenses	$ 11.9 million	$ 10.4 million
Selling expenses	$ 5.0 million	$ 3.8 million
NPi equity investment income	($ 3.2 million)	($ 1.6 million)
Other (income) expense	$ 2.3 million	($ 3.7 million)
Unrealized foreign exchange (gain) loss	$ 0.6 million	($ 3.5 million)
Net income	$ 5.2 million	$ 12.2 million
Net income per share (basic and diluted)	$ 0.19	$ 0.47
Adjusted EBITDA:		
Lotteries and charitable gaming	$ 12.3 million	$ 18.2 million
eGaming systems	$ 6.4 million	$ 2.1 million
Total adjusted EBITDA	$ 18.7 million	$ 20.3 million

	Year ended December 31, 2021	Year ended December 31, 2020
Sales	$ 459.0 million	$ 414.1 million
Gross profit	$ 91.1 million	$ 91.0 million
Gross profit % of sales	*19.8 %*	*22.0 %*
Administration expenses	$ 47.2 million	$ 40.3 million
Selling expenses	$ 17.5 million	$ 14.6 million
NPi equity investment income	($ 12.3 million)	($ 1.6 million)
Other (income) expenses	$ 5.2 million	($ 12.3 million)
Unrealized foreign exchange (gain) loss	$ 0.3 million	($ 1.9 million)
Net income	$ 19.7 million	$ 33.3 million
Net income per share (basic)	$ 0.74	$ 1.30
Net income per share (diluted)	$ 0.73	$ 1.28
Adjusted EBITDA:		
Lotteries and charitable gaming	$ 64.3 million	$ 74.2 million
eGaming systems	$ 19.7 million	$ 6.4 million
Total adjusted EBITDA	$ 84.0 million	$ 80.6 million

Results of Operations – Year ended December 31, 2021

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Year ended December 31, 2021**	**Year ended December 31, 2020**
Sales	$459.0	$414.1
Cost of sales	367.9	323.1
Gross profit	91.1	91.0
Administration expenses	47.2	40.3
Selling expenses	17.5	14.6
Equity investment income	(12.3)	(1.6)
Other (income) expenses	5.2	(12.3)
Income from operations	33.5	50.0
Foreign exchange (gain) loss	1.4	(0.9)
Interest expense	5.0	4.8
Income before income taxes	27.1	46.1
Income taxes:		
Current	14.2	10.9
Deferred (reduction)	(6.8)	1.9
	7.4	12.8
Net income	$19.7	$33.3
Adjustments:		
Amortization and depreciation	39.5	31.5
Interest	5.0	4.8
Income taxes	7.4	12.8
EBITDA	$71.6	$82.4
Unrealized foreign exchange (gain) loss	0.3	(1.9)
Acquisition costs	1.0	2.2
Contingent consideration fair value adjustment	9.6	(2.1)
Litigation settlement cost	2.5	0.0
Insurance proceeds (net)	(1.0)	0.0
Total Adjusted EBITDA	$84.0	$80.6

	December 31, 2021	December 31, 2020
Total Assets	$461.4	$404.6
Total Non-Current Liabilities	$163.5	$191.3

Results of Operations – Year ended December 31, 2021

Sales

During the year ended December 31, 2021 ("Fiscal 2021" or "2021"), Pollard achieved sales of $459.0 million, compared to $414.1 million in the year ended December 31, 2020 ("Fiscal 2020" or "2020"). Factors impacting the $44.9 million sales increase were:

For the majority of 2021, most retail establishments where our charitable gaming products are sold were open, and Pollard's sales of pull-tab tickets and related products reached record highs. The growth in charitable gaming volumes increased sales by $17.6 million in 2021, as compared to 2020 when many retail establishments were closed for periods of time in response to the onset of COVID-19. eGaming systems revenue increased $17.6 million as compared to 2020 as a result of the acquisition of Compliant and having more retail establishments open in 2021, including the re-opening of bingo halls in Ontario in the third quarter of 2021. In addition, the higher average selling price of charitable games in 2021 further increased sales by $2.5 million.

Higher sales of ancillary lottery products and services increased revenue by $21.6 million in 2021. This growth was largely as a result of the addition of NGL in 2021. In addition, increases in sales of digital and loyalty products, and retail merchandising products, also contributed to the higher sales. Higher instant ticket sales volumes increased sales by $10.4 million in 2021. Also, an increase in the instant ticket average selling price increased sales by $2.6 million as compared to 2020.

Lower sales from Michigan iLottery decreased revenue in 2021 by $5.1 million, excluding the negative impact of foreign exchange rates of $1.8 million, as compared to 2020, when Michigan iLottery sales were at record quarterly highs in the second and third quarters, during the first quarters of the pandemic.

During Fiscal 2021, Pollard generated approximately 68.3% (2020 – 71.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2021 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.254 compared to an average rate of $1.338 during Fiscal 2020. This 6.3% decrease in the U.S. dollar value resulted in an approximate decrease of $21.0 million in revenue relative to Fiscal 2020. During 2021 the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $1.3 million in revenue relative to 2020.

Cost of sales and gross profit

Cost of sales was $367.9 million in Fiscal 2021 compared to $323.1 million in Fiscal 2020. The increase of $44.8 million was primarily a result of the increase in charitable gaming sales volumes, as compared to 2020, and the addition of NGL and Compliant. In addition, higher instant ticket sales volumes and certain instant ticket production inefficiencies increased cost of sales in 2021. Also adding to cost of sales in 2021 were increases in raw material costs in the second half of the year, some higher manufacturing overhead costs and increased amortization and depreciation expenses. Also increased sales of ancillary lottery products and services further added to cost of sales. Partially offsetting these increases was the impact of lower exchange rates on U.S. dollar denominated expenses in 2021, of approximately $15.5 million, which decreased cost of sales.

Gross profit increased to $91.1 million (19.8% of sales) in Fiscal 2021 from $91.0 million (22.0% of sales) in Fiscal 2020. Gross profit increased in 2021 as a result of the significant increase in charitable and eGaming sales, including the addition of Compliant. In addition, an increase in merchandising product sales further increased gross profit in 2021. These increases were offset by a number of factors including lower instant ticket sales margin as a result of a less profitable customer mix, particularly in the second half of 2021, and increased manufacturing costs. In addition, the decrease in Michigan iLottery gross profit, lower margin from licensed product sales and the addition of NGL further decreased gross profit in 2021. The lower gross profit percentage was due to the reduction in higher margin Michigan iLottery sales, lower margin from licensed product sales and the change in the mix of instant ticket sales to lower margin customers. As well, the inclusion of NGL had a negative impact on our overall margin percentage.

Administration expenses

Administration expenses increased to $47.2 million in Fiscal 2021 from $40.3 million in Fiscal 2020. The increase of $6.9 million was primarily a result of the addition of NGL, of $5.2 million, in addition to increased compensation expenses, including higher incentive costs, to support Pollard's growth strategies, particularly our investments in digital products and solutions development. Partially offsetting these increases was a reduction in professional fees, including acquisition costs, in 2021.

Selling expenses

Selling expenses increased to $17.5 million in Fiscal 2021 from $14.6 million in Fiscal 2020 primarily due to the addition of NGL, as well as higher compensation costs. These increases were partially offset by the reduction in travel related costs due to the ongoing impact of COVID-19.

Equity investment income

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $12.3 million in Fiscal 2021 from $1.6 million in Fiscal 2020. This $10.7 million increase was primarily due to the increase in revenue in 2021, as compared to 2020. Contracts held by NPi experienced organic growth, in addition to the added sales increase from the additional offering of eInstants in Virginia starting in the second half of 2020. Also increasing sales was the launch of the Alberta Gaming, Liquor & Cannabis ("AGLC") iLottery platform, which went live with a select product launch on September 30, 2020 and added additional gaming verticals throughout 2021.

Other (income) expenses

Other expenses were $5.2 million in 2021 compared to $12.3 million of other income in 2020. The change of $17.5 million was due, in part, to the contingent consideration accrual adjustments, as part of our Compliant and mkodo acquisitions, which decreased other income by $11.7 million as compared to 2020. Further reducing other income in 2021, Pollard entered into an agreement for a one-time payment of $2.5 million to settle all aspects of certain litigation regarding a patent dispute relating to our instant ticket production. In addition, the $3.6 million reduction in CEWS recognized in 2021 as compared to 2020, as well as the elimination of the EBITDA support agreement of $1.0 million, which expired on June 30, 2020, further reduced other income. Partially offsetting these negative changes was insurance proceeds, net of expenses recovered, of $1.0 million for an insurance claim resulting from damage to ancillary production equipment.

Foreign exchange

The net foreign exchange loss was $1.4 million in Fiscal 2021 compared to a net gain of $0.9 million in Fiscal 2020. The 2021 net foreign exchange loss consisted of a realized foreign exchange loss of $1.1 million as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates, partially offset by gains on repayment of U.S. dollar denominated long-term debt, and a $0.3 million unrealized loss.

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.

Adjusted EBITDA

Adjusted EBITDA increased to $84.0 million in Fiscal 2021 compared to $80.6 million in Fiscal 2020. The primary reasons for the increase of $3.4 million were the increase in our share of income from our joint venture, NPi, of $10.7 million in 2021 and the increase in gross profit (net of amortization and depreciation) of $8.1 million. Gross profit (net of amortization and depreciation) increased with the rebound in sales of charitable gaming and eGaming, including the addition of Compliant, in 2021. These increases in net gross profit were partially offset by lower Michigan iLottery revenues and decreased instant ticket margins.

Partially offsetting these increases in Adjusted EBITDA were the higher administration expenses (net of acquisition costs) of $8.1 million, the decrease in other income (net of contingent consideration, legal settlement and insurance proceeds (net)) of $4.3 million, primarily due to the reduction in CEWS support in 2021, and an increase in selling expenses of $2.9 million.

Interest expense

Interest expense increased to $5.0 million in Fiscal 2021 from $4.8 million in Fiscal 2020 primarily as a result of the interest accretion on the discounted contingent consideration liability of $1.5 million, related to the Compliant purchase, and an increase in average long-term debt in 2021. These increases were almost completely offset by lower interest rates.

Amortization and depreciation

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $39.5 million during Fiscal 2021 which increased from $31.5 million during Fiscal 2020. The increase of $8.0 million was primarily as a result of the additions of Compliant and NGL, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment and an increase in depreciation related to leased properties.

Income taxes

Income tax expense was $7.4 million in Fiscal 2021, an effective rate of 27.4%, which was higher than our domestic rate of 27.0% due primarily to non-deductible amounts. Partially offsetting these increases in effective rate were the lower federal income tax rates in the United States.

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.

Net income

Net income was $19.7 million in Fiscal 2021 compared to net income of $33.3 million in Fiscal 2020. The reason for the decrease in net income of $13.6 million was the increase in other expenses of $17.5 million, including the contingent consideration accrual adjustments of $11.7 million and the reduction of CEWS support of $3.6 million. Also decreasing net income were the increase in administration expenses of $6.9 million, higher selling costs of $2.9 million and the increase in the net foreign exchange loss of

$2.3 million. These decreases in net income were partially offset by the increased share of income from our 50% owned iLottery joint venture, NPi, of $10.7 million and the decrease in income tax expense of $5.4 million.

Net income per share (basic and diluted) decreased to $0.74 and $0.73 per share, respectively, in Fiscal 2021 from $1.30 and $1.28 per share, respectively, in Fiscal 2020.

iLottery

Pollard and its iLottery partner, Neogames U.S. LLP ("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 equity investment income.

SELECT iLOTTERY RELATED FINANCIAL INFORMATION

(millions of dollars)

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales – Pollard's share								
Michigan iLottery	$5.6	$5.9	$6.8	$8.4	$8.6	$9.5	$10.3	$5.1
NPi	10.5	9.8	9.9	9.9	6.1	3.1	2.2	1.2
Combined iLottery sales	$16.1	$15.7	$16.7	$18.3	$14.7	$12.6	$12.5	$6.3
Income (loss) before income taxes – Pollard's share								
Michigan iLottery	$1.8	$2.0	$2.8	$4.0	$4.5	$5.4	$6.5	$2.1
NPi	3.2	2.6	2.5	4.0	1.6	0.8	(0.3)	(0.5)
Combined income before income taxes – Pollard's share	$5.0	$4.6	$5.3	$8.0	$6.1	$6.2	$6.2	$1.6

Beginning in the second quarter of 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 sales increase from the Virginia Lottery operation which added e-Instants on July 1, 2020. As well, NPi's contract with Alberta Gaming, Liquor & Cannabis ("AGLC"), went live with a limited product launch on September 30, 2020, with additional gaming verticals launching throughout 2021. The substantial jackpots for POWERBALL® and Mega Millions® awarded in the latter half of January 2021 further increased sales significantly in the fourth quarter of 2020 and the first quarter of 2021.

Sales and income before income taxes from our Michigan iLottery operation declined starting in the second quarter of 2021 due to increased online gaming competition, the lower exchange rate on U.S. dollar denominated sales and new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021.

Results of Operations – Three months ended December 31, 2021

SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share amounts)	**Three months ended December 31, 2021**	**Three months Ended December 31, 2020**
	(unaudited)	(unaudited)
Sales	$116.5	$103.7
Cost of sales	95.8	80.7
Gross profit	20.7	23.0
Administration expenses	11.9	10.4
Selling expenses	5.0	3.8
Equity investment income	(3.2)	(1.6)
Other (income) expense	2.3	(3.7)
Income from operations	4.7	14.1
Foreign exchange gain	(0.1)	(3.2)
Interest expense	1.6	0.9
Income before income taxes	3.2	16.4
Income taxes:		
Current	1.0	3.0
Deferred (reduction)	(3.0)	1.2
	(2.0)	4.2
Net income	$5.2	$12.2
Adjustments:		
Amortization and depreciation	10.8	7.7
Interest	1.6	0.9
Income taxes	(2.0)	4.2
EBITDA	$15.6	$25.0
Unrealized foreign exchange (gain) loss	0.6	(3.5)
Acquisition costs	0.0	0.9
Contingent consideration fair value adjustment	3.5	(2.1)
Insurance proceeds (net)	(1.0)	0.0
Adjusted EBITDA	$18.7	$20.3
Net income per share (basic and diluted)	$0.19	$0.47

Results of Operations – Three months ended December 31, 2021

During the three months ended December 31, 2021, Pollard achieved sales of $116.5 million, compared to $103.7 million in the three months ended December 31, 2020. Factors impacting the $12.8 million sales increase were:

Higher sales of ancillary lottery products and services increased revenue in the fourth quarter of 2021, as compared to the fourth quarter of 2020, by $8.1 million. This increase was primarily from the addition of NGL, as well as increased sales of digital and retail merchandising products. A higher instant ticket average selling price increased sales by a further $3.4 million in the quarter, including certain freight recoveries. Partially offsetting these increases was slightly lower instant ticket sales volume decreased sales by $0.5 million in the quarter.

eGaming systems revenue increased $4.9 million, as compared to 2020, predominately as a result of the acquisition of Compliant and the impact of the Ontario market re-opening bingo halls. Higher charitable gaming volumes increased sales by $2.1 million in the fourth quarter of 2021 as Pollard's sales of pull-tab tickets and related products remained high, due to strong customer demand. In addition, the higher average selling price of charitable games in 2021 further increased sales by $1.6 million.

Lower sales from Michigan iLottery decreased revenue in the fourth quarter of 2021 by $2.8 million excluding the negative impact of foreign exchange rates of $0.2 million, as compared to 2020.

During the three months ended December 31, 2021, Pollard generated approximately 65.6% (2020 – 70.1%) 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 2021 the actual U.S. dollar value was converted to Canadian dollars at an average rate of $1.263, compared to an average rate of $1.319 during the fourth quarter of 2020. This 4.2% decrease in the value of the U.S. dollar resulted in an approximate decrease of $3.4 million in revenue relative to 2020. During the fourth quarter of 2021 the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.6 million in revenue relative to 2020.

Cost of sales was $95.8 million in the fourth quarter of 2021 compared to $80.7 million in the fourth quarter of 2020. The increase of $15.1 million was primarily a result of the instant ticket sales mix and certain instant ticket production inefficiencies in 2021. Also contributing to the higher cost of sales were increases in raw material costs in the quarter, higher manufacturing overhead expenses, the increase in amortization and depreciation expenses and increased freight costs. In addition, higher sales of charitable gaming products, and the addition of NGL, further added to the increase in cost of sales in 2021. Partially offsetting these increases was the impact of lower exchange rates on U.S. dollar denominated expenses in the fourth quarter of 2021 which decreased cost of sales.

Gross profit was $20.7 million (17.8% of sales) in the fourth quarter of 2021 compared to $23.0 million (22.2% of sales) in the fourth quarter of 2020. This decrease in gross profit was primarily the result of lower instant ticket sales margin because of a less profitable customer mix in the fourth quarter of 2021 and increased costs. In addition, the decrease in Michigan iLottery sales in comparison to the fourth quarter of 2020, also reduced gross profit in 2021. These decreases were partially offset by the increases in gross profit from higher eGaming systems and charitable sales. The lower gross profit percentage was due, in part, to the reduction in higher margin Michigan iLottery sales and the mix of instant ticket sales having a negative impact on our overall margin percentage, partially offset by the increase in eGaming sales. In addition, the inflationary impact of higher costs for our instant ticket direct material inputs further reduced our gross margin percentage.

Administration expenses increased to $11.9 million in the fourth quarter of 2021 compared to $10.4 million in the fourth quarter of 2020. The increase of $1.5 million was primarily a result of the additions of NGL, in addition to increased compensation costs, including incentive accruals, to support Pollard's growth strategies, particularly in our digital solutions areas. Partially offsetting these increases was a reduction in professional fees, including acquisition costs, in 2021.

Selling expenses increased to $5.0 million in the fourth quarter of 2021 from $3.8 million in the fourth quarter of 2020. The increase was primarily due to the addition of NGL and higher compensation costs, including incentive accruals.

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $3.2 million in the fourth quarter of 2021 from $1.6 in the fourth quarter of 2020. This $1.6 million increase was primarily due to the increase in revenue, as a result of significant organic growth, plus higher sales from additional gaming verticals going live in 2021 with AGLC's content offering.

Other expenses were $2.3 million in the fourth quarter of 2021 compared to other income of $3.7 million in the fourth quarter of 2020. This change of $6.0 million was primarily due to the contingent consideration accrual adjustments, as part of our Compliant and mkodo acquisitions, which increased other expenses by $5.6 million, as well as the reduction in CEWS recognized in the fourth quarter of 2021, as compared to 2020, of $1.6 million. Partially offsetting these negative changes was insurance proceeds, net of expenses recovered, of $1.0 million for a claim resulting from damage to ancillary production equipment.

The net foreign exchange gain was $0.1 million in the fourth quarter of 2021 compared to a net gain of $3.2 million in the fourth quarter of 2020. The 2021 net foreign exchange gain consisted of a realized foreign exchange gain of $0.7 million, as a result of foreign currency denominated accounts payable being settled at favorable foreign exchanges rates. The realized foreign exchange gain was partially offset by the $0.6 million unrealized loss primarily as a result of the reversal of prior unrealized gains on U.S. dollar denominated accounts payable and long-term debt recognized previously.

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.

Adjusted EBITDA decreased to $18.7 million in the fourth quarter of 2021 compared to $20.3 million in the fourth quarter of 2020. The primary reasons for the $1.6 million decrease in Adjusted EBITDA were the higher administration expenses (net of acquisition costs) of $2.4 million, an increase in selling expenses of $1.2 million and a decrease in other income (net of contingent consideration, legal settlement and insurance proceeds (net)) of $1.4 million, primarily as a result of lower CEWS support of $1.6 million in 2021. These decreases were partially offset by the increase in our share of income from our 50% owned iLottery joint venture, NPi, of $1.6 million, the increase in the realized foreign exchange gain of $1.0 million and the increase in gross profit (net of amortization and depreciation) of $0.8 million, net of the inflationary impact of higher instant ticket direct material input costs.

Interest expense increased to $1.6 million in the fourth quarter of 2021 from $0.9 million in the fourth quarter of 2020 primarily as a result of the interest accretion on the discounted contingent consideration liability of $0.8 million, related to the Compliant purchase, and an increase in average long-term debt in 2021. These increases were partially offset by lower interest rates.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $10.8 million during the fourth quarter of 2021 which increased from $7.7 million during the fourth quarter of 2020. The increase of $3.1 million was primarily a result of the additions of Compliant and NGL, including the amortization and depreciation relating to the identifiable assets acquired, including intangible assets and property, plant and equipment.

Income tax recovery was $2.0 million in the fourth quarter of 2021, an effective rate of (60.6%) which differed from our domestic rate of 27.0% due primarily due to the recognition of tax losses not previously valued.

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.

Net income was $5.2 million in the fourth quarter of 2021 compared to $12.2 million in the fourth quarter of 2020. The primary reason for the decrease in net income of $7.0 million was the increase in other expenses of $6.0 million. This increase in other expenses includes the change in contingent consideration accrual adjustments of $5.6 million and the reduction of CEWS support of $1.6 million, partially offset by insurance proceeds, net of expenses recovered, of $1.0 million. Also decreasing net income were the decrease in the net foreign exchange gain of $3.1 million, the decrease in gross profit of $2.3 million (including the inflationary impact of higher instant ticket direct material input costs), the increase in administration expenses of $1.5 million and the increase in selling expense of $1.2 million. These decreases in net income were partially offset by the increase in our share of income from our joint venture, NPi, of $1.6 million and a decrease in income taxes of $6.2 million.

Net income per share (basic and diluted) decreased to $0.19 per share in the fourth quarter of 2021 from $0.47 per share in the fourth quarter of 2020.

Outlook

Retail sales of instant tickets are continuing at the high level we witnessed in 2021, particularly in the U.S., and we believe this level of consumer demand will continue. Higher retail sales do not directly translate necessarily into proportionate growth at the manufacturing level, however we are seeing strong demand from our customers for more product. Our production schedule through the remainder of the first quarter and through the second quarter is very busy, with volumes at levels higher than our average production in 2021.

In the short term, production capacity is somewhat fixed and can fluctuate based on the run size of games and other factors. We are currently expanding our instant ticket productive capacity by staffing two additional shifts on our second press in our Ypsilanti Michigan facility and expect to have additional capacity available. Higher capacity is expected to help ease some of the inefficiencies of producing close to capacity and help us meet some of this additional demand.

In the latter half of 2021 our production and sales mix was skewed to a greater mix of lower value product relative to traditional expectations for that time period. Looking forward at our current scheduling, later in the first quarter and into the second quarter, we are expecting that mix of work to return to more historic levels of higher valued work including higher use of proprietary products such as Scratch FX®. Timing of shipments can impact the timing of the revenue recognition.

Inflation will be a challenge, particularly in our instant ticket product line, with higher costs already starting in the second half of 2021. Additional cost increases have been identified already for 2022 and there can be no guarantee there won't be further cost headwinds. The specific technical nature of our raw material inputs makes it more difficult to switch out to alternative inputs. Although the long-term nature of our instant ticket contracts is beneficial, these contracts do not allow for explicit price increases to recover higher costs.

A number of initiatives are underway to help mitigate the financial impact of the inflationary price increases including increasing capacity and volume of instant tickets, internal cost reviews and continued focus on improving our average selling prices through focus on innovation and selling proprietary products at higher margins.

Our NGL operation remains in its development stage as we continue to invest resources to improve its suite of solutions. The facility management side of the operations traditionally has much higher sales in the fourth quarter and as such, we expect more normalized operating results for the next three quarters relative to the fourth quarter.

Our charitable gaming and eGaming businesses remain very strong with continued levels of high consumer demand. We have been able to increase our selling prices to offset inflationary costs increases within our charitable gaming product lines. The current demand for our products outstrips our ability to produce, particularly in our pull-tab product line. In the short term it is challenging to increase capacity, primarily because it is reliant on additional staffing which is difficult to recruit in the current environment, however we continue to pursue all avenues to help increase our production capabilities. Our tablet based eGaming business also continues to grow as new and improved game content, and expanded sites, are expected to continue through 2022. We expect charitable gaming, including eGaming, to be an important contributor to our financial success in 2022.

We continue to expect some challenges in the supply chain relating to transportation, both in terms of shipping our goods to customers and receipt of supplier inputs. This may impact the timing of revenue recognition as well as driving some inefficiencies in our manufacturing, however we don't expect this to cause material impacts in the short term.

We continue to invest in and be an active thought leader in the iLottery space. Our existing operations through our NPi joint venture, including our Michigan contract, are the market leaders in the U.S. Growth is expected in the NPi operation based on the ongoing development of our newer contracts in Alberta and Virginia. While it is difficult to estimate when the next formal opportunity for a new iLottery operation in the U.S. or internationally will occur, we are confident that more lotteries will avail themselves of this opportunity and provide a critical growth opportunity for Pollard.

While many of the restrictions related to COVID-19 have been or are being lifted throughout the world, changes to these trends could still have a negative impact on our business, including but not limited to facility closures and retail shutdowns. We remain focused on monitoring the external issues potentially impacting our business and ensure we are providing a healthy and safe environment for our team members, including a number of programs offering encouragement for all employees to be vaccinated.

We generate strong cash flow and have a high conversion ratio of converting EBITDA to cash and we expect this to continue. With our renewed bank facility in place as of December 31, 2021, available liquidity is very significant and combined with our strong operating cashflow, we are confident we will have the internal resources to invest in the growth of our current business, devote capital to new opportunities, including acquisition prospects, as well as maintaining our very conservative debt management policy.

Going into 2022, most of our key business units are experiencing very strong demand for their products. We believe this demand will translate into ongoing growth opportunities for Pollard. There do exist some headwinds in 2022, particularly in the instant ticket market due to inflationary price increases in our key inputs. Our ability to increase volumes in ticket production is a critical factor in offsetting these cost increases. In addition, the very strong growth in the charitable gaming and eGaming product lines will also provide a significant offset to the margin pressures on the instant ticket business. Our strategy of having a very broad product portfolio to help balance our operating results has proven to be very beneficial as we move into 2022.

For Further Information Please Contact:

John Pollard
Co-Chief Executive Officer
E-mail: jpollard@pbl.ca

Doug Pollard
Co-Chief Executive Officer
E-mail: dpollard@pbl.ca

Rob Rose
Chief Financial Officer
E-mail: rrose@pbl.ca

Pollard Banknote Limited
Telephone: (204) 474-2323

SEDAR: 00029950
(PBL)

CO: Pollard Banknote Limited