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**POLLARD BANKNOTE REPORTS**  
**4<sup>TH</sup> QUARTER AND ANNUAL FINANCIAL RESULTS**

**WINNIPEG, Manitoba, March 7, 2023 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard")** today released its financial results for the three months and year ended December 31, 2022.

**Results and Highlights for the Fourth Quarter ended December 31, 2022**

- Revenue reached a new fourth quarter record, \$126.9 million, up 8.9% from the previous record last year.
- Combined sales<sup>(1)</sup> in the quarter, including our share of our NeoPollard Interactive LLC ("NPI") joint venture sales, reached \$144.6 million, up 13.9% from the \$127.0 million in 2021.
- Income from operations was \$9.4 million, compared to \$4.7 million in the fourth quarter of 2021.
- Adjusted EBITDA<sup>(1)</sup> of \$22.4 million increased from \$18.7 million in the fourth quarter of 2021.
- Our iLottery operations continued to show significant growth in the fourth quarter, attaining record combined income before income taxes of \$11.6 million, over 40% higher than the previous quarterly record in the third quarter of 2022.
- Our charitable gaming and eGaming systems businesses continued to see unprecedented demand for their products, achieving record revenue and earnings.
- Our instant ticket margins remain significantly negatively impacted by the large inflationary price increases on all of our major ticket inputs including paper, ink, packaging and freight.
- We continue to see ongoing success in our strategy of repricing our instant ticket customer contracts when up for rebid to recover the inflationary input cost increases.

**Results and Highlights for 2022**

- Established a new record for revenue at \$482.3 million, up 5.1% from last year.
- Combined sales<sup>(1)</sup> in the year, including our share of NPI's joint venture sales, attained \$537.4 million, up 7.7% from the \$499.2 million in 2021.
- Net income was \$19.3 million, a decrease of \$0.4 million from \$19.7 million or 2% compared to 2021.
- Adjusted EBITDA<sup>(1)</sup> achieved \$80.5 million, \$3.5 million or 4.2% lower than the previous year.

- Cash flow from operating activities before change in non-cash working capital generated \$45.8 million during the year, similar to 2021.
- Instant ticket margins were significantly compressed during the year as a result of unprecedented inflationary cost increases on raw materials and other manufacturing inputs.
- We have successfully repriced a number of important instant ticket customer contracts during 2022 to recover the higher input costs as part of contracts that have come up for rebid.
- Charitable gaming, including our eGaming operations, attained record revenue levels and very strong profitability due to high customer demand and expanded capacity.
- Our existing iLottery operations generated very strong results, contributing \$33.2 million in combined income before income taxes to our 2022 results.
- Continued significant investments in the development of our iLottery platform and game content offerings positively situate us to take advantage of future iLottery opportunities.

(1) See Non-GAAP measures for explanation

“Our 2022 financial results reflect very strong sales and profits in almost all of our product offerings,” stated John Pollard, Co-Chief Executive Officer, Pollard Banknote, “particularly charitable gaming, eGaming systems and iLottery. However, this was offset by major challenges in our instant ticket business. Nevertheless, we still achieved record sales and strong income from operations, and Adjusted EBITDA was only moderately reduced from 2021. Our 2022 combined sales exceeded \$537 million, a strong reflection of both the breadth of our product and solution offerings as well as their demand. Underlying all of these successes is our vision of continuing to help our lottery and charitable gaming partners grow and generate funds for good causes.”

“Consumer demand remained very strong in most of our lines of business throughout 2022. Charitable gaming continued to see exceptional demand for all paper products including pull-tabs and bingo paper, with revenue increasing 21% over 2021 and over 50% compared to 2020, now far exceeding our pre-pandemic revenue. The market absorbed higher selling prices to offset inflationary cost increases in our manufacturing inputs for charitable gaming, and we are focused on increasing our available capacity to address the continued growing demand.”

“Similarly, charities continue to embrace electronic and digital forms of gaming, which has generated significant demand for both kiosk and tablet-based options in retail establishments, resulting in our eGaming revenue more than doubling since 2020.”

“iLottery sales reached record levels, driven by significant organic growth in our Virginia and Alberta contracts, and a number of large jackpot runs in draw-based games including POWERBALL® and Mega Millions®, which drove higher traffic and revenue on our U.S.-based sites. 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 \$33.2 million to our income before income taxes in 2022, up from \$22.9 million in 2021.”

“Our instant ticket business was faced with unprecedented challenges due to the very large inflationary cost increases instituted for our raw materials, paper and ink, and other manufacturing inputs such as packaging and freight. These cost increases began at the start of the year with further additional increases introduced throughout 2022. Significant double-digit cost increases on many items in the 30-50% range occurred across our industry due in part to unprecedented demand for these inputs which also feed other industries such as consumer retail goods packaging. Our instant ticket customer contracts are primarily long term with fixed pricing. As such, in the short term we were unable to pass on these significant cost increases and our instant ticket margins underwent a very negative reduction. These input cost increases were introduced throughout the year, resulting in the negative impact on profits worsening as the year progressed.”

“Our strategy to offset these higher costs and return to historical margins is to reprice our customer contracts with selling prices reflective of this new cost structure with every rebid or new RFP opportunity. Throughout the course of 2022, we were pleased to see lotteries and the market continue to accept these higher prices, recognizing the squeeze all instant ticket suppliers are currently faced with.”

“We have been successful in repricing a number of very important contracts in 2022. However, the start dates of these new contracts are generally not until later, some at the beginning of 2023 and some later throughout the year. As such, 2022 has not benefited much from these new selling prices, however we should start to see the positive impact during the latter part of 2023 and into 2024. Additional repricing is expected to continue to occur through 2023 on new rebid opportunities.”

“As we look into 2023 we do not see any additional new large increases in the costs of our inputs, nor have we seen any indications that costs are set to come down or return to pre-2022 levels. We are hopeful that this might ultimately be the case, as demand in other parts of the economy perhaps slows in 2023.”

“Our Adjusted EBITDA exceeded \$80 million, a very good result given the headwinds experienced in our instant ticket business. Our strategy of having a very broad product portfolio including charitable gaming, eGaming systems and iLottery to help maximize our operating results has proven to be very beneficial during 2022 and as we move into 2023.”

“Pollard continued to produce very strong cash flow again this year, demonstrating the strength of our business model. Pollard has now generated over \$163.6 million from operating activities prior to change in non-cash working capital over the past three years, allowing us to maintain a high level of investment in our business while maintaining a very low debt leverage capital structure.”

“Our fourth quarter results reflected a number of the themes impacting our 2022 full year results,” remarked Doug Pollard, Co-Chief Executive Officer, “with strong demand for our products and solutions generating increased revenue and earnings, however the impact of inflationary cost increases severely impacted our instant ticket margins. In addition, our mix of instant ticket production during the fourth quarter contained a larger mix of lower value work, resulting in lower margins. Consumer demand for iLottery, charitable gaming and eGaming products remained very strong and higher earnings in this area helped offset the loss of margin in instant tickets.”

“Retail dollar sales of instant tickets during 2022 were slightly lower when compared to the record levels achieved in 2021, when retail sales had grown in the 30% range over 2020 and 2021. However, we have seen retail dollar sales on instant tickets return to positive year over year growth during the first two months of 2023. The retail sale of instant tickets has continued to show its resilience throughout this most recent economic uncertainty.”

“Although no new iLottery jurisdictions were initiated in the United States during 2022, interests from and discussions with lotteries continue to be very active and we believe there are a number of jurisdictions that will develop into concrete opportunities. We remain very confident in the future of iLottery, both in the United States and internationally.”

“We continued with the integration work of our two most recent acquisitions, Compliant Gaming LLC and Next Generation Lotteries AS, and we are very pleased with the results so far. Compliant’s operations have been seamlessly merged with our charitable gaming and eGaming businesses, and this operation has significantly exceeded our expectations. The key assets from Next Generation Lotteries AS have laid the foundation for a state-of-the-art iLottery platform and exciting game library. We will continue to look for new acquisition opportunities to support our growth and assist our lottery and charitable gaming customers to expand their operations with particular focus on technology, including successful gaming content.”

“While 2022 saw significant headwinds impact our instant ticket business, the strong results of our other lines of business helped mitigate the negative pressure on our instant ticket margins,” concluded John Pollard, “and underlines the success of our strategy of expanding our product portfolio to address all needs of our lottery and charitable gaming customers. Overall demand for all our products and solutions remained at or near record levels and we anticipate this to continue.”

## **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, 2022. 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.

<b>HIGHLIGHTS</b>	<b>Three months ended December 31, 2022</b>	<b>Three months ended December 31, 2021<sup>(1)</sup></b>
<b>Sales</b>	\$ 126.9 million	\$ 116.5 million
<b>Gross profit</b>	\$ 18.9 million	\$ 20.7 million
<i>Gross profit % of sales</i>	<i>14.9%</i>	<i>17.8%</i>
<b>Administration expenses</b>	\$ 12.9 million	\$ 11.9 million
<b>Selling expenses</b>	\$ 4.9 million	\$ 4.9 million
<b>NPi equity investment income</b>	(\$ 8.7 million)	(\$ 3.2 million)
<b>Other expenses</b>	\$ 0.4 million	\$ 2.4 million
<b>Unrealized foreign exchange (gain) loss</b>	(\$ 2.2 million)	\$ 0.6 million
<b>Net income</b>	\$ 10.5 million	\$ 5.2 million
<b>Net income per share – basic and diluted</b>	\$ 0.39	\$ 0.19
<b>Adjusted EBITDA</b>	\$ 22.4 million	\$ 18.7 million
	<b>Year ended December 31, 2022</b>	<b>Year ended December 31, 2021<sup>(1)</sup></b>
<b>Sales</b>	\$ 482.3 million	\$ 459.0 million
<b>Gross profit</b>	\$ 81.8 million	\$ 90.8 million
<i>Gross profit % of sales</i>	<i>17.0%</i>	<i>19.8%</i>
<b>Administration expenses</b>	\$ 49.8 million	\$ 47.2 million
<b>Selling expenses</b>	\$ 17.4 million	\$ 17.2 million
<b>NPi equity investment income</b>	(\$ 23.7 million)	(\$ 12.3 million)
<b>Other expenses</b>	\$ 4.1 million	\$ 5.2 million
<b>Unrealized foreign exchange loss</b>	\$ 4.4 million	\$ 0.3 million
<b>Net income</b>	\$ 19.3 million	\$ 19.7 million
<b>Net income per share (basic)</b>	\$0.72	\$0.74
<b>Net income per share (diluted)</b>	\$0.71	\$0.73
<b>Adjusted EBITDA</b>	\$ 80.5 million	\$ 84.0 million

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

**Results of Operations – Year ended December 31, 2022**  
**SELECTED FINANCIAL INFORMATION**

(millions of dollars)	<b>Year ended December 31, 2022</b>	<b>Year ended December 31, 2021<sup>(1)</sup></b>
Sales	\$482.3	\$459.0
Cost of sales	400.5	368.2
Gross profit	81.8	90.8
Administration expenses	49.8	47.2
Selling expenses	17.4	17.2
Equity investment income	(23.7)	(12.3)
Other expenses	4.1	5.2
Income from operations	34.2	33.5
Foreign exchange loss	3.7	1.4
Interest expense	8.3	5.0
Income before income taxes	22.2	27.1
Income taxes:		
Current	9.6	14.2
Deferred (reduction)	(6.7)	(6.8)
	2.9	7.4
Net income	\$19.3	\$19.7
Adjustments:		
Amortization and depreciation	41.0	39.5
Interest	8.3	5.0
Income taxes	2.9	7.4
EBITDA	\$71.5	\$71.6
Unrealized foreign exchange loss	4.4	0.3
Acquisition costs	–	1.0
Contingent consideration fair value adjustment	4.6	9.6
Litigation settlement cost	–	2.5
Insurance proceeds (net)	–	(1.0)
Total Adjusted EBITDA	\$80.5	\$84.0

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

	December 31, 2022	December 31, 2021
Total Assets	\$499.3	\$461.4
Total Non-Current Liabilities	\$142.3	\$163.5



## Results of Operations – Year ended December 31, 2022

During the year ended December 31, 2022 (“Fiscal 2022” or “2022”), Pollard achieved sales of \$482.3 million, compared to \$459.0 million in the year ended December 31, 2021 (“Fiscal 2021” or “2021”). Factors impacting the \$23.3 million sales increase were:

- Higher eGaming systems revenue increased sales by \$8.4 million, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2021. In addition, more retail establishments were open during 2022 as compared to 2021, further contributing to the increase in eGaming systems sales.
- The higher average selling price of charitable games in Fiscal 2022 also increased sales by \$8.2 million, as we have been able to pass along inflationary cost increases to our customers. Charitable gaming sales volumes were slightly lower in 2022 when compared to the record high pull-tab sales volumes achieved in 2021, decreasing sales by \$3.3 million. In 2021, sales volumes were boosted by additional sales from pre-existing inventory.
- Higher sales of ancillary lottery products and services increased revenue by \$6.3 million in 2022, largely due to increased distribution, digital and loyalty product sales, partially offset by decreased sales of licensed products and retail merchandising products.
- Furthermore, higher instant ticket sales volumes in 2022 increased sales by \$2.5 million. This increase in sales was offset by the lower instant ticket average selling price as compared to 2021, which decreased sales by \$6.6 million, due to the customer sales mix. Although we have been successful in repricing a sizable portion of instant ticket contracts during 2022, many of these contracts do not start until 2023, and therefore have not yet positively impacted our instant ticket average selling price.
- Michigan iLottery sales were lower by \$1.1 million as compared to 2021, when sales were higher, partially as a result of a double jackpot run in the first quarter of 2021.
- During Fiscal 2022, Pollard generated approximately 71.5% (2021 – 68.3%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2022, the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.299, compared to an average rate of \$1.254 during Fiscal 2021. This 3.6% increase in the U.S. dollar value resulted in an approximate increase of \$11.8 million in revenue relative to Fiscal 2021. In addition, during 2022, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$2.9 million in revenue relative to 2021.

Cost of sales was \$400.5 million in Fiscal 2022 compared to \$368.2 million in Fiscal 2021. The increase of \$32.3 million in cost of sales was primarily the result of very significant inflationary pressures on raw material costs (including paper and ink), freight and other inputs to our instant ticket and printed charitable gaming products. Higher exchange rates on U.S. dollar denominated expenses, increases in certain manufacturing overhead costs and the increase in digital product sales in 2022 also added to the higher cost of sales. Partially offsetting these increases were small decreases in charitable gaming and retail merchandising product sales volumes as compared to 2021.

Gross profit was \$81.8 million (17.0% of sales) in Fiscal 2022 compared to \$90.8 million (19.8% of sales) in Fiscal 2021. This decrease of \$9.0 million in gross profit was primarily a result of lower instant ticket sales margins, due to increased manufacturing costs, including the significant impact of inflation on the costs of inputs to our instant ticket production. Our instant ticket sales margins were also negatively impacted by the inability to increase our selling prices in the short-term, due to the nature of most our instant ticket contracts with lotteries being long-term and fixed price. Lower licensed product and Michigan iLottery sales compared to 2021 also lowered gross margins slightly. These decreases were partially offset by increases in eGaming systems, charitable gaming and digital product sales, which increased gross profit as compared to 2021. The lower gross margin percentage was largely due to the substantial impact of inflationary cost increases, coupled with an inability to increase our selling prices in the short-term, partially offset by increases in eGaming systems, charitable gaming and digital product gross margins as compared to 2021.

Administration expenses were \$49.8 million in Fiscal 2022 compared to \$47.2 million in Fiscal 2021. The increase of \$2.6 million was primarily a result of increased compensation expenses, consulting costs, professional fees, and conference and travel related costs. These increases were partially offset by a reduction in acquisition costs.

Selling expenses were \$17.4 million in Fiscal 2022 compared to \$17.2 million in Fiscal 2021. The increase was primarily due to slightly higher travel related expenses.

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to \$23.7 million in Fiscal 2022 from the \$12.3 million achieved in Fiscal 2021. This \$11.4 million increase was primarily due to increased revenue on existing contracts held by NPi driven by greater gaming activity, reflecting strong organic growth, and a higher number of large jackpots in draw-based games.

Other expenses were \$4.1 million in Fiscal 2022 compared to \$5.2 million in Fiscal 2021. This decrease of \$1.1 million was partially due to lower contingent consideration fair value adjustment expense, as part of our Compliant acquisition, decreasing other expenses by \$5.0 million as compared to 2021. In addition, 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. Partially offsetting these decreases in other expenses was the receipt of \$nil CEWS in 2022 compared to \$5.4 million received in 2021.

The net foreign exchange loss was \$3.7 million in Fiscal 2022 compared to a net foreign exchange loss of \$1.4 million in Fiscal 2021. The 2022 net foreign exchange loss of \$3.7 million resulted from a net unrealized foreign exchange loss of \$4.4 million, comprised predominately of an unrealized loss on U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar, which was partially offset by an unrealized gain on U.S. dollar denominated cash and accounts receivable. Partially offsetting the unrealized foreign exchange loss was a realized foreign exchange gain of \$0.7 million, which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates, partially offset by foreign currency denominated accounts payable paid at unfavorable exchange rates.

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.

Adjusted EBITDA decreased to \$80.5 million in Fiscal 2022 compared to \$84.0 million in Fiscal 2021. The primary reasons for the decrease of \$3.5 million include the decrease in gross profit (net of amortization and depreciation) of \$7.5 million, primarily the result of lower instant ticket sales margins, due to increased manufacturing expenses, mainly caused by the impact of inflation on manufacturing input costs. This decrease in gross profit (net of amortization and depreciation) was partially offset by increased gross profits achieved on eGaming systems, charitable gaming and digital product sales as compared to 2021.

Other factors contributing to the decrease in Adjusted EBITDA include the increase in other expenses (net of contingent consideration, litigation settlement and insurance settlement) of \$5.4 million, higher administration expenses (net of acquisition costs) of \$3.6 million and higher selling expenses of \$0.2 million. These decreases were partially offset by the increase in equity investment income of \$11.4 million and the increase in realized foreign exchange gain of \$1.8 million.

Interest expense increased to \$8.3 million in Fiscal 2022 from \$5.0 million in Fiscal 2021, primarily as a result of higher interest rates in 2022 and the increase in interest accretion on the discounted contingent consideration liability relating to the Compliant purchase of \$1.1 million. Partially offsetting these increases to interest expense was the decrease in average long-term debt outstanding as compared to 2021.

Amortization and depreciation totaled \$41.0 million during Fiscal 2022 which increased from \$39.5 million during Fiscal 2021. The increase of \$1.5 million was primarily as a result of amortization and depreciation taken on newly acquired property, plant and equipment, and intangible assets, partially offset by the reduction in amortization expense due to certain intangible assets becoming fully amortized during 2021.

Income tax expense was \$2.9 million in Fiscal 2022, an effective rate of 13.2%, which was lower than our domestic rate of 27.0% due primarily to the effect of the lower federal income tax rates in foreign jurisdictions.

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.

Net income was \$19.3 million in Fiscal 2022 compared to net income of \$19.7 million in Fiscal 2021. The main reasons for the decrease of \$0.4 million include the decrease in gross profit of \$9.0 million, primarily caused by the impact of inflation on manufacturing input costs. This decrease in gross profit was partially offset by increased gross profits achieved on eGaming systems, charitable gaming and digital product sales as compared to 2021.

Other factors contributing to the decrease in net income include the increase in interest expense of \$3.3 million, the increase in administration expenses of \$2.6 million, the increase in net foreign exchange loss of \$2.3 million and the increase in selling costs of \$0.2 million. Partially offsetting these decreases in net income were the increase in equity investment income of \$11.4 million, the decrease in income tax expense of \$4.5 million and the decrease in other expenses of \$1.1 million as compared to 2021.

Net income per share (basic and diluted) decreased to \$0.72 and \$0.71 per share, respectively, in Fiscal 2022 from \$0.74 and \$0.73 per share, respectively, in Fiscal 2021.

## **iLottery**

Pollard and its iLottery partner, Neogames US 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 sales 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 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
<b>Sales – Pollard’s share</b>									
Michigan iLottery	\$7.9	\$6.5	\$6.2	\$5.9	\$5.6	\$5.9	\$6.8	\$8.4	\$8.6
NPi	17.7	13.7	12.4	11.3	10.5	9.8	9.9	9.9	6.1
Combined iLottery sales	<u>\$25.6</u>	<u>\$20.2</u>	<u>\$18.6</u>	<u>\$17.2</u>	<u>\$16.1</u>	<u>\$15.7</u>	<u>\$16.7</u>	<u>\$18.3</u>	<u>\$14.7</u>
<b>Income before income taxes – Pollard’s share</b>									
Michigan iLottery	\$2.9	\$2.2	\$2.4	\$2.0	\$1.8	\$2.0	\$2.8	\$4.0	\$4.5
NPi	8.7	6.0	5.1	3.9	3.2	2.6	2.5	4.0	1.6
Combined income before income taxes – Pollard’s share	<u>\$11.6</u>	<u>\$8.2</u>	<u>\$7.5</u>	<u>\$5.9</u>	<u>\$5.0</u>	<u>\$4.6</u>	<u>\$5.3</u>	<u>\$8.0</u>	<u>\$6.1</u>

Substantial jackpots for POWERBALL® and Mega Millions® awarded in the latter half of January 2021 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 reduced draw-based game sales after the double jackpots in the first quarter of 2021, increased online gaming competition and new pricing coming into effect with our four-year contract extension, starting at the beginning of 2021. Through 2021 and 2022, NPi continued to achieve strong organic growth, adding to sales and income before taxes. In July 2022, a substantial Mega Millions® jackpot was awarded which increased sales in the third quarter of 2022. In November 2022, a record POWERBALL® jackpot was awarded which increased sales in the fourth quarter of 2022.

## Results of Operations – Three months ended December 31, 2022

### SELECTED FINANCIAL INFORMATION

(millions of dollars, except per share amounts)

	<b>Three months ended December 31, 2022</b>	<b>Three months ended December 31, 2021<sup>(1)</sup></b>
	(unaudited)	(unaudited)
Sales	\$126.9	\$116.5
Cost of sales	108.0	95.8
Gross profit	18.9	20.7
Administration expenses	12.9	11.9
Selling expenses	4.9	4.9
Equity investment income	(8.7)	(3.2)
Other expense	0.4	2.4
Income from operations	9.4	4.7
Foreign exchange gain	(3.1)	(0.1)
Interest expense	2.3	1.6
Income before income taxes	10.2	3.2
Income taxes:		
Current	1.2	1.0
Deferred (reduction)	(1.5)	(3.0)
Net income	\$10.5	\$5.2
Adjustments:		
Amortization and depreciation	11.6	10.8
Interest	2.3	1.6
Income taxes	(0.3)	(2.0)
EBITDA	\$24.1	\$15.6
Unrealized foreign exchange (gain) loss	(2.2)	0.6
Contingent consideration fair value adjustment	0.5	3.5
Insurance proceeds (net)	–	(1.0)
Adjusted EBITDA	\$22.4	\$18.7
Net income per share (basic and diluted)	\$0.39	\$0.19

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

## Results of Operations – Three months ended December 31, 2022

During the three months ended December 31, 2022, Pollard achieved sales of \$126.9 million, compared to \$116.5 million in the three months ended December 31, 2021. Factors impacting the \$10.4 million sales increase were:

- Higher sales of ancillary lottery products and services increased revenue in the fourth quarter of 2022, as compared to the fourth quarter of 2021, by \$6.5 million. This increase was primarily due to increased sales of licensed products, distribution services, retail merchandising products and digital products. In addition, higher instant ticket sales volumes increased sales by \$1.9 million in the quarter. Partially offsetting these sales increases was a lower instant ticket average selling price due to a change in customer sales mix, decreasing sales by \$7.9 million.
- Higher Michigan iLottery sales increased revenue in the fourth quarter of 2022 by \$1.7 million as compared to 2021, partially due to a substantial POWERBALL® jackpot awarded in the fourth quarter of 2022.
- The higher average selling price of charitable games in 2022 further increased sales by \$1.0 million as compared to 2021, as we have been able to pass along inflationary cost increases to our customers. In addition, higher charitable gaming volumes increased sales by \$0.2 million in the fourth quarter of 2022 as Pollard's sales of pull-tab tickets and related products remained high due to strong customer demand.
- eGaming systems revenue increased by \$1.0 million in 2022, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2021.
- During the three months ended December 31, 2022, Pollard generated approximately 71.5% (2021 – 65.6%) 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 2022, the actual U.S. dollar value was converted to Canadian dollars at an average rate of \$1.361, compared to an average rate of \$1.263 during the fourth quarter of 2021. This 7.7% increase in the value of the U.S. dollar resulted in an approximate increase of \$6.5 million in revenue relative to 2021. In addition, during the fourth quarter of 2022, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.5 million in revenue relative to 2021.

Cost of sales was \$108.0 million in the fourth quarter of 2022 compared to \$95.8 million in the fourth quarter of 2021. The increase of \$12.2 million was primarily a result of significant inflationary pressure on raw material costs and other manufacturing inputs. The impact of cost increases on inputs throughout 2022 were substantially absorbed in the fourth quarter. Higher exchange rates on U.S. dollar denominated expenses, increases in certain manufacturing overhead costs and higher expenses related to greater

licensed product and distribution services sales volumes also increased cost of sales as compared to 2021.

Gross profit was \$18.9 million (14.9% of sales) in the fourth quarter of 2022 compared to \$20.7 million (17.8% of sales) in the fourth quarter of 2021. This decrease in gross profit was primarily the result of lower instant ticket sales margins, due to increased manufacturing costs and driven by significant inflationary cost increases. In addition, we sold a greater mix of lower valued instant tickets, resulting in a lower instant ticket average selling price following the higher valued mix of sales in the third quarter of 2022. These decreases were partially offset by gross profit increases in charitable gaming, eGaming systems, Michigan iLottery, retail merchandising and digital product sales as compared to 2021. The lower gross profit percentage was largely due to increased manufacturing costs driven by significant inflationary cost increases, combined with selling a greater mix of lower valued instant tickets, resulting in a lower instant ticket average selling price following the higher valued mix of sales in the third quarter. These decreases in gross profit percentage were partially offset by increases in charitable gaming, retail merchandising and digital product sales.

Administration expenses increased to \$12.9 million in the fourth quarter of 2022 compared to \$11.9 million in the fourth quarter of 2021. The increase of \$1.0 million was largely a result of increased software licensing, and conference and travel related costs.

Selling expenses were \$4.9 million in the fourth quarter of 2022 and the fourth quarter of 2021.

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to \$8.7 million in the fourth quarter of 2022 from \$3.2 million in the fourth quarter of 2021. This \$5.5 million increase was primarily due to increased organic growth achieved on contracts held by NPi, as well as a substantial POWERBALL<sup>®</sup> jackpot awarded during the fourth quarter of 2022 which increased NPi's revenue as compared to 2021.

Other expenses were \$0.4 million in the fourth quarter of 2022 compared to \$2.4 million in the fourth quarter of 2021. This decrease of \$2.0 million was primarily due to lower contingent consideration fair value adjustment expenses incurred in 2022, as part of our Compliant acquisition, decreasing other expenses by \$3.0 million. This decrease was partially offset by the decrease in insurance proceeds, net of expenses recovered, of \$1.0 million received in the fourth quarter of 2021 for a claim resulting from damage to ancillary production equipment.

The net foreign exchange gain was \$3.1 million in the fourth quarter of 2022 compared to a net foreign exchange gain of \$0.1 million in the fourth quarter of 2021. The 2022 net foreign exchange gain of \$3.1 million consisted of a net unrealized foreign exchange gain of \$2.2 million, primarily 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, which was partially offset by an unrealized loss



on U.S. dollar denominated cash and accounts receivable. Also contributing to the 2022 net foreign exchange gain was a realized foreign exchange gain of \$0.9 million, primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates.

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 exchange 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.

Adjusted EBITDA increased to \$22.4 million in the fourth quarter of 2022 compared to \$18.7 million in the fourth quarter of 2021. The primary reason for the \$3.7 million increase in Adjusted EBITDA was the increase in equity investment income of \$5.5 million. This increase was partially offset by the decrease in gross profit (net of amortization and depreciation) of \$1.0 million, primarily due to lower instant ticket sales margins resulting from increased manufacturing costs, including the significant impact of inflation combined with a greater mix of lower valued instant tickets sold compared to 2021. This decrease in gross profit (net of amortization and depreciation) was partially offset by increases in eGaming systems, charitable gaming, Michigan iLottery, retail merchandising and digital product sales. The increase in administration expenses of \$1.0 million also partially offset the increase in Adjusted EBITDA compared to 2021.

Interest expense increased to \$2.3 million in the fourth quarter of 2022 from \$1.6 million in the fourth quarter of 2021, primarily as a result of higher interest rates in 2022 and an increase in average long-term debt outstanding as compared to 2021, partially offset by lower interest accretion on the discounted contingent consideration liability related to the Compliant purchase of \$0.4 million.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$11.6 million during the fourth quarter of 2022 which increased from \$10.8 million during the fourth quarter of 2021. The increase of \$0.8 million was primarily the result of amortization and depreciation taken on newly acquired property, plant and equipment, and intangible assets, partially offset by the reduction in amortization expense due to certain intangible assets becoming fully amortized during 2021.

Income tax recovery was \$0.3 million in the fourth quarter of 2022, an effective rate of (3.3%), which differed from our domestic rate of 27.0% due primarily to the effect of non-taxable amounts, the effect of non-taxable items related to foreign exchange and the effect of lower federal income tax rates in foreign jurisdictions.

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 to the recognition of tax losses not previously valued.

Net income was \$10.5 million in the fourth quarter of 2022 compared to \$5.2 million in the fourth quarter of 2021. The primary reasons for the increase in net income of \$5.3 million were the increase in our share of income from our joint venture, NPi, of \$5.5 million, the increase in the net foreign exchange gain of \$3.0 million and the decrease in other expenses of \$2.0 million. These increases in net income were partially offset by the decrease in gross profit of \$1.8 million, primarily due to lower instant ticket sales margins resulting from increased manufacturing input costs, including the significant impact of inflation, coupled with a lower instant ticket average selling price due to a greater mix of lower valued instant ticket sales compared to 2021. This decrease in gross profit was partially offset by increases in eGaming systems, charitable gaming, Michigan iLottery, retail merchandising and digital product sales. Also decreasing net income were the increase in income tax expense of \$1.7 million, the increase in administration expenses of \$1.0 million and the increase in interest expense of \$0.7 million.

Net income per share (basic and diluted) increased to \$0.39 per share in the fourth quarter of 2022 from \$0.19 per share in the fourth quarter of 2021.

## **Outlook**

During 2022 retail dollar sales of instant tickets declined slightly from the previous year, following significant two-year growth totaling over 30% during 2020 and 2021. However, during the first two months of 2023 retail dollar sales have returned to mid-single digit growth in comparison to last year and continue to show significant resilience in light of current economic uncertainty. We believe solid underlying consumer demand will continue to generate positive demand from lotteries for instant tickets from their manufacturers, including Pollard.

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 printed charitable gaming product lines. The current demand for our products continues to outpace our ability to produce, particularly in our pull-tab product line, and we are increasing capacity to capitalize on this demand. The staffing challenges we have been experiencing have improved somewhat, allowing us to increase and retain additional staff to help us grow our volumes.

In addition, a number of equipment purchases and improvements are in process that will also increase our production capacity later in 2023. Our tablet and kiosk-based eGaming business also continues to fuel growth through new and improved game content and expanded sites. Charities, in conjunction with their regulators, are increasingly exploring opportunities to expand charitable gaming into electronic formats to help generate higher proceeds for their good causes, and we expect this trend to continue.

The iLottery market continues to generate significant opportunities, both in the short-term and long-term. Our existing iLottery contracts operated through our joint partnership have seen strong organic growth throughout 2022 as well as the very positive impacts of a number of record high POWERBALL® and Mega Millions® jackpots during the course of the year. Large jackpot runs attract a sizeable increase in the number of players to the iLottery sites, generating substantial increases in revenue in the immediate term, but also bringing in new long-term customers who continue to access and play iLottery going forward. We believe the organic growth experienced in 2022 will continue, and while it is hard to predict the cadence of large jackpot runs, in the first two months of 2023 we have already experienced the positive impact of both a large POWERBALL® and a large Mega Millions® jackpot.

Also difficult to project is the timing of new iLottery opportunities, particularly in the United States. The last new iLottery startup was in 2020, and the overall expansion of the market has been slow. We believe in the longer term there will be a number of additional U.S. lotteries initiating new iLottery operations. With the recent significant investments in our state-of-the-art iLottery platform and game content library, we are confident Pollard is well positioned to take advantage of these opportunities.

We have not seen any new significant inflationary cost increases on our major instant ticket manufacturing inputs such as paper, ink, packaging or freight for 2023 and so far do not anticipate any major new cost increases through the rest of the year. However, the large cost increases incurred during 2022 were done in stages throughout the year, with most of the higher costs being absorbed by the end of 2022. On a year over year basis, our manufacturing costs will be higher in 2023, reflecting these higher cost levels in place for the entirety of the year.

Our strategy for addressing the significant inflationary cost increases continues to be focused on aggressively resetting our selling prices at every rebid or renewal of our long-term contracts, which will continue through 2023 and beyond. We have been successful in raising our prices in a number of key contracts that were renewed in 2022, which confirmed the market's acceptance of the new market pricing and we believe this will continue in 2023. Contract terms are generally negotiated well in advance of their start date, so the 2022 repricing has not impacted our 2022 results but will start to be reflected in our financial results during the latter part of 2023 and into 2024.

We are being selective in accepting instant ticket orders where the current terms would require us to produce the work at unacceptable margins due to our recent input cost increases. Some of our contracts allow us discretion relative to accepting work. As a result, our instant ticket production volume is anticipated to be slightly lower than 2022 in the first half of 2023 as we focus on volumes with higher margins.

In addition to repricing our instant ticket contracts, a number of other initiatives are underway to help mitigate the financial impact of the inflationary cost increases including improving the efficiency of our manufacturing processes, internal cost reviews and

continued focus on improving our average selling prices through innovation and selling proprietary products at higher margins.

We are seeing our various supply chains start to return to normal operating capacity and are seeing improved access to our key manufacturing inputs both in terms of increased available volumes and quicker turnaround times. While nothing is guaranteed, as we look out into 2023 we believe some of the supply chain challenges experienced in 2022 and prior because of the pandemic have been mitigated. Staffing resource issues have caused some inefficiencies in our production processes last year and, although we have seen some improvement in attracting and retaining staff in a number of our operations, we believe staffing will continue to be a challenge in 2023 for many manufacturers including Pollard.

Our business continues to generate strong cashflow with a high ratio of converting Adjusted EBITDA to cash, and we expect this to continue. We expect to retain significant available liquidity with our existing bank facilities and combined with our strong operating cashflow, we are confident we will have the available resources to continue to invest in the growth of our current businesses, devote capital to new opportunities, including acquisition prospects, as well as maintaining our very conservative debt management policy.

We are excited about the prospects for Pollard in 2023 as demand for our products and solutions remains high. Our strategy of developing a broad product portfolio to address all areas of our customers' needs has successfully allowed us to substantially offset the significant negative pressure on our instant ticket business due to the recent unprecedented inflationary input cost increases. We expect our charitable gaming, including eGaming system businesses, to continue to prosper in 2023 and anticipate continued growth from iLottery as well. We are hopeful that the cost pressures in our instant ticket business have plateaued and the contract repricing achieved in 2022, and through future negotiations, will start to positively impact our margins.

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