POLLARD banknote limited

# News Release

# POLLARD BANKNOTE REPORTS 2ND QUARTER FINANCIAL RESULTS

**WINNIPEG, Manitoba, August 10, 2023 /CNW/ - Pollard Banknote Limited** (TSX: PBL) ("Pollard") today released its financial results for the three and six months ended June 30, 2023.

**Results and Highlights for the Second Quarter ended June 30, 2023**

- Record quarterly revenue reached $130.3 million, up 12.4% from the $115.9 million achieved in the same period last year.
- Combined sales(1) in the quarter, including our share of our NeoPollard Interactive LLC ("NPi") joint venture sales, reached $148.8 million, up 16.0% from the $128.3 million in 2022.
- Income from operations was $9.9 million, compared to $8.7 million in the second quarter of 2022.
- Adjusted EBITDA(1) of $22.1 million, compared to $18.9 million in the second quarter of 2022.
- Income before income taxes in the second quarter was $8.8 million, up from $4.0 million attained in the second quarter of 2022.
- Our iLottery operations generated combined income before income taxes of $11.0 million, similar to the results achieved in the first quarter of 2023 and up significantly from the $7.5 million earned in the same period of last year.
- A greater mix of higher value instant ticket sales improved earnings in our lottery operations as compared to the first quarter of 2023.
- Our charitable gaming and eGaming systems businesses continued to see strong demand for their products, achieving solid revenue and earnings.

(1) See Non-GAAP measures for explanation.

"We are very pleased with the financial results of our second quarter and more importantly excited that our strategy to profitably grow all of our business lines is generating positive results," declared John Pollard, Co-Chief Executive Officer. "Overall the strong demand experienced in all of our markets provides the foundation for continued growth throughout 2023 and beyond. In charitable gaming, eGaming systems and iLottery we achieved solid earnings, and remain confident these results will continue as we move through 2023. While high input costs remain in our instant ticket business, a better mix of higher margin work, and slowly increasing selling prices, generated improved results within this important business line."

"In addition to attaining our record quarterly revenue in the second quarter, our gross margin percentage improved over 170 basis points versus the first quarter of 2023. This is an important positive overall trend driven primarily by improvements in our instant ticket business."

"We continue to experience high costs on our main inputs in our instant ticket production (including paper, ink, packaging and freight) however we have incurred no new cost increases during 2023. Our supply chain reflects improved availability, which we hope will ultimately result in future cost decreases."

"As noted last quarter one of the factors impacting our results in the first quarter of 2023 was a mix of lower margin instant ticket sales. The timing of different customer work can impact the overall profitability on a quarterly basis. In the second quarter our sales mix of instant tickets consisted of higher margin work, including increased specialty work such as our Scratch FX™ offering, which generated higher margins and had a positive impact on our overall financial results when compared to the first quarter."

"In addition to the improved mix, our strategy of repricing instant ticket contracts to offset the impact of the high inflation on our input costs continued, and in the second quarter we saw a slightly higher positive impact from increased selling prices. There is a lag between the timing of higher revenue being recognized from when these contracts are rebid, and we are seeing the beginning of the higher prices impacting our financial results in the first two quarters of 2023. The larger impact of the reset pricing to date will be felt moving forward during the rest of 2023 and throughout 2024. We have been successful in repricing a significant portion of our contract portfolio and will continue to work at resetting our selling prices on the remainder of our contracts as they expire."

"Retail dollar sales of instant tickets during the first half of 2023 continued to show positive growth, which ultimately leads to increased demand for more tickets and additional ancillary products such as refreshed retail display products and services," stated Doug Pollard, Co-Chief Executive Officer. "Strong demand continues for charitable gaming, which includes pull-tabs, bingo paper and related vending machines, and eGaming systems. Charitable gaming and eGaming systems combined revenue was 8% higher compared to the same period last year, which further benefitted charities as they look at new initiatives to generate funding for their good causes."

"iLottery results were significantly higher than last year, attaining combined income before income tax of $11.0 million, a 47% increase over the same period last year. Strong organic growth particularly in our Virginia and Alberta contracts and once again large jackpot runs in draw-based games including Powerball® and Mega Millions® towards the end of June drove higher traffic and revenue on our U.S. based sites. Total combined iLottery sales remained strong at $25.0 million."

"Our state of the art iLottery platform and game library are now being demonstrated to potential customers. We are committed to continuing to invest the necessary resources to ensure it meets the high demands of lotteries around the world. We believe that iLottery will be an increasingly important part of the future success of the lottery world and we are confident our solutions will play a major role in that success."

"We are very pleased with our second quarter results and remain confident our expanded portfolio of products and services are uniquely situated to support lotteries and charities in reaching their objectives of raising funds for their good causes," concluded John Pollard. "Demand remains high from our customer base. Our strategy of resetting our instant ticket selling prices to offset the inflationary cost increases has laid the groundwork for improved margins and we are just starting to see the impact on our financial results in the last two quarters. Going forward we expect a greater positive impact from our instant ticket margins while at the same time maintaining robust results in our other businesses."

## 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 unaudited condensed consolidated financial statements of Pollard as at and for the three and six months ended June 30, 2023. 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.

| HIGHLIGHTS | Three months ended June 30, 2023 | Three months ended June 30, 2022[1] |
|---|---|---|
| **Sales** | $ 130.3 million | $ 115.9 million |
| **Gross profit** | $ 20.1 million | $ 20.9 million |
| ***Gross profit % of sales*** | *15.4%* | *18.0%* |
| **Administration expenses** | $ 14.3 million | $ 12.3 million |
| **Selling expenses** | $ 5.0 million | $ 4.2 million |
| **NPi equity investment income** | ($ 9.2 million) | ($ 5.1 million) |
| **Unrealized foreign exchange (gain) loss** | ($ 1.7 million) | $ 2.4 million |
| **Net income** | $ 7.5 million | $ 2.5 million |
| **Net income per share – basic** | $ 0.28 | $ 0.09 |
| **Net income per share – diluted** | $ 0.27 | $ 0.09 |
| **Adjusted EBITDA** | $ 22.1 million | $ 18.9 million |

| | Six months ended June 30, 2023 | Six months ended June 30, 2022[1] |
|---|---|---|
| **Sales** | $ 254.9 million | $ 229.8 million |
| **Gross profit** | $ 37.2 million | $ 42.5 million |
| ***Gross profit % of sales*** | *14.6%* | *18.5%* |
| **Administration expenses** | $ 27.7 million | $ 24.3 million |
| **Selling expenses** | $ 9.6 million | $ 8.3 million |
| **NPi equity investment income** | ($ 17.8 million) | ($ 9.0 million) |
| **Unrealized foreign exchange (gain) loss** | ($ 1.9 million) | $ 1.7 million |
| **Net income** | $ 12.4 million | $ 8.9 million |
| **Net income per share – basic** | $ 0.46 | $ 0.33 |
| **Net income per share – diluted** | $ 0.45 | $ 0.33 |
| **Adjusted EBITDA** | $ 40.7 million | $ 37.9 million |

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

**SELECTED FINANCIAL INFORMATION**

| (millions of dollars) | **Three months June 30, 2023** (unaudited) | **Three months June 30, 2022[(1)]** (unaudited) | **Six months June 30, 2023** (unaudited) | **Six months June 30, 2022[(1)]** (unaudited) |
|---|---|---|---|---|
| Sales | $130.3 | $115.9 | $254.9 | $229.8 |
| Cost of sales | 110.2 | 95.0 | 217.7 | 187.3 |
| Gross profit | 20.1 | 20.9 | 37.2 | 42.5 |
| Administration expenses | 14.3 | 12.3 | 27.7 | 24.3 |
| Selling expenses | 5.0 | 4.2 | 9.6 | 8.3 |
| Equity investment income | (9.2) | (5.1) | (17.8) | (9.0) |
| Other expenses | 0.1 | 0.8 | 0.3 | 0.8 |
| Income from operations | 9.9 | 8.7 | 17.4 | 18.1 |
| Foreign exchange (gain) loss | (1.7) | 2.6 | (2.0) | 2.2 |
| Interest expense | 2.8 | 2.1 | 5.5 | 3.9 |
| Income before income taxes | 8.8 | 4.0 | 13.9 | 12.0 |
| Income taxes | | | | |
| Current | 7.6 | 2.8 | 10.5 | 5.5 |
| Deferred reduction | (6.3) | (1.3) | (9.0) | (2.4) |
| | 1.3 | 1.5 | 1.5 | 3.1 |
| Net income | $7.5 | $2.5 | $12.4 | $8.9 |
| Adjustments: | | | | |
| Amortization and depreciation | 11.9 | 9.7 | 22.5 | 19.4 |
| Interest | 2.8 | 2.1 | 5.5 | 3.9 |
| Income taxes | 1.3 | 1.5 | 1.5 | 3.1 |
| EBITDA | $23.5 | $15.8 | $41.9 | $35.3 |
| Unrealized foreign exchange (gain) loss | (1.7) | 2.4 | (1.9) | 1.7 |
| Contingent consideration fair value adjustment | 0.3 | 0.7 | 0.7 | 0.9 |
| Adjusted EBITDA | $22.1 | $18.9 | $40.7 | $37.9 |

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

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| Total Assets | $493.0 | $499.3 |
| Total Non-Current Liabilities | $150.8 | $142.3 |

## Results of Operations – Three months ended June 30, 2023

During the three months ended June 30, 2023, Pollard achieved sales of $130.3 million, compared to $115.9 million in the three months ended June 30, 2022. Factors impacting the $14.4 million sales increase were:

- The higher instant ticket average selling price in the second quarter of 2023 increased sales by $6.9 million as compared to 2022, primarily due to higher proprietary product sales, a change in customer mix and the impact of repriced contracts. However, partially offsetting this increase was the decrease in instant ticket sales volumes of $3.6 million, in part as a result of declining certain less profitable work.

- Higher sales of ancillary lottery products and services increased revenue in the second quarter of 2023 by $4.1 million as compared to 2022. This growth was largely due to increased sales of licensed products, digital and loyalty products, retail merchandising products and distribution services.

- The higher average selling price of charitable games in the second quarter of 2023 also increased sales by $1.1 million as compared to the second quarter of 2022. However, lower charitable gaming volumes decreased sales by $1.7 million in the second quarter of 2023, largely as a result of certain production inefficiencies.

- eGaming systems revenue further increased sales by $0.8 million in 2023, largely due to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.

- During the three months ended June 30, 2023, Pollard generated approximately 72.2% (2022 – 72.4%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the second quarter of 2023, the actual U.S. dollar value was converted to Canadian dollars at $1.358, compared to a rate of $1.269 during the second quarter of 2022. This 7.0% increase in the U.S. dollar value resulted in an approximate increase of $6.2 million in revenue relative to the second quarter of 2022. In addition, during the quarter the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.8 million in revenue relative to the second quarter of 2022.

Cost of sales was $110.2 million in the second quarter of 2023 compared to $95.0 million in the second quarter of 2022. The increase of $15.2 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in manufacturing overhead costs, certain instant ticket production inefficiencies and higher expenses related to increased sales of ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022.

Gross profit decreased to $20.1 million (15.4% of sales) in the second quarter of 2023 from $20.9 million (18.0% of sales) in the second quarter of 2022. This decrease of $0.8 million in gross profit and the decrease in gross profit percentage were primarily the result of lower instant ticket sales margins, despite a higher instant ticket average selling price compared to 2022. We continued to experience significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. While we have been successful in raising our selling prices for a number of key long-term customer contracts that were renewed in 2022 and the first half of 2023, contract terms are generally negotiated well in advance of their start date. Therefore, the impact of our contracts that have been repriced will be reflected over time and not be fully reflected in our financial results until the latter part of 2024. In addition, lower charitable gaming sales margins in the second quarter of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on sales of eGaming systems, licensed products and retail merchandising products as compared to 2022. Sequentially, the gross profit percentage increased this quarter to 15.4% from 13.7% in the first quarter of 2023, in part because of higher margin instant ticket sales.

Administration expenses were $14.3 million in the second quarter of 2023 compared to $12.3 million in the second quarter of 2022. The increase of $2.0 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses increased to $5.0 million in the second quarter of 2023 from $4.2 million in the second quarter of 2022. The increase was primarily due to higher compensation and travel related expenses.

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to $9.2 million in the second quarter of 2023 from $5.1 million in the second quarter of 2022. This $4.1 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2022, which was driven by greater gaming activity.

Other expenses were $0.1 million in the second quarter of 2023 compared to $0.8 million in the second quarter of 2022. This decrease of $0.7 million was primarily due to the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant Gaming, LLC ("Compliant") acquisition, of $0.4 million as compared to 2022.

The net foreign exchange gain was $1.7 million in the second quarter of 2023 compared to a net loss of $2.6 million in the second quarter of 2022. The 2023 net foreign exchange gain of $1.7 million consisted of an unrealized foreign exchange gain of $1.7 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, partially offset by an unrealized loss on U.S. dollar denominated accounts receivable.

The 2022 net foreign exchange loss of $2.6 million consisted of an unrealized foreign exchange loss of $2.4 million, primarily a result of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar. In addition, Pollard incurred a realized foreign exchange loss of $0.2 million, primarily due to foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchanges rates.

Adjusted EBITDA increased to $22.1 million in the second quarter of 2023 compared to $18.9 million in the second quarter of 2022. The primary reasons for the $3.2 million increase in Adjusted EBITDA were the increase in equity investment income of $4.1 million, the increase in gross profit (net of amortization and depreciation) of $1.4 million, the decrease in other expenses (net of contingent consideration) of $0.3 million and the decrease in realized foreign exchange loss of $0.2 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of $2.0 million and the increase in selling expenses of $0.8 million.

Interest expense increased to $2.8 million in the second quarter of 2023 from $2.1 million in the second quarter of 2022, primarily as a result of higher interest rates in 2023 and the increase in average long-term debt outstanding as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of $0.7 million on the discounted contingent consideration liability relating to the Compliant purchase.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $11.9 million during the second quarter of 2023 which increased from $9.7 million during the second quarter of 2022. The increase of $2.2 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income tax expense was $1.3 million in the second quarter of 2023, an effective rate of 14.5%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

Income tax expense was $1.5 million in the second quarter of 2022, an effective rate of 38.2%, which was higher than our domestic rate of 27.0% due primarily to the changes enacted with regards to the United Kingdom’s corporation tax rates and the effect of non-taxable items related to foreign exchange, partially offset by the effect of the lower income tax rates in foreign jurisdictions.

Net income was $7.5 million in the second quarter of 2023 compared to $2.5 million in the second quarter of 2022. The increase in net income of $5.0 million was primarily due to the increase in net foreign exchange gain of $4.3 million, the increase in equity investment income of $4.1 million, the decrease in other expenses of $0.7 million and the decrease in income tax expense of $0.2 million. Partially offsetting these increases to net income was the decrease in gross profit of $0.8 million, primarily the result of lower instant ticket sales margins due to significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. In addition, lower charitable gaming sales margins in the second quarter of 2023 further contributed to the decrease in gross profit. These decreases to gross profit were partially offset by gross profit increases on sales of eGaming systems, licensed products and retail merchandising products as compared to 2022. Also partially offsetting the increases to net income were the increase in administration expenses of $2.0 million, the increase in selling expenses of $0.8 million and the increase in interest expense of $0.7 million.

Net income per share (basic and diluted) increased to $0.28 and $0.27 per share, respectively, in the second quarter of 2023 from $0.09 per share (basic and diluted) in the second quarter of 2022.

**Results of Operations – Six months ended June 30, 2023**

During the six months ended June 30, 2023, Pollard achieved sales of $254.9 million, compared to $229.8 million in the six months ended June 30, 2022. Factors impacting the $25.1 million sales increase were:

- Higher sales of ancillary lottery products and services increased revenue by $7.6 million. This growth was largely due to increased sales of digital and loyalty products, distribution services and licensed products.

- The higher instant ticket average selling price in the first six months of 2023 increased sales by $4.5 million as compared to 2022, primarily due to higher proprietary product sales, a change in customer mix and the impact of repriced contracts. However, this increase was largely offset by the decrease in instant ticket sales volumes of $4.1 million as compared to 2022, in part as a result of declining certain less profitable work.

- Higher eGaming systems revenue increased sales by $2.9 million due primarily to a higher number of eGaming machines placed at bars, bingo halls and fraternal organizations as compared to 2022.

- The higher average selling price of charitable games in the first six months of 2023 also increased sales by $2.2 million as compared to 2022. This increase was partially offset by lower charitable gaming volumes, which decreased sales by $1.5 million, largely as a result of certain production inefficiencies.

- Higher Michigan iLottery sales further increased revenue in the first six months of 2023 by $0.8 million as compared to 2022.

- During the six months ended June 30, 2023, Pollard generated approximately 74.0% (2022 – 71.5%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first six months of

2023, the actual U.S. dollar value was converted to Canadian dollars at $1.354, compared to a rate of $1.269 the first six months of 2022. This 6.6% increase in the U.S. dollar value resulted in an approximate increase of $11.8 million in revenue relative to the first six months of 2022. In addition, during the first six months of 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of $0.9 million in revenue relative to the first six months of 2022.

Cost of sales was $217.7 million in the first six months of 2023 compared to $187.3 million in the first six months of 2022. The increase of $30.4 million in cost of sales was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on raw materials and other manufacturing inputs. In addition, higher exchange rates on U.S. dollar denominated expenses, increases in manufacturing overhead costs, certain instant ticket production inefficiencies and higher expenses related to increased sales of ancillary lottery products and services further contributed to the increase in cost of sales as compared to 2022.

Gross profit decreased to $37.2 million (14.6% of sales) in the six months ended June 30, 2023, from $42.5 million (18.5% of sales) in the six months ended June 30, 2022. This decrease of $5.3 million in gross profit and the decrease in gross profit percentage were primarily the result of lower instant ticket sales margins, despite a higher instant ticket average selling price compared to 2022. During the first half of 2023, we have experienced significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. While we have been successful in raising our selling prices for a number of key long-term customer contracts that were renewed in 2022 and the first half of 2023, contract terms are generally negotiated well in advance of their start date. Therefore, the impact of our contracts that have been repriced will be reflected over time and not be fully reflected in our financial results until the latter part of 2024. In addition, lower charitable gaming sales margins in the first half of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on eGaming systems, licensed products, and digital and loyalty product sales as compared to 2022.

Administration expenses increased to $27.7 million in the first six months of 2023 from $24.3 million in 2022. The increase of $3.4 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses increased to $9.6 million in the first six months of 2023 from $8.3 million in the first six months of 2022. The increase was primarily due to higher compensation and travel related expenses.

Pollard's share of income from NPi increased to $17.8 million in the first six months of 2023 from $9.0 million in 2022. This $8.8 million increase was primarily due to increased organic growth achieved on contracts held by NPi as compared to 2022, which was driven by greater gaming activity. In addition, higher revenues from substantial Mega Millions®

and Powerball® jackpots awarded during the first quarter of 2023 further increased NPi's income.

Other expenses were $0.3 million in the first six months of 2023 compared to $0.8 million in 2022. This decrease of $0.5 million included the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant acquisition, of $0.2 million as compared to 2022.

The net foreign exchange gain was $2.0 million in the first six months of 2023 compared to a net foreign exchange loss of $2.2 million in the first six months of 2022. The 2023 net foreign exchange gain of $2.0 million resulted from a net unrealized foreign exchange gain of $1.9 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, partially offset by an unrealized loss on U.S. dollar denominated cash and accounts receivable. In addition, Pollard experienced a realized foreign exchange gain of $0.1 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 2022 net foreign exchange loss of $2.2 million resulted from a net unrealized foreign exchange loss of $1.7 million, comprised predominately of the increased Canadian equivalent value of U.S. dollar denominated accounts payable and long-term debt due to the weakening of the Canadian dollar relative to the U.S. dollar. In addition, Pollard experienced a realized foreign exchange loss of $0.5 million as a result of foreign currency denominated accounts receivable being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA increased to $40.7 million in the first six months of 2023 compared to $37.9 million in the first six months of 2022. The primary reason for the increase of $2.8 million was the increase in equity investment income of $8.8 million. Further contributing to the increase in Adjusted EBITDA as compared to 2022 were the increase in realized foreign exchange gain of $0.6 million and the decrease in other expenses (net of contingent consideration) of $0.3 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of $3.4 million, the increase in selling expenses of $1.3 million and the decrease in gross profit (net of amortization and depreciation) of $2.2 million. The decrease in gross profit (net of amortization and depreciation) was primarily the result of lower instant ticket sales margins due to significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. In addition, lower charitable gaming sales margins in the first half of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on eGaming systems, licensed products, and digital and loyalty product sales as compared to 2022.

Interest expense increased to $5.5 million in the first six months of 2023 from $3.9 million in the first six months of 2022, primarily as a result of higher interest rates in 2023 and the increase in average long-term debt outstanding as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of $1.2 million on the discounted contingent consideration liability relating to the Compliant purchase.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $22.5 million during the first six months of 2023 which increased from $19.4 million during the first six months of 2022. The increase of $3.1 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income tax expense was $1.5 million in the first six months of 2023, an effective rate of 11.3%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions and the effect of non-taxable amounts.

Income tax expense was $3.1 million in the first six months of 2022, an effective rate of 26.0%, which was lower than our domestic rate of 27.0% due primarily to the effect of the lower income tax rates in foreign jurisdictions, partially offset by changes enacted with regards to the United Kingdom's corporation tax rates and the effect of non-taxable items related to foreign exchange.

Net income increased to $12.4 million in the first six months of 2023 from $8.9 million in the first six months of 2022. The primary reasons for the increase of $3.5 million include the increase in equity investment income of $8.8 million, the increase in net foreign exchange gain of $4.2 million, the decrease in income tax expense of $1.6 million and the decrease in other expenses of $0.5 million. Partially offsetting these increases to net income was the decrease in gross profit of $5.3 million, primarily the result of lower instant ticket sales margins due to significantly higher manufacturing costs, caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production. In addition, lower charitable gaming sales margins in the first half of 2023 further contributed to the decrease in gross profit. These decreases in gross profit were partially offset by gross profit increases on eGaming systems, licensed products, and digital and loyalty product sales as compared to 2022. Also partially offsetting the increases to net income were the increase in administration expenses of $3.4 million, the increase in interest expense of $1.6 million and the increase in selling expenses of $1.3 million.

Net income per share (basic and diluted) increased to $0.46 and $0.45 per share, respectively, in the six months ending June 30, 2023, as compared to $0.33 per share (basic and diluted) in the six months ending June 30, 2022.

## 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)

| | Q2 2023 | Q1 2023 | Q4 2022 | Q3 2022 | Q2 2022 | Q1 2022 | Q4 2021 | Q3 2021 | Q2 2021 |
|---|---|---|---|---|---|---|---|---|---|
| **Sales – Pollard's share** | | | | | | | | | |
| Michigan iLottery | $6.5 | $7.3 | $7.9 | $6.5 | $6.2 | $5.9 | $5.6 | $5.9 | $6.8 |
| NPi | 18.5 | 18.5 | 17.7 | 13.7 | 12.4 | 11.3 | 10.5 | 9.8 | 9.9 |
| Combined iLottery sales | $25.0 | $25.8 | $25.6 | $20.2 | $18.6 | $17.2 | $16.1 | $15.7 | $16.7 |
| **Income before income taxes – Pollard's share** | | | | | | | | | |
| Michigan iLottery | $1.8 | $2.9 | $2.9 | $2.2 | $2.4 | $2.0 | $1.8 | $2.0 | $2.8 |
| NPi | 9.2 | 8.6 | 8.7 | 6.0 | 5.1 | 3.9 | 3.2 | 2.6 | 2.5 |
| Combined income before income taxes – Pollard's share | $11.0 | $11.5 | $11.6 | $8.2 | $7.5 | $5.9 | $5.0 | $4.6 | $5.3 |

In 2021, 2022 and the first half of 2023, NPi achieved strong organic growth in its jurisdictions, 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.

A large Mega Millions® jackpot awarded in January 2023 and a substantial Powerball® jackpot awarded in February 2023 each increased sales in the first quarter of 2023.

## Outlook

Demand for our lottery and charitable gaming products and services continues to be strong. Retail dollar sales of instant tickets continue to generate positive growth relative to 2022, which followed very strong retail growth over the 2020-2021 period. Consumer purchases of instant tickets at retail have historically been very resilient through different economic cycles so we anticipate growth to continue.

Strong demand continues for our charitable gaming and eGaming systems solutions. We are investing resources in additional equipment capacity and increased personnel in order to produce additional printed products like pull-tabs and bingo paper to meet the demand. Additional investment in game content is a critical success factor in eGaming systems and we are focused on developing unique content.

Existing iLottery contracts continue to produce strong results, through both organic growth as contracts mature and large draw-based games jackpots driving new players to the sites. We are engaging with a number of lotteries around the world interested in adding iLottery or upgrading their existing system. The sales cycle for iLottery is extremely long, however we believe in the long term this solution will be an important part of a successful lottery and presents significant opportunities for our recently redeveloped iLottery platform and library of game content.

We have not experienced any additional significant cost increases in our product inputs during 2023. Although we have seen a few specific instances of small cost decreases, we have yet to see any evidence of significant cost reductions.

We will continue to follow our strategy of repricing our instant ticket contracts when the contracts allow, and we will use discretion in accepting work where the margins are low due to a mismatch of low pricing and higher costs. As a result, our instant ticket production volumes for the remainder of the year are expected to be lower than our historical volumes.

Our conversion of earnings to cash remains high, allowing us to invest in CAPEX, including ongoing investments in our iLottery technology and game content, as well as support our dividend policy while ensuring our debt levels remain conservative. Significant funds remain available for other opportunities that develop including investments in working capital and financing any future acquisitions.

We remain confident in our positive expectations for Pollard for the remainder of 2023 and future years given the strong demand for our products and services. Focusing singularly on the lottery and charitable gaming industries has allowed us to develop the relationships and excellence required to be successful in these highly regulated and competitive markets. Our repricing strategy for the instant ticket segment of our product portfolio continues to be successful and is expected to provide improving financial results over the next 12-18 months as the new pricing terms come into effect.

**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