
POLLARD BANKNOTE REPORTS
3RD QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, November 7, 2023 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three and nine months ended September 30, 2023.

Results and Highlights for the Third Quarter ended September 30, 2023

- Quarterly revenue reached \$128.7 million, up 2.5% from the \$125.5 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 a record \$150.2 million, up 7.9% from \$139.2 million in 2022.
- Income from operations was \$14.6 million, compared to \$6.7 million in the third quarter of 2022.
- Adjusted EBITDA⁽¹⁾ of \$24.8 million, 22.8% higher than the \$20.2 million in the third quarter of 2022 and a quarterly record.
- Income before income taxes in the third quarter was \$9.3 million, up from \$nil in the third quarter of 2022.
- Our iLottery operations generated record combined income before income taxes of \$14.3 million, higher than the results achieved in the first and second quarters of 2023, and up significantly from the \$8.2 million earned in the same period of last year.
- Subsequent to quarter-end, our industry leading NPi joint venture was awarded its fifth U.S. (and sixth overall) iLottery platform contract by the West Virginia Lottery. We anticipate going live in the latter part of 2024.

(1) See Non-GAAP measures for explanation.

"Our strong third quarter results reinforce the value of our strategy focusing on the lottery and charitable gaming industry while expanding our product and solution portfolio," stated John Pollard, Co-Chief Executive Officer. "Quarterly records were attained in combined sales, adjusted EBITDA and iLottery income before income taxes. More importantly, our repricing strategy for our instant ticket contract portfolio continues to be successful, providing a gradual, positive impact beginning to be meaningfully reflected in our revenue and margins."

"One important financial indicator is our gross margin percentage, and our third quarter achieved a gross margin percentage of 17.6%, up from 16.3% in the third quarter of last year and 15.4% in the second quarter of 2023. A better mix of higher value product sales combined with the positive impact from repriced instant ticket contracts were contributing factors."

"High input costs remain a significant headwind in our instant ticket product line. However, we have not experienced any additional new cost increases since the start of 2023 and we have actually experienced some very small cost decreases on a few of our key inputs recently. We are hopeful that this trend will continue, and we will see lower costs in the future."

"Our NPi operations generated \$14.3 million in income before income taxes, a significant increase from \$8.2 million earned in the third quarter of 2022, and a quarterly record. A number of significant draw-based game jackpots, including Powerball® and Mega Millions®, helped generate large increases in gaming revenue and with a predominantly fixed cost base, incremental revenue increases positively impact our earnings. In addition, our iLottery contracts continue to grow organically as they expand and develop their customer base. Total combined iLottery sales reached a new quarterly record at \$28.7 million."

"Subsequent to the end of the third quarter, our NeoPollard joint venture announced the award of our sixth iLottery platform customer, the West Virginia Lottery. While not expected to be operational until the latter part of 2024, this latest win shows the confidence the lottery market has in our experience and ability to greenfield a successful iLottery start up. We continue to have extensive discussions with a number of lotteries regarding their interest in iLottery including providing demonstrations of our new PollardEdge™ iLottery platform. While a long sales cycle, we are very optimistic of the future potential for iLottery."

"We continue to see positive demand in all our main markets, both printed and electronic, and of course iLottery," exclaimed Doug Pollard, Co-Chief Executive Officer. "We remain extremely disciplined regarding accepting discretionary instant ticket work where the associated margins do not meet our benchmarks. As a result, our production volumes of instant tickets will continue to be at levels lower than recent quarters for the remainder of 2023 and 2024. The positive impact of this approach can be seen in our third quarter results."

"Our strategy of repricing instant ticket contracts to offset the impact of the high inflation on our input costs continues, and the third quarter saw a higher positive impact from increased selling prices relative to the first two quarters of 2023. As previously noted there is a lag between the timing of higher revenue being recognized in the financial statements from when these contracts are rebid. The larger impact of the reset pricing to date will be felt moving forward during 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.”

“Our third quarter results reflect the strength of our various business operations,” concluded John Pollard. “Improving margins, growing sales and an expanding digital focus are key components in our strategic plan and will lay the foundation for ongoing success. Demand remains strong across our entire product and solution continuum. We are very excited about the opportunities ahead and look forward to helping lotteries and charitable organizations generate funds for their good causes around the world.”

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 nine months ended September 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 September 30, 2023	Three months ended September 30, 2022⁽¹⁾
Sales	\$ 128.7 million	\$ 125.5 million
Gross profit	\$ 22.6 million	\$ 20.5 million
<i>Gross profit % of sales</i>	<i>17.6%</i>	<i>16.3%</i>
Administration expenses	\$ 14.9 million	\$ 12.6 million
Selling expenses	\$ 5.3 million	\$ 4.3 million
NPi equity investment income	(\$ 11.5 million)	(\$ 6.0 million)
Unrealized foreign exchange loss	\$ 2.5 million	\$ 4.9 million
Net income (loss)	\$ 7.7 million	(\$ 0.2 million)
Net income (loss) per share – basic	\$ 0.29	(\$ 0.01)
Net income (loss) per share – diluted	\$ 0.28	(\$ 0.01)
Adjusted EBITDA	\$ 24.8 million	\$ 20.2 million
	<u>Nine months ended September 30, 2023</u>	<u>Nine months ended September 30, 2022⁽¹⁾</u>
Sales	\$ 383.7 million	\$ 355.3 million
Gross profit	\$ 59.9 million	\$ 63.0 million
<i>Gross profit % of sales</i>	<i>15.6%</i>	<i>17.7%</i>
Administration expenses	\$ 42.6 million	\$ 36.9 million
Selling expenses	\$ 15.0 million	\$ 12.6 million
NPi equity investment income	(\$ 29.3 million)	(\$ 15.0 million)
Unrealized foreign exchange loss	\$ 0.7 million	\$ 6.6 million
Net income	\$ 20.1 million	\$ 8.7 million
Net income per share – basic	\$ 0.75	\$ 0.32
Net income per share – diluted	\$ 0.73	\$ 0.32
Adjusted EBITDA	\$ 65.6 million	\$ 58.1 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 September 30, 2023 (unaudited)	Three months September 30, 2022⁽¹⁾ (unaudited)	Nine months September 30, 2023 (unaudited)	Nine months September 30, 2022⁽¹⁾ (unaudited)
Sales	\$128.7	\$125.5	\$383.7	\$355.3
Cost of sales	106.1	105.0	323.8	292.3
Gross profit	22.6	20.5	59.9	63.0
Administration expenses	14.9	12.6	42.6	36.9
Selling expenses	5.3	4.3	15.0	12.6
Equity investment income	(11.5)	(6.0)	(29.3)	(15.0)
Other (income) expenses	(0.7)	2.9	(0.4)	3.7
Income from operations	14.6	6.7	32.0	24.8
Foreign exchange loss	2.9	4.7	0.9	6.9
Interest expense	2.4	2.0	7.9	5.9
Income before income taxes	9.3	0.0	23.2	12.0
Income taxes				
Current	7.5	2.9	18.0	8.4
Deferred reduction	(5.9)	(2.7)	(14.9)	(5.1)
Net income (loss)	\$7.7	(\$0.2)	\$20.1	\$8.7
Adjustments:				
Amortization and depreciation	11.1	10.1	33.6	29.5
Interest	2.4	2.0	7.9	5.9
Income taxes	1.6	0.2	3.1	3.3
EBITDA	\$22.8	\$12.1	\$64.7	\$47.4
Unrealized foreign exchange loss	2.5	4.9	0.7	6.6
Contingent consideration fair value adjustment	(0.2)	3.2	0.5	4.1
Insurance proceeds (net)	(0.3)	0.0	(0.3)	0.0
Adjusted EBITDA	\$24.8	\$20.2	\$65.6	\$58.1

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

	September 30, 2023	December 31, 2022
Total Assets	\$500.8	\$499.3
Total Non-Current Liabilities	\$140.4	\$142.3

Results of Operations – Three months ended September 30, 2023

During the three months ended September 30, 2023, Pollard achieved sales of \$128.7 million, compared to \$125.5 million in the three months ended September 30, 2022. Factors impacting the \$3.2 million sales increase were:

- The higher instant ticket average selling price in the third quarter of 2023 increased sales by \$13.8 million as compared to 2022, primarily due to the change in customer mix, in part as a result of not accepting certain lower margin work, as well as the early impact of repriced contracts. However, offsetting this increase was the decrease of \$22.5 million due to lower instant ticket sales volumes, in part as a result of the timing of orders and Pollard declining to produce certain lower margin work.
- Higher sales of ancillary lottery products and services increased revenue in the third quarter of 2023 by \$6.2 million as compared to 2022. This growth was largely due to increased sales of retail merchandising products, licensed products, digital and loyalty products, and distribution services.
- eGaming systems revenue further increased sales by \$1.1 million in 2023, largely due 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 third quarter of 2023 also increased sales by \$1.0 million as compared to the third quarter of 2022. However, lower charitable gaming volumes decreased sales by \$0.3 million in the third quarter of 2023, largely as a result of certain production inefficiencies.
- Higher Michigan iLottery sales further increased revenue in the third quarter of 2023 by \$0.5 million as compared to 2022.
- During the three months ended September 30, 2023, Pollard generated approximately 69.1% (2022 – 71.4%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2023, the actual U.S. dollar value was converted to Canadian dollars at \$1.329, compared to a rate of \$1.293 during the third quarter of 2022. This 2.8% increase in the U.S. dollar value resulted in an approximate increase of \$2.4 million in revenue relative to the third quarter of 2022. In addition, during the quarter the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$1.0 million in revenue relative to the third quarter of 2022.

Cost of sales was \$106.1 million in the third quarter of 2023 compared to \$105.0 million in the third quarter of 2022. The increase of \$1.1 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 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. Partially offsetting these increases were the lower costs related to the decrease in instant ticket sales volumes as compared to 2022.

Gross profit increased to \$22.6 million (17.6% of sales) in the third quarter of 2023 from \$20.5 million (16.3% of sales) in the third quarter of 2022. This increase of \$2.1 million in gross profit and the increase in gross profit percentage were primarily the result of gross profit increases on sales of retail merchandising products, eGaming systems, loyalty products, licensed products and distribution services as compared to 2022. These increases were partially offset by lower margins achieved on charitable gaming sales in the third quarter of 2023 as compared to 2022.

Gross profit on sales of instant tickets was relatively flat compared to the third quarter of 2022, with the impact of significantly higher instant ticket average selling price in the third quarter of 2023 being offset by lower sales volumes. We continued to experience significantly higher manufacturing costs compared to 2022, 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 customer contracts that were renewed in 2022 and the first nine months of 2023, contract terms are generally negotiated well in advance of their start date.

Administration expenses were \$14.9 million in the third quarter of 2023 compared to \$12.6 million in the third quarter of 2022. The increase of \$2.3 million was largely a result of increased compensation expenses and software licensing costs.

Selling expenses increased to \$5.3 million in the third quarter of 2023 from \$4.3 million in the third quarter of 2022. The increase was primarily due to higher compensation expenses.

Pollard's share of income from its 50% owned iLottery joint venture, NPi, increased to \$11.5 million in the third quarter of 2023 from \$6.0 million in the third quarter of 2022. This \$5.5 million increase was primarily due to higher revenues from substantial Mega Millions[®] and Powerball[®] jackpots awarded during the third quarter of 2023. In addition, increased organic growth achieved on contracts held by NPi generated greater gaming activity which further increased NPi's income.

Other income was \$0.7 million in the third quarter of 2023 compared to other expenses of \$2.9 million in the third quarter of 2022. This change of \$3.6 million was primarily due to the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant Gaming, LLC ("Compliant") and Next Generation Lotteries AS ("NGL") acquisitions, of \$3.4 million as compared to 2022. In addition, the receipt of insurance proceeds, net of expenses recovered, of \$0.3 million for the final settlement of a previous insurance claim further contributed to the change from 2022.

The net foreign exchange loss was \$2.9 million in the third quarter of 2023 compared to a net loss of \$4.7 million in the third quarter of 2022. The 2023 net foreign exchange loss of \$2.9 million consisted of an unrealized foreign exchange loss of \$2.5 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, partially offset by an unrealized gain on U.S. dollar denominated cash and accounts receivable. In addition, Pollard experienced a realized foreign exchange loss of \$0.4 million which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at unfavorable foreign exchange rates, partially offset by foreign currency denominated accounts payable paid at favorable exchange rates.

The 2022 net foreign exchange loss of \$4.7 million consisted of an unrealized foreign exchange loss of \$4.9 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, which was partially offset by an unrealized gain on U.S. dollar denominated cash and accounts receivable. Partially offsetting this unrealized foreign exchange loss was a realized foreign exchange gain of \$0.2 million, primarily due to foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates.

Adjusted EBITDA increased to \$24.8 million in the third quarter of 2023 compared to \$20.2 million in the third quarter of 2022. The primary reasons for the \$4.6 million increase in Adjusted EBITDA were the increase in equity investment income of \$5.5 million and the increase in gross profit (net of amortization and depreciation) of \$3.1 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of \$2.3 million, the increase in selling expenses of \$1.0 million and the increase in realized foreign exchange loss of \$0.6 million.

Interest expense increased to \$2.4 million in the third quarter of 2023 from \$2.0 million in the third 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 \$0.3 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 \$11.1 million during the third quarter of 2023 which increased from \$10.1 million during the third quarter of 2022. The increase of \$1.0 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income tax expense was \$1.6 million in the third quarter of 2023, an effective rate of 16.4%, 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 \$0.2 million in the third quarter of 2022, which was higher than the expense expected based on Pollard's domestic rate of 27.0%. This increased expense was due primarily to 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 \$7.7 million in the third quarter of 2023 compared to a net loss of \$0.2 million in the third quarter of 2022. This change of \$7.9 million was primarily due to the increase in equity investment income of \$5.5 million, the increase in other income of \$3.6 million, the increase in gross profit of \$2.1 million and the decrease in net foreign exchange loss of \$1.8 million. Partially offsetting these increases to net income were the increase in administration expenses of \$2.3 million, the increase in income tax expense of \$1.4 million, the increase in selling expenses of \$1.0 million and the increase in interest expense of \$0.4 million.

Net income (loss) per share (basic and diluted) increased to \$0.29 and \$0.28 per share, respectively, in the third quarter of 2023 from (\$0.01) per share (basic and diluted) in the third quarter of 2022.

Results of Operations – Nine months ended September 30, 2023

During the nine months ended September 30, 2023, Pollard achieved sales of \$383.7 million, compared to \$355.3 million in the nine months ended September 30, 2022. Factors impacting the \$28.4 million sales increase were:

- The higher instant ticket average selling price in the first nine months of 2023 increased sales by \$17.6 million as compared to 2022, primarily due to the change in customer mix, in part as a result of not accepting certain low margin work, as well as the early impact of repriced contracts. However, this increase was offset by the decrease in instant ticket sales volumes of \$25.8 million as compared to 2022, in part as a result of Pollard declining to produce certain lower margin work.
- Higher sales of ancillary lottery products and services increased revenue by \$13.6 million. This growth was largely due to increased sales of digital and loyalty products, retail merchandising products, distribution services and licensed products.
- Higher eGaming systems revenue increased sales by \$4.1 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 nine months of 2023 also increased sales by \$3.2 million as compared to 2022. This increase was partially offset by lower charitable gaming volumes, which decreased sales by \$1.8 million, largely as a result of certain production inefficiencies.

- Higher Michigan iLottery sales further increased revenue in the first nine months of 2023 by \$1.3 million as compared to 2022.
- During the nine months ended September 30, 2023, Pollard generated approximately 72.3% (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 nine months of 2023, the actual U.S. dollar value was converted to Canadian dollars at \$1.346, compared to a rate of \$1.278 the first nine months of 2022. This 5.3% increase in the U.S. dollar value resulted in an approximate increase of \$14.1 million in revenue relative to the first nine months of 2022. In addition, during the first nine months of 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$2.1 million in revenue relative to the first nine months of 2022.

Cost of sales was \$323.8 million in the first nine months of 2023 compared to \$292.3 million in the first nine months of 2022. The increase of \$31.5 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. Partially offsetting these increases in cost of sales were the lower costs related to the decrease in instant ticket sales volumes as compared to 2022.

Gross profit decreased to \$59.9 million (15.6% of sales) in the nine months ended September 30, 2023, from \$63.0 million (17.7% of sales) in the nine months ended September 30, 2022. This decrease of \$3.1 million in gross profit and the decrease in gross profit percentage were primarily the result of lower instant ticket sales margins, with the impact of higher instant ticket average selling price compared to 2022 being more than offset by lower sales volumes. During the first nine months of 2023, we have experienced significantly higher manufacturing costs compared to 2022, 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 customer contracts that were renewed in 2022 and the first nine months of 2023, contract terms are generally negotiated well in advance of their start date.

In addition, lower charitable gaming sales margins in the first nine months of 2023 further contributed to the decrease in gross profit. These decreases were partially offset by gross profit increases on sales of eGaming systems, retail merchandising products, loyalty products, licensed products and distribution services as compared to 2022.

Administration expenses increased to \$42.6 million in the first nine months of 2023 from \$36.9 million in 2022. The increase of \$5.7 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses increased to \$15.0 million in the first nine months of 2023 from \$12.6 million in the first nine months of 2022. The increase was primarily due to higher compensation and travel related expenses.

Pollard's share of income from NPi increased to \$29.3 million in the first nine months of 2023 from \$15.0 million in 2022. This \$14.3 million increase was primarily due to organic growth achieved on contracts held by NPi which generated greater gaming activity, further increasing NPi's income. In addition, higher revenues from substantial Mega Millions® and Powerball® jackpots awarded during the first and third quarters of 2023 further increased NPi's income.

Other income was \$0.4 million in the first nine months of 2023 compared to other expenses of \$3.7 million in 2022. This change of \$4.1 million was largely due to the decrease in the contingent consideration fair value adjustment expense, as part of our Compliant and NGL acquisitions, of \$3.6 million as compared to 2022. In addition, the receipt of insurance proceeds, net of expenses recovered, of \$0.3 million for the final settlement of a previous insurance claim further contributed to the change from 2022.

The net foreign exchange loss was \$0.9 million in the first nine months of 2023 compared to a net foreign exchange loss of \$6.9 million in the first nine months of 2022. The 2023 net foreign exchange loss of \$0.9 million resulted from a net unrealized foreign exchange loss of \$0.7 million, primarily due to 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, and an unrealized loss on U.S. dollar denominated accounts receivable. In addition, Pollard experienced a realized foreign exchange loss of \$0.2 million which was primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at unfavorable foreign exchange rates and foreign currency denominated accounts payable paid at unfavorable exchange rates.

The 2022 net foreign exchange loss of \$6.9 million resulted from a net unrealized foreign exchange loss of \$6.6 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 relative to the U.S. dollar, which was partially offset by an unrealized gain on U.S. dollar denominated cash and accounts receivable. In addition, Pollard experienced a realized foreign exchange loss of \$0.3 million as a result of foreign currency denominated accounts payable paid at unfavorable foreign exchange rates.

Adjusted EBITDA increased to \$65.6 million in the first nine months of 2023 compared to \$58.1 million in the first nine months of 2022. The primary reason for the increase of \$7.5 million was the increase in equity investment income of \$14.3 million. The increase in gross profit (net of amortization and depreciation) of \$1.0 million and the increase in other income (net of contingent consideration and insurance proceeds (net)) of \$0.2 million also contributed to the increase in Adjusted EBITDA. Partially offsetting these

increases were the increase in administration expenses of \$5.7 million and the increase in selling expenses of \$2.4 million.

Interest expense increased to \$7.9 million in the first nine months of 2023 from \$5.9 million in the first nine months of 2022. Higher interest rates in 2023 and the increase in average long-term debt outstanding increased interest expense by \$3.5 million as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of \$1.5 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 \$33.6 million during the first nine months of 2023 which increased from \$29.5 million during the first nine months of 2022. The increase of \$4.1 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income tax expense was \$3.1 million in the first nine months of 2023, an effective rate of 13.4%, 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 \$3.3 million in the first nine months of 2022, an effective rate of 27.3%, which was slightly 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 increased to \$20.1 million in the first nine months of 2023 from \$8.7 million in the first nine months of 2022. The primary reasons for the increase of \$11.4 million include the increase in equity investment income of \$14.3 million, the decrease in net foreign exchange loss of \$6.0 million, the increase in other income of \$4.1 million and the decrease in income tax expense of \$0.2 million. Partially offsetting these increases to net income were the increase in administration expenses of \$5.7 million, the decrease in gross profit of \$3.1 million, the increase in selling expenses of \$2.4 million and the increase in interest expense of \$2.0 million.

Net income per share (basic and diluted) increased to \$0.75 and \$0.73 per share, respectively, in the nine months ending September 30, 2023, as compared to \$0.32 per share (basic and diluted) in the nine months ending September 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)

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Sales – Pollard’s share									
Michigan iLottery	\$7.2	\$6.5	\$7.3	\$7.9	\$6.5	\$6.2	\$5.9	\$5.6	\$5.9
NPI	21.5	18.5	18.5	17.7	13.7	12.4	11.3	10.5	9.8
Combined iLottery sales	<u>\$28.7</u>	<u>\$25.0</u>	<u>\$25.8</u>	<u>\$25.6</u>	<u>\$20.2</u>	<u>\$18.6</u>	<u>\$17.2</u>	<u>\$16.1</u>	<u>\$15.7</u>
Income before income taxes – Pollard’s share									
Michigan iLottery	\$2.8	\$1.8	\$2.9	\$2.9	\$2.2	\$2.4	\$2.0	\$1.8	\$2.0
NPI	11.5	9.2	8.6	8.7	6.0	5.1	3.9	3.2	2.6
Combined income before income taxes – Pollard’s share	<u>\$14.3</u>	<u>\$11.0</u>	<u>\$11.5</u>	<u>\$11.6</u>	<u>\$8.2</u>	<u>\$7.5</u>	<u>\$5.9</u>	<u>\$5.0</u>	<u>\$4.6</u>

In 2021, 2022 and the first three quarters 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.

Large jackpots for Powerball[®] and Mega Millions[®] awarded during the first quarter of 2023 increased sales during that quarter.

In July 2023, a substantial Powerball® jackpot was awarded which increased sales in the third quarter of 2023. In August 2023, a record Mega Millions® jackpot was awarded which increased sales in the third quarter of 2023. In early October 2023, the second largest Powerball® jackpot was awarded which also increased sales in the third quarter of 2023.

Outlook

Overall demand for our products and solutions remains strong across both lottery and charitable gaming customers. Despite ongoing demand, our instant ticket volume is expected to remain low relative to volumes in previous quarters as we continue to be very disciplined in accepting discretionary work where the margins do not meet our minimum hurdle rates. Over the long term, as these remaining instant ticket contracts are repriced when they come up for renewal or rebid, opportunities to increase our volumes profitably will develop.

iLottery sales attained record levels during the third quarter driven by a number of very high jackpot runs involving both Powerball® and Mega Millions®. In the long term iLottery is expected to continue to grow, however in the short term, iLottery results may be impacted by fewer major jackpot runs in the fourth quarter.

Our NeoPollard joint venture was awarded a new greenfield iLottery contract with the West Virginia Lottery, expected to be operational in the latter part of 2024. In addition, discussions and solution demonstrations of our state-of-the-art PollardEdge™ iLottery technology continue with a number of lottery organizations.

Profitable growth is continuing in all of our digital solutions, including eGaming via kiosks and tablets in charitable gaming settings such as bars, fraternals and other social gaming environments.

Our repricing of instant ticket contracts will continue and going forward through 2024 the financial impact of pricing increases already attained will be increasingly realized as these new contract terms come into effect.

Supplier prices for our key instant ticket inputs, including paper and ink, have remained stable during 2023. Some very small price decreases have been received recently and we are hopeful that additional input cost decreases will be realized through 2024.

Our operations generate strong cashflow which enables us to continue to reinvest capital in new technologies enhancing our production capabilities as well as advancing our iLottery technology and expanding our game content. Important investment initiatives will continue including strategic acquisitions to complement our strong portfolio of lottery and charitable gaming solutions.

We are very excited about the future of Pollard Banknote. Strong demand across our main product lines, increasing opportunities in iLottery and a proven strategy to return to historic margins in our instant ticket business provides an expectation for financial growth going forward.

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