
**POLLARD BANKNOTE REPORTS
4TH QUARTER AND ANNUAL FINANCIAL RESULTS
AND ANNOUNCES DIVIDEND INCREASE**

WINNIPEG, Manitoba, March 5, 2024 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months and year ended December 31, 2023 and reported a 25% increase in dividend rate.

Results and Highlights for the Fourth Quarter ended December 31, 2023

- Revenue reached a new quarterly record, \$135.5 million, up 6.4% from the fourth quarter of last year.
- Combined sales⁽¹⁾ in the quarter, including our share of our NeoPollard Interactive LLC ("NPI") joint venture sales, reached \$157.3 million, up 8.4% from \$145.0 million in 2022.
- Income from operations was \$14.0 million, compared to \$9.4 million in the fourth quarter of 2022.
- Adjusted EBITDA⁽¹⁾ reached a quarterly record of \$25.7 million and increased \$3.3 million from \$22.4 million in the fourth quarter of 2022.
- iLottery operations continued to show strong growth in the fourth quarter, attaining combined income before income taxes of \$13.5 million, 20.5% higher than the fourth quarter of 2022.
- Our iLottery business expanded with the addition of eInstants to our North Carolina iLottery operation and the award of a new iLottery contract in West Virginia.
- Instant ticket margins grew during the fourth quarter reflecting the increasing impact of repriced contracts on our average selling prices.

Results and Highlights for 2023

- Established a new record for revenue at \$520.4 million, up 7.6% from last year.
- Combined sales⁽¹⁾ in the year, including our share of NPI's joint venture sales, attained \$600.7 million, up 11.5% from \$538.8 million in 2022.
- Net income was \$31.4 million, an increase of \$12.1 million (63.0%) over \$19.3 million earned in 2022.
- Adjusted EBITDA⁽¹⁾ achieved a record annual amount of \$91.3 million, \$10.8 million or 13.4% higher than the previous year.
- Instant ticket margins were compressed during the year as a result of unprecedented inflationary cost increases on raw materials and other manufacturing inputs incurred in 2022.

- Partially mitigating the cost increases were higher average selling prices achieved through repricing our instant ticket contracts as they came up for re-bid. We successfully repriced a significant number of important instant ticket customer contracts in 2022 and 2023. The impact of repriced contracts began to come into effect during 2023 and will grow during 2024.
- Our joint venture iLottery operations generated very strong results in comparison to last year, contributing \$49.1 million in combined income before income taxes in 2023, 54.4% higher than the \$31.8 million earned in 2022.
- We continued our significant investment in the development of our iLottery platform and eInstant game content offerings as important complements to the ongoing success of our 50% owned iLottery joint venture.

(1) See Non-GAAP measures for explanation

"We are very pleased with the continued strong fourth quarter results and overall annual results for 2023," remarked John Pollard, Co-Chief Executive Officer. "Despite significant margin compression during 2023 in our instant ticket business, our other operating businesses, particularly iLottery and eGaming systems, helped mitigate the challenges experienced in our instant ticket business and ultimately led us to both record quarterly and annual sales and record Adjusted EBITDA in 2023. Our strategy of expanding our product and solution portfolio to address the wide variety of lottery and charitable gaming needs has provided us with diversity of cash flows and strong profitability, while laying the foundation for continued profitable growth going forward."

"Our Combined Sales (which includes our 50% share of our iLottery joint venture revenue) was just over \$600 million, an impressive milestone and a reflection of the strong growth experienced in all of our business lines. Both the lottery and charitable gaming sectors continue to perform well in North America and internationally."

"Our Adjusted EBITDA exceeded \$91 million, a record annual result despite the headwinds experienced in our instant ticket business. The significant cost increases to our instant ticket manufacturing inputs such as paper and ink incurred during 2022 were fully absorbed during 2023. In the past year we did not experience any additional cost increases and in fact we have seen some small decreases in costs on some of these key inputs towards the end of 2023. Moving into 2024 we are hopeful to see additional decreases in costs helping to ease some of the negative pressures absorbed over the past two years."

"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."

"Our strategy to offset the cost increases by aggressively repricing our customer contracts during rebid and new RFP opportunities has continued to be successful. Over the past two years we have repriced a significant majority of our contracts and the market has

been receptive to these changes. As is typical in our industry, many of the new contract terms are negotiated well in advance of when the new terms take effect. We have slowly seen the positive impact of higher selling prices increase in each of the quarters of 2023, with a number of repriced contracts still to come on stream in 2024.”

“We have seen our gross margin percentage steadily increase in each of the quarters of 2023, starting with 14.0% in the first quarter growing to 18.1% in the fourth quarter and the impact of our repricing strategy has been an important factor in this growth. We will continue to focus our repricing strategy on our remaining legacy contracts, subject to the timing of contract terms.”

“Our iLottery operations continued to produce record results throughout 2023, fueled by organic growth and a record number of large jackpot runs in draw-based games including Powerball® and Mega Millions®. We were very pleased to be awarded a new contract to provide the iLottery solution to West Virginia through our NPi joint venture and look forward to it going live in late 2024. Our iLottery operation in North Carolina expanded its offering to include eInstants late in 2023 and this will provide another opportunity to grow our existing operations. The combined results of our joint venture operations including our Michigan contract contributed a combined \$49.1 million to our income before income taxes in 2023, up significantly from \$31.8 million in 2022.”

“Significant investment in our iLottery platform and game content continued during 2023, and we are very excited with our state-of-the-art solution. We continue to see active discussions throughout the lottery industry in both North America and internationally. We are demonstrating our solution to lotteries and look forward to responding to opportunities and requests for proposal.”

“Charitable gaming markets continued to show strong demand, in both printed products and eGaming play. We see eGaming in particular as an exciting area for charities to expand operations and generate more funds for the good causes they serve.”

“At its meeting today, the Board of Directors was pleased to increase Pollard’s regular quarterly common share dividend from 4 cents per common share to 5 cents, increasing the annualized amount to \$0.20 from \$0.16 per share, commencing with the dividend payable on April 15, 2024.”

“Our directors have recognized the strength of our strategic vision,” commented Doug Pollard, Co-Chief Executive Officer. “This dividend increase reflects both the growth in our cashflow experienced in 2023 and the expectation that our businesses will continue to grow. Of particular importance is the ongoing improvement in our instant ticket business as our repricing strategy will continue to have a growing impact as we move through 2024 and beyond. We remain committed to providing a reasonable dividend return to our shareholders while at the same time retaining sufficient funds to continue our investments in growth capital and acquisitions. One of the strengths of our business

is the high cash conversion rate of our Adjusted EBITDA which supports ongoing growth and higher shareholder returns simultaneously.”

“All of our markets exhibit strong demand for our products and solutions, underpinning our successful financial results in 2023 and in particular the fourth quarter, while building a foundation for further growth. Retail dollar sales of instant tickets in 2023 were similar to those achieved in 2022 but remain at the high levels attained after significant growth in 2020 and 2021.”

“2023 generated strong financial results despite ongoing headwinds within our instant ticket business,” concluded John Pollard. “Our extensive product and solution portfolio has proven a sound investment and combined with strong demand across our market segments provides a clear roadmap to continued growth and success in the future.”

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, 2023. These financial statements have been prepared in accordance with the IFRS 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 net insurance proceeds. 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 December 31, 2023	Three months ended December 31, 2022⁽¹⁾
Sales	\$ 135.5 million	\$ 127.3 million
Gross profit	\$ 24.5 million	\$ 18.8 million
<i>Gross profit % of sales</i>	<i>18.1%</i>	<i>14.8%</i>
Administration expenses	\$ 15.6 million	\$ 12.8 million
Selling expenses	\$ 5.6 million	\$ 4.5 million
NPi equity investment income	(\$ 11.0 million)	(\$ 8.3 million)
Unrealized foreign exchange gain	(\$ 2.7 million)	(\$ 2.2 million)
Net income	\$ 11.3 million	\$ 10.5 million
Net income per share – basic	\$ 0.42	\$ 0.39
Net income per share – diluted	\$ 0.41	\$ 0.39
Adjusted EBITDA	\$ 25.7 million	\$ 22.4 million
	Year ended December 31, 2023	Year ended December 31, 2022⁽¹⁾
Sales	\$ 520.4 million	\$ 483.7 million
Gross profit	\$ 85.8 million	\$ 83.4 million
<i>Gross profit % of sales</i>	<i>16.5%</i>	<i>17.2%</i>
Administration expenses	\$ 58.3 million	\$ 50.0 million
Selling expenses	\$ 20.7 million	\$ 17.4 million
NPi equity investment income	(\$ 39.1 million)	(\$ 22.3 million)
Unrealized foreign exchange (gain) loss	(\$ 2.0 million)	\$ 4.4 million
Net income	\$ 31.4 million	\$ 19.3 million
Net income per share – basic	\$ 1.17	\$ 0.72
Net income per share – diluted	\$ 1.15	\$ 0.71
Adjusted EBITDA	\$ 91.3 million	\$ 80.5 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, 2023
SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Year ended December 31, 2023	Year ended December 31, 2022⁽¹⁾
Sales	\$520.4	\$483.7
Cost of sales	434.6	400.3
Gross profit	85.8	83.4
Administration expenses	58.3	50.0
Selling expenses	20.7	17.4
Equity investment income	(39.1)	(22.3)
Other (income) expenses	(0.1)	4.1
Income from operations	46.0	34.2
Foreign exchange (gain) loss	(2.0)	3.7
Interest expense	10.5	8.3
Income before income taxes	37.5	22.2
Income taxes:		
Current	23.1	9.6
Deferred reduction	(17.0)	(6.7)
Net income	6.1	2.9
Net income	\$31.4	\$19.3
Adjustments:		
Amortization and depreciation	45.0	41.0
Interest	10.5	8.3
Income taxes	6.1	2.9
EBITDA	\$93.0	\$71.5
Unrealized foreign exchange (gain) loss	(2.0)	4.4
Contingent consideration fair value adjustment	0.5	4.6
Net insurance proceeds	(0.2)	-
Total Adjusted EBITDA	\$91.3	\$80.5
	December 31, 2023	December 31, 2022⁽¹⁾
Total Assets	\$515.7	\$506.7
Total Non-Current Liabilities	\$139.5	\$142.7

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

Results of Operations – Year ended December 31, 2023

During the year ended December 31, 2023 (“Fiscal 2023” or “2023”), Pollard achieved sales of \$520.4 million, compared to \$483.7 million in the year ended December 31, 2022 (“Fiscal 2022” or “2022”). Factors impacting the \$36.7 million sales increase were:

- The higher instant ticket average selling price in Fiscal 2023 increased sales by \$24.2 million as compared to 2022, as a result of the change in customer mix in part due to Pollard declining to accept certain discretionary lower margin work, the initial impact of repriced contracts and higher proprietary product sales. However, this increase was largely offset by the decrease in instant ticket sales volumes of \$22.1 million as compared to 2022, primarily as a result of Pollard declining lower margin work.
- Higher sales of ancillary lottery products and services increased revenue by \$11.4 million. This growth was largely due to increased sales of digital and loyalty products, distribution services and retail merchandising products.
- Higher eGaming systems revenue increased sales by \$5.7 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 2023 also increased sales by \$3.9 million as compared to 2022. However, this increase was offset by lower charitable gaming volumes, which decreased sales by \$3.8 million, largely as a result of certain production inefficiencies.
- Higher Michigan iLottery sales further increased revenue in 2023 by \$0.4 million as compared to 2022.
- During Fiscal 2023, Pollard generated approximately 70.5% (2022 – 71.5%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During Fiscal 2023, the actual U.S. dollar value was converted to Canadian dollars at \$1.352, compared to a rate of \$1.298 in Fiscal 2022. This 4.1% increase in the U.S. dollar value resulted in an approximate increase of \$14.4 million in revenue relative to Fiscal 2022. In addition, during 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$2.7 million in revenue relative to 2022.

Cost of sales was \$434.6 million in Fiscal 2023 compared to \$400.3 million in Fiscal 2022. The increase of \$34.3 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 in cost of sales were the lower costs related to the decrease in instant ticket sales volumes as compared to 2022.

Gross profit increased to \$85.8 million (16.5% of sales) in Fiscal 2023 compared to \$83.4 million (17.2% of sales) in Fiscal 2022. This increase of \$2.4 million in gross profit was primarily the result of increased sales of eGaming systems, digital and loyalty products, retail merchandising products, licensed products and distribution services as compared to 2022. These increases were partially offset by lower instant ticket sales margins, and lower charitable gaming sales margins mainly due to certain production inefficiencies. Despite the positive impact of higher instant ticket average selling price compared to 2022, lower instant ticket sales volumes and higher manufacturing costs caused by the impact of accumulated inflation on the costs of inputs to our instant ticket production led to lower instant ticket sales margins as compared to 2022. While we have been successful in raising our selling prices for a number of customer contracts that were renewed in 2022 and 2023, contract terms are generally negotiated well in advance of their start date. Gross profit percentage decreased as a result of the lower instant ticket and charitable gaming sales margins, partially offset by higher eGaming systems, licensed products, and digital and loyalty products gross profit.

Administration expenses increased to \$58.3 million in Fiscal 2023 compared to \$50.0 million in Fiscal 2022. The increase of \$8.3 million was largely a result of increased compensation expenses, software licensing costs and travel related costs.

Selling expenses increased to \$20.7 million in Fiscal 2023 compared to \$17.4 million in Fiscal 2022. The increase of \$3.3 million compared to 2022 was primarily due to higher compensation and travel related expenses.

Pollard's share of income from NPi increased to \$39.1 million in Fiscal 2023 from the \$22.3 million achieved in Fiscal 2022. This \$16.8 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 several substantial Mega Millions[®] and Powerball[®] jackpots awarded throughout the year further increased NPi's income.

Other income was \$0.1 million in Fiscal 2023 compared to other expenses of \$4.1 million in Fiscal 2022. This change of \$4.2 million was primarily due to the decrease in the contingent consideration fair value adjustment expense, as part of previous acquisitions, of \$4.1 million as compared to 2022.

The net foreign exchange gain was \$2.0 million in Fiscal 2023 compared to a net foreign exchange loss of \$3.7 million in Fiscal 2022. The 2023 net foreign exchange gain of \$2.0 million resulted from a net unrealized foreign exchange gain of \$2.0 million, primarily due to 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 the unrealized loss on U.S. dollar denominated accounts

receivable. In addition, Pollard experienced a realized foreign exchange gain primarily due to foreign currency denominated accounts receivable being converted into Canadian dollars at favorable foreign exchange rates, which was offset by a realized foreign exchange loss mainly due to foreign currency denominated accounts payable paid at unfavorable exchange rates.

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.

Adjusted EBITDA increased to \$91.3 million in Fiscal 2023 compared to \$80.5 million in Fiscal 2022. The primary reasons for the increase of \$10.8 million were the increase in equity investment income of \$16.8 million and the increase in gross profit (net of amortization and depreciation) of \$6.4 million. Partially offsetting these increases were the increase in administration expenses of \$8.3 million, the increase in selling expenses of \$3.3 million and the reduction in realized foreign exchange gain of \$0.7 million.

Interest expense increased to \$10.5 million in Fiscal 2023 from \$8.3 million in Fiscal 2022, primarily as a result of higher interest rates in 2023 and the increase in average long-term debt outstanding which increased interest expense by \$4.0 million as compared to 2022. Partially offsetting these increases to interest expense was the decrease in interest accretion of \$1.8 million on the discounted contingent consideration liability relating to a previous acquisition.

Amortization and depreciation totaled \$45.0 million during Fiscal 2023 which increased from \$41.0 million during Fiscal 2022. The increase of \$4.0 million was primarily the result of amortization and depreciation taken on newly acquired intangible assets and property, plant and equipment.

Income tax expense was \$6.1 million in Fiscal 2023, an effective rate of 16.3%, which was lower than our domestic rate of 27.0% due primarily to the effect of lower income tax rates in foreign jurisdictions.

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 income tax rates in foreign jurisdictions.

Net income increased to \$31.4 million in Fiscal 2023 compared to net income of \$19.3 million in Fiscal 2022. The main reasons for the increase of \$12.1 million include the

increase in equity investment income of \$16.8 million, the increase in net foreign exchange gain of \$5.7 million, the increase in other income of \$4.2 million and the increase in gross profit of \$2.4 million. Partially offsetting these increases to net income were the increase in administration expenses of \$8.3 million, the increase in selling expenses of \$3.3 million, the increase in income tax expense of \$3.2 million and the increase in interest expense of \$2.2 million.

Net income per share (basic and diluted) increased to \$1.17 and \$1.15 per share, respectively, in Fiscal 2023 from \$0.72 and \$0.71 per share, respectively, in Fiscal 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”). 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 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Sales – Pollard’s share									
Michigan iLottery	\$7.0	\$7.2	\$6.5	\$7.3	\$7.9	\$6.5	\$6.2	\$5.9	\$5.6
NPI	21.8	21.5	18.5	18.5	17.7	13.7	12.4	11.3	10.5
Combined iLottery sales	<u>\$28.8</u>	<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>
Income before income taxes – Pollard’s share⁽¹⁾									
Michigan iLottery	\$2.5	\$2.8	\$1.8	\$2.9	\$2.9	\$2.2	\$2.4	\$2.0	\$1.8
NPI	11.0	11.1	8.8	8.2	8.3	5.7	4.7	3.6	3.0
Combined income before income taxes – Pollard’s share	<u>\$13.5</u>	<u>\$13.9</u>	<u>\$10.6</u>	<u>\$11.1</u>	<u>\$11.2</u>	<u>\$7.9</u>	<u>\$7.1</u>	<u>\$5.6</u>	<u>\$4.8</u>

Throughout 2022 and 2023, NPI’s contracts achieved strong organic growth, adding to sales and income before taxes. In addition, quarterly sales and income before taxes are positively impacted during quarters where substantial draw-based game (Powerball® and Mega Millions®) jackpots are awarded.

(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, 2023
SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended December 31, 2023 (unaudited)	Three months ended December 31, 2022⁽¹⁾ (unaudited)
Sales	\$135.5	\$127.3
Cost of sales	111.0	108.5
Gross profit	24.5	18.8
Administration expenses	15.6	12.8
Selling expenses	5.6	4.5
Equity investment income	(11.0)	(8.3)
Other expenses	0.3	0.4
Income from operations	14.0	9.4
Foreign exchange gain	(2.9)	(3.1)
Interest expense	2.6	2.3
Income before income taxes	14.3	10.2
Income taxes:		
Current	5.1	1.2
Deferred reduction	(2.1)	(1.5)
	3.0	(0.3)
Net income	\$11.3	\$10.5
Adjustments:		
Amortization and depreciation	11.5	11.6
Interest	2.6	2.3
Income taxes	3.0	(0.3)
EBITDA	\$28.4	\$24.1
Unrealized foreign exchange gain	(2.7)	(2.2)
Contingent consideration fair value adjustment	-	0.5
Adjusted EBITDA	<u>\$25.7</u>	<u>\$22.4</u>

(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, 2023

During the three months ended December 31, 2023, Pollard achieved sales of \$135.5 million, compared to \$127.3 million in the three months ended December 31, 2022. Factors impacting the \$8.2 million sales increase were:

- The higher instant ticket average selling price in the fourth quarter of 2023 increased sales by \$16.3 million as compared to 2022, primarily due to higher proprietary product sales, the growing impact of repriced contracts and the change in customer mix, in part as a result of not accepting certain discretionary lower margin work. However, this increase was partially offset by the decrease in instant ticket sales volumes of \$6.2 million as compared to 2022, primarily as a result of Pollard declining lower margin work.
- Higher eGaming systems revenue increased sales by \$1.6 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 fourth quarter of 2023 also increased sales by \$0.6 million as compared to 2022. However, this increase was offset by lower charitable gaming volumes, which decreased sales by \$2.0 million, largely as a result of certain production inefficiencies.
- Also partially offsetting the increases to sales were lower sales of ancillary lottery products and services in the quarter, which further decreased revenue by \$2.5 million as compared to 2022, largely due to decreased sales of licensed products and retail merchandising products.
- Lower Michigan iLottery sales also decreased revenue in the fourth quarter of 2023 by \$0.9 million as compared to the fourth quarter of 2022, partially due to a substantial Powerball® jackpot awarded in the fourth quarter of 2022.
- During the three months ended December 31, 2023, Pollard generated approximately 64.9% (2022 – 71.5%) 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 2023, the actual U.S. dollar value was converted to Canadian dollars at \$1.370, compared to a rate of \$1.361 during the fourth quarter of 2022. This 0.7% increase in the U.S. dollar value resulted in an approximate increase of \$0.6 million in revenue relative to 2022. In addition, during the fourth quarter of 2023, the value of the Euro strengthened against the Canadian dollar resulting in an approximate increase of \$0.7 million in revenue relative to 2022.

Cost of sales was \$111.0 million in the fourth quarter of 2023 compared to \$108.5 million in the fourth quarter of 2022. The increase of \$2.5 million was primarily the result of the accumulated impact of significant inflationary cost increases incurred throughout 2022 on

raw materials and other manufacturing inputs. Partially offsetting this increase in cost of sales were the lower costs related to the decreases in instant ticket sales volumes and manufacturing overhead costs as compared to 2022.

Gross profit was \$24.5 million (18.1% of sales) in the fourth quarter of 2023 compared to \$18.8 million (14.8% of sales) in the fourth quarter of 2022. This increase of \$5.7 million in gross profit and the increase in gross profit percentage were primarily due to higher instant ticket sales margins, largely caused by the higher instant ticket average selling price as a result of higher proprietary product sales, the growing impact of repriced contracts and the change in customer mix as compared to 2022. Higher sales of eGaming systems also contributed to the increase in gross profit in 2023. Partially offsetting these increases were lower charitable gaming sales margins, primarily due to certain production inefficiencies, and lower digital and loyalty product sales margins as compared to 2022.

Administration expenses increased to \$15.6 million in the fourth quarter of 2023 compared to \$12.8 million in the fourth quarter of 2022. The increase of \$2.8 million was largely a result of increased compensation expenses, consulting costs and travel related costs.

Selling expenses increased to \$5.6 million in the fourth quarter of 2023 compared to \$4.5 million in the fourth quarter of 2022. The increase was primarily due to higher compensation expenses as compared to 2022.

Pollard's share of income from NPi increased to \$11.0 million in the fourth quarter of 2023 from the \$8.3 million achieved in the fourth quarter of 2022. This \$2.7 million increase was primarily due to organic growth achieved on contracts held by NPi which generated greater gaming activity, further increasing NPi's income.

Other expenses were \$0.3 million in the fourth quarter of 2023 similar to \$0.4 million in the fourth quarter of 2022.

The net foreign exchange gain was \$2.9 million in the fourth quarter of 2023 compared to a net foreign exchange gain of \$3.1 million in the fourth quarter of 2022. The 2023 net foreign exchange gain of \$2.9 million resulted from a net unrealized foreign exchange gain of \$2.7 million, primarily due to 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 the unrealized loss on U.S. dollar denominated accounts receivable. In addition, Pollard experienced a realized foreign exchange gain of \$0.2 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 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.

Adjusted EBITDA increased to \$25.7 million in the fourth quarter of 2023 compared to \$22.4 million in the fourth quarter of 2022. The primary reasons for the increase of \$3.3 million were the increase in gross profit (net of amortization and depreciation) of \$5.6 million and the increase in equity investment income of \$2.7 million. Partially offsetting these increases to Adjusted EBITDA were the increase in administration expenses of \$2.8 million, the increase in selling expenses of \$1.1 million, the reduction in realized foreign exchange gain of \$0.7 million and the increase in other expenses (net of contingent consideration) of \$0.4 million.

Interest expense increased to \$2.6 million in the fourth quarter of 2023 from \$2.3 million in the fourth quarter of 2022, primarily as a result of higher interest rates in 2023 which increased interest expense by \$0.6 million as compared to 2022. Partially offsetting this increase to interest expense was the decrease in interest accretion of \$0.3 million on the discounted contingent consideration liability relating to a previous acquisition.

Amortization and depreciation totaled \$11.5 million during the fourth quarter of 2023 similar to \$11.6 million during the fourth quarter of 2022.

Income tax expense was \$3.0 million in the fourth quarter of 2023, an effective rate of 21.0%, 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 impact of the capital gains rate.

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 income tax rates in foreign jurisdictions.

Net income increased to \$11.3 million in the fourth quarter of 2023 compared to net income of \$10.5 million in the fourth quarter of 2022. The main reasons for the increase of \$0.8 million include the increase in gross profit of \$5.7 million and the increase in equity investment income of \$2.7 million. Partially offsetting these increases to net income were the increase in income tax expense of \$3.3 million, the increase in administration expenses of \$2.8 million, the increase in selling expenses of \$1.1 million, the increase in interest expense of \$0.3 million and the decrease in net foreign exchange gain of \$0.2 million.

Net income per share (basic and diluted) increased to \$0.42 and \$0.41 per share, respectively, in the fourth quarter of 2023 from \$0.39 per share (basic and diluted) in the fourth quarter of 2022.

Outlook

Retail dollar sales of instant tickets in 2023 were steady compared to the sales achieved in 2022, remaining at the high levels attained following the significant growth experienced during 2020-2021. Based on early 2024 data we would expect similar levels of retail sales to be attained in 2024. We continue to see strong underlying consumer demand for these products, particularly in some of the higher value proprietary products and tickets with higher retail price points. Demand for products and services supporting the sale of instant tickets, such as retail dispensers and digital solutions including second chance draws and loyalty programs, are all seeing increased demand as lotteries look to grow the funds they generate for good causes.

The charitable gaming market, including printed products as well as eGaming machines, also experienced positive demand throughout the past year and we anticipate this will continue in 2024, in particular as charities and regulators look to expand digital offerings in these markets. Future opportunities include jurisdictions approving tablet and kiosk-based gaming in social settings to complement the traditional pull tabs and bingo games. Initiatives are under way in our manufacturing group to leverage new equipment and additional staff to increase our production to meet the growing demand.

The iLottery market experienced significant growth during 2023 as product expansion (North Carolina adding eInstants), a number of record jackpots in draw-based games and ongoing organic growth were all factors driving record North American iLottery results. Large Powerball® and Mega Millions® jackpot buildups led to higher sales as well as exposure to and retention of new players for the lotteries. The West Virginia Lottery will add to the market growth in 2024 with the recent award of a new iLottery contract to NPi.

We continue to see more interest from lotteries about iLottery in both greenfield opportunities as well as existing lotteries looking for refreshed solutions, including in the international marketplace. This has led to a number of opportunities to demonstrate our new state-of-the-art omnichannel platform and our game content library. Our internally developed Pollard iLottery solution provides an important complement to the ongoing success of our 50% owned iLottery joint venture. The sales cycle associated with iLottery opportunities is long, however we continue to believe that long term this business will become an increasingly critical important area for more lotteries.

The large inflationary increases to our instant ticket inputs were fully absorbed during 2023. We experienced no further inflationary cost increases during this past year and saw some small decreases in costs toward the end 2023. We are hopeful we will continue to see cost decreases going forward in 2024 and beyond as supply chains have largely returned to pre-pandemic levels of efficiencies.

Our strategy of aggressively repricing our instant ticket contract selling prices began in 2022 and has been very successful over the past two years. We have repriced a majority

of our current volumes, however these contracts are negotiated well in advance of their start date resulting in the financial impact being delayed, with the higher prices not fully impacting our revenue until later in 2024.

Our instant ticket volumes are expected to be at similar levels to 2023, lower than the levels of 2021 and 2022. This is due to our continued strategy of not pursuing work which has unacceptable margins due to the higher input costs and selling prices not yet repriced, where our contracts allow us discretion relative to accepting work.

Identifying appropriate acquisition targets continues to be an important strategic initiative. Opportunities to continue to expand our portfolio of products and solutions targeted for lotteries, further enhancing our charitable gaming product offering and distribution channels, and increasing our expertise in digital solutions including additional game content are all being pursued.

Our business continues to generate strong cashflow, which supports our ongoing investment in CAPEX, development of new products like our iLottery platform and the ability to increase our dividend in the first quarter of 2024. Strong cash flow coupled with a conservative approach to our debt levels provides us with significant available resources to pursue our strategic objectives in a sustainable, capital efficient manner.

Our successes in 2023 have laid the foundation for continued financial growth in 2024 including supporting a 25% increase in our dividend. Strong demand continues across all of our main product lines and both the lottery and charitable gaming markets provide us opportunities to profitably grow our business. Our repricing of instant ticket contracts starting in 2022 has been successful and we will continue to see greater positive impacts throughout 2024. Higher selling prices coupled with emerging cost reductions of our inputs should provide improving margins. Opportunities exist throughout the lottery and charitable gaming markets for innovative solutions to support the objective of raising funds for good causes and we are excited about our prospects for growth in 2024.

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