

**POLLARD BANKNOTE ANNOUNCES
2ND QUARTER FINANCIAL RESULTS**

WINNIPEG, Manitoba, August 6, 2019 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months ended June 30, 2019.

"Our second quarter generated continued strong revenue reflecting the growth in our core lottery business, particularly in higher ancillary product revenue in the iLottery and digital product lines, and the impact of our recent acquisitions," reflected John Pollard, Co-Chief Executive Officer. "Our profitability was lower than expected due mainly to a mix of instant ticket sales that was weighted toward lower average selling price and more challenging production. Not only did this reduce our gross margin percentage, it also resulted in our production volumes being slightly lower than we anticipated, notwithstanding increasing orders."

"As discussed in previous quarters, our mix of instant ticket orders can vary from quarter to quarter including different order levels from various lottery customers. Some of our larger volume customers generate lower average selling prices and fewer premium features, resulting in lower margins. During the second quarter our mix of work was heavily weighted towards this type of product, impacting negatively our gross margin and bottom-line profitability."

"Historically our third quarter has generated higher average selling prices as we produce games for the holiday season and we expect 2019 to reflect this, both in terms of premium selling prices and increased volumes. Our orders continue to increase and our production schedules for the remainder of 2019 are now at levels higher than seen in 2018. In addition, our current schedule mix for the third quarter reflects a more typical seasonal mix of higher average selling prices with greater premium products including higher volumes of Scratch FX®."

"Revenue for the second quarter remained at record levels, exceeding \$97 million, while net income for the quarter was \$5 million, similar to the same period last year, and Adjusted EBITDA, excluding the impact of IFRS 16, achieved \$12.3 million. Our ancillary lottery products, including our digital products such as game apps, PlayOn™ loyalty club programs, and higher iLottery results all contributed positively to our second quarter results. Our charitable gaming business, under our American Games and International Gamco banners, continues to generate higher revenue and profit when compared to last

year and the first quarter of 2019. Increasing consumer demand for pull-tab products has been an important factor in leading this growth.”

“On May 1, 2019, we completed the acquisition of Fastrak Retail (UK) Limited, one of the world’s leading instant ticket dispensing and merchandising companies. Initial feedback from the marketplace has been very positive and our teams from Schafer and Fastrak are already working together on exciting R&D initiatives and new product development. We are looking forward to building our retail expertise through the combination of these resources.”

“During the quarter we were pleased with the New Hampshire Circuit Court’s decision concluding that the Wire Act in the United States did not apply to Pollard’s and New Hampshire’s iLottery operations, effectively confirming the current legality of Pollard’s iLottery operations in the United States. We believe there is increasing interest in iLottery operations from a number of lotteries in the United States and we expect over the long term to increase our presence in this market. Work continues positively on our North Carolina iLottery roll-out expected to go live this fall.”

“The lottery and charitable gaming industries remain very healthy,” stated Doug Pollard, Co-Chief Executive Officer. “Lotteries and other gaming organizations continue to look for increased revenue opportunities and in turn look to partners like Pollard to provide these opportunities. Pollard’s stature as the thought leader for lotteries continues to grow. Our leadership in challenging and helping to overturn the Department of Justice’s Wire Act interpretation against iLottery operations was a milestone moment in Pollard’s evolution as partner of choice for lotteries in the U.S. and throughout the world.”

“Our level of engagement with our customers has never been higher and we continue to leverage this collaboration to not only maximize our instant ticket production opportunities, but also to expand sales of our growing lineup of ancillary products like digital apps, retail dispensing, ScanACTIV™ in-lane sales, lottery management systems, gaming machines and of course iLottery. Our strong standing in the industry is testament to the breadth and strength of our contract portfolio and is the foundation for our future growth.”

“We are continuing to invest in our business including increasing resources dedicated to expanding and implementing our digital products across a number of lottery customers,” concluded John Pollard. “Over time we are confident our core instant ticket product line will grow profitably as we expand our market share and capitalize on our portfolio of proprietary premium products. The lottery industry remains very robust and we are looking forward to growing our position as partner of choice to lotteries and charitable gaming organizations.”

POLLARD BANKNOTE LIMITED

Pollard is one of the leading providers of products and services 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.

The selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard as at and for the three and six months ended June 30, 2019. These financial statements have been prepared in accordance with the International Financial Accounting Standards (“IFRS” or “GAAP”).

On May 1, 2019, Pollard acquired Fastrak Retail (UK) Limited (“Fastrak”). Therefore, Fastrak’s financial results have been included in Pollard’s consolidated financial statements since acquisition.

HIGHLIGHTS

	Three months ended <u>June 30, 2019</u>	Three months ended <u>June 30, 2018</u>
Sales	\$ 97.1 million	\$ 86.8 million
Gross Profit	\$ 21.6 million	\$ 20.5 million
<i>Gross Profit % of sales</i>	<i>22.2%</i>	<i>23.6%</i>
Administration expenses	\$ 10.5 million	\$ 7.4 million
Selling expenses	\$ 4.1 million	\$ 3.4 million
Net Income	\$ 5.0 million	\$ 5.0 million
Net income per share (basic and diluted)	\$ 0.20	\$ 0.20
Adjusted EBITDA*:		
Lotteries and charitable gaming	\$ 9.4 million	\$ 11.2 million
Diamond Game	2.9 million	2.9 million
Total adjusted EBITDA*	\$ 12.3 million	\$ 14.1 million

* excludes impact of IFRS 16 Leases implemented effective January 1, 2019

	Six months ended <u>June 30, 2019</u>	Six months ended <u>June 30, 2018</u>
Sales	\$ 194.7 million	\$ 167.2 million
Gross Profit	\$ 44.5 million	\$ 39.9 million
<i>Gross Profit % of sales</i>	<i>22.9 %</i>	<i>23.9%</i>
Administration expenses	\$ 19.2 million	\$ 15.4 million
Selling expenses	\$ 7.6 million	\$ 6.2 million
Net Income	\$ 13.0 million	\$ 9.6 million
Net income per share (basic and diluted)	\$ 0.51	\$ 0.38
Adjusted EBITDA*:		
Lotteries and charitable gaming	\$ 21.9 million	\$ 21.9 million
Diamond Game	5.5 million	5.2 million
Total adjusted EBITDA*	\$ 27.4 million	\$ 27.1 million

* excludes impact of IFRS 16 Leases implemented effective January 1, 2019

SELECTED FINANCIAL INFORMATION

(millions of dollars)

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$97.1	\$86.8	\$194.7	\$167.2
Cost of sales	75.5	66.3	150.2	127.3
Gross profit	21.6	20.5	44.5	39.9
Administration expenses	10.5	7.4	19.2	15.4
Selling expenses	4.1	3.4	7.6	6.2
Other expenses	0.7	0.1	0.9	0.1
Income from operations	6.3	9.6	16.8	18.2
Finance costs	1.6	2.4	3.1	4.7
Finance income	(1.4)	-	(2.8)	-
Income before income taxes	6.1	7.2	16.5	13.5
Income taxes:				
Current (recovery)	(0.7)	0.4	1.1	3.5
Deferred	1.8	1.8	2.4	0.4
	1.1	2.2	3.5	3.9
Net income	\$5.0	\$5.0	\$13.0	\$9.6
Adjustments:				
Amortization and depreciation	6.7	4.3	13.0	8.4
Interest	1.6	1.0	3.1	2.2
Unrealized foreign exchange (gain) loss	(1.2)	1.5	(3.0)	2.4
Acquisition costs	0.4	0.1	0.4	0.2
Severance costs	-	-	-	0.4
Income taxes	1.1	2.2	3.5	3.9
Adjusted EBITDA	\$13.6	\$14.1	\$30.0	\$27.1
Less impact of implementation of IFRS 16				
Leases:				
IFRS 16 related depreciation	1.2	-	2.3	-
IFRS 16 related interest	0.1	-	0.3	-
Adjusted EBITDA without IFRS 16 impact	\$12.3	\$14.1	\$27.4	\$27.1

	June 30, 2019	December 31, 2018
Total Assets	\$337.2	\$305.6
Total Non-Current Liabilities	\$178.4	\$142.9

Results of Operations – Three months ended June 30, 2019

During the three months ended June 30, 2019, Pollard achieved sales of \$97.1 million, compared to \$86.8 million in the three months ended June 30, 2018. Factors impacting the \$10.3 million sales increase were:

- Higher sales of ancillary lottery products and services increased revenue in the second quarter of 2019 by \$11.8 million. This increase was primarily from the addition of Schafer and Fastrak. Additional increases in revenues from iLottery, licensed product sales and digital and loyalty products further contributed to the increase in sales. Partially offsetting these increases was a slight decrease in instant ticket sales volume in the quarter, as compared to the second quarter of 2018, which reduced sales by \$3.8 million. While instant ticket sales volumes in the second quarter of 2019 were lower than the near record volumes recorded in the second quarter of 2018, they were relatively consistent with the volumes achieved in the first quarter of 2019. A decrease in the instant ticket average selling price in the quarter compared to the second quarter of 2018 decreased sales by \$2.0 million. This decrease was a result of the sales mix in the quarter, including lower sales of Pollard's proprietary Scratch FX[®] product, and higher volumes of a certain lower valued products.
- Diamond Game's sales increased in the second quarter of 2019, which added an additional \$0.4 million to sales when compared to 2018. In addition, the increase in charitable gaming volumes increased sales by \$1.1 million from 2018. A higher average selling price for charitable games in 2019 further increased sales by \$0.6 million.
- During the three months ended June 30, 2019, Pollard generated approximately 71.6% (2018 – 67.7%) 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 2019 the actual U.S. dollar value was converted to Canadian dollars at \$1.343, compared to a rate of \$1.288 during the second quarter of 2018. This 4.3% increase in the U.S. dollar value resulted in an approximate increase of \$2.5 million in revenue relative to the second quarter of 2018. During the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.3 million in revenue relative to the second quarter of 2018.

Cost of sales was \$75.5 million in the second quarter of 2019 compared to \$66.3 million in the second quarter of 2018. Cost of sales were higher in the quarter as a result of the

inclusion of Schafer and Fastrak in 2019, as well as higher exchange rates on U.S. dollar denominated transactions. Additionally, higher manufacturing overheads contributed to the increase in cost of sales in the second quarter of 2019.

Gross profit was \$21.6 million (22.2% of sales) in the second quarter of 2019 compared to \$20.5 million (23.6% of sales) in the second quarter of 2018. This increase in gross profit was primarily the result of the additions of Schafer and Fastrak, partially offset by the effect of lower instant ticket average selling price, lower volumes and increased manufacturing overhead costs. The lower gross profit percentage was due in part to the instant ticket sales mix weighted toward lower margin work. In addition, the mix of work resulted in reductions in some production efficiencies.

Administration expenses increased to \$10.5 million in the second quarter of 2019 from \$7.4 million in the second quarter of 2018. The increase of \$3.1 million was partially a result of the inclusion of Schafer and Fastrak increasing administration expenses by \$0.6 million, increased acquisition costs of \$0.3 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by \$0.9 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents.

Selling expenses increased to \$4.1 million in the second quarter of 2019 from \$3.4 million in the second quarter of 2018 primarily due to the addition of Schafer and Fastrak, as well as higher compensation costs.

The net foreign exchange gain was \$1.4 million in the second quarter of 2019 compared to a net loss of \$1.4 million in the second quarter of 2018. The 2019 net foreign exchange gain of \$1.4 million resulted from a \$1.2 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter. This gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. In addition a \$0.2 million realized foreign exchange gain as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at favorable foreign exchange rates increased the net foreign exchange gain.

The 2018 net foreign exchange loss of \$1.4 million resulted from a \$1.5 million unrealized foreign exchange loss, comprised predominately of an unrealized loss on U.S. dollar denominated liabilities, due to the weakening of the Canadian dollar at the end of the quarter. This loss was partially offset by an unrealized gain on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized loss was a \$0.1 million realized foreign exchange gain relating to the increased value on the collections of U.S. dollar denominated receivables.

Adjusted EBITDA without the impact of IFRS 16 Leases decreased to \$12.3 million in the second quarter of 2019 compared to \$14.1 million in the second quarter of 2018. The primary reasons for the \$1.8 million decrease were higher administration expenses (net

of acquisition costs) of \$2.8 million, an increase in selling expenses of \$0.7 million, and an increase in other expenses of \$0.6 million. These decreases to Adjusted EBITDA were partially offset by the increase in gross profit of \$2.2 million (net of amortization and depreciation and IFRS 16 impact).

Interest expense increased to \$1.6 million in the second quarter of 2019 from \$1.0 million in the second quarter of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition of Schafer and Fastrak, and additional interest expense with the implementation of IFRS 16 on January 1, 2019 of \$0.1 million for the quarter.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$6.7 million during the second quarter of 2019 which increased from \$4.3 million during the second quarter of 2018. The increase was primarily as a result of \$1.2 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of Schafer and Fastrak, including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Income tax expense was \$1.1 million in the second quarter of 2019, an effective rate of 17.3%, lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in foreign jurisdictions and the effect of foreign exchange.

Income tax expense was \$2.2 million in the second quarter of 2018, an effective rate of 30.7%, higher than our domestic rate of 27.0% due primarily to the impact of the effect of foreign exchange and non-deductible amounts.

Net income was \$5.0 million in the second quarter of 2019, which was consistent with the \$5.0 million earned in the second quarter of 2018. The primary increases in net income between the quarters were the increase in gross profit of \$1.1 million, the increase in foreign exchange gain of \$2.8 million and the decrease in income tax expense of \$1.1 million. These increases were offset by the increase in administration expenses of \$3.1 million, the increase in selling costs of \$0.7 million, the increase in other expenses of \$0.6 million and the increase in interest expense of \$0.6 million.

Net income per share (basic and diluted) remained consistent at \$0.20 per share in the second quarter of 2019 as compared to \$0.20 per share in the second quarter of 2018.

Results of Operations – Six months ended June 30, 2019

During the six months ended June 30, 2019, Pollard achieved sales of \$194.7 million, compared to \$167.2 million in the six months ended June 30, 2018. Factors impacting the \$27.5 million sales increase were:

- Higher sales of ancillary lottery products and services increased revenue in the first six months of 2019 by \$15.4 million. This increase was primarily from the addition of Schafer and Fastrak. Additional increases in revenues from iLottery and digital and loyalty products, further contributed to the increase in sales. An increase in the instant ticket average selling price in 2019 increased sales by \$6.3 million. This increase was, in part, a result of record quarterly sales of Pollard's proprietary Scratch FX[®] product in the first quarter of 2019. Partially offsetting these increases was a decrease in instant ticket sales volume in the period which reduced sales by \$6.1 million. Sales volumes were lower during the six months of 2019 primarily due to the time lag of recovering from the lower order volumes from the fourth quarter of 2018.
- Diamond Game's sales increased in the first half of 2019, which added \$0.6 million to sales when compared to 2018. In addition, the increase in charitable gaming volumes increased sales by \$4.1 million from 2018. A higher average selling price for charitable games in 2019 further increased sales by \$1.2 million.
- During the six months ended June 30, 2019, Pollard generated approximately 72.3% (2018 – 67.5%) 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 2019 the actual U.S. dollar value was converted to Canadian dollars at \$1.338, compared to a rate of \$1.272 the first six months of 2018. This 5.2% increase in the U.S. dollar value resulted in an approximate increase of \$6.3 million in revenue relative to the first six months of 2018. Also during the first half of 2019, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of \$0.3 million in revenue relative to the first half of 2018.

Cost of sales was \$150.2 million in the six months ended June 30, 2019, compared to \$127.3 million in the six months ended June 30, 2018. Cost of sales were higher as a result of the inclusion of Schafer and Fastrak in 2019, as well as higher exchange rates on U.S. dollar denominated transactions. Additionally, increased manufacturing overheads contributed to the increase in cost of sales in the second quarter of 2019.

Gross profit increased to \$44.5 million (22.9% of sales) in the six months ended June 30, 2019, from \$39.9 million (23.9% of sales) in the six months ended June 30, 2018. This increase in gross profit was primarily the result of the additions of Schafer and Fastrak, partially offset by the effect of lower instant ticket volumes and increased manufacturing overheads. The lower gross profit percentage was due in part to the instant ticket sales

mix weighted toward lower margin work. In addition, the mix of work resulted in reductions in some production efficiencies.

Administration expenses increased to \$19.2 million in the first six months of 2019 from \$15.4 million in the first six months of 2018. The increase of \$3.8 million was a result of the inclusion of Schafer and Fastrak increasing administration expenses by \$1.1 million, increased acquisition costs of \$0.2 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by \$1.2 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents. These increases were partially offset by the \$0.4 million reduction in severance costs as compared to 2018.

Selling expenses increased to \$7.6 million in the first six months of 2019 from \$6.2 million in the first six months of 2018 primarily due to the addition of Schafer and Fastrak, as well as higher compensation costs. These increases were partially offset by a decrease in contract support costs.

The net foreign exchange gain was \$2.8 million in the first six months of 2019 compared to a net foreign exchange loss of \$2.5 million in the first six months of 2018. The 2019 net foreign exchange gain resulted in part from a net unrealized foreign exchange gain of \$3.0 million, comprised predominately of an unrealized gain on U.S. denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter. This gain was partially offset by an unrealized loss on U.S. dollar denominated accounts receivable. Partially offsetting the unrealized gain was a \$0.2 million realized foreign exchange loss as a result of foreign currency denominated accounts receivable collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2018 net foreign exchange loss resulted in part from a net unrealized foreign exchange loss of \$2.4 million, comprised predominately of an unrealized loss on U.S. denominated liabilities, due to the weakening of the Canadian dollar at the end of the quarter. This loss was partially offset by an unrealized gain on U.S. denominated receivables.

Adjusted EBITDA without the impact of IFRS 16 Leases increased to \$27.4 million in the first six months of 2019 compared to \$27.1 million in the first six months of 2018. The primary reason for the increase of \$0.3 million was the increase in gross profit of \$6.6 million (net of amortization and depreciation and IFRS 16 impact). This increase was partially offset by higher administration expenses (net of acquisition and severance costs) of \$4.0 million, an increase in selling expenses of \$1.4 million and an increase in other expenses of \$0.8 million.

Interest expense increased to \$3.1 million in the first six months of 2019 from \$2.2 million in the first six months of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition Schafer and Fastrak,

and additional interest expense with the implementation of IFRS 16 on January 1, 2019, of \$0.3 million for the first six months of 2019.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled \$13.0 million during the first six months of 2019 which increased from \$8.4 million during the first six months of 2018. The increase was primarily as a result of \$2.3 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of Schafer and Fastrak, including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Income tax expense was \$3.5 million in the first six months of 2019, an effective rate of 21.1%, which was lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in foreign jurisdictions and the effect of foreign exchange.

Income tax expense was \$3.9 million in the first six months of 2018, an effective rate of 29.1%, which was higher than our domestic rate of 27.0% due primarily to the impact of the effect of foreign exchange.

Net income increased to \$13.0 million in the first six months of 2019 from \$9.6 million in the first six months of 2018 primarily as a result of an increase in gross profit of \$4.6 million, the increase in foreign exchange gain of \$5.3 million and the decrease in income tax expense of \$0.4 million. These increases were partially offset by the increase in administration expenses of \$3.8 million, the increase in selling costs of \$1.4 million, the increase in other expenses of \$0.8 million and the increase in interest expense of \$0.9 million.

Net income per share (basic and diluted) increased to \$0.51 per share in the six months ending June 30, 2019, as compared to \$0.38 per share in the six months ending June 30, 2018.

Use of Non-GAAP Financial Measures

Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, depreciation and amortization, purchase accounting amortization, unrealized foreign exchange gains and losses, and certain non-recurring items including severance costs and acquisition costs. 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.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income 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.

Outlook

Our current instant ticket order levels through to the end of 2019 are higher than our volume levels experienced in the first half of 2019. We anticipate these orders will lead to higher production volumes and, depending on the timing of customer shipments which can impact significantly the timing of the revenue recognition, an increase in sales volumes relative to the first half of 2019. Historically our third quarter trend is for a higher mix of premium products in the lead up to the holiday season and we anticipate this will be the case for the third quarter for 2019.

The lottery industry is strong, with organizations receptive to new products and services to help them generate greater proceeds for good causes. In addition, suppliers such as Pollard can continue to assist and expand existing product lines such as instant tickets to expand lotteries revenue. As discussed in previous quarters, the charitable gaming market continues to show signs of growth and increased consumer demand for products such as pull-tabs and eGaming machines. We expect this incremental growth trend to continue.

Our current contract portfolio remains in place with an average contract term, including renewals, in excess of 4 years, including certain key contracts with terms well in excess of the average. We will continue to strategically bid on new instant ticket contracts while focusing on growing our portion of work within lotteries that have shared supply contracts. Certain large instant ticket contracts up for bid in 2019, as previously discussed, remain in process, with no awards or decisions announced at this time. Tickets under these contracts would be mostly incremental for Pollard as we are not primary supplier under the current existing contracts.

The recent New Hampshire Circuit Court decision in Pollard's favour clarified the Wire Act only applies to sports betting and confirmed Pollard's iLottery operations are not barred from operating lawful gaming over the internet. This decision has provided some positive clarity to the industry, although the Department of Justice still has the opportunity to appeal. Our most recent contract award providing the iLottery operation for the North Carolina Lottery continues its rollout with the anticipated go live date in the fall of 2019. Further lottery interest in iLottery remains healthy with a number of U.S. lotteries actively investigating this opportunity.

The integration of our most recent acquisitions, Fastrak and Schafer, continues positively, both within the two organizations as well as in conjunction with our main instant ticket lottery business.

Our CAPEX remains on budget, with no large individual projects anticipated, rather a number of manufacturing efficiency improvements have been undertaken. Additional

equipment has been successfully installed on our second press line in Ypsilanti, our original press, and it has been recommissioned in the second quarter, providing us with incremental additional capacity. Additional capital investment focus is on our digital products such as our Sales Force management tool and ScanACTIV™, our proprietary multi-lane ticket sales solution.

Our business is a strong cash flow producer with significant organic resources generated to fund various capital, dividend and debt repayment requirements. As witnessed in the first half of 2019, investments in working capital can vary significantly given the low-transaction volume and high-value nature of our ticket orders. After the significant working capital investment experienced in the first six months of 2019, we would anticipate that investment to stabilize and possibly decline, freeing up additional cash flow over the last half of 2019.

We are continuing to look at acquisitions to help support and achieve our objectives to build our product portfolio and grow our profitability, with specific focus on the areas of technology, charitable gaming and additional lottery ancillary products.

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.

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