

PALOS

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Weekly Commentary

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By Charles Marleau, CIM

Pollard Banknote is Scratching to Win

Pollard Banknote Limited (TSX: PBL) is a provider of products and services related to the lottery and charitable gaming industries. The company, which is 67% owned by the Pollard family of Winnipeg, has been supplying the global marketplace with “instant win” lottery tickets for over thirty years. Roughly three quarters of the company’s revenues are generated by the instant ticket segment. Last year, the United States accounted for roughly 60% of revenues with the remainder being split between the Canadian and international markets.

On August 12, PBL announced its 2nd quarter results for the three months ended June 30. Despite the Covid-19 challenges that faced charitable gaming, including an estimated 15% to 20% drop in instant ticket sales between mid-March and mid-April, the company reported strong revenues of CAD\$91.5 million and a record quarter for Adjusted EBITDA. Since the beginning of May, retail sales have rebounded nicely with an increase of roughly 20% to 25% from the same period in 2019. Management believes the strong Q2 sales growth bodes well for instant ticket revenues in forthcoming quarters.

Revenues from charitable gaming, which includes bingo cards and pull-tab games, were severely impacted as many retail establishments, bars, and gaming halls were closed. While this segment’s revenues were down by one third compared to same quarter 2019, establishments that have reopened are seeing comparable numbers to pre-Covid although any future shutdown could have a negative impact. However, in what has become a typical phenomenon during the Covid pandemic, the company’s iGaming businesses have thrived. Revenues from iLottery operations roughly doubled from Q2/2019 with all jurisdictions showing growth. PBL has announced digital-based joint ventures with the state of Virginia and the province of Alberta that will come online in the latter half of this year.

PBL’s strong financials have enabled the company to aggressively pursue key acquisitions. On Feb. 3, PBL completed its acquisition of mkodo Limited, a customer facing app that’s used by gaming, betting, and lottery companies from around the globe. In May 2019, PBL also announced it had purchased 100% of U.K. based Fastrak Retail Limited, an innovative U.K. based provider of lottery ticket dispensers and lottery merchandising solutions. Fastrak’s customers include the UK National Lottery, the Irish lottery, and the Illinois state lottery. In late 2018, PBL acquired Schafer Systems, an Iowa based company that provides ticket dispensers and point-of-sale displays. Schafer is partnered with 44 lotteries in the U.S. and over 50 others globally. Other additions have included American Games (gaming products), Diamond Game (electronic gaming solutions), and International Gamco (charitable gaming products).

By Charles Marleau, CIM

Since its humble beginnings as a printing company in 1907, Pollard's spectacular growth has seen the company evolve from a lottery ticket manufacturer to an innovative, industry-leading provider of digital gaming solutions, mobile apps, software solutions, and data collection platforms that assist in optimizing "loto corp" operations. In fact, the pandemic has provided a tail wind for the iLottery segment as consumers turned to online solutions.

While PBL is a proven leader in both print and non print instant tickets, it is the company's expertise in digital gaming and ancillary services that has stoked my optimism. Despite the impact of the pandemic, the company showed incredible resiliency. Further enhancing my positive outlook, is PBL's strong financial position which should allow management to execute on its strategic vision and pursue opportunities for organic and acquisitions. The Palos Income Fund has held shares in Pollard since our initial investment in 2018, and we have tactically added to our position when opportunities arise.

Disclaimer: Palos Funds are shareholders of PBL.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$7.77	-2.88%
Palos Equity Income Fund - RRSP	PAL101	\$5.56	-1.74%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$9.20	20.21%
Palos-Mitchell Alpha Fund ³	PAL300	\$8.87	-14.54%
S&P TSX Composite (Total Return with dividends reinvested)			-1.16%
S&P 500 (Total Return with dividends reinvested)			5.65%
S&P TSX Venture (Total Return with dividends reinvested)			27.98%
Chart 2: Market Data ¹			Value
US Government 10-Year			0.71%
Canadian Government 10-Year			0.61%
Crude Oil Spot			US \$42.01
Gold Spot			US \$1937.00
US Gov't10-Year/Moody BAA Corp. Spread			258 bps
USD/CAD Exchange Rate Spot			US \$0.7537

¹ Period ending August 14, 2020. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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