

PALOS

CONTENTS

Weekly Commentary

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Pollard Bank Note Update – The Winning Streak Continues	1
Palos Funds vs. Benchmarks (Total Returns)	3
Disclaimer & Contacts	4

By *Charles Marleau CIM[®]* and *William Mitchell CIM[®]*

Pollard Bank Note Update – The Winning Streak Continues

Pollard Bank Note (TSX: PBL) is a Canadian based provider of products in the lottery and charitable gaming industries. We first wrote about PBL in our newsletter dated Aug. 17, 2020 (available at funds.palos.ca/news/page/4/). PBL shares have since generated an impressive 86.7% return and we thought we would revisit the story behind this unique and successful business.

Over the past few months PBL has completed some acquisitions. In late December it was announced that Pollard would acquire 100% of Minnesota based Compliant Gaming LLC, a company that specializes in the ‘electronic pull-tab’ charitable gaming market, for \$19 million USD. The purchase was funded with existing cash and senior credit facilities. The acquisition will serve to complement the charitable gaming portfolio and is expected to immediately add to the bottom line. In addition, the company also announced a definitive agreement to acquire 100% of Next Generation Lotteries AS (NGL), a leading provider of retail lottery and ‘iLottery’ platforms. NGL operates as a “full solution supplier to the lottery industry that includes a state-of-the-art lotto system and iLottery platform.” NGL is focused on the European and Asian markets thus complementing Pollard’s North American operations. The acquisition was completed on January 14, 2021.

In addition to these recent acquisitions, PBL confirmed contract extensions with several customers including The Idaho Lottery (to June 2026), Missouri Lottery (Sept. 2023), Michigan Lottery (Sept. 2022). New contracts include a five-year contract with Massachusetts State Lottery that will run through Sept. 2025 and a four-year contract with Ohio Lottery. As a trusted innovator and supplier of lottery and gaming services, Pollard continues to win business.

The company’s most recent financial results were announced on November 9, 2020. The third quarter produced record quarterly revenue and adjusted EBITDA. Sales increased by 13% to \$116.7 million and income from operations achieved a record \$16.7 million during the quarter. Net income tripled compared to the same period in 2019. Despite the challenges and uncertainties presented by Covid-19, sales in multiple product lines were strong. Retail sales of instant lottery tickets showed strong growth and this trend is

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expected to continue. PBL's 'iLottery' has remained very strong throughout the third quarter as consumers continue to utilize the internet to make their lottery purchases.

We continue to view PBL as an extremely well-run company that is poised for continued growth in a niche industry. The company has paid an uninterrupted quarterly dividend since 2011, and three-year dividend growth of 10%. The industry continues to see growth in traditional lottery scratch tickets as well as in non-traditional e-gaming. Pollard's industry leading digital innovation, retail expertise, and exciting product line has the company well positioned. Having evolved from its roots as a printing company, it's clear to us that Pollard should continue to play a leadership role and maintain an impressive growth trajectory well into the future.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.00	2.91%
Palos Equity Income Fund - RRSP	PAL101	\$6.58	3.17%
Palos Merchant Fund L.P. (Dec 31, 2019) ²	PAL500	\$1.71	20.15%
Palos WP Growth Fund - RRSP	PAL210	\$18.40	15.26%
Palos-Mitchell Alpha Fund ³	PAL300	\$12.56	5.50%
S&P TSX Composite (Total Return with dividends reinvested)			2.84%
S&P 500 (Total Return with dividends reinvested)			0.38%
S&P TSX Venture (Total Return with dividends reinvested)			3.73%
Chart 2: Market Data ¹			Value
US Government 10-Year			1.08%
Canadian Government 10-Year			0.81%
Crude Oil Spot			US \$52.36
Gold Spot			US \$1829.90
US Gov't10-Year/Moody BAA Corp. Spread			214 bps
USD/CAD Exchange Rate Spot			US \$0.7851

¹ Period ending January 15, 2021. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca