



Enghouse Releases First Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – March 5, 2015 – Enghouse Systems Limited (TSX:ESL) today announced its unaudited first quarter financial results for the period ended January 31, 2015.

First quarter revenue was \$63.0 million, an increase of 33% over revenue of \$47.5 million in the first quarter last year. The increase in revenue was primarily the result of incremental revenue contributions from acquisitions. Revenue reflects hosted and maintenance services contributions of \$32.3 million in the quarter, an increase of 29% over last year. Adjusted EBITDA for the quarter was \$16.2 million or \$0.60 per diluted share compared to \$12.2 million or \$0.45 per diluted share in last year's first quarter. Results from operating activities for the quarter were \$15.6 million compared to \$11.5 million in the prior year's first quarter, an increase of 35% over the prior year. Net income for the quarter was \$2.5 million or \$0.09 per diluted share compared to the prior year's first quarter net income of \$6.2 million or \$0.23 per diluted share. The decrease in net income in the quarter reflects an adjustment of \$8.8 million (\$5.0 million net of tax) to the provision for contract litigation matters which were finalized after quarter end.

Operating expenses before special charges related to restructuring of acquired operations were \$27.6 million compared to \$21.9 million in the prior year's first quarter and reflect incremental costs of acquired operations. Of note, as a percentage of revenue, operating expenses before special charges decreased from 46.2% to 43.8% in the quarter largely as a result of foreign exchange gains booked to selling, general and administrative expenses. Non-cash amortization charges in the quarter were \$5.4 million and include amortization charges for acquired software and customer relationships from acquired operations.

Enghouse generated cash flows from operations of \$17.6 million and closed the quarter with \$101.8 million in cash, cash equivalents and short-term investments, compared to \$84.9 million at October 31, 2014. This is after cash paid of \$0.4 million related to acquisition hold backs in the quarter and cash dividends of \$2.6 million. The Company continues to have no debt.

Effective March 2, 2015 the Company acquired 100% of the issued and outstanding common shares of CDRator A/S of Denmark for a purchase price of approximately \$23.0 million, net of cash acquired. CDRator had annual revenues of \$20.0 million in fiscal 2014 and provides market leading solutions that automate billing and customer care functions for mobile networks operators and MVNO/E's (mobile virtual network operators and enablers). This acquisition will further balance the revenue split between our two business segments which as of the first quarter is approximately 70% and 30% respectively for the Interactive and Asset Management Groups.

The Board of Directors also approved a 20% increase in its eligible quarterly dividend to \$0.12 per common share, payable on May 29, 2015 to shareholders of record at the close of business on May 15, 2015. Enghouse has increased its dividend in each of the past six years.

Building on Enghouse's presence in Germany established with the acquisitions of CosmoCom and Andtek, the Company added IT Sonix in March 2014 and Voxtron in October 2014 to expand its market reach within Germany and beyond to Italy and Belgium. Enghouse is now one of the more significant contact center solutions providers in the important German market. As the Company continues to grow outside of North America, the foreign exchange risk dependency on any one currency is lessened. Enghouse remains committed to diversifying its revenue stream and accelerating its expansion as it continues to seek accretive acquisitions to grow its market share.

A conference call to discuss the results will be held on Friday, March 5, 2015 at 8:45 a.m. EST. To participate, please call 416-640-5947 or North American Toll-Free 1-866-233-4606. No PIN required.

About Enghouse

Enghouse Systems Limited is a leading global provider of enterprise software solutions serving a variety of distinct vertical markets. Its strategy is to build a larger, profitable and more diverse software company through strategic acquisitions targeting the Contact Center, Networks (OSS/BSS) and Transportation/Public Safety sectors. Enghouse shares are listed on the Toronto Stock Exchange under the symbol "ESL". Further information about Enghouse may be obtained from the Company's website at www.enghouse.com.

Non-GAAP Measures

The Company uses non-GAAP measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses Adjusted EBITDA as a measure of operating performance. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is calculated as income before income taxes adjusted for depreciation of property, plant and equipment, amortization of acquired software and customer relationships, finance income, finance expenses, other income, litigation settlements and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of software and intangibles (which is an accounting allocation of the cost of software and intangible assets arising on acquisition), any impact of finance and tax related activities, asset depreciation, other income and restructuring costs primarily related to acquisitions.

Adjusted EBITDA

The table below reconciles Adjusted EBITDA to income before income taxes:

(In thousands of Canadian dollars)

(Unaudited)

	Three Months ended	
	January 31, 2015	January 31, 2014
Total Revenue	\$ 63,019	\$ 47,492
Income before income taxes	1,460	7,702
Depreciation of property, plant and equipment	592	529
Amortization of acquired software and customer relationships	5,354	3,910
Finance income	(113)	(143)
Finance expenses	117	58
Other income	(17)	(7)
Litigation settlements	8,774	-
Special charges	24	112
Adjusted EBITDA	\$ 16,191	\$ 12,161
Adjusted EBITDA margin	26%	26%
Adjusted EBITDA per diluted share	\$0.60	\$0.45

Enghouse Systems Limited

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

	January 31, 2015	October 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 86,891	\$ 72,780
Short-term investments	14,956	12,084
Accounts receivable, net	56,994	54,341
Prepaid expenses and other assets	8,123	7,571
	166,964	146,776
Non-current assets		
Property, plant and equipment	4,799	4,020
Intangible assets	169,590	166,548
Deferred income tax assets	13,275	10,427
	187,664	181,005
Total assets	\$ 354,628	\$ 327,771
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 38,289	\$ 41,297
Income taxes payable	1,803	2,644
Dividends payable	2,620	2,616
Provisions	13,619	3,407
Deferred revenue	58,006	47,745
	114,337	97,709
Non-current liabilities		
Deferred income tax liabilities	19,988	19,930
Deferred revenue	1,990	1,877
	21,978	21,807
Total liabilities	136,315	119,516
Shareholders' Equity		
Share capital	60,081	59,746
Contributed surplus	4,017	3,782
Retained earnings	135,473	135,554
Accumulated other comprehensive income	18,742	9,173
Total shareholders' equity	218,313	208,255
Total liabilities and shareholders' equity	\$ 354,628	\$ 327,771

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

(In thousands of Canadian dollars, except per share amounts)
(Unaudited)

	Three months ended January 31,	
	2015	2014
Revenue		
Software licenses	\$ 19,612	\$ 15,763
Hosted and maintenance services	32,259	25,014
Professional services	8,921	5,132
Hardware	2,227	1,583
	63,019	47,492
Direct costs		
Software licenses	1,677	1,200
Services	16,784	11,716
Hardware	1,333	1,019
	19,794	13,935
Revenue, net of direct costs	43,225	33,557
Operating expenses		
Selling, general and administrative	17,144	12,676
Research and development	9,890	8,720
Depreciation of property, plant and equipment	592	529
Special charges	24	112
	27,650	22,037
Results from operating activities	15,575	11,520
Litigation settlements	(8,774)	-
Amortization of acquired software and customer relationships	(5,354)	(3,910)
Finance income	113	143
Finance expenses	(117)	(58)
Other income	17	7
Income before income taxes	1,460	7,702
(Recovery of) provision for income taxes	(1,079)	1,530
Net income for the period	\$ 2,539	\$ 6,172
<u>Items that are or may be reclassified subsequently to profit or loss:</u>		
Foreign currency translation gain from foreign operations	9,406	9,770
Transfer to net income of realized gains on available for sale investments	-	(20)
Unrealized gain (loss) on available for sale investments	188	(17)
Deferred income tax (expense) recovery	(25)	5
Other comprehensive income	9,569	9,738
Comprehensive income	\$ 12,108	\$ 15,910
Earnings per share		
Basic	\$ 0.10	\$ 0.24
Diluted	\$ 0.09	\$ 0.23

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Changes in Equity

(In thousands of Canadian dollars)

(Unaudited)

	Share Capital -number	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total \$
Balance – November 1, 2014	26,163,962	59,746	3,782	9,173	135,554	208,255
Net income	-	-	-	-	2,539	2,539
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	9,406	-	9,406
Unrealized gain on available-for-sale investments	-	-	-	188	-	188
Deferred income tax expense	-	-	-	(25)	-	(25)
Comprehensive income for the period	-	-	-	9,569	2,539	12,108
Employee share options:						
Value of services recognized	-	-	305	-	-	305
Proceeds on issuing shares	38,500	335	(70)	-	-	265
Dividends	-	-	-	-	(2,620)	(2,620)
Balance – January 31, 2015	26,202,462	60,081	4,017	18,742	135,473	218,313
Balance – November 1, 2013	26,042,962	58,514	3,175	5,139	115,800	182,628
Net income	-	-	-	-	6,172	6,172
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	9,770	-	9,770
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(20)	-	(20)
Unrealized loss on available-for-sale investments	-	-	-	(17)	-	(17)
Deferred income tax recovery	-	-	-	5	-	5
Comprehensive income for the period	-	-	-	9,738	6,172	15,910
Employee share options:						
Value of services recognized	-	-	159	-	-	159
Proceeds on issuing shares	44,000	480	(119)	-	-	361
Dividends	-	-	-	-	(2,087)	(2,087)
Balance – January 31, 2014	26,086,962	58,994	3,215	14,877	119,885	196,971

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Three months ended January 31,	
	2015	2014
Cash flows from operating activities		
Net income for the period	\$ 2,539	\$ 6,172
Adjustments for:		
Depreciation of property, plant and equipment	592	529
Amortization of acquired software and customer relationships	5,354	3,910
Stock-based compensation expense	305	159
(Recovery of) provision for income taxes	(1,079)	1,530
Finance expenses and other income	100	51
	<u>7,811</u>	<u>12,351</u>
Changes in non-cash operating working capital	11,806	(1,660)
Income tax paid	(1,975)	(787)
Net cash flows from operating activities	17,642	9,904
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(1,062)	(657)
Acquisitions, net of cash acquired (2014 - \$334)	-	(1,778)
Purchase consideration for prior period acquisitions	(412)	(382)
Net purchase of short-term investments	(2,075)	(1,615)
Net cash flows used in investing activities	(3,549)	(4,432)
Cash flows from financing activities		
Issuance of share capital	265	361
Payment of cash dividend	(2,616)	(2,083)
Net cash flows used in financing activities	(2,351)	(1,722)
Effect of currency translation adjustments on cash and cash equivalents	2,369	3,138
Net increase in cash and cash equivalents during the period	14,111	6,888
Cash and cash equivalents- beginning of period	72,780	70,109
Cash and cash equivalents - end of period	\$ 86,891	\$ 76,997

Enghouse Systems Limited
Selected Segment Reporting Information

(In thousands of Canadian dollars)
(Unaudited)

	Three months ended	
	January 31	
	2015	2014
Revenue		
Asset Management Group	\$ 19,267	\$ 9,692
Interactive Management Group	43,752	37,800
Total	\$ 63,019	\$ 47,492
Segment Profit		
Asset Management Group	\$ 5,060	\$ 2,206
Interactive Management Group	12,298	10,606
Corporate expenses	(1,783)	(1,292)
Amortization of acquired software and customer relationships	(5,354)	(3,910)
Finance income	113	143
Finance expenses	(117)	(58)
Other income	17	7
Litigation settlements	(8,774)	-
Total	\$ 1,460	\$ 7,702

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