



Enghouse Releases Third Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – September 8, 2016 – Enghouse Systems Limited (TSX:ESL) today announced its third quarter (unaudited) financial results for the period ended July 31, 2016.

Third quarter revenue was \$76.4 million, an increase of 7.1% over revenue of \$71.3 million in the third quarter last year. On a year to date basis, revenue was \$229.3 million compared to \$203.0 million last year, an increase of 12.9%. The revenue increase primarily reflects incremental revenue contributions from acquisitions and the favorable impact of foreign exchange compared to last year. Hosted and maintenance services revenue was \$37.9 million in the quarter, an increase of 12.2% over the same period last year.

Adjusted EBITDA for the quarter was \$21.6 million (\$0.79 per diluted share) compared to \$18.5 million (\$0.68 per diluted share) in last year's third quarter. Adjusted EBITDA for the year to date was \$60.0 million (\$2.20 per diluted share) compared to \$50.9 million (\$1.88 per diluted share) last year, an increase of 17.8%.

Net income for the quarter was \$10.4 million (\$0.38 per diluted share) compared to the prior year's third quarter net income of \$8.1 million (\$0.30 per diluted share). Results from operating activities for the quarter were \$20.6 million compared to \$16.2 million in the prior year's third quarter, an increase of 26.9% over the prior year.

Operating expenses before special charges related to restructuring of acquired operations were \$31.4 million compared to \$29.8 million in the prior year's third quarter and reflect incremental operating costs related to acquisitions and the impact of favourable foreign exchange gains. Non-cash amortization charges in the quarter were \$7.0 million compared to \$5.7 million in the prior year's third quarter and include amortization charges for acquired software and customer relationships from acquired operations.

Enghouse generated cash flows from operations of \$16.4 million in the quarter and closed the quarter with \$90.7 million in cash, cash equivalents and short-term investments, compared to \$98.4 million at October 31, 2015. The cash balance was achieved after year-to-date payments related to acquisitions comprised of \$36.2 million (net of cash acquired and holdbacks) for CTI Group (Holdings) Inc. acquired on December 7, 2015, CellVision AS acquired on March 4, 2016 and NetBoss Technologies acquired May 27, 2016. The Company paid \$4.1 million for prior period acquisition holdbacks and \$10.2 million in dividends. The Company continues to have no debt.

The Board of Directors has approved an eligible quarterly dividend of \$0.14 per common share, payable on November 30, 2016 to shareholders of record at the close of business on November 16, 2016. Enghouse remains committed to its acquisition strategy and continues to seek accretive acquisitions.

A conference call to discuss the results will be held on Friday September 9, 2016 at 8:45 a.m. EST. To participate, please call 416-640-5946 or North American Toll-Free 1-866-233-4585. 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 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 results from operating activities adjusted for depreciation of property, plant and equipment, 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 the most directly comparable IFRS measure, Results from operating activities:

	Three Months ended		Nine Months ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Total Revenue	\$ 76,350	\$ 71,264	\$ 229,257	\$ 202,984
Results from operating activities	20,581	16,221	56,540	47,296
Depreciation of property, plant and equipment	830	647	2,447	1,921
Special charges	151	1,582	970	1,661
Adjusted EBITDA	\$ 21,562	\$ 18,450	\$ 59,957	\$ 50,878
Adjusted EBITDA margin	28.2%	25.9%	26.2%	25.1%
Adjusted EBITDA per diluted share	\$ 0.79	\$ 0.68	\$ 2.20	\$ 1.88

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	July 31, 2016	October 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 85,514	\$ 94,131
Short-term investments	5,155	4,306
Accounts receivable, net	67,708	60,765
Prepaid expenses and other assets	9,689	8,330
	168,066	167,532
Non-current assets		
Property, plant and equipment	5,727	5,039
Intangible assets	78,504	68,976
Goodwill	137,205	123,868
Deferred income tax assets	5,787	10,600
	167,223	208,483
Total assets	\$ 395,289	\$ 376,015
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 49,497	\$ 51,284
Income taxes payable	4,289	2,680
Dividends payable	3,755	3,190
Provisions	4,074	3,335
Deferred revenue	56,065	48,694
	117,680	109,183
Non-current liabilities		
Deferred income tax liabilities	18,503	20,022
Deferred revenue	7,034	3,458
	25,537	23,480
Total liabilities	143,217	132,663
Shareholders' Equity		
Share capital	67,523	64,203
Contributed surplus	4,139	4,029
Retained earnings	171,504	154,866
Accumulated other comprehensive income	8,906	20,254
Total shareholders' equity	252,072	243,352
Total liabilities and shareholders' equity	\$ 395,289	\$ 376,015

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 July 31		Nine months ended July 31	
	2016	2015	2016	2015
Revenue				
Software licenses	\$ 23,936	\$ 21,844	\$ 69,150	\$ 62,540
Hosted and maintenance services	37,879	33,751	113,985	99,697
Professional services	13,510	13,493	42,427	34,826
Hardware	1,025	2,176	3,695	5,921
	76,350	71,264	229,257	202,984
Direct costs				
Software licenses	1,718	1,958	4,078	5,601
Services	21,909	20,080	66,397	55,995
Hardware	603	1,591	2,333	4,006
	24,230	23,629	72,808	65,602
Revenue, net of direct costs	52,120	47,635	156,449	137,382
Operating expenses				
Selling, general and administrative	19,133	19,482	62,189	56,119
Research and development	11,425	9,703	34,303	30,385
Depreciation of property, plant and equipment	830	647	2,447	1,921
Special charges	151	1,582	970	1,661
	31,539	31,414	99,909	90,086
Results from operating activities	20,581	16,221	56,540	47,296
Litigation settlements	-	-	-	(8,774)
Amortization of acquired software and customer relationships	(7,009)	(5,695)	(20,857)	(16,783)
Finance income	19	47	73	211
Finance expenses	(46)	(206)	(214)	(493)
Other income	9	11	64	86
	13,554	10,378	35,606	21,543
Income before income taxes	13,554	10,378	35,606	21,543
Provision for income taxes	3,171	2,284	8,242	3,342
Net income for the period	\$ 10,383	\$ 8,094	\$ 27,364	\$ 18,201
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences from foreign operations	(1,178)	11,737	(10,635)	11,642
Transfer to net income of realized gains on available for sale investments	-	-	(14)	(74)
Unrealized (loss) gain on available for sale investments	(609)	159	(808)	342
Deferred income tax recovery (expense)	81	(21)	109	(36)
	(1,706)	11,875	(11,348)	11,874
Other comprehensive (loss) income	(1,706)	11,875	(11,348)	11,874
Comprehensive income	\$ 8,677	\$ 19,969	\$ 16,016	\$ 30,075
Earnings per share				
Basic	\$ 0.39	\$ 0.31	\$ 1.02	\$ 0.69
Diluted	\$ 0.38	\$ 0.30	\$ 1.01	\$ 0.67

Enghouse Systems Limited

Consolidated 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, 2015	26,587,262	64,203	4,029	20,254	154,866	243,352
Net income	-	-	-	-	27,364	27,364
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	(10,635)	-	(10,635)
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(14)	-	(14)
Unrealized loss on available-for-sale investments	-	-	-	(808)	-	(808)
Deferred income tax recovery	-	-	-	109	-	109
Comprehensive income for the period	-	-	-	(11,348)	27,364	16,016
Employee share options:						
Value of services recognized	-	-	748	-	-	748
Proceeds on issuing shares	237,700	3,320	(638)	-	-	2,682
Dividends	-	-	-	-	(10,726)	(10,726)
Balance – July 31, 2016	26,824,962	67,523	4,139	8,906	171,504	252,072
Balance – November 1, 2014	26,163,962	59,746	3,782	9,173	135,554	208,255
Net income	-	-	-	-	18,201	18,201
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	11,642	-	11,642
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(74)	-	(74)
Unrealized gain on available-for-sale investments	-	-	-	342	-	342
Deferred income tax expense	-	-	-	(36)	-	(36)
Comprehensive income for the period	-	-	-	11,874	18,201	30,075
Employee share options:						
Value of services recognized	-	-	937	-	-	937
Proceeds on issuing shares	121,500	1,178	(240)	-	-	938
Dividends	-	-	-	-	(8,928)	(8,928)
Balance – July 31, 2015	26,285,462	60,924	4,479	21,047	144,827	231,277

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2016	2015	2016	2015
Cash flows from operating activities				
Net income	\$ 10,383	\$ 8,094	\$ 27,364	\$ 18,201
Adjustments for:				
Depreciation of property, plant and equipment	830	647	2,447	1,921
Amortization of acquired software and customer relationships	7,009	5,695	20,857	16,783
Stock-based compensation expense	172	315	748	937
Provision for income taxes	3,171	2,284	8,242	3,342
Finance expenses and other income	37	195	150	407
	21,602	17,230	59,808	41,591
Changes in non-cash operating working capital	(3,255)	(7,555)	(9,757)	2,001
Income tax paid	(1,996)	(336)	(6,101)	(4,404)
Net cash flows from operating activities	16,351	9,339	43,950	39,188
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(284)	(640)	(2,603)	(2,097)
Purchase of other software	(586)	(251)	(1,205)	(251)
Acquisitions, net of cash acquired of \$2,362 (\$5,475 - 2015)	(6,828)	(5,342)	(36,181)	(25,160)
Purchase consideration for prior period acquisitions	(646)	(1,456)	(4,089)	(2,139)
Net sale of short-term investments	175	1,039	(520)	3,386
Net cash flows used in investing activities	(8,169)	(6,650)	(44,598)	(26,261)
Cash flows from financing activities				
Issuance of share capital	174	-	2,682	938
Payment of cash dividend	(3,754)	(3,154)	(10,162)	(8,391)
Net cash flows used in financing activities	(3,580)	(3,154)	(7,480)	(7,453)
Effect of currency translation adjustments on cash and cash equivalents	784	3,466	(489)	3,210
Net increase (decrease) in cash and cash equivalents during the period	5,386	3,001	(8,617)	8,684
Cash and cash equivalents- beginning of period	80,128	78,463	94,131	72,780
Cash and cash equivalents - end of period	\$ 85,514	\$ 81,464	\$ 85,514	\$ 81,464

Enghouse Systems Limited

Selected Segment Reporting Information

(In thousands of Canadian dollars)

(Unaudited)

	For the three months ended July 31		For the nine months ended July 31	
	2016	2015	2016	2015
Revenue:				
Asset Management Group	\$ 29,709	\$ 23,195	\$ 85,316	\$ 66,282
Interactive Management Group	46,641	48,069	143,941	136,702
Total	\$ 76,350	\$ 71,264	\$ 229,257	\$ 202,984
Asset Management Group:				
- Segment profit before special charges	\$ 8,455	\$ 5,653	\$ 21,683	\$ 16,180
- Special charges	(105)	(264)	(618)	(246)
Asset Management Group profit	\$ 8,350	\$ 5,389	\$ 21,065	\$ 15,934
Interactive Management Group:				
- Segment profit before special charges	\$ 14,548	\$ 13,740	\$ 42,177	\$ 37,597
- Special charges	(46)	(1,318)	(352)	(1,415)
Interactive Management Group profit	\$ 14,502	\$ 12,422	\$ 41,825	\$ 36,182
Corporate expenses	(2,271)	(1,590)	(6,350)	(4,820)
Results from operating activities	\$ 20,581	\$ 16,221	\$ 56,540	\$ 47,296
Litigation settlements	-	-	-	(8,774)
Amortization of acquired software and customer relationships	(7,009)	(5,695)	(20,857)	(16,783)
Finance income	19	47	73	211
Finance expenses	(46)	(206)	(214)	(493)
Other income	9	11	64	86
Income before income taxes	\$ 13,554	\$ 10,378	\$ 35,606	\$ 21,543

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