



Enghouse Releases Fourth Quarter and Year End Results, Completing Another Strong Year

FOR IMMEDIATE RELEASE

Markham, Ontario – December 15, 2016 – Enghouse Systems Limited (TSX:ENGH) today announced its fourth quarter (unaudited) and year-end financial results for the period ended October 31, 2016.

Revenue increased by 10.3% to \$308.0 million for the fiscal year, compared to revenue of \$279.3 million in the previous fiscal year, resulting in another record year for the Company. Income from operating activities was \$81.9 million compared to \$67.3 million last year, an increase of 21.8%. Net income for the fiscal year was \$47.3 million or \$1.74 per diluted share compared to \$31.4 million or \$1.17 per diluted share in the prior year. Adjusted EBITDA for the fiscal year was \$86.7 million or \$3.19 per diluted share compared to \$71.9 million or \$2.69 per diluted share last year, an increase of 20.6%.

Operating expenses before special charges related to restructuring of acquired operations were \$127.8 million for the fiscal year or 41.5% of revenue compared to \$121.4 million (43.4%) in the prior fiscal year as a result of efficiency improvements realized and favourable foreign exchange gains recorded during the fiscal year.

Fourth quarter revenue was \$78.7 million, an increase of 3.1% over revenue of \$76.3 million in the fourth quarter last year. Revenue in the quarter reflects incremental revenue contributions from acquisitions as well as the unfavourable impact of foreign exchange, largely on the decline in the Pound Sterling post-Brexit. Adjusted EBITDA for the quarter was \$26.7 million or \$0.99 per diluted share compared to \$21.1 million or \$0.78 per diluted share in last year's fourth quarter, an increase of 26.5%.

Operating expenses before special charges related to restructuring of acquired operations were \$28.9 million compared to \$32.9 million in the prior year's fourth quarter and primarily include incremental operating costs related to acquisitions and the favourable impact of foreign exchange gains of \$4.2 million booked in the quarter on translation of foreign currency denominated monetary assets and liabilities. Non-cash amortization charges in the quarter were \$7.2 million compared to \$6.1 million in the prior year's fourth quarter and include amortization charges for acquired software and customer relationships from acquired operations.

Results from operating activities for the quarter were \$25.4 million compared to \$20.0 million in the prior year's fourth quarter, an increase of 27.2% over the prior year. Net income for the quarter was \$19.9 million or \$0.73 per diluted share compared to the prior year's fourth quarter net income of \$13.2 million or \$0.49 per diluted share.

Enghouse generated cash flows from operations of \$15.8 million in the quarter compared to \$11.3 million in the prior year's fourth quarter. Cash flows generated from operations for the fiscal year were \$59.7 million compared to \$50.5 million in the prior fiscal year. Enghouse closed the year with \$85.9 million in cash, cash equivalents and short-term investments, compared to \$98.4 million at October 31, 2015. The cash balance was achieved after payment of \$51.3 million for acquisitions (net of cash acquired), \$4.5 million to finalize prior year acquisitions and dividends of \$13.9 million.

Shortly before year end on October 28, 2016, Enghouse acquired Presence Technology, S.L. for a purchase price of \$19.0 million, net of cash acquired. The Company inherited Presence's pre-existing long-term debt but does not otherwise have any long-term debt. Only the opening balance sheet on acquisition was included in the results for fiscal 2016 as results between the acquisition date and October 31, 2016 were not material.

The Board of Directors has approved an eligible quarterly dividend of \$0.14 per common share, payable on February 28, 2017 to shareholders of record at the close of business on February 14, 2017.

A conference call to discuss the results will be held on Friday December 16, 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 "ENGH". 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		Year ended	
	October 31, 2016	October 31, 2015	October 31, 2016	October 31, 2015
Total Revenue	\$ 78,726	\$ 76,329	\$ 307,983	\$ 279,313
Results from operating activities	25,398	19,967	81,938	67,263
Depreciation of property, plant and equipment	991	767	3,438	2,688
Special charges	360	328	1,330	1,989
Adjusted EBITDA	\$ 26,749	\$ 21,062	\$ 86,706	\$ 71,940
Adjusted EBITDA margin	34.0%	27.6%	28.2%	25.8%
Adjusted EBITDA per diluted share	\$ 0.99	\$ 0.78	\$ 3.19	\$ 2.69

Enghouse Systems Limited
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

	As at October 31, 2016	As at October 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 78,436	\$ 94,131
Short-term investments	7,423	4,306
Accounts receivable, net	73,588	60,765
Prepaid expenses and other assets	9,720	8,330
	169,167	167,532
Non-current assets		
Long-term deposits and accounts receivable, net	1,357	-
Property, plant and equipment	5,696	5,039
Intangible assets	86,632	68,976
Goodwill	144,578	123,8686
Deferred income tax assets	11,765	10,600
	169,167	167,532
Total assets	\$ 419,195	\$ 376,015
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 55,440	\$ 51,284
Income taxes payable	5,139	2,680
Dividends payable	3,767	3,190
Provisions	2,111	3,335
Deferred revenue	54,300	48,694
	120,757	109,183
Non-current liabilities		
Deferred income tax liabilities	21,053	20,022
Deferred revenue	4,788	3,458
Long-term loans	4,049	-
	150,647	132,663
Total liabilities	150,647	132,663
Shareholders' Equity		
Share capital	69,555	64,203
Contributed surplus	3,875	4,029
Retained earnings	187,649	154,866
Accumulated other comprehensive income	7,469	20,254
Total shareholders' equity	268,548	243,352
Total liabilities and shareholders' equity	\$ 419,195	\$ 376,015

Enghouse Systems Limited

Consolidated Interim Statements of Operations and Comprehensive Income

(in thousands of Canadian dollars, except per share amounts)

	(Unaudited) Three months ended October 31	(Unaudited) Three months ended October 31	Year ended October 31	
	2016	2015	2016	2015
Revenue				
Software licenses	\$ 24,261	\$ 23,771	\$ 93,411	\$ 86,311
Hosted and maintenance services	38,383	36,071	152,368	135,768
Professional services	15,415	15,278	57,842	50,104
Hardware	667	1,209	4,362	7,130
	78,726	76,329	307,983	279,313
Direct costs				
Software licenses	1,399	1,383	5,477	6,984
Services	21,813	20,712	88,210	76,707
Hardware	847	1,007	3,180	5,013
	24,059	23,102	96,867	88,704
Revenue, net of direct costs	54,667	53,227	211,116	190,609
Operating expenses				
Selling, general and administrative	17,504	21,509	79,693	77,628
Research and development	10,414	10,656	44,717	41,041
Depreciation of property, plant and equipment	991	767	3,438	2,688
Special charges	360	328	1,330	1,989
	29,269	33,260	129,178	123,346
Results from operating activities	25,398	19,967	81,938	67,263
Amortization of acquired software and customer relationships	(7,185)	(6,086)	(28,042)	(22,869)
Litigation settlements	-	-	-	(8,774)
Finance income	50	40	123	251
Finance expenses	(136)	13	(350)	(480)
Other income	733	26	797	112
Income before income taxes	18,860	13,960	54,466	35,503
(Recovery of) provision for income taxes				
Current income tax expense	5,088	6,506	14,033	8,275
Deferred income tax recovery	(6,140)	(5,775)	(6,843)	(4,202)
	(1,052)	731	7,190	4,073
Net income for the period	\$ 19,912	\$ 13,229	\$ 47,276	\$ 31,430
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation differences from foreign operations	(2,102)	(779)	(12,737)	10,863
Transfer to net income of realized gains on available for sale investments	-	-	(14)	(74)
Unrealized gain (loss) on available for sale investments	766	(17)	(42)	325
Deferred income tax (expense) recovery	(101)	3	8	(33)
Other comprehensive (loss) income	(1,437)	(793)	(12,785)	11,081
Comprehensive income	\$ 18,475	\$ 12,436	\$ 34,491	\$ 42,511
Earnings per share				
Basic	\$ 0.74	\$ 0.50	\$ 1.76	\$ 1.20
Diluted	\$ 0.73	\$ 0.49	\$ 1.74	\$ 1.17

Enghouse Systems Limited

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

	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	-	-	-	-	47,276	47,276
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(12,737)	-	(12,737)
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(14)	-	(14)
Unrealized losses on available-for-sale investments	-	-	-	(42)	-	(42)
Deferred income tax recovery	-	-	-	8	-	8
Comprehensive income for the year	-	-	-	(12,785)	47,276	34,491
Employee share options:						
Value of services recognized	-	-	892	-	-	892
Proceeds on issuing shares	319,700	5,352	(1,046)	-	-	4,306
Dividends	-	-	-	-	(14,493)	(14,493)
Balance – October 31, 2016	26,906,962	69,555	3,875	7,469	187,649	268,548
Balance – November 1, 2014	26,163,962	59,746	3,782	9,173	135,554	208,255
Net income	-	-	-	-	31,430	31,430
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	10,863	-	10,863
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(74)	-	(74)
Unrealized gain on available-for-sale investments	-	-	-	325	-	325
Deferred income tax expense	-	-	-	(33)	-	(33)
Comprehensive income for the year	-	-	-	11,081	31,430	42,511
Employee share options:						
Value of services recognized	-	-	1,187	-	-	1,187
Proceeds on issuing shares	423,300	4,457	(940)	-	-	3,517
Dividends	-	-	-	-	(12,118)	(12,118)
Balance – October 31, 2015	26,587,262	64,203	4,029	20,254	154,866	243,352

Enghouse Systems Limited

Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

	(Unaudited)	(Unaudited)		
	Three months ended October 31		Year ended October 31	
	2016	2015	2016	2015
Cash flows from operating activities				
Net income	\$ 19,912	\$ 13,229	\$ 47,276	\$ 31,430
Adjustments for:				
Depreciation of property, plant and equipment	991	767	3,438	2,688
Amortization of acquired software and customer relationships	7,185	6,086	28,042	22,869
Stock-based compensation expense	144	250	892	1,187
Income tax (recovery) expense	(1,052)	731	7,190	4,073
Finance expenses and other income	(597)	(39)	(447)	368
	26,583	21,024	86,391	62,615
Changes in non-cash operating working capital	(6,751)	(8,632)	(16,508)	(6,631)
Income tax paid	(4,047)	(1,091)	(10,148)	(5,495)
Net cash flows from operating activities	15,785	11,301	59,735	50,489
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(769)	(805)	(3,372)	(2,902)
Purchase of other software	(559)	(105)	(1,764)	(356)
Acquisitions, net of cash acquired of \$5,230 (\$5,475 - 2015)	(15,083)	(2,402)	(51,264)	(27,562)
Purchase consideration for prior period acquisitions	(387)	(264)	(4,476)	(2,403)
Net proceeds from sale of short-term investments	(2,360)	5,547	(2,880)	8,933
Net cash flows used in investing activities	(19,158)	1,971	(63,756)	(24,290)
Cash flows from financing activities				
Issuance of share capital	1,624	2,579	4,306	3,517
Payment of cash dividend	(3,755)	(3,154)	(13,917)	(11,545)
Net cash flows used in financing activities	(2,131)	(575)	(9,611)	(8,028)
Effect of currency translation adjustments on cash and cash equivalents	(1,574)	(30)	(2,063)	3,180
Net (decrease) increase in cash and cash equivalents during the period	(7,078)	12,667	(15,695)	21,351
Cash and cash equivalents- beginning of period	85,514	81,464	94,131	72,780
Cash and cash equivalents - end of period	\$ 78,436	\$ 94,131	\$ 78,436	\$ 94,131

Enghouse Systems Limited

Selected Segment Reporting Information

(In thousands of Canadian dollars)

(Unaudited)

	For the three months ended October 31		Year ended October 31	
	2016	2015	2016	2015
Revenue:				
Asset Management Group	\$ 30,450	\$ 24,795	\$ 115,766	\$ 91,077
Interactive Management Group	48,276	51,534	192,217	188,236
Total	\$ 78,726	\$ 76,329	\$ 307,983	\$ 279,313
Asset Management Group:				
- Segment profit before special charges	\$ 9,967	\$ 6,973	\$ 31,650	\$ 23,153
- Special charges	(186)	(114)	(804)	(360)
Asset Management Group profit	\$ 9,781	\$ 6,859	\$ 30,846	\$ 22,793
Interactive Management Group:				
- Segment profit before special charges	\$ 18,718	\$ 15,794	\$ 60,895	\$ 53,391
- Special charges	(174)	(214)	(526)	(1,629)
Interactive Management Group profit	\$ 18,544	\$ 15,580	\$ 60,369	\$ 51,762
Corporate expenses	(2,927)	(2,472)	(9,277)	(7,292)
Results from operating activities	\$ 25,398	\$ 19,967	\$ 81,938	\$ 67,263
Amortization of acquired software and customer relationships	(7,185)	(6,086)	(28,042)	(22,869)
Finance income	50	40	123	251
Finance expenses	(136)	13	(350)	(480)
Other income	733	26	797	112
Litigation settlements	-	-	-	(8,774)
Income before income taxes	\$ 18,860	\$ 13,960	\$ 54,466	\$ 35,503

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