



Enghouse Systems

Software engineered for results

NEWS

Enghouse Releases Second Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – June 8, 2017 – Enghouse Systems Limited (TSX:ENGH) today announced its second quarter (unaudited) financial results for the period ended April 30, 2017.

Second quarter revenue was \$79.5 million, an increase of 1.3% over revenue of \$78.5 million in the second quarter last year. On a year to date basis, revenue was \$158.4 million compared to \$152.9 million last year, an increase of 3.6%. The revenue increase primarily reflects incremental revenue contributions from acquisitions but is mitigated by the unfavorable impact of foreign exchange compared to last year which negatively impacted revenue by an estimated \$3.3 million in the quarter and \$8.0 million year to date. Hosted and maintenance services revenue was \$39.9 million in the quarter, an increase of 4.2% over the same period last year and includes the estimated negative impact of foreign exchange of \$1.65 million.

Adjusted EBITDA for the quarter was \$20.5 million (\$0.75 per diluted share) compared to \$19.3 million (\$0.71 per diluted share) in last year's second quarter and includes the net negative impact of \$2.1 million related to foreign exchange losses compared to last year. Adjusted EBITDA for the year to date was \$43.6 million (\$1.60 per diluted share) compared to \$38.4 million (\$1.41 per diluted share) last year, an increase of 13.6%. This includes the net negative impact of \$4.4 million related to foreign exchange losses on a year to date basis compared to last year, which would have resulted in a 26.7% increase compared to the prior year excluding foreign exchange losses.

Net income for the quarter was \$9.0 million (\$0.33 per diluted share) compared to the prior year's second quarter net income of \$8.5 million (\$0.31 per diluted share). Results from operating activities for the quarter were \$19.5 million compared to \$18.1 million in the prior year's second quarter, an increase of 7.5% over the prior year.

Operating expenses before special charges related to restructuring of acquired operations were \$35.0 million compared to \$35.2 million in the prior year's second quarter and include incremental operating costs related to acquired operations, net of the favourable impact of foreign exchange. Non-cash amortization charges in the quarter were \$7.5 million compared to \$7.0 million in the prior year's second quarter and include amortization charges for acquired software and customer relationships from acquired operations. On a year to date basis operating expenses before special charges were \$65.9 million compared to \$67.6 million and include incremental operating costs related to acquired operations, net of the favourable impact of foreign exchange compared to last year.

Enghouse generated cash flows from operations of \$18.4 million in the quarter and closed the quarter with \$87.6 million in cash, cash equivalents and short-term investments, compared to \$85.9 million at October 31, 2016. The cash balance was achieved after year-to-date payments comprised of \$16.2 million (net of cash acquired and holdbacks) for Tollgrade Communications Inc. (acquired April 12, 2017), \$1.7 million to partially settle loans inherited from the Presence Technology, S.L. acquisition (completed October 28, 2016), \$0.4 million for prior period acquisitions, and \$7.5 million in dividends paid.

The Board of Directors has approved an eligible quarterly dividend of \$0.16 per common share, payable on August 31, 2017 to shareholders of record at the close of business on August 17, 2017.

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 June 9, 2017 at 8:45 a.m. EST. To participate, please call +1-416-640-5946 or North American Toll-Free +1-866-233-4606. No PIN is 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		Six Months ended	
	April 30, 2017	April 30, 2016	April 30, 2017	April 30, 2016
Total Revenue	\$ 79,543	\$ 78,537	\$ 158,383	\$ 152,907
Results from operating activities	19,483	18,116	41,931	35,959
Depreciation of property, plant and equipment	595	791	1,209	1,617
Special charges	383	412	481	819
Adjusted EBITDA	\$ 20,461	\$ 19,319	\$ 43,621	\$ 38,395
Adjusted EBITDA margin	25.7%	24.6%	27.5%	25.1%
Adjusted EBITDA per diluted share	\$ 0.75	\$ 0.71	\$ 1.60	\$ 1.41

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)
(Unaudited)

	April 30 2017	October 31 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 80,904	\$ 78,436
Short-term investments	6,667	7,423
Accounts receivable, net	90,989	73,588
Prepaid expenses and other assets	10,485	9,720
	189,045	169,167
Non-current assets:		
Long-term deposits and accounts receivable, net	1,131	1,357
Property, plant and equipment	5,710	5,696
Intangible assets	92,058	86,632
Goodwill	156,265	144,578
Deferred income tax assets	9,881	11,765
	185,045	156,033
Total assets	\$ 454,090	\$ 419,195
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 59,350	\$ 55,440
Income taxes payable	1,920	5,139
Dividends payable	4,312	3,767
Provisions	856	2,111
Deferred revenue	63,936	54,300
Current portion of long-term loans	395	-
	130,769	120,757
Non-current liabilities:		
Deferred income tax liabilities	24,252	21,053
Deferred revenue	6,245	4,788
Net employee defined benefit obligation	2,357	-
Long-term loans	2,272	4,049
	35,126	30,890
Total liabilities	165,895	150,647
Shareholders' Equity		
Share capital	70,271	69,555
Contributed surplus	4,272	3,875
Retained earnings	200,326	187,649
Accumulated other comprehensive income	13,326	7,469
	288,195	268,548
Total shareholders' equity	288,195	268,548
Total liabilities and shareholders' equity	\$ 454,090	\$ 419,195

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 April 30		Six months ended April 30	
	2017	2016	2017	2016
Revenue				
Software licenses	\$ 23,781	\$ 24,444	\$ 47,989	\$ 45,214
Hosted and maintenance services	39,910	38,300	79,076	76,106
Professional services	14,852	14,482	28,820	28,917
Hardware	1,000	1,311	2,498	2,670
	79,543	78,537	158,383	152,907
Direct costs				
Software licenses	1,453	1,203	3,562	2,360
Services	22,606	22,698	44,849	44,488
Hardware	625	925	1,626	1,730
	24,684	24,826	50,037	48,578
Revenue, net of direct costs	54,859	53,711	108,346	104,329
Operating expenses				
Selling, general and administrative	23,327	22,915	42,818	43,056
Research and development	11,071	11,477	21,907	22,878
Depreciation of property, plant and equipment	595	791	1,209	1,617
Special charges	383	412	481	819
	35,376	35,595	66,415	68,370
Results from operating activities	19,483	18,116	41,931	35,959
Amortization of acquired software and customer relationships	(7,511)	(7,008)	(14,968)	(13,848)
Finance income	60	21	99	54
Finance expenses	(142)	(87)	(249)	(168)
Other (expense) income	(19)	22	151	55
Income before income taxes	11,871	11,064	26,964	22,052
Provision for income taxes	2,844	2,544	6,204	5,071
Net income for the period	\$ 9,027	\$ 8,520	\$ 20,760	\$ 16,981
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation differences from foreign operations	14,667	(18,240)	7,978	(9,457)
Transfer to net income of realized gains on available for sale investments	-	-	-	(14)
Unrealized loss on available for sale investments	(2,352)	(60)	(2,445)	(199)
Deferred income tax recovery	312	8	324	28
Other comprehensive income (loss)	12,627	(18,292)	5,857	(9,642)
Comprehensive income (loss)	\$ 21,654	\$ (9,772)	\$ 26,617	\$ 7,339
Earnings per share				
Basic	\$ 0.34	\$ 0.32	\$ 0.77	\$ 0.63
Diluted	\$ 0.33	\$ 0.31	\$ 0.76	\$ 0.62

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, 2016	26,906,962	69,555	3,875	7,469	187,649	268,548
Net income	-	-	-	-	20,760	20,760
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	7,978	-	7,978
Transfer to net income of realized gains on available for-sale investments	-	-	-	-	-	-
Unrealized loss on available-for-sale investments	-	-	-	(2,445)	-	(2,445)
Deferred income tax recovery	-	-	-	324	-	324
Comprehensive income for the period	-	-	-	5,857	20,760	26,617
Employee share options:						
Value of services recognized	-	-	544	-	-	544
Proceeds on issuing shares	45,500	716	(147)	-	-	569
Dividends	-	-	-	-	(8,083)	(8,083)
Balance – April 30, 2017	26,952,462	70,271	4,272	13,326	200,326	288,195
Balance – November 1, 2015	26,587,262	64,203	4,029	20,254	154,866	243,352
Net income	-	-	-	-	16,981	16,981
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	(9,457)	-	(9,457)
Transfer to net income of realized gains on available- for-sale investments	-	-	-	(14)	-	(14)
Unrealized loss on available-for-sale investments	-	-	-	(199)	-	(199)
Deferred income tax recovery	-	-	-	28	-	28
Comprehensive income for the period	-	-	-	(9,642)	16,981	7,339
Employee share options:						
Value of services recognized	-	-	576	-	-	576
Proceeds on issuing shares	225,700	3,098	(590)	-	-	2,508
Dividends	-	-	-	-	(6,971)	(6,971)
Balance – April 30, 2016	26,812,962	67,301	4,015	10,612	164,876	246,804

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Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2017	2016	2017	2016
Cash flows from operating activities				
Net income	\$ 9,027	\$ 8,520	\$ 20,760	\$ 16,981
Adjustments for:				
Depreciation of property, plant and equipment	595	791	1,209	1,617
Amortization of acquired software and customer relationships	7,511	7,008	14,968	13,848
Stock-based compensation expense	356	251	544	576
Provision for income taxes	2,844	2,544	6,204	5,071
Finance expenses and other expense/income	161	65	98	113
	20,494	19,179	43,783	38,206
Changes in non-cash operating working capital	956	4,122	(7,062)	(6,502)
Income taxes paid	(3,090)	(2,608)	(7,686)	(4,105)
Net cash flows from operating activities	18,360	20,693	29,035	27,599
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(354)	(1,001)	(919)	(2,319)
Purchase of other software	(731)	(485)	(1,220)	(619)
Acquisitions, net of cash acquired of \$3,637 (2016 - \$2,202)	(16,170)	(3,334)	(16,170)	(29,353)
Purchase consideration for prior period acquisitions	(51)	(2,753)	(444)	(3,443)
Net (purchase) sale of short-term investments	(722)	350	(1,330)	(695)
Net cash flows used in investing activities	(18,028)	(7,223)	(20,083)	(36,429)
Cash flows from financing activities				
Issuance of share capital	205	11	569	2,508
Repayment of loans	-	-	(1,667)	-
Payment of cash dividend	(3,771)	(3,218)	(7,538)	(6,408)
Net cash flows used in financing activities	(3,566)	(3,207)	(8,636)	(3,900)
Effect of currency translation adjustments on cash and cash equivalents	3,494	(4,449)	2,152	(1,273)
Net increase (decrease) in cash and cash equivalents during the period	260	5,814	2,468	(14,003)
Cash and cash equivalents - beginning of period	80,644	74,314	78,436	94,131
Cash and cash equivalents - end of period	\$ 80,904	\$ 80,128	\$ 80,904	\$ 80,128

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Selected Segment Reporting Information

(In thousands of Canadian dollars)
(Unaudited)

	For the three months ended April 30		For the six months ended April 30	
	2017	2016	2017	2016
Revenue:				
Asset Management Group	\$ 32,466	\$ 29,849	\$ 63,752	\$ 55,607
Interactive Management Group	47,077	48,688	94,631	97,300
Total	\$ 79,543	\$ 78,537	\$ 158,383	\$ 152,907
Asset Management Group:				
- Segment profit before special charges	\$ 8,760	\$ 7,321	\$ 17,285	\$ 13,228
- Special charges	(440)	(288)	(344)	(513)
Asset Management Group profit	\$ 8,320	\$ 7,033	\$ 16,941	\$ 12,715
Interactive Management Group:				
- Segment profit before special charges	\$ 12,760	\$ 12,906	\$ 28,528	\$ 27,629
- Special charges	57	(124)	(137)	(306)
Interactive Management Group profit	\$ 12,817	\$ 12,782	\$ 28,391	\$ 27,323
Corporate expenses	(1,654)	(1,699)	(3,401)	(4,079)
Results from operating activities	\$ 19,483	\$ 18,116	\$ 41,931	\$ 35,959
Amortization of acquired software and customer relationships	(7,511)	(7,008)	(14,968)	(13,848)
Finance income	60	21	99	54
Finance expenses	(142)	(87)	(249)	(168)
Other (expense) income	(19)	22	151	55
Income before income taxes	\$ 11,871	\$ 11,064	\$ 26,964	\$ 22,052

For further information please contact:

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