



Enghouse Releases Third Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – September 6, 2018 – Enghouse Systems Limited (TSX:ENGH) today announced its third quarter (unaudited) financial results for the period ended July 31, 2018.

Third quarter revenue increased to \$86.7 million, compared to revenue of \$82.8 million in the third quarter of the prior year. The revenue increase primarily reflects contributions from acquisitions. Income from operating activities was \$26.7 million compared to \$22.6 million in the prior year's third quarter, an increase of 18.1%. Net income for the quarter was \$16.1 million or \$0.58 per diluted share compared to \$11.2 million or \$0.41 per diluted share in the prior year's third quarter, an increase of 43.6%.

Adjusted EBITDA for the third quarter was \$27.4 million or \$1.00 per diluted share, compared to \$23.4 million or \$0.86 per diluted share last year, with the increase being attributable to contributions from acquisitions and operating cost synergies.

On a year-to-date basis, revenue was \$257.0 million compared to revenue of \$241.1 million in the prior year, an increase of 6.6%. Income from operating activities was \$75.9 million, compared to \$66.6 million in the prior year-to-date, an increase of 14.0%. Adjusted EBITDA for the year to date increased 13.1% to \$78.1 million or \$2.86 per diluted share compared to \$69.0 million or \$2.53 per diluted share last year. Net income for the year to date was \$38.2 million or \$1.40 per diluted share compared to \$31.9 million or \$1.17 per diluted share last year.

Operating expenses before special charges related to restructuring of acquired operations were \$34.1 million compared to \$35.0 million in the prior year's third quarter and reflect operating cost savings, net of incremental operating costs related to acquisitions. Non-cash amortization charges on acquired software and customer relationships from acquired operations were \$7.2 million for the quarter compared to \$7.4 million in the prior year's third quarter. On a year-to-date basis, operating expenses before special charges were \$102.3 million or 39.8% of revenue compared to \$98.9 million or 41.0% of revenue last year.

The Company generated strong cash flows from operating activities of \$29.3 million compared to \$25.1 million in the third quarter of fiscal 2017. On a year-to-date basis, cash flows from operating activities were \$74.2 million compared to \$54.1 million in the prior year, an increase of 37.1%. As a result, Enghouse closed the quarter with a record \$178.4 million in cash, cash equivalents and short-term investments, compared to \$130.3 million at October 31, 2017. The cash balance was achieved after year-to-date payments of \$13.5 million in cash dividends, \$9.7 million (net of cash acquired) for acquisitions concluded in the current fiscal year and \$6.9 million for acquisitions closed in prior periods.

Today, the Board of Directors approved the Company's quarterly dividend of \$0.18 per common share, payable on November 30, 2018 to shareholders of record at the close of business on November 16, 2018.

A conference call to discuss the results will be held on Friday, September 7, 2018 at 8:45 a.m. EST. To participate, please call +1-416-204-1042 or North American Toll-Free +1-888-504-7961. 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, foreign exchange gains and losses, 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, property plant and equipment depreciation, foreign exchange gains and losses, 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, 2018	July 31, 2017	July 31, 2018	July 31, 2017
Total Revenue	\$ 86,743	\$ 82,756	\$ 257,023	\$ 241,139
Results from operating activities	26,724	22,622	75,901	66,597
Depreciation of property, plant and equipment	540	619	1,869	1,828
Special charges	152	133	333	614
Adjusted EBITDA	\$ 27,416	\$ 23,374	\$ 78,103	\$ 69,039
Adjusted EBITDA margin	31.6%	28.2%	30.4%	28.6%
Adjusted EBITDA per diluted share	\$ 1.00	\$ 0.86	\$ 2.86	\$ 2.53

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	July 31 2018	October 31 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 169,765	\$ 120,608
Short-term investments	8,674	9,737
Accounts receivable, net	66,829	71,894
Prepaid expenses and other assets	9,502	8,528
	254,770	210,767
Non-current assets:		
Long-term deposits and accounts receivable, net	1,295	1,002
Property, plant and equipment	5,178	5,322
Intangible assets	67,042	79,714
Goodwill	157,154	150,687
Deferred income tax assets	5,830	14,345
	176,499	180,070
Total assets	\$ 491,269	\$ 461,837
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 45,550	\$ 54,656
Income taxes payable	1,355	6,018
Dividends payable	4,899	4,319
Provisions	277	1,521
Deferred revenue	69,956	59,104
Current portion of long-term loans	202	468
	122,239	126,086
Non-current liabilities:		
Non-current portion of income taxes payable	9,218	-
Deferred income tax liabilities	14,651	21,449
Deferred revenue	2,421	3,337
Net employee defined benefit obligation	2,398	2,328
Long-term loans	1,785	2,238
	20,473	27,112
Total liabilities	152,712	155,438
Shareholders' Equity		
Share capital	77,312	71,422
Contributed surplus	4,823	4,715
Retained earnings	245,866	221,775
Accumulated other comprehensive income	10,556	8,487
Total shareholders' equity	338,557	306,399
Total liabilities and shareholders' equity	\$ 491,269	\$ 461,837

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	
	2018	2017	2018	2017
Revenue				
Software licenses	\$ 26,213	\$ 24,480	\$ 76,724	\$ 72,469
Hosted and maintenance services	44,783	43,411	131,319	122,487
Professional services	14,123	12,979	42,972	41,799
Hardware	1,624	1,886	6,008	4,384
	86,743	82,756	257,023	241,139
Direct costs				
Software licenses	1,740	1,749	5,467	5,311
Services	22,990	22,211	69,335	67,060
Hardware	1,058	1,027	3,727	2,653
	25,788	24,987	78,529	75,024
Revenue, net of direct costs	60,955	57,769	178,494	166,115
Operating expenses				
Selling, general and administrative	21,884	22,870	64,432	63,644
Research and development	11,655	11,525	35,959	33,432
Depreciation of property, plant and equipment	540	619	1,869	1,828
Special charges	152	133	333	614
	34,231	35,147	102,593	99,518
Results from operating activities	26,724	22,622	75,901	66,597
Amortization of acquired software and customer relationships	(7,245)	(7,397)	(21,763)	(22,365)
Foreign exchange gains (losses)	659	(806)	(465)	(3,027)
Finance income	90	32	278	131
Finance expenses	(50)	(65)	(134)	(137)
Other income (expense)	504	(50)	1,940	101
	20,682	14,336	55,757	41,300
Income before income taxes	20,682	14,336	55,757	41,300
Provision for income taxes	4,620	3,154	17,564	9,358
Net income for the period	\$ 16,062	\$ 11,182	\$ 38,193	\$ 31,942
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation (loss) gain from foreign operations	(3,929)	(12,097)	1,331	(4,119)
Unrealized gain (loss) on available for sale investments	625	5	851	(2,440)
Deferred income tax (expense) recovery	(83)	(1)	(113)	323
	(3,387)	(12,093)	2,069	(6,236)
Other comprehensive (loss) income	(3,387)	(12,093)	2,069	(6,236)
Comprehensive income (loss)	\$ 12,675	\$ (911)	\$ 40,262	\$ 25,706
Earnings per share				
Basic	\$ 0.59	\$ 0.41	\$ 1.41	\$ 1.19
Diluted	\$ 0.58	\$ 0.41	\$ 1.40	\$ 1.17

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Changes in Equity

(in thousands of Canadian dollars)

(Unaudited)

	Share Capital -number	Share capital \$	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Total \$
Balance – November 1, 2017	26,993,212	71,422	4,715	221,775	8,487	306,399
Net income	-	-	-	38,193	-	38,193
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	-	1,331	1,331
Unrealized gain on available-for-sale investments	-	-	-	-	851	851
Deferred income tax expense	-	-	-	-	(113)	(113)
Comprehensive income for the period	-	-	-	38,193	2,069	40,262
Employee share options:						
Value of services recognized	-	-	1,171	-	-	1,171
Proceeds on issuing shares	222,500	5,890	(1,063)	-	-	4,827
Dividends	-	-	-	(14,102)	-	(14,102)
Balance – July 31, 2018	27,215,712	77,312	4,823	245,866	10,556	338,557
Balance – November 1, 2016	26,906,962	69,555	3,875	187,649	7,469	268,548
Net income	-	-	-	31,942	-	31,942
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	-	(4,119)	(4,119)
Unrealized loss on available-for-sale investments	-	-	-	-	(2,440)	(2,440)
Deferred income tax recovery	-	-	-	-	323	323
Comprehensive income for the period	-	-	-	31,942	(6,236)	25,706
Employee share options:						
Value of services recognized	-	-	809	-	-	809
Proceeds on issuing shares	53,750	1,000	(187)	-	-	813
Dividends	-	-	-	(12,397)	-	(12,397)
Balance – July 31, 2017	26,960,712	70,555	4,497	207,194	1,233	283,479

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended		Nine months ended	
	2018	July 31 2017	2018	July 31 2017
Cash flows from operating activities				
Net income	\$ 16,062	\$ 11,182	\$38,193	\$ 31,942
Adjustments for:				
Depreciation of property, plant and equipment	540	619	1,869	1,828
Amortization of acquired software and customer relationships	7,245	7,397	21,763	22,365
Stock-based compensation expense	236	265	1,171	809
Provision for income taxes	4,620	3,154	17,564	9,358
Finance expenses and other income	(454)	115	(1,806)	36
	28,249	22,732	78,754	66,338
Changes in non-cash operating working capital	6,041	4,595	6,608	(2,290)
Income taxes paid	(5,016)	(2,218)	(11,141)	(9,904)
Net cash flows from operating activities	29,274	25,109	74,221	54,144
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(607)	(106)	(1,538)	(1,025)
Purchase of other software	-	(255)	-	(1,475)
Acquisitions, net of cash acquired of \$1,235 (2017- \$3,637)	-	-	(9,675)	(16,170)
Purchase consideration for prior period acquisitions	(1,866)	(579)	(6,945)	(1,023)
Net sale (purchase) of short-term investments	1,754	(196)	2,486	(1,526)
Net cash flows used in investing activities	(719)	(1,136)	(15,672)	(21,219)
Cash flows from financing activities				
Issuance of share capital	2,699	244	4,827	813
Repayment of loans	(334)	-	(735)	(1,667)
Payment of cash dividend	(4,880)	(4,312)	(13,523)	(11,850)
Net cash flows used in financing activities	(2,515)	(4,068)	(9,431)	(12,704)
Effect of currency translation adjustments on cash and cash equivalents	(1,890)	(3,571)	39	(1,419)
Net increase in cash and cash equivalents during the period	24,150	16,334	49,157	18,802
Cash and cash equivalents - beginning of period	145,615	80,904	120,608	78,436
Cash and cash equivalents - end of period	\$ 169,765	\$ 97,238	\$169,765	\$ 97,238

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	
	2018	2017	2018	2017
Revenue:				
Asset Management Group	\$ 39,194	\$ 35,949	\$ 113,525	\$ 99,701
Interactive Management Group	47,549	46,807	143,498	141,438
Total	\$ 86,743	\$ 82,756	\$ 257,023	\$ 241,139
Asset Management Group:				
- Segment profit before special charges	\$ 14,114	\$ 10,962	\$ 38,670	\$ 28,978
- Special charges	(152)	(133)	(333)	(477)
Asset Management Group profit	\$ 13,962	\$ 10,829	\$ 38,337	\$ 28,501
Interactive Management Group:				
- Segment profit before special charges	\$ 15,724	\$ 13,926	\$ 45,921	\$ 43,767
- Special charges	-	-	-	(137)
Interactive Management Group profit	\$ 15,724	\$ 13,926	\$ 45,921	\$ 43,630
Corporate expenses	(2,962)	(2,133)	(8,357)	(5,534)
Results from operating activities	\$ 26,724	\$ 22,622	\$ 75,901	\$ 66,597
Amortization of acquired software and customer relationships	(7,245)	(7,397)	(21,763)	(22,365)
Foreign exchange gains (losses)	659	(806)	(465)	(3,027)
Finance income	90	32	278	131
Finance expenses	(50)	(65)	(134)	(137)
Other income (expense)	504	(50)	1,940	101
Income before income taxes	\$ 20,682	\$ 14,336	\$ 55,757	\$ 41,300

For further information please contact:

Sam Anidjar
Vice President, Corporate Development
 Enghouse Systems Limited
 Tel: (905) 946-3200
 Email: investor@enghouse.com