



Enghouse Systems

Software engineered for results

NEWS

Enghouse Releases First Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – March 9, 2017 – Enghouse Systems Limited (TSX:ENGH) today announced its first quarter (unaudited) financial results for the period ended January 31, 2017.

First quarter revenue increased to \$78.8 million, compared to revenue of \$74.4 million in the first quarter of the prior year. Increased revenue in the quarter reflects incremental revenue from acquisitions net of the unfavourable impact of foreign exchange estimated at \$5.2 million. Income from operating activities was \$22.4 million compared to \$17.8 million in prior year's first quarter, an increase of 25.8%. Net income for the quarter was \$11.7 million or \$0.43 per diluted share compared to \$8.5 million or \$0.31 per diluted share in the prior year's first quarter. Adjusted EBITDA for the first quarter was \$23.2 million or \$0.85 per diluted share compared to \$19.1 million or \$0.70 per diluted share last year, an increase of 21.4%.

Operating expenses before special charges related to restructuring of acquired operations were \$30.9 million compared to \$32.4 million in the prior year's first quarter and reflect incremental operating costs related to acquisitions and the positive impact of foreign exchange. Operating costs reflect continued efficiencies related to measures undertaken late in the last fiscal year to scale operating costs to revenues. Non-cash amortization charges in the quarter were \$7.5 million compared to \$6.8 million in the prior year's first quarter and include amortization charges for acquired software and customer relationships from acquired operations.

Enghouse closed the quarter with \$88.3 million in cash, cash equivalents and short-term investments, compared to \$85.9 million at October 31, 2016. The cash balance was achieved after payment of \$3.8 million in cash dividends and \$1.7 million to partially settle loans inherited with the Presence Technology, S.L. acquisition, completed on October 28, 2016.

The Board of Directors also approved a 14% increase in its eligible quarterly dividend to \$0.16 per common share, payable on May 31, 2017 to shareholders of record at the close of business on May 17, 2017. Enghouse has now increased its dividend in each of the past nine years.

A conference call to discuss the results will be held on Friday March 10, 2017 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	
	January 31, 2017	January 31, 2016
Total Revenue	\$ 78,840	\$ 74,370
Results from operating activities	22,448	17,843
Depreciation of property, plant and equipment	614	826
Special charges	98	407
Adjusted EBITDA	\$ 23,160	\$ 19,076
Adjusted EBITDA margin	29.4%	25.7%
Adjusted EBITDA per diluted share	\$ 0.85	\$ 0.70

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	January 31, 2017	October 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 80,644	\$ 78,436
Short-term investments	7,609	7,423
Accounts receivable, net	83,489	73,588
Prepaid expenses and other assets	9,436	9,720
	181,178	169,167
Non-current assets:		
Long-term deposits and accounts receivable, net	1,179	1,357
Property, plant and equipment	5,476	5,696
Intangible assets	77,564	86,632
Goodwill	141,741	144,578
Deferred income tax assets	9,691	11,765
	\$ 416,829	\$ 419,195
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 49,176	\$ 55,440
Income taxes payable	3,353	5,139
Dividends payable	3,771	3,767
Provisions	1,280	2,111
Deferred revenue	63,345	54,300
	120,925	120,757
Non-current liabilities:		
Deferred income tax liabilities	18,384	21,053
Deferred revenue	4,728	4,788
Long-term loans	2,500	4,049
	146,537	150,647
Shareholders' Equity		
Share capital	70,013	69,555
Contributed surplus	3,969	3,875
Retained earnings	195,611	187,649
Accumulated other comprehensive income	699	7,469
Total shareholders' equity	270,292	268,548
Total liabilities and shareholders' equity	\$ 416,829	\$ 419,195

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Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

(Unaudited)

	Three months ended January 31,	
	2017	2016
Revenue		
Software licenses	\$ 24,208	\$ 20,770
Hosted and maintenance services	39,166	37,806
Professional services	13,968	14,435
Hardware	1,498	1,359
	<u>78,840</u>	<u>74,370</u>
Direct costs		
Software licenses	2,109	1,157
Services	22,243	21,790
Hardware	1,001	805
	<u>25,353</u>	<u>23,752</u>
Revenue, net of direct costs	53,487	50,618
Operating expenses		
Selling, general and administrative	19,491	20,141
Research and development	10,836	11,401
Depreciation of property, plant and equipment	614	826
Special charges	98	407
	<u>31,039</u>	<u>32,775</u>
Results from operating activities	22,448	17,843
Amortization of acquired software and customer relationships	(7,457)	(6,840)
Finance income	39	33
Finance expenses	(107)	(81)
Other income	170	33
	<u>15,093</u>	<u>10,988</u>
Income before income taxes	15,093	10,988
Provision for income taxes	<u>3,360</u>	<u>2,527</u>
Net income for the period	\$ 11,733	\$ 8,461
<u>Items that are or may be reclassified subsequently to profit or loss:</u>		
Foreign currency translation (loss) gain from foreign operations	(6,689)	8,799
Transfer to net income of realized gains on available for sale investments	-	(14)
Unrealized loss on available for sale investments	(93)	(139)
Deferred income tax recovery	12	20
	<u>(6,770)</u>	<u>8,666</u>
Other comprehensive (loss) income	(6,770)	8,666
Comprehensive income	\$ 4,963	\$ 17,127
Earnings per share		
Basic	\$ 0.44	\$ 0.32
Diluted	\$ 0.43	\$ 0.31

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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	-	-	-	-	11,733	11,733
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	(6,689)	-	(6,689)
Transfer to net income of realized gains on available for- sale investments	-	-	-	-	-	-
Unrealized loss on available-for-sale investments	-	-	-	(93)	-	(93)
Deferred income tax recovery	-	-	-	12	-	12
Comprehensive income for the period	-	-	-	(6,770)	11,733	4,963
Employee share options:						
Value of services recognized	-	-	188	-	-	188
Proceeds on issuing shares	29,500	458	(94)	-	-	364
Dividends	-	-	-	-	(3,771)	(3,771)
Balance – January 31, 2017	26,936,462	70,013	3,969	699	195,611	270,292
Balance – November 1, 2015	26,587,262	64,203	4,029	20,254	154,866	243,352
Net income	-	-	-	-	8,461	8,461
Other Comprehensive Income (net of tax):						
Cumulative Translation Adjustment	-	-	-	8,799	-	8,799
Transfer to net income of realized gains on available for- sale investments	-	-	-	(14)	-	(14)
Unrealized loss on available-for-sale investments	-	-	-	(139)	-	(139)
Deferred income tax recovery	-	-	-	20	-	20
Comprehensive income for the period	-	-	-	8,666	8,461	17,127
Employee share options:						
Value of services recognized	-	-	325	-	-	325
Proceeds on issuing shares	224,200	3,083	(586)	-	-	2,497
Dividends	-	-	-	-	(3,217)	(3,217)
Balance – January 31, 2016	26,811,462	67,286	3,768	28,920	160,110	260,084

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Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended January 31,	
	2017	2016
Cash flows from operating activities		
Net income for the period	\$ 11,733	\$ 8,461
Adjustments for:		
Depreciation of property, plant and equipment	614	826
Amortization of acquired software and customer relationships	7,457	6,840
Stock-based compensation expense	188	325
Provision for income tax	3,360	2,527
Finance expenses and other income	(63)	48
	23,289	19,027
Changes in non-cash operating working capital	(8,018)	(10,623)
Income tax paid	(4,596)	(1,497)
Net cash flows from operating activities	10,675	6,907
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(565)	(1,318)
Purchase of other software	(489)	(134)
Acquisitions, net of cash acquired of nil (2016 \$1,723)	-	(26,019)
Purchase consideration for prior period acquisitions	(393)	(690)
Net purchase of short-term investments	(608)	(1,045)
Net cash flows used in investing activities	(2,055)	(29,206)
Cash flows from financing activities		
Issuance of share capital	364	2,497
Repayment of loans	(1,667)	-
Payment of cash dividend	(3,767)	(3,190)
Net cash flows used in financing activities	(5,070)	(693)
Effect of currency translation adjustments on cash and cash equivalents	(1,342)	3,175
Net increase (decrease) in cash and cash equivalents during the period	2,208	(19,817)
Cash and cash equivalents - beginning of period	78,436	94,131
Cash and cash equivalents - end of period	\$ 80,644	\$ 74,314

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Selected Segment Reporting Information

(In thousands of Canadian dollars)
(Unaudited)

	For the three months ended January 31	
	2017	2016
Revenue:		
Asset Management Group	\$ 31,286	\$ 25,758
Interactive Management Group	47,554	48,612
Total	\$ 78,840	\$ 74,370
Asset Management Group:		
- Segment profit before special charges	\$ 8,525	\$ 5,889
- Special charges	96	(225)
Asset Management Group profit	\$ 8,621	\$ 5,664
Interactive Management Group:		
- Segment profit before special charges	\$ 15,768	\$ 14,741
- Special charges	(194)	(182)
Interactive Management Group profit	\$ 15,574	\$ 14,559
Corporate expenses	(1,747)	(2,380)
Results from operating activities	\$ 22,448	\$ 17,843
Amortization of acquired software and customer relationships	(7,457)	(6,840)
Finance income	39	33
Finance expenses	(107)	(81)
Other income	170	33
Income before income taxes	\$ 15,093	\$ 10,988

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