



Enghouse Releases Fourth Quarter and Year End Results

FOR IMMEDIATE RELEASE

Markham, Ontario – December 13, 2018 – Enghouse Systems Limited (TSX:ENGH) today announced its fourth quarter (unaudited) and year-end financial results for the period ended October 31, 2018.

Revenue increased to \$342.8 million for the fiscal year, compared to revenue of \$325.4 million in the previous fiscal year, resulting in another record year for the Company. Revenue includes \$176.4 million from hosted and maintenance services, an increase of 6.4%.

Operating expenses were \$136.2 million for the fiscal year compared to \$134.4 million in the prior fiscal year as savings related to operating cost synergies offset incremental costs related to acquired operations. Results from operating activities were \$103.2 million compared to \$90.6 million last year, a 14% increase.

Net income for the fiscal year was \$57.7 million or \$2.11 per diluted share compared to \$50.8 million or \$1.87 per diluted share in the prior year. Adjusted EBITDA for the fiscal year was \$106.0 million or \$3.88 per diluted share compared to \$94.0 million or \$3.45 per diluted share last year, an increase of 12.8%.

Fourth quarter revenue was \$85.8 million, an increase of 1.9% over revenue of \$84.2 million in the fourth quarter last year. Operating expenses were \$33.6 million compared to \$34.9 million in the prior year's fourth quarter, and include incremental operating costs related to acquisitions. Non-cash amortization charges related to acquired software and customer relationships in the quarter were \$6.4 million compared to \$7.0 million in the prior year's fourth quarter. Results from operating activities for the quarter were \$27.3 million compared to \$24.0 million in the prior year's fourth quarter, an increase of 14.0%.

Net income before tax for the quarter was \$22.3 million compared to \$19.9 million in the prior year's fourth quarter. Income tax expense was \$2.7 million in the current quarter versus an income tax expense of \$1.0 million recorded in the comparative quarter last year. As a result, net income for the quarter was \$19.6 million or \$0.71 per diluted share, compared to the prior year's fourth quarter net income of \$18.9 million, or \$0.69 per diluted share. Adjusted EBITDA for the quarter was \$27.9 million or \$1.02 per diluted share compared to \$25.0 million or \$0.92 per diluted share in last year's fourth quarter.

Enghouse generated cash flows from operations of \$24.0 million in the quarter compared to \$29.1 million in the prior year's fourth quarter. Cash flows generated from operations for the fiscal year were \$98.3 million compared to \$83.2 million in the prior fiscal year, an increase of 18.0%. Enghouse closed the year with a record \$193.9 million in cash, cash equivalents and short-term investments, compared to \$130.3 million at October 31, 2017. The cash balance was achieved after payment of \$16.8 million for acquisitions (net of cash acquired) and \$18.4 million for dividends.

Shortly after year-end, Enghouse acquired Telexis Solutions B.V. and Telexis B.V. of the Netherlands and Capana Sweden AB. The acquisitions will expand the suite of solutions and geographic reach of the Company's Asset Management Group in the coming year.

Today, the Board of Directors approved an eligible quarterly dividend of \$0.18 per common share, payable on February 28, 2019 to shareholders of record at the close of business on February 14, 2019.

A conference call to discuss the results will be held on Friday, December 14, 2018 at 8:45 a.m. EST. To participate, please call +1-647-792-1278 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		Year ended	
	October 31, 2018	October 31, 2017	October 31, 2018	October 31, 2017
Total Revenue	\$ 85,822	\$ 84,229	\$ 342,845	\$ 325,368
Results from operating activities	27,344	23,981	103,245	90,578
Depreciation of property, plant and equipment	542	609	2,411	2,437
Special charges	57	370	390	984
Adjusted EBITDA	\$ 27,943	\$ 24,960	\$ 106,046	\$ 93,999
Adjusted EBITDA margin	32.6%	29.6%	30.9%	28.9%
Adjusted EBITDA per diluted share	\$ 1.02	\$ 0.92	\$ 3.88	\$ 3.45

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	October 31 2018	October 31 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 187,551	\$ 120,608
Short-term investments	6,386	9,737
Accounts receivable, net	62,085	71,894
Prepaid expenses and other assets	8,951	8,528
	264,973	210,767
Non-current assets:		
Long-term deposits and accounts receivable, net	-	1,002
Property, plant and equipment	5,279	5,322
Intangible assets	59,895	79,714
Goodwill	155,419	150,687
Deferred income tax assets	9,634	14,345
	\$ 495,200	\$ 461,837
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 44,271	\$ 54,656
Income taxes payable	4,904	6,018
Dividends payable	4,912	4,319
Provisions	268	1,521
Deferred revenue	64,020	59,104
Current portion of long-term loans	122	468
	118,497	126,086
Non-current liabilities:		
Non-current portion of income taxes payable	7,466	-
Deferred income tax liabilities	13,115	21,449
Deferred revenue	2,169	3,337
Net employee defined benefit obligation	2,354	2,328
Long-term loans	1,475	2,238
	145,076	155,438
Shareholders' Equity		
Share capital	78,997	71,422
Contributed surplus	4,866	4,715
Retained earnings	260,506	221,775
Accumulated other comprehensive income	5,755	8,487
Total shareholders' equity	350,124	306,399
Total liabilities and shareholders' equity	\$ 495,200	\$ 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 October 31		Year ended October 31	
	2018 (Unaudited)	2017 (Unaudited)	2018	2017
Revenue				
Software licenses	\$ 23,665	\$ 24,746	\$ 100,389	\$ 97,215
Hosted and maintenance services	45,054	43,315	176,373	165,802
Professional services	15,294	14,193	58,266	55,992
Hardware	1,809	1,975	7,817	6,359
	85,822	84,229	342,845	325,368
Direct costs				
Software licenses	1,396	1,597	6,863	6,908
Services	22,431	22,458	91,766	89,518
Hardware	1,066	1,268	4,793	3,921
	24,893	25,323	103,422	100,347
Revenue, net of direct costs	60,929	58,906	239,423	225,021
Operating expenses				
Selling, general and administrative	21,777	22,813	86,209	86,457
Research and development	11,209	11,133	47,168	44,565
Depreciation of property, plant and equipment	542	609	2,411	2,437
Special charges	57	370	390	984
	33,585	34,925	136,178	134,443
Results from operating activities	27,344	23,981	103,245	90,578
Amortization of acquired software and customer relationships	(6,386)	(7,040)	(28,149)	(29,405)
Foreign exchange gains (losses)	1,064	(178)	599	(3,205)
Finance income	198	121	476	252
Finance expenses	(79)	(48)	(213)	(185)
Other income	136	3,085	2,076	3,186
	22,277	19,921	78,034	61,221
Income before income taxes	22,277	19,921	78,034	61,221
Provision for income taxes	2,725	1,021	20,289	10,379
Net income for the period	\$ 19,552	\$ 18,900	\$ 57,745	\$ 50,842
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation (loss) gain from foreign operations	(3,350)	5,464	(2,019)	1,345
Unrealized (loss) gain on available-for-sale investments	(1,673)	2,064	(822)	(376)
Deferred income tax recovery (expense)	222	(274)	109	49
	(4,801)	7,254	(2,732)	1,018
Comprehensive income	\$ 14,751	\$ 26,154	\$ 55,013	\$ 51,860
Earnings per share				
Basic	\$ 0.71	\$ 0.70	\$ 2.13	\$ 1.89
Diluted	\$ 0.71	\$ 0.69	\$ 2.11	\$ 1.87

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)
(Unaudited)

	Share capital #	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total \$
Balance – November 1, 2017	26,993,212	71,422	4,715	8,487	221,775	306,399
Net income for the year	-	-	-	-	57,745	57,745
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	(2,019)	-	(2,019)
Unrealized losses on available-for-sale investments	-	-	-	(822)	-	(822)
Deferred income tax recovery	-	-	-	109	-	109
Comprehensive loss for the year	-	-	-	(2,732)	57,745	55,013
Employee share options:						
Value of services recognized	-	-	1,545	-	-	1,545
Proceeds on issuing shares	296,800	7,575	(1,394)	-	-	6,181
Dividends declared	-	-	-	-	(19,014)	(19,014)
Balance – October 31, 2018	27,290,012	78,997	4,866	5,755	260,506	350,124
Balance – November 1, 2016	26,906,962	69,555	3,875	7,469	187,649	268,548
Net income for the year	-	-	-	-	50,842	50,842
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	1,345	-	1,345
Unrealized losses on available-for-sale investments	-	-	-	(376)	-	(376)
Deferred income tax recovery	-	-	-	49	-	49
Comprehensive income for the year	-	-	-	1,018	50,842	51,860
Employee share options:						
Value of services recognized	-	-	1,148	-	-	1,148
Proceeds on issuing shares	86,250	1,867	(308)	-	-	1,559
Dividends declared	-	-	-	-	(16,716)	(16,716)
Balance – October 31, 2017	26,993,212	71,422	4,715	8,487	221,775	306,399

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended October 31		Year ended October 31	
	2018 (Unaudited)	2017 (Unaudited)	2018	2017
Cash flows from operating activities				
Net income	\$ 19,552	\$ 18,900	\$ 57,745	\$ 50,842
Adjustments for:				
Depreciation of property, plant and equipment	542	609	2,411	2,437
Amortization of acquired software and customer relationships	6,386	7,040	28,149	29,405
Stock-based compensation expense	374	339	1,545	1,148
Provision for income taxes	2,725	1,021	20,289	10,379
Finance expenses	79	48	213	185
Other income	(136)	(3,085)	(2,076)	(3,186)
	29,522	24,872	108,276	91,210
Changes in non-cash operating working capital	(295)	7,064	6,313	4,774
Income taxes paid	(5,193)	(2,838)	(16,334)	(12,742)
Net cash flows from operating activities	24,034	29,098	98,255	83,242
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(706)	(664)	(2,244)	(1,689)
Purchase of other software	-	-	-	(1,475)
Acquisitions, net of cash acquired of \$1,235 (2017- \$3,876)	-	(2,520)	(9,675)	(18,690)
Purchase consideration for prior-period acquisitions	(192)	(1,596)	(7,137)	(2,619)
Proceeds of sale of equity investments	-	2,188	-	2,188
Net sale (purchase) of short-term investments	711	(1,344)	3,197	(2,870)
Net cash flows used in investing activities	(187)	(3,936)	(15,859)	(25,155)
Cash flows from financing activities				
Issuance of share capital	1,354	746	6,181	1,559
Repayment of loans	(437)	-	(1,172)	(1,667)
Payment of cash dividend	(4,899)	(4,314)	(18,422)	(16,164)
Net cash flows used in financing activities	(3,982)	(3,568)	(13,413)	(16,272)
Effect of currency translation adjustments on cash and cash equivalents	(2,079)	1,776	(2,040)	357
Net increase in cash and cash equivalents during the period	17,786	23,370	66,943	42,172
Cash and cash equivalents - beginning of period	169,765	97,238	120,608	78,436
Cash and cash equivalents - end of period	\$ 187,551	\$ 120,608	\$ 187,551	\$ 120,608

Enghouse Systems Limited

Selected Segment Reporting Information

(In thousands of Canadian dollars)

(Unaudited)

	For the three months ended October 31		For the year ended October 31	
	2018 (Unaudited)	2017 (Unaudited)	2018	2017
Revenue:				
Asset Management Group	\$ 40,034	\$ 34,999	\$ 153,559	\$ 134,700
Interactive Management Group	45,788	49,230	189,286	190,668
Total	\$ 85,822	\$ 84,229	\$ 342,845	\$ 325,368
Asset Management Group:				
- Segment profit before special charges	\$ 15,831	\$ 10,860	\$ 54,501	\$ 39,838
- Special charges	(57)	(336)	(390)	(813)
Asset Management Group profit	\$ 15,774	\$ 10,524	\$ 54,111	\$ 39,025
Interactive Management Group:				
- Segment profit before special charges	\$ 14,861	\$ 16,671	\$ 60,782	\$ 60,438
- Special charges	-	(34)	-	(171)
Interactive Management Group profit	\$ 14,861	\$ 16,637	\$ 60,782	\$ 60,267
Corporate expenses	(3,291)	(3,180)	(11,648)	(8,714)
Results from operating activities	\$ 27,344	\$ 23,981	\$ 103,245	\$ 90,578
Amortization of acquired software and customer relationships	(6,386)	(7,040)	(28,149)	(29,405)
Foreign exchange gains (losses)	1,064	(178)	599	(3,205)
Finance income	198	121	476	252
Finance expenses	(79)	(48)	(213)	(185)
Other income	136	3,085	2,076	3,186
Income before income taxes	\$ 22,277	\$ 19,921	\$ 78,034	\$ 61,221

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