

**SECOND QUARTER ENDED  
APRIL 30, 2020**



**Enghouse Systems**

Software engineered for results

June 4, 2020

To our Shareholders,

To date, Enghouse has been fortunate as the COVID-19 pandemic has created increased demand for its remote-work and visual computing solutions. Accordingly, revenue for the second quarter was \$140.9 million, a 58.0% increase compared to revenue of \$89.2 million in the prior year.

Net income for the quarter was \$27.1 million or \$0.49 per diluted share, compared to \$16.5 million or \$0.30 per diluted share last year. Adjusted EBITDA was \$49.3 million or \$0.89 per diluted share, compared to \$27.2 million or \$0.49 per diluted share in the second quarter of 2019, an increase of 81.3%. These increases are attributable to revenue growth combined with operating cost synergies achieved as our business continues to scale.

Year-to-date revenue was \$251.6 million, compared to revenue of \$175.2 million in the prior year, an increase of 43.5%. Meanwhile, Adjusted EBITDA grew to \$84.6 million or \$1.53 per diluted share compared to \$53.5 million or \$0.97 per diluted share last year.

Year-to-date cash flows from operating activities, excluding changes in working capital, were \$85.2 million compared to \$56.1 million in the prior year, an increase of 51.8%. As a result, Enghouse closed the quarter with \$168.1 million in cash, cash equivalents and short-term investments, compared to \$150.3 million at October 31, 2019. The increase in cash was achieved despite spending \$48.2 million for acquisitions and \$12.1 million for dividends.

While COVID-19 continues to have a significant impact on the economy, we have reacted quickly, with our team efficiently and successfully transitioning to a work from home environment. We are pleased that our team has remained safe, productive and is continuing to deliver high quality results. Critical to this success has been our previous investment in upgrading our financial systems combined with the internal deployment of Enghouse products that support remote work, including working from home.

Financially, sales of solutions that support remote work, including Vidyo, have increased to meet incremental demand due to COVID-19. Although the impact to revenues so far has been positive, sales of hardware, professional services and certain business units have been tempered as a result of procurement delays, deferral of on-site installations and customers postponing upgrades and implementations. Our MD&A and financial statements provide further details on the impact and risks associated with COVID-19 and their applicability to Enghouse.

Today, the Board of Directors approved the Company's eligible quarterly dividend of \$0.135 per common share, payable on August 31, 2020 to shareholders of record at the close of business on August 17, 2020.



Stephen J. Sadler  
Chairman of the Board and Chief Executive Officer

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*The following Management Discussion and Analysis ("MD&A") has been prepared as of June 4, 2020 and all information contained herein is current as of that date unless otherwise indicated. For a complete understanding of our business environment, risks, trends and uncertainties and the effect of critical accounting policies and estimates on our results, this MD&A should be read in conjunction with Enghouse Systems Limited's ("Enghouse Systems") and its subsidiaries (together "Enghouse", "we" "us" "our" or "the Company") fiscal 2019 MD&A and audited consolidated financial statements and the notes thereto. This MD&A covers the unaudited condensed consolidated interim results of operations, financial condition and cash flows of Enghouse Systems and its subsidiaries, all wholly owned, for the second quarter ended April 30, 2020.*

*Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, stated in thousands, except per share amounts and as otherwise indicated.*

*This document is intended to assist the reader in better understanding operations and key financial results as of the date of this report. The unaudited Condensed Consolidated Interim Financial Statements and the MD&A have been reviewed by the Company's Audit Committee and approved by its Board of Directors.*

**Non-IFRS measures and forward-looking statements**

*The Company uses non-IFRS measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS 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 based on results from operating activities adjusted for depreciation of property, equipment and right-of-use assets, and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of acquired 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, foreign exchange gains and losses, other income and restructuring costs primarily related to acquisitions.*

*Certain statements made or incorporated by reference in this MD&A are forward-looking and relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. By its nature, such forward-looking information is subject to various risks and uncertainties, including those discussed in this MD&A or in documents incorporated by reference in this MD&A, such as Enghouse Systems' Annual Information Form, which could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed herein. Readers are cautioned not to place undue reliance on this forward-looking information, and the Company shall have no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which are filed electronically on SEDAR at [www.sedar.com](http://www.sedar.com).*

*For additional information with respect to certain of these risks or factors, reference should be made to section "Risks and Uncertainties" of the MD&A and notes to the unaudited consolidated financial statements for the year ended October 31, 2019, as well as to the Company's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, copies of which are filed electronically on SEDAR at [www.sedar.com](http://www.sedar.com).*

*In addition to the risks and uncertainties discussed therein, the recent outbreak of the COVID-19 pandemic presents a significant source of economic uncertainty and risk to the Company. This is described in more detail in the "Risks and uncertainties" section of this MD&A.*

**Corporate overview**

Enghouse is a Canadian publicly traded company (TSX:ENGH) that provides enterprise software solutions focusing on remote work, visual computing and communications for next generation software defined networks. The Company's two-pronged growth strategy focuses on internal growth and acquisitions, which, to date, have been funded through operating cash flows. The Company is well capitalized, has nominal long-term debt and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

IMG specializes in customer interaction software and services designed to facilitate remote work, enhance customer service, increase efficiency and manage customer communications across enterprise networks. Core technologies include contact center, attendant console, interactive voice response, dialers, video collaboration, agent performance optimization and analytics that support any telephony environment and may be deployed on-premise or in the cloud. IMG's customers are varied and include insurance companies, telecoms and banks as well as technology, health care and hospitality companies.

AMG provides a portfolio of software and services solutions primarily to the cable operators and next generation software defined network telecommunication providers. Its products include Network infrastructure, Operations Support Systems ("OSS"), Business Support Systems ("BSS"), and revenue generation solutions such as Video and Cloud TV solutions. AMG also provides fleet routing, dispatch, scheduling, transit e-ticketing and automated fare collection, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

Enghouse continues to focus on building a consistently profitable enterprise software company with a diversified product suite and global market presence. The Company remains focused on having a strong balance sheet with large cash reserves and nominal long-term debt. Deploying capital on acquisitions and replacing it through strong operating cash flows is pivotal to our acquisition strategy and allows Enghouse to pursue further acquisitions without the need to obtain financing.

The Company emphasizes the importance of recurring revenue streams to increase shareholder value and the predictability of its operating results. While Enghouse continues to develop and enhance its existing product portfolio to grow organically, it is also important to augment and expedite this strategy with new and complementary technology, products and services obtained through acquisition. This dual-faceted approach will enable us to provide a broader spectrum of products and services to our customer base more quickly than through organic means alone.

**Second quarter overview**

The COVID-19 pandemic continues to have a significant impact on our customers, employees, suppliers and other stakeholders. While the duration and effects remain unknown, we continue to react quickly to changing circumstances, with our team working from home. Our team has remained safe and continues to deliver high quality work and results. Critical to this success has been our previous investment in upgrading our financial systems combined with the internal deployment of Enghouse products such as Vidyo that support remote work, including working from home.

COVID-19 has had a number of financial impacts to Enghouse. Most notably:

- Increased sales of Vidyo and other solutions that support remote work;
- IMG sales remained relatively steady with continued renewals, with a significant Dialogic license sale in its first full quarter of operations;
- AMG sales have been tempered as a result of delays in hardware procurement and systems deployment;
- While customers continue to renew existing contracts and sign new orders, some have deferred planned upgrades, expansions and roll-outs, especially those involving an on-site professional services element;
- Collections have remained strong with record cash collections during the quarter;
- Cost savings were realized as a result of decreased travel and other traditional marketing expenses either avoided or deferred as a result of COVID-19. This has been offset by increased demand generation initiatives.
- No non-acquisition restructuring plans were implemented this quarter. However, in light of the continued efficiency and productivity achieved through working from home we will examine potential

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cost saving initiatives. These initiatives will primarily focus on facilities costs as well as both attracting and retaining top-tier employees who value remote working options.

In the quarter, the Company experienced growth from both internal sources and from the acquisitions of Vidyo and Espial (both acquired in Q3/2019) and Dialogic (acquired in Q1/2020). Internal growth includes the expansion of the acquired businesses, particularly Vidyo and Dialogic, since acquisition.

### Quarterly results of operations

The following table sets forth certain unaudited information for each of the eight most recent quarters. Our operating results may fluctuate quarterly, mainly as a result of the timing of certain large software license and hardware sales. Our quarterly results may also be influenced by COVID-19, foreign exchange, timing of new acquisitions, and changes in staffing and infrastructure. See “Risks and Uncertainties” for more details.

The following table provides details regarding operating results for the past eight quarters:

For the three months ended	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>	<b>140,900</b>	<b>110,656</b>	<b>109,331</b>	<b>101,274</b>	<b>89,203</b>	<b>86,045</b>	<b>85,822</b>	<b>86,743</b>
Direct costs	39,699	32,477	32,382	31,749	27,460	27,212	24,893	25,788
<b>Revenue, net of direct costs</b>	<b>101,201</b>	<b>78,179</b>	<b>76,949</b>	<b>69,525</b>	<b>61,743</b>	<b>58,833</b>	<b>60,929</b>	<b>60,955</b>
<i>As a % of revenue</i>	<i>71.8%</i>	<i>70.7%</i>	<i>70.4%</i>	<i>68.7%</i>	<i>69.2%</i>	<i>68.4%</i>	<i>71.0%</i>	<i>70.3%</i>
Operating expenses	55,046	45,760	43,731	42,038	35,066	33,038	33,528	34,079
Special charges	(121)	1,576	677	470	56	-	57	152
<b>Results from operating activities</b>	<b>46,276</b>	<b>30,843</b>	<b>32,541</b>	<b>27,017</b>	<b>26,621</b>	<b>25,795</b>	<b>27,344</b>	<b>26,724</b>
<i>As a % of revenue</i>	<i>32.8%</i>	<i>27.9%</i>	<i>29.8%</i>	<i>26.7%</i>	<i>29.8%</i>	<i>30.0%</i>	<i>31.9%</i>	<i>30.8%</i>
Amortization	(11,600)	(10,080)	(9,244)	(8,453)	(6,884)	(7,116)	(6,386)	(7,245)
Other	233	4	1,719	263	1,604	385	1,319	1,203
<b>Income before income taxes</b>	<b>34,909</b>	<b>20,767</b>	<b>25,016</b>	<b>18,827</b>	<b>21,341</b>	<b>19,064</b>	<b>22,277</b>	<b>20,682</b>
Provision for income taxes	7,820	4,631	329	4,166	4,804	4,100	2,725	4,620
<b>Net Income for the period</b>	<b>27,089</b>	<b>16,136</b>	<b>24,687</b>	<b>14,661</b>	<b>16,537</b>	<b>14,964</b>	<b>19,552</b>	<b>16,062</b>
Basic earnings per share	0.49	0.29	0.45	0.27	0.30	0.27	0.36	0.30
Diluted earnings per share	0.49	0.29	0.45	0.27	0.30	0.27	0.36	0.29
Operating cash flows	57,533	19,933	21,729	13,862	21,630	24,154	29,522	29,274
Operating cash flows excluding changes in working capital	50,033	35,183	33,854	28,531	29,010	27,121	24,034	28,249
Cash and short-term investments	168,089	116,329	150,269	141,334	205,519	190,537	193,937	178,439
Total assets	743,081	691,556	590,600	575,084	540,351	526,442	495,200	491,269
<b>Adjusted EBITDA:</b>								
Results from operating activities	46,276	30,843	32,541	27,017	26,621	25,795	27,344	26,724
Depreciation	758	887	804	570	499	530	542	540
Depreciation of right-of-use asset	2,368	2,023	-	-	-	-	-	-
Special charges	(121)	1,576	677	470	56	-	57	152
<b>Adjusted EBITDA</b>	<b>49,281</b>	<b>35,329</b>	<b>34,022</b>	<b>28,057</b>	<b>27,176</b>	<b>26,325</b>	<b>27,943</b>	<b>27,416</b>
Adjusted EBITDA margin	35.0%	31.9%	31.1%	27.7%	30.5%	30.6%	32.6%	31.6%
<b>Adjusted EBITDA per diluted share</b>	<b>0.89</b>	<b>0.64</b>	<b>0.62</b>	<b>0.51</b>	<b>0.49</b>	<b>0.48</b>	<b>0.51</b>	<b>0.50</b>

**Results of operations**

The following table provides details regarding operating results for the three and six months ended April 30, 2020.

For the period ended April 30	Three months				Six months			
	2020 \$	2019 \$	Variance \$ %		2020 \$	2019 \$	Variance \$ %	
<b>Revenue</b>	<b>140,900</b>	<b>89,203</b>	<b>51,697</b>	<b>58.0</b>	<b>251,556</b>	<b>175,248</b>	<b>76,308</b>	<b>43.5</b>
Direct costs	39,699	27,460	12,239	44.6	72,176	54,672	17,504	32.0
<b>Revenue, net of direct costs</b>	<b>101,201</b>	<b>61,743</b>	<b>39,458</b>	<b>63.9</b>	<b>179,380</b>	<b>120,576</b>	<b>58,804</b>	<b>48.8</b>
<i>As a % of revenue</i>	<i>71.8%</i>	<i>69.2%</i>			<i>71.3%</i>	<i>68.8%</i>		
Operating expenses	55,046	35,066	19,980	57.0	100,806	68,104	32,702	48.0
Special charges	(121)	56	(177)	(316.1)	1,455	56	1,399	n/a
<b>Results from operating activities</b>	<b>46,276</b>	<b>26,621</b>	<b>19,655</b>	<b>73.8</b>	<b>77,119</b>	<b>52,416</b>	<b>24,703</b>	<b>47.1</b>
<i>As a % of revenue</i>	<i>32.8%</i>	<i>29.8%</i>			<i>30.7%</i>	<i>29.9%</i>		
Amortization of acquired software and customer relationships	(11,600)	(6,884)	(4,716)	(68.5)	(21,680)	(14,000)	(7,680)	(54.9)
Foreign exchange (losses) gains	(393)	674	(1,067)	(158.3)	(46)	564	(610)	(108.2)
Interest expense – lease obligations	(300)	-	(300)	-	(562)	-	(562)	-
Finance income	131	507	(376)	(74.2)	482	1,005	(523)	(52.0)
Finance expenses	(16)	(24)	8	33.3	(34)	(55)	21	38.2
Other income	811	447	364	81.4	397	475	(78)	(16.4)
<b>Income before income taxes</b>	<b>34,909</b>	<b>21,341</b>	<b>13,568</b>	<b>63.6</b>	<b>55,676</b>	<b>40,405</b>	<b>15,271</b>	<b>37.8</b>
Provision for income taxes	7,820	4,804	3,016	62.8	12,451	8,904	3,547	39.8
<b>Net Income for the period</b>	<b>27,089</b>	<b>16,537</b>	<b>10,552</b>	<b>63.8</b>	<b>43,225</b>	<b>31,501</b>	<b>11,724</b>	<b>37.2</b>
Basic earnings per share	0.49	0.30	0.19	63.3	0.79	0.58	0.21	36.2
Diluted earnings per share	0.49	0.30	0.19	63.3	0.78	0.57	0.21	36.8
Operating cash flows	57,533	21,630	35,903	166.0	77,466	45,784	31,682	69.2
Operating cash flows excluding changes in working capital	50,033	29,010	21,023	72.5	85,216	56,131	29,085	51.8

**Revenue**

The following table provides details regarding revenue for the three and six months ended April 30, 2020.

For the period ended April 30	Three months			Six months		
	2020 \$	2019 \$	Variance \$	2020 \$	2019 \$	Variance \$
Software licenses	48,791	21,519	27,272	77,191	40,247	36,944
Hosted and maintenance services	72,024	49,470	22,554	136,377	100,283	36,094
Professional services	16,087	15,145	942	31,270	28,646	2,624
Hardware	3,998	3,069	929	6,718	6,072	646
<b>Revenue</b>	<b>140,900</b>	<b>89,203</b>	<b>51,697</b>	<b>251,556</b>	<b>175,248</b>	<b>76,308</b>
Interactive Management Group	89,925	44,530	45,395	152,798	87,994	64,804
Asset Management Group	50,975	44,673	6,302	98,758	87,254	11,504
<b>Revenue</b>	<b>140,900</b>	<b>89,203</b>	<b>51,697</b>	<b>251,556</b>	<b>175,248</b>	<b>76,308</b>

Revenue for the three months ended April 30, 2020 was \$140.9 million, an increase of \$51.7 million or 58.0% from the same period in the prior year. The variance is explained by:

- An increase of \$27.3 million in software revenue primarily from increased sales of Vidyo licenses and network infrastructure software including a significant perpetual license order recognized by Dialogic during its first full quarter of operations. In addition, license revenue also increased as a result of new product offerings added since the comparative period.
- An increase of \$22.6 million in hosted and maintenance revenue, primarily attributable to Vidyo and further bolstered by incremental maintenance on new license sales, net of churn on existing customers, along with the addition of new product offerings. Hosted and maintenance services represent an important strategic source of revenue given its predictable and recurring nature and represented 51.1% of total revenues for the period (2019–55.5%). The percentage decline in contributions from hosted and maintenance revenue is attributable to increased proportionate license sales in the quarter.

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- Increases in professional services and hardware revenue despite challenges experienced as a result of COVID-19 social distancing restrictions regarding on-site delivery of services and delays in sourcing hardware. Hardware is sold to customers to complement our software offerings and is generally not a core product offering.
- An offsetting decrease of \$0.2 million due to foreign exchange. This is calculated by applying the change in the average exchange rates between the second quarters of 2019 and 2020 to our foreign currency denominated revenue in the second quarter of 2020.

Revenue for the six months ended April 30, 2020 was \$251.6 million, an increase of \$76.3 million or 43.5% from the same period in the prior year. The variance is attributable to the same reasons discussed above.

### *Interactive Management Group*

IMG revenue for the three months ended April 30, 2020 was \$89.9 million, an increase of \$45.4 million or 101.9% from same period in the prior year. The variance is explained by:

- An increase of \$26.8 million in hosted and maintenance revenue which reflects maintenance on new license sales and incremental hosted revenue.
- An increase of \$17.3 million in software license revenue attributable to increased Vidyo license sales and a full quarter of Dialogic revenue that includes a significant perpetual license order.
- An increase of \$1.3 million in hardware revenue primarily attributable to Vidyo.

Revenue for the six months ended April 30, 2020 was \$152.8 million, an increase of \$64.8 million or 73.6% from same period in the prior year. The increase is primarily the result of higher revenue from Vidyo product offerings and incremental contributions from Dialogic.

### *Asset Management Group*

AMG revenue for the three months ended April 30, 2020 was \$51.0 million, an increase of \$6.3 million or 14.1% from same period in the prior year. The variance is explained by:

- An increase of \$6.4 million in hosted and maintenance revenue primarily attributable to new product offerings from Dialogic and Espial, incremental revenue in the Networks Americas and Nordics regions as well as incremental maintenance on new sales across a number of product lines.
- An increase of \$0.5 million in license revenue also attributable to new product offerings at Dialogic and Espial as well as incremental revenue from the sale of workflow and CCSP solutions.
- These increases were partially offset by lower hardware revenue largely attributable to the timing of deliveries for large contracts in the transportation business. Although variability is to be expected as a result of timing, hardware is an ancillary product offered at lower margins.

Revenue for the six months ended April 30, 2020 was \$98.8 million, an increase of \$11.5 million or 13.2% from the same period in the prior year. The increase is primarily the result of the factors discussed above in addition to strong license revenue in Networks and Espial operations in the first quarter.

**Direct costs**

The following table provides details regarding direct costs for the three and six months ended April 30, 2020.

For the period ended April 30	Three months			Six months		
	2020	2019	Variance	2020	2019	Variance
	\$	\$	\$	\$	\$	\$
Software licenses	3,937	1,370	2,567	6,387	2,731	3,656
Services	33,080	24,181	8,899	61,426	47,726	13,700
Hardware	2,682	1,909	773	4,363	4,215	148
<b>Direct Costs</b>	<b>39,699</b>	<b>27,460</b>	<b>12,239</b>	<b>72,176</b>	<b>54,672</b>	<b>17,504</b>
<i>As a % of revenue</i>						
Software licenses	8.1%	6.4%		8.3%	6.8%	
Services	37.5%	37.4%		36.6%	37.0%	
Hardware	67.1%	62.2%		64.9%	69.4%	
Total	28.2%	30.8%		28.7%	31.2%	
Interactive Management Group	20,874	11,764	9,110	36,088	23,039	13,049
Asset Management Group	18,825	15,696	3,129	36,088	31,633	4,455
<b>Direct Costs</b>	<b>39,699</b>	<b>27,460</b>	<b>12,239</b>	<b>72,176</b>	<b>54,672</b>	<b>17,504</b>
<i>As a % of revenue</i>						
Interactive Management Group	23.2%	26.4%		23.6%	26.2%	
Asset Management Group	36.9%	35.1%		36.5%	36.3%	

Direct costs for the three months ended April 30, 2020 were \$39.7 million or 28.2% of revenue compared to \$27.5 million or 30.8% of revenue in the same period in the prior year. Overall margins improved as a result of favourable product mix changes reflecting a higher relative volume of license sales, driven by Vidyo and a full quarter of Dialogic revenue including a significant perpetual license order. Hardware is sold at lower margins than traditionally achieved on other revenue streams.

Direct costs for the six months ended April 30, 2020 were \$72.2 million or 28.7% of revenue compared to \$54.7 million or 31.2% of revenue in the same period in the prior year for the same reasons discussed for the quarter.

*Interactive Management Group*

IMG direct costs for the three months ended April 30, 2020 were \$20.9 million or 23.2% of segment revenue compared to \$11.8 million or 26.4% of revenue in the same period in the prior year. The higher margins are primarily a result of product mix shifts towards higher margin license sales combined with higher margins on both hardware and services.

IMG direct costs for the six months ended April 30, 2020 were \$36.1 million or 23.6% of segment revenue compared to \$23.0 million or 26.2% of revenue in the same period in the prior year as a result of the factors discussed for the quarter.

*Asset Management Group*

AMG direct costs were \$18.8 million or 36.9% of segment revenue for the three months ended April 30, 2020 compared to \$15.7 million or 35.1% of revenue in the same period in the prior year. Overall, the margins for AMG remained relatively stable during the quarter.

AMG direct costs for the six months ended April 30, 2020 were \$36.1 million or 36.5% of segment revenue for the same period compared to \$31.6 million or 36.3% of revenue in the same period in the prior year. Margins for the six month period increased as a result of a shift towards higher margin license revenue combined with lower hardware volumes in the first quarter of 2020.

**Revenue, net of direct costs**

Revenue, net of direct costs for the three months ended April 30, 2020 increased by \$39.5 million to \$101.2 million or 71.8% of revenue compared to \$61.7 million or 69.2% in the same period in the prior year. The increase in revenue, net of direct costs is attributable to a larger proportion of revenue derived from incremental license and hosted and maintenance services revenue.

For the same reason, revenue, net of direct costs for the six months ended April 30, 2020 increased by \$58.8 million to \$179.4 million or 71.3% of revenue compared to \$120.6 million or 68.8% in the same period in the prior year.



**Operating expenses**

The following table provides details regarding operating expenses for the three and six months ended April 30, 2020.

For the period ended April 30	Three months			Six months		
	2020	2019	Variance	2020	2019	Variance
	\$	\$	\$	\$	\$	\$
Selling, general and administrative	29,612	21,440	8,172	54,294	41,896	12,398
Research and development	22,308	13,127	9,181	40,476	25,179	15,297
Depreciation	758	499	259	1,645	1,029	616
Depreciation of right-of-use asset	2,368	-	2,368	4,391	-	4,391
Special charges	(121)	56	(177)	1,455	56	1,399
<b>Operating expenses</b>	<b>54,925</b>	<b>35,122</b>	<b>19,803</b>	<b>102,261</b>	<b>68,160</b>	<b>34,101</b>
<i>As a % of revenue</i>						
<i>Selling, general and administrative</i>	21.0%	24.0%		21.6%	23.9%	
<i>Research and development</i>	15.8%	14.7%		16.1%	14.4%	
<i>Depreciation</i>	0.5%	0.6%		0.7%	0.6%	
<i>Depreciation of right-of-use asset</i>	1.7%	0.0%		1.7%	0.0%	
<i>Special charges</i>	(0.1)%	0.1%		0.6%	0.0%	
<i>Operating expenses</i>	39.0%	39.4%		40.7%	38.9%	

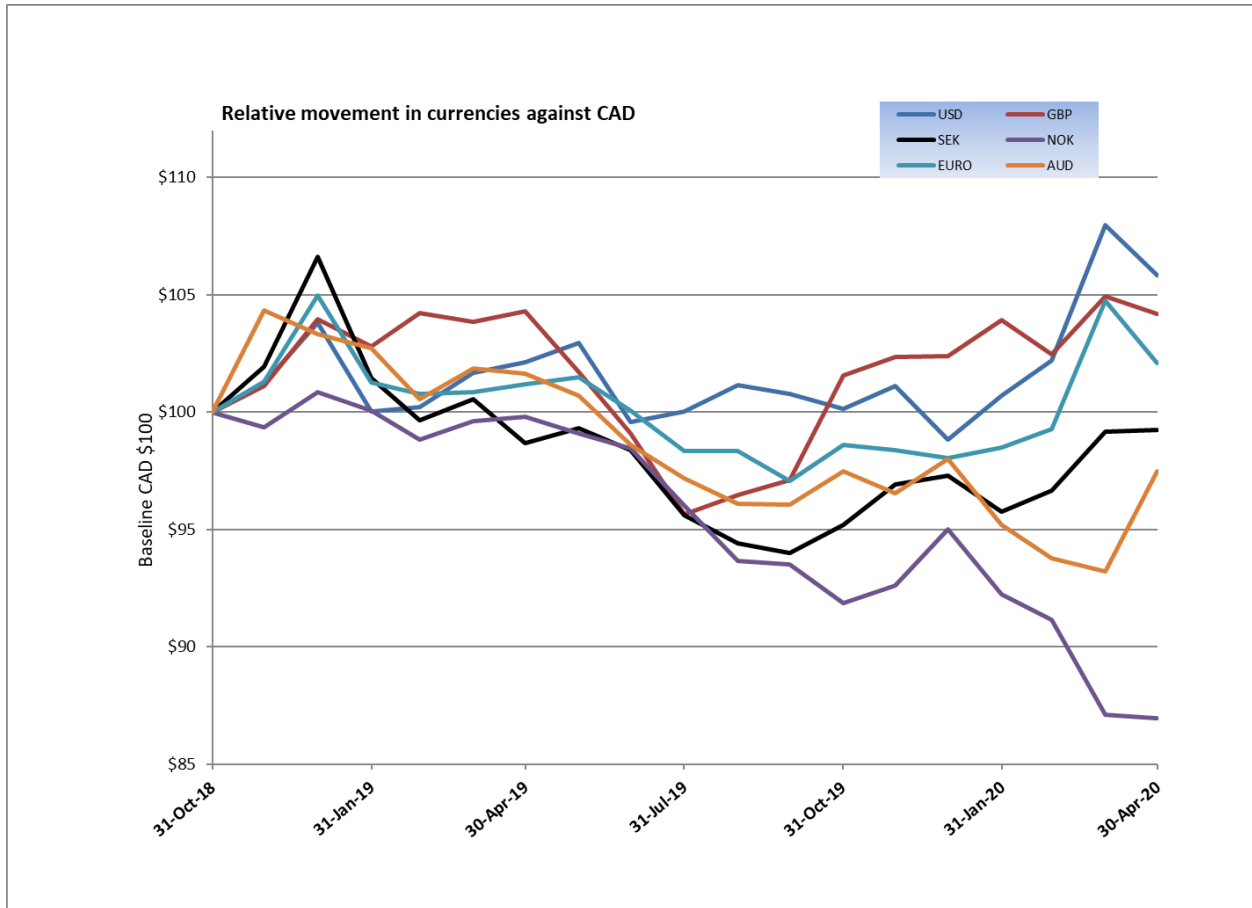
Operating expenses for the three months ended April 30, 2020 totaled \$54.9 million, an increase of \$19.8 million or 56.4% from the same period in the prior year. The variance, which overall is largely attributable to increased scale from recent acquisitions, is further explained by:

- An increase of \$9.2 million in research and development expense. Research and development expense is equivalent to 15.8% of revenue compared to 14.7% in the same period in the prior year, with incremental spending on Microsoft Teams certification, new BI reporting tools and Espial's IPTV solution.
- An increase of \$8.2 million in selling, general and administrative expense as a result of incremental costs from Eptica and Dialogic where cost containment initiatives were still in progress during the quarter. Expenses also include increased vacation accruals as a result of employees not taking vacation during the pandemic. The increase is inclusive of a reduction in occupancy expense as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis as explained subsequently. The increase in selling, general and administrative was also mitigated by reduced travel expenses due to COVID-19 as well as administrative cost synergies and operating cost efficiencies attributable to increased scale.
- The addition of \$2.4 million in depreciation of right-of-use assets as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related costs, which are now expensed under both interest and depreciation, were classified as occupancy costs as part of selling, general and administrative expense.

Operating expenses for the six months ended April 30, 2020 totaled \$102.3 million, an increase of \$34.1 million or 50.0% from the same period in the prior year. The variance is attributable to the factors discussed above as well as restructuring costs related to acquisitions.

**Foreign exchange**

The majority of our revenue is from sales denominated in foreign currencies. We do not hedge foreign currency exposure as most of our major international operations fund operating expenses with local operating cash flow surpluses that provide a natural hedge. While foreign exchange might have a significant impact on both revenue and expenses, the net impact to results from operating activities is lessened. This will also affect the relative cost of foreign currency denominated acquisitions stated in Canadian dollars.



During the three months ended April 30, 2020, the Canadian dollar strengthened against most major currencies other than the euro and U.S. dollar compared to the same period in the prior year. As result, in the second quarter, there was a negative impact to revenue of \$0.2 million reported in Canadian dollars and a negative impact to operating costs of \$0.5 million compared to last year.

For the three months ended April 30, 2020, we recognized foreign exchange losses of \$0.4 million related to foreign currency denominated monetary assets and liabilities in the current period compared to gains of \$0.7 million in the same period in the prior year. The loss was a result of movements in the Canadian dollar against international currencies on Canadian dollar denominated monetary assets and liabilities on functional currency books denominated in foreign currencies.

Translation gains or losses incurred upon consolidation of our foreign operations' statements of financial position into Canadian dollars are included in our Accumulated other comprehensive income account on the Condensed Consolidated Interim Statements of Financial Position.

For the six months ended April 30, 2020, we recognized nominal foreign exchange losses related to foreign currency denominated monetary assets and liabilities in the current period compared to gains of \$0.6 million in the same period in the prior year.

**Amortization of software and customer relationships**

Amortization expense for acquired software and customer relationships for the three and six months ended April 30, 2020 increased by \$4.7 million to \$11.6 million and by \$7.7 million to \$21.7 million respectively, compared to the same periods in the prior year. Both variances are attributable to incremental charges from the current year's acquisition as well as amortization on fiscal 2019 acquisitions, which added \$5.5 million for the six months ended April 30, 2020.

**Other income**

Other income for the three months ended April 30, 2020 increased by \$0.4 million during the quarter as a result of a gain of U.S. \$1.2 million booked on the refund of contingent consideration paid as part of the Dialogic acquisition, partially offset by net unrealized losses on investments in equity positions carried at fair value. For the six months ended April 30, 2020 other income decreased by \$0.1 million compared to the same period in the prior year. The decrease is attributable to the aforementioned factors in addition to unrealized losses on our investments in equity positions carried at fair value during the first quarter of 2020.

**Income tax expense**

Income tax expense for the three months ended April 30, 2020 increased by \$3.0 million to \$7.8 million, compared to the same period in the prior year. For both the three and six months ended April 30, 2020, our effective tax rate was 22.4% compared to 22.5% and 22.0% for the same periods in the prior year.

**Net income**

Net income for the three and six months ended April 30, 2020 increased by \$10.6 million and \$11.7 million to \$27.1 million and \$43.2 million, respectively, compared to the same periods in the prior year. The increased profitability reflects higher license revenue combined with operating cost synergies from acquisitions.

For the three and six months ended April 30, 2020, diluted earnings per share was \$0.49 and \$0.78 respectively, compared to \$0.30 and \$0.57 in the same periods in the prior year.

**Cash flows from operating activities**

For three months and six months ended April 30, 2020, cash flows from operating activities were \$57.5 million and \$77.5 million, respectively, compared to \$21.6 million and \$45.8 million in the same period in the prior year. The increase in operating cash flow reflects:

- An increase in net income as a result of higher revenue combined with improved margins and operating cost synergies.
- An increase in accounts payable for the three month period and an increase in deferred revenue for the three and six month periods.
- A further increase of \$2.7 million and \$5.0 million for the three and six months as a result of the adoption of IFRS 16, which was applied on a modified retrospective basis while comparative balances were not revised. Prior to the adoption of IFRS 16, lease related outflows, now classified under financing activities, were previously classified as operating cash outflows.

Operating cash flows excluding changes in non-cash working capital items for the three months and six months, respectively, ended April 30, 2020 increased by 72.5% and by 51.8% respectively to \$50.0 million and \$85.2 million compared to the same period in the prior year primarily as a result of improved operating results.

**Adjusted EBITDA**

The table below reconciles Adjusted EBITDA to the most directly comparable IFRS measure, Results from operating activities for the three and six months ended April 30, 2020.

For the period ended April 30	Three months			Six months		
	2020	2019	Variance	2020	2019	Variance
	\$	\$	\$	\$	\$	\$
Total revenue	140,900	89,203	51,697	251,556	175,248	76,308
Results from operating activities	46,276	26,621	19,655	77,119	52,416	24,703
Depreciation	758	499	259	1,645	1,029	616
Depreciation of right-of-use asset	2,368	-	2,368	4,391	-	4,391
Special charges	(121)	56	(177)	1,455	56	1,399
<b>Adjusted EBITDA</b>	<b>49,281</b>	<b>27,176</b>	<b>22,105</b>	<b>84,610</b>	<b>53,501</b>	<b>31,109</b>
<i>Adjusted EBITDA margin</i>	<i>35.0%</i>	<i>30.5%</i>		<i>33.6%</i>	<i>30.5%</i>	
<b>Adjusted EBITDA per diluted share</b>	<b>0.89</b>	<b>0.49</b>	<b>0.40</b>	<b>1.53</b>	<b>0.97</b>	<b>0.56</b>

Adjusted EBITDA for the three and six months ended April 30, 2020 increased by \$22.1 million and \$31.1 million respectively, compared to the same period in the prior year. The increase in adjusted EBITDA reflects:

- Higher revenue, net of direct costs as a result of stronger license revenue, combined with improved margins in both IMG and AMG.
- An increase as a result of adopting IFRS 16 whereby certain costs associated with occupancy are now classified as depreciation and interest on right-of-use assets. Comparative periods have not been restated.
- These increases were partially offset by higher general and administrative expenses reflective of the increased scale of business and investment in research and development initiatives.

Special charges, primarily reflecting acquisition related restructuring charges, have been excluded from adjusted EBITDA along with depreciation of property and equipment as well as right-of-use assets.

**Liquidity and cash reserves**

We closed the quarter with cash and short-term investments of \$168.1 million, compared to the October 31, 2019 balance of \$150.3 million. This reflects strong cash collections related to annual maintenance billings and incremental license sales in the second quarter, which offset cash spent of \$47.7 million on the acquisition of Dialogic on December 31, 2019. This is also net of payment of \$12.1 million for dividends, which increased 22.8% from \$9.8 million in the same period in the prior year. Collections of receivables remained strong despite potential impacts as a result of COVID-19.

For the six months ended April 30, 2020, cash increased by a total of \$17.6 million compared to an increase of \$9.3 million in the same period in the prior year. The increase is the result of operating cash flows of \$77.5 million, which funded the \$51.5 million of cash used in investing activities, primarily on acquisitions. In comparison, last year Enghouse generated operating cash flows of \$45.8 million and spent \$29.3 million, primarily on acquisitions as part of investing activities. The ability to deploy capital on acquisitions and replace it through strong operating cash flows is pivotal to our acquisition strategy and allows us to pursue further acquisitions without the need to obtain financing.

For the six months ended April 30, 2020 working capital was \$80.4 million compared to \$85.4 million at the end of fiscal 2019. Although increases in cash and receivables net of higher payables and deferred revenue (primarily from acquisitions) were favourable to working capital, the addition of \$8.2 million in current lease obligations recorded under the introduction of IFRS 16 ultimately resulted in a decrease in working capital. Management is confident that the Company has the funds necessary to meet its existing and future financial operating commitments and dividend strategy. Future acquisition growth may be funded through a combination of cash, debt and equity consideration, which could cause dilution to existing shareholders.

**Capital stock**

The Company had 55,016,924 Common Shares issued and outstanding as at June 4, 2020. During the quarter, 40,000 stock options were exercised contributing \$0.8 million in cash compared to 10,000 stock options and \$0.1 million in cash to the Company in the same period in the prior year. The Company granted 300,000 options in the first quarter of 2020 and 10,000 in the second quarter compared to 500,000 options, all granted in the second quarter of the prior year.

Enghouse Systems renewed its Normal Course Issuer Bid in the second quarter of 2020 for a further year commencing April 30, 2020 and expiring April 29, 2021, whereby it may repurchase up to a maximum of 4,188,532 common shares of the Company. The Company did not repurchase any shares of its common stock in the current or prior quarterly periods under its Normal Course Issuer Bid.

On January 25, 2019, the Company completed a share split whereby each issued and outstanding common share has been effectively doubled. All references to capital stock, options and per share data have been adjusted retrospectively to reflect the Company's two-for-one share split for the periods ended April 30, 2019.

**Off-Statement of financial position arrangements**

We have not entered into off-statement of financial position financing arrangements. Except for operating leases and other low probability and/or immeasurable contingencies (not accrued in accordance with IFRS), all commitments are reflected on our unaudited Condensed Consolidated Interim Statements of Financial Position.

**Transactions with related parties**

We have not entered into any transactions with related parties during the period, other than transactions between wholly owned subsidiaries and us in the normal course of business, which are eliminated on consolidation.

**Basis of preparation and significant accounting policies**

The unaudited condensed consolidated interim financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Our significant accounting policies are described in Note 3 of the audited consolidated financial statements as at October 31, 2019, which is available on SEDAR ([www.sedar.com](http://www.sedar.com)). The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and outstanding as of June 4, 2020, the date the Board of Directors approved the unaudited condensed consolidated interim financial statements.

**New standards and interpretations adopted**

**IFRS 16, Leases ("IFRS 16")**

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaced previous guidance under IAS 17, *Leases* ("IAS 17"), and no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognizes lease obligations reflecting future lease payments and a "right-of-use" asset. Lessor accounting remains somewhat similar as under IAS 17. The Company has applied IFRS 16 for the period commencing November 1, 2019.

The Company applied IFRS 16 using the modified retrospective approach and, as a result, the comparative information was not restated and will continue to be reported under IAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4").

On adoption of IFRS 16, the Company recognized lease obligations in relation to leases that had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of November 1, 2019.

As a result of these changes, there is an increase in interest expense and depreciation, as well as a reduction in selling, general and administrative expense on the unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Income due to the decrease in rent expense. The overall impact to net income is not significant. Additionally, an increase in cash flow from operating activities results from the lease payments being recorded as financing outflows instead of operating outflows in the unaudited Condensed Consolidated Interim Statements of Cash Flows.

**Risks and uncertainties**

With the exception of COVID-19 discussed below, the primary risks and uncertainties that affect or may affect the Company and its business, financial condition, and results of operations remain substantially unchanged from those discussed in the Company's latest Annual Information Form and its Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2019, contained in the Company's 2019 Annual Report to Shareholders and all such risks and uncertainties are incorporated herein by reference.

**COVID-19**

The COVID-19 pandemic presents a significant source of economic uncertainty to the Company. The duration and impact of the pandemic on the Company is currently unknown and it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. The Company issued a directive that all employees are to work from home until further notice and continues to closely monitor the situation as it evolves and may take further actions in response to directives of government and public health authorities or that are in the best interests of its employees, customers, suppliers or other stakeholders.

Additional changes by customers, suppliers and regulators in response to COVID-19 could materially impact the Company's financial results and may include impacts on: timing and collectability of receivables, supply chains and distribution channels, restrictions on cross-border commerce and travel, greater currency volatility, and increased risks to IT systems, networks and digital services. These uncertain economic conditions may adversely impact operations and the financial performance of the Company and its customers, negatively impacting demand for the Company's products and services or the equity markets, which could adversely affect the Company's financial performance.

**Controls and procedures**

In compliance with the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), the Company has filed with applicable Canadian securities regulatory authorities, certificates signed by its Chief Executive Officer ("CEO") and Vice President Finance in capacity as Chief Financial Officer ("CFO") that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

**Disclosure controls and procedures**

Disclosure controls and procedures have been designed under the supervision of the CEO and CFO, with the participation of other management, to provide reasonable assurance that all relevant information required to be disclosed by us is recorded, processed, summarized and reported on a timely basis to senior management, as appropriate, to allow timely decisions regarding required public disclosure. Pursuant to NI 52-109, as of October 31, 2019, an evaluation of the effectiveness of our disclosure controls and procedures was carried out under the supervision of the CEO and CFO. Based on this evaluation, the CEO and the CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation considered our disclosure policy, a sub-certification process and the functioning of our Disclosure Committee.

**Internal controls over financial reporting**

The Company's CEO and CFO are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with IFRS.

As at October 31, 2019, an evaluation was carried out of the effectiveness of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting. Based on that evaluation, the Company's CEO and CFO have concluded that, as at October 31,

2019, the design and operation of controls over financial reporting was effective. These evaluations were conducted in accordance with the standards established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and the requirements of NI 52-109. The control framework used by the CEO and the CFO to design the Company's internal control over financial reporting is the "Internal Control – Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

There were no changes to the Company's internal control over financial reporting during the quarter ended April 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Additional information**

Additional information relating to the Company including our most recently completed Annual Information Form ("AIF") is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.enghouse.com](http://www.enghouse.com).

**Notice of no auditor review of interim financial statements**

The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and six months ended April 30, 2020 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the interim financial statements by an entity's auditor.



## Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	Notes	As at April 30, 2020	As at October 31, 2019
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		\$ 162,330	\$ 144,764
Short-term investments		5,759	5,505
Accounts receivable		125,071	84,982
Prepaid expenses and other assets		16,768	11,147
		<b>309,928</b>	<b>246,398</b>
<b>Non-current assets:</b>			
Property and equipment		6,930	6,280
Right-of-use assets	4	39,080	-
Intangible assets	5	148,322	121,885
Goodwill	5	223,140	203,298
Deferred income tax assets		15,681	12,739
		<b>309,928</b>	<b>246,398</b>
<b>Total assets</b>		<b>\$ 743,081</b>	<b>\$ 590,600</b>
<b>Liabilities and Shareholder's Equity</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities		\$ 73,327	\$ 62,813
Income taxes payable		13,393	6,953
Dividends payable		7,427	6,021
Provisions	6	6,941	6,536
Deferred revenue		119,978	78,405
Lease obligations	4	8,208	-
Current portion of long-term loans		258	249
		<b>229,532</b>	<b>160,977</b>
<b>Non-current liabilities:</b>			
Non-current portion of income taxes payable		3,999	4,434
Deferred income tax liabilities		18,356	16,197
Deferred revenue		6,614	3,665
Net employee defined benefit obligation		2,764	2,380
Lease obligations	4	29,496	-
Long-term loans		839	874
		<b>291,600</b>	<b>188,527</b>
<b>Total liabilities</b>		<b>291,600</b>	<b>188,527</b>
<b>Shareholders' Equity</b>			
Share capital		88,201	81,576
Contributed surplus		7,249	6,677
Retained earnings		338,949	309,198
Accumulated other comprehensive income	7	17,082	4,622
<b>Total shareholders' equity</b>		<b>451,481</b>	<b>402,073</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 743,081</b>	<b>\$ 590,600</b>

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements

## Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Notes	Three months ended		Six months ended	
		2020	April 30, 2019	2020	April 30, 2019
<b>Revenue</b>					
Software licenses		\$ 48,791	\$ 21,519	\$ 77,191	\$ 40,247
Hosted and maintenance services		72,024	49,470	136,377	100,283
Professional services		16,087	15,145	31,270	28,646
Hardware		3,998	3,069	6,718	6,072
		<b>140,900</b>	<b>89,203</b>	<b>251,556</b>	<b>175,248</b>
<b>Direct costs</b>					
Software licenses		3,937	1,370	6,387	2,731
Services		33,080	24,181	61,426	47,726
Hardware		2,682	1,909	4,363	4,215
		<b>39,699</b>	<b>27,460</b>	<b>72,176</b>	<b>54,672</b>
<b>Revenue, net of direct costs</b>		<b>101,201</b>	<b>61,743</b>	<b>179,380</b>	<b>120,576</b>
<b>Operating expenses</b>					
Selling, general and administrative		29,612	21,440	54,294	41,896
Research and development		22,308	13,127	40,476	25,179
Depreciation		758	499	1,645	1,029
Depreciation of right-of-use assets	4	2,368	-	4,391	-
Special charges		(121)	56	1,455	56
		<b>54,925</b>	<b>35,122</b>	<b>102,261</b>	<b>68,160</b>
<b>Results from operating activities</b>		<b>46,276</b>	<b>26,621</b>	<b>77,119</b>	<b>52,416</b>
Amortization of acquired software and customer relationships	5	(11,600)	(6,884)	(21,680)	(14,000)
Foreign exchange (losses) gains		(393)	674	(46)	564
Interest expense – lease obligations	4	(300)	-	(562)	-
Finance income		131	507	482	1,005
Finance expenses		(16)	(24)	(34)	(55)
Other income		811	447	397	475
<b>Income before income taxes</b>		<b>34,909</b>	<b>21,341</b>	<b>55,676</b>	<b>40,405</b>
<b>Provision for income taxes</b>	9	<b>7,820</b>	<b>4,804</b>	<b>12,451</b>	<b>8,904</b>
<b>Net income for the period</b>		<b>\$ 27,089</b>	<b>\$ 16,537</b>	<b>\$ 43,225</b>	<b>\$ 31,501</b>
<u>Items that are or may be reclassified subsequently to net income:</u>					
Cumulative translation adjustment		10,140	3,094	12,460	5,981
<b>Other comprehensive income</b>		<b>10,140</b>	<b>3,094</b>	<b>12,460</b>	<b>5,981</b>
<b>Comprehensive income</b>		<b>\$ 37,229</b>	<b>\$ 19,631</b>	<b>\$ 55,685</b>	<b>\$ 37,482</b>
<b>Earnings per share</b>					
Basic	10	\$ 0.49	\$ 0.30	\$ 0.79	\$ 0.58
Diluted	10	\$ 0.49	\$ 0.30	\$ 0.78	\$ 0.57

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

## 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 \$	Retained earnings \$	Total \$
<b>As at November 1, 2019</b>	<b>54,737,424</b>	<b>81,576</b>	<b>6,677</b>	<b>4,622</b>	<b>309,198</b>	<b>402,073</b>
Net income for the period	-	-	-	-	43,225	43,225
Cumulative translation adjustment	-	-	-	12,460	-	12,460
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,460</b>	<b>43,225</b>	<b>55,685</b>
Employee share options:						
Value of services recognized	-	-	1,625	-	-	1,625
Proceeds on issuing shares	279,500	6,625	(1,053)	-	-	5,572
Dividends declared	-	-	-	-	(13,474)	(13,474)
<b>As at April 30, 2020</b>	<b>55,016,924</b>	<b>88,201</b>	<b>7,249</b>	<b>17,082</b>	<b>338,949</b>	<b>451,481</b>
<b>As at November 1, 2018, as previously presented</b>	<b>54,580,024</b>	<b>78,997</b>	<b>4,866</b>	<b>5,755</b>	<b>260,506</b>	<b>350,124</b>
IFRS 9 transitional adjustment	-	-	-	781	(781)	-
IFRS 15 transitional adjustment	-	-	-	-	1,590	1,590
<b>Adjusted balance as at November 1, 2018</b>	<b>54,580,024</b>	<b>78,997</b>	<b>4,866</b>	<b>6,536</b>	<b>261,315</b>	<b>351,714</b>
Net income for the period	-	-	-	-	31,501	31,501
Cumulative translation adjustment	-	-	-	5,981	-	5,981
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,981</b>	<b>31,501</b>	<b>37,482</b>
Employee share options:						
Value of services recognized	-	-	1,117	-	-	1,117
Proceeds on issuing shares	68,000	937	(152)	-	-	785
Dividends declared	-	-	-	-	(10,928)	(10,928)
<b>As at April 30, 2019</b>	<b>54,648,024</b>	<b>79,934</b>	<b>5,831</b>	<b>12,517</b>	<b>281,888</b>	<b>380,170</b>

\* On January 25, 2019, the Company completed a share split whereby each issued and outstanding common share has been effectively doubled. All references to capital stock, options and per share data have been adjusted retrospectively to reflect the Company's two for one share split for the 2019 comparative period.

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

## Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

		Three months ended April 30,		Six months ended April 30,	
		2020	2019	2020	2019
<b>Cash flows from operating activities</b>					
Net income for the period		\$ 27,089	\$ 16,537	\$ 43,225	\$ 31,501
<b>Adjustments for:</b>					
Depreciation		758	499	1,645	1,029
Depreciation of right-of-use assets	4	2,368	-	4,391	-
Interest expense – lease obligations	4	300	-	562	-
Amortization of acquired software and customer relationships	5	11,600	6,884	21,680	14,000
Stock-based compensation expense	8	893	709	1,625	1,117
Provision for income taxes		7,820	4,804	12,451	8,904
Finance expense and other income		(795)	(423)	(363)	(420)
		<b>50,033</b>	<b>29,010</b>	<b>85,216</b>	<b>56,131</b>
Changes in non-cash operating working capital	14	10,836	(2,050)	536	(627)
Income taxes paid		(3,336)	(5,330)	(8,286)	(9,720)
<b>Net cash flows from operating activities</b>		<b>57,533</b>	<b>21,630</b>	<b>77,466</b>	<b>45,784</b>
<b>Cash flows from (used in) investing activities</b>					
Purchase of property and equipment		(1,005)	(572)	(1,444)	(781)
Acquisitions, net of cash acquired*	11	1,235	(3,170)	(47,664)	(25,566)
Purchase consideration for prior year acquisitions	11	-	-	(546)	(1,105)
Purchase of short-term investments		(1,795)	4,255	(1,802)	(1,853)
<b>Net cash flows from (used in) investing activities</b>		<b>(1,565)</b>	<b>513</b>	<b>(51,456)</b>	<b>(29,305)</b>
<b>Cash flows from (used in) financing activities</b>					
Interest paid on lease obligations	4	(300)	-	(562)	-
Issuance of share capital		788	66	5,572	785
Repayment of loans		-	-	(62)	(957)
Repayment of lease obligations	4	(1,286)	-	(3,890)	-
Dividends paid		(6,048)	(4,917)	(12,069)	(9,829)
<b>Net cash flows used in financing activities</b>		<b>(6,846)</b>	<b>(4,851)</b>	<b>(11,011)</b>	<b>(10,001)</b>
Effect of currency translation adjustments on cash and cash equivalents		1,757	1,591	2,567	2,855
<b>Net increase in cash and cash equivalents during the period</b>		<b>50,879</b>	<b>18,883</b>	<b>17,566</b>	<b>9,333</b>
Cash and cash equivalents - beginning of period		111,451	178,001	144,764	187,551
<b>Cash and cash equivalents - end of period</b>		<b>\$ 162,330</b>	<b>\$ 196,884</b>	<b>\$ 162,330</b>	<b>\$ 196,884</b>

\* Acquisitions are net of cash acquired of nil and \$6,906 for the three and six months ended April 30, 2020, respectively, and \$143 and \$6,282 for the three and six months ended April 30, 2019, respectively.

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

### 1. Description of the business and reporting entity

Enghouse is a Canadian publicly traded company (TSX:ENGH) that provides enterprise software solutions focusing on remote work, visual computing and communications for next generation software defined networks. The Company's two-pronged growth strategy focuses on internal growth and acquisitions, which, to date, have been funded through operating cash flows. The Company is well capitalized, has nominal long-term debt and is organized around two business segments: the Interactive Management Group ("IMG") and the Asset Management Group ("AMG").

IMG specializes in customer interaction software and services designed to facilitate remote work, enhance customer service, increase efficiency and manage customer communications across enterprise networks. Core technologies include contact center, attendant console, interactive voice response, dialers, video collaboration, agent performance optimization and analytics that support any telephony environment and may be deployed on-premise or in the cloud. IMG's customers are varied and include insurance companies, telecoms and banks as well as technology, health care and hospitality companies.

AMG provides a portfolio of software and services solutions primarily to the cable operators and next generation software defined network telecommunication providers. Its products include Network infrastructure, Operations Support Systems ("OSS"), Business Support Systems ("BSS"), and revenue generation solutions such as Video and Cloud TV solutions. AMG also provides fleet routing, dispatch, scheduling, transit e-ticketing and automated fare collection, communications and emergency control center solutions for the transportation, government, first responders, distribution and security sectors.

Enghouse Systems is incorporated and domiciled in Canada. The address of its registered office is 80 Tiverton Court, Suite 800, Markham, Ontario, L3R 0G4. The Company has offices around the world including the United States, the United Kingdom, Sweden, Norway, Denmark, the Netherlands, France, Belgium, Brazil, Germany, Ireland, Australia, New Zealand, Israel, Lebanon, Romania, Italy, Spain, Japan, Colombia, Croatia, Russia, and China.

### 2. Basis of preparation and adoption of International Financial Reporting Standards

#### (a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended October 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These unaudited condensed consolidated interim financial statements were approved by the Audit Committee of the Board of Directors for issue on June 4, 2020.

#### (b) Basis of preparation and measurement

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim consolidated financial statements reflect the accounting policies disclosed in Note 3 of the Company's 2019 annual consolidated financial statements except as disclosed herein. They have been prepared on a going concern basis, using historical cost, except for investments in equity securities designated at fair value through profit or loss, certain assets and liabilities initially recognized in connection with business combinations, and derivative financial instruments, which are measured at fair value.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRS issued and outstanding as of June 4, 2020. Any subsequent changes to IFRS that are applied retroactively in the Company's annual consolidated financial statements for the year ended October 31, 2019 could result in changes to these unaudited condensed consolidated interim financial statements.

Certain segment information previously presented has been changed to conform to the presentation adopted for the current period. This change was made to conform to how management and the chief

## Notes to Condensed Consolidated Interim Financial Statements

For the six months ended April 30, 2020 and 2019

(in thousands of Canadian dollars, except as indicated)

operating decision maker view the business with increasing regionalization of shared service centers. This change had no impact on segment revenue or direct costs and has been applied retrospectively.

### (c) Functional and presentation currency

The Company's subsidiaries generally operate in their local currency environment. Accordingly, items included in the financial statements of each legal entity consolidated within the Enghouse group are measured using the currency of the primary economic environment in which the legal entity operates (the "functional currency"). The unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is also Enghouse Systems' functional currency.

### (d) Use of estimates and judgments

The preparation of the unaudited condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended October 31, 2019.

### COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization, requiring an update of the judgments, estimates and assumptions disclosed in the 2019 Annual Financial Statements. The outbreak and efforts to contain the virus may have a significant impact on the Company's business and customers. A prolonged economic slowdown could result in purchase order delays or the inability to collect receivables and it is possible that in the future there will be negative impacts on our operations that could have a material adverse effect on our financial results.

Although the Company has adjusted some of its operating procedures in response to COVID-19, operations have not experienced any significant negative impact to date. The extent to which the pandemic impacts future operations and financial results, and the duration of any such impact, depends on future developments, which are highly uncertain and unknown at this time.

## 3. Significant accounting policies

Except for the adoption of IFRS 16, Leases, at November 1, 2019, the accounting policies adopted are consistent with those of the previous financial year.

### New standards and interpretations adopted

#### IFRS 16, Leases ("IFRS 16")

The Company adopted IFRS 16, with an initial adoption date of November 1, 2019. The Company applied IFRS 16 using the modified retrospective approach and, as a result, the comparative information will not be restated and will continue to be reported under IAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease* ("IFRIC 4"). See note 4 below for further details.

## 4. Explanation of adoption of IFRS 16

IFRS 16 is a new standard effective for fiscal years beginning on or after January 1, 2019. The standard replaced previous guidance under IAS 17, *Leases* ("IAS 17") and no longer distinguishes between a finance lease and an operating lease for lessees. Instead, for virtually all lease contracts the lessee recognizes lease obligations reflecting future lease payments and a "right-of-use" asset. Lessor accounting remains somewhat similar as under IAS 17. The Company has applied IFRS 16 for the period commencing November 1, 2019.

**Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended April 30, 2020 and 2019**

*(in thousands of Canadian dollars, except as indicated)*

The Company applied IFRS 16 using the modified retrospective approach and as a result the comparative information was not restated and will continue to be reported under IAS 17 and IFRIC 4.

On adoption of IFRS 16, the Company recognized lease obligations in relation to leases that had previously been classified as “operating leases” under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of November 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease obligations on November 1, 2019 was 3.0%. Prior to adoption of IFRS 16 the Company did not have any leases classified as finance leases.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than twelve months as at November 1, 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The associated right-of-use assets for leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease obligations, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Consolidated Statements of Financial Position as at October 31, 2019.

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of adoption of IFRS 16.

A reconciliation of operating lease commitments disclosed as at October 31, 2019 to the lease obligation recognized as at November 1, 2019 is provided below:

Operating lease commitments disclosed as at October 31, 2019	\$ 27,822
Short-term leases not recognized as a liability	(927)
Onerous leases not recognized as a liability	(987)
Adjustments as a result of different treatment of extension options	12,058
Impact of present value	<u>(3,302)</u>
<b>Lease obligations recognized as at November 1, 2019</b>	<b><u>\$ 34,664</u></b>
Composed of:	
Current lease obligations	\$ 7,180
Non-current lease obligations	<u>27,484</u>
<b>Lease obligations recognized as at November 1, 2019</b>	<b><u>\$ 34,664</u></b>

The change in accounting policy affected the following items in the unaudited Condensed Consolidated Interim Statements of Financial Position as at November 1, 2019:

Right-of-use assets—increased by	\$ 35,820
Prepaid expenses—decreased by	\$ 1,959
Accrued liabilities—decreased by	\$ 803
Current lease obligations—increased by	\$ 7,180
Non-current lease obligations—increased by	\$ 27,484

**Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended April 30, 2020 and 2019**

*(in thousands of Canadian dollars, except as indicated)*

The adoption of IFRS 16 has no impact on revenue but resulted in a material increase to both assets and liabilities upon adoption of the new standard. The Company recognized lease obligations and the right-of-use assets at the date of adoption. The lease obligations were measured at the present value of the future lease payments at the date of adoption. The right-of-use assets will be depreciated using the straight-line method from the date of adoption to the end of the lease term adjusted for expected renewals as required by the standard. Interest on the lease liability will be calculated using the effective interest method with rent payments reducing the lease obligation.

As a result of these changes, there is an increase in interest expense and depreciation, as well as a reduction in selling, general and administrative expense on the unaudited Condensed Consolidated Interim Statements of Operations and Comprehensive Income due to the decrease in rent expense. The overall impact to net income is not significant. Additionally, an increase in cash flow from operating activities results from the lease payments being recorded as financing outflows instead of operating outflows in the unaudited Condensed Consolidated Interim Statements of Cash Flows.

**5. Intangible assets and goodwill**

	Acquired software \$	Capitalized software \$	Customer relationships \$	Total intangibles \$	Goodwill \$
<b>At November 1, 2019</b>					
Cost	213,490	3,592	140,659	357,741	203,298
Accumulated amortization	(147,673)	(2,109)	(86,074)	(235,856)	-
<b>Net book value</b>	<b>65,817</b>	<b>1,483</b>	<b>54,585</b>	<b>121,885</b>	<b>203,298</b>
<b>Period ended April 30, 2020</b>					
Opening net book value	65,817	1,483	54,585	121,885	203,298
Acquisitions	28,976	-	13,209	42,185	12,946
Amortization	(12,099)	(357)	(9,224)	(21,680)	-
Purchase price adjustments*	-	-	-	-	(1,815)
Exchange difference	2,951	7	2,974	5,932	8,711
<b>Closing net book value</b>	<b>85,645</b>	<b>1,133</b>	<b>61,544</b>	<b>148,322</b>	<b>223,140</b>
<b>At April 30, 2020</b>					
Cost	242,466	3,592	153,868	399,926	223,140
Accumulated amortization	(156,821)	(2,459)	(92,324)	(251,604)	-
<b>Net book value</b>	<b>85,645</b>	<b>1,133</b>	<b>61,544</b>	<b>148,322</b>	<b>223,140</b>

\* During the period, the Company recorded adjustments to goodwill representing the finalization of certain purchase price allocations. These adjustments had no impact on the Condensed Consolidated Interim Statements of Operations and Comprehensive Income or the Condensed Consolidated Interim Statements of Cash Flows during the three and six months ended April 30, 2020.

**6. Provisions**

Provisions include accruals for onerous contracts, legal claims, restructuring and special charges, and are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period.

	<b>Total</b>
<b>At November 1, 2019</b>	<b>\$ 6,536</b>
Additional provisions expensed	1,803
Pre-existing provisions assumed from acquisitions	2,396
Reversed	(193)
Utilized during the period	(3,907)
Effect of movements in foreign exchange	306
<b>At April 30, 2020</b>	<b>\$ 6,941</b>



**Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended April 30, 2020 and 2019**

*(in thousands of Canadian dollars, except as indicated)*

**7. Share capital and other components of shareholders' equity**

**Share capital**

The authorized share capital of the Company consists of an unlimited number of common shares with no par value, an unlimited amount of Class A, redeemable, retractable, non-voting, non-cumulative, preference shares and an unlimited number of Class B, redeemable, retractable, non-voting, preference shares. There were 55,016,924 common shares outstanding as at April 30, 2020. There were no Class A and no Class B preference shares issued and outstanding as at either April 30, 2020 or October 31, 2019.

**Common share repurchase plan**

On April 24, 2020, the Company renewed its common share repurchase plan, whereby it may repurchase up to a maximum of 4,188,532 common shares of the Company, expiring on April 29, 2021. The Company did not repurchase any common shares in the first or second quarters of either fiscal 2020 or 2019.

**Dividends**

During the three months ended April 30, 2020, the Company declared dividends of \$0.135 per common share compared to \$0.11 per common share and paid dividends of \$0.11 in the prior period compared to \$0.09 during the same period during the prior year.

**Stock dividend**

The Company declared a stock dividend on December 21, 2018, payable on the basis of one common share for each common share held as at January 22, 2019, which was paid on January 25, 2019. The dividend doubled the number of common shares outstanding and effectively achieved a two-for-one stock split. The Company ascribed no monetary value to the stock dividend. The number of shares outstanding and options exercised and outstanding, the option exercise prices, dividends per share and the basic and diluted earnings per share figures in fiscal 2019 have been restated retroactively to reflect the stock dividend.

**Accumulated other comprehensive income**

Accumulated other comprehensive income comprises the following separate components of equity:

	Translation of foreign operations \$	Unrealized gains/losses \$	Total \$
<b>At October 31, 2018</b>	6,536	(781)	5,755
Adjustment on transition to IFRS 9	-	781	781
<b>At November 1, 2018</b>	<b>6,536</b>	-	<b>6,536</b>
Cumulative translation adjustment	(1,795)	-	(1,795)
Deferred income tax expense	-	(119)	(119)
<b>At October 31, 2019</b>	<b>4,741</b>	<b>(119)</b>	<b>4,622</b>
<b>At November 1, 2019</b>	4,741	(119)	4,622
Cumulative translation adjustment	12,460	-	12,460
<b>At April 30, 2020</b>	<b>17,201</b>	<b>(119)</b>	<b>17,082</b>

**8. Stock-based compensation**

The Company has granted options to purchase common shares to certain directors, officers and employees of the Company, pursuant to the terms of the Company's stock option plan (the "Plan"). The Plan provides that a total of 3,646,400 (April 30, 2019 - 4,015,300) common shares are reserved for options and that the shares reserved for options, which could become exercisable in any one year, will not exceed more than 10% of the issued and outstanding common shares of the Company at the time such options may be

**Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended April 30, 2020 and 2019**

*(in thousands of Canadian dollars, except as indicated)*

exercisable. These options vest at various times over four or five years and expire seven years after the grant date. The exercise price of each option equals the market price of the Company's stock on the date the options are granted.

A summary of the status of the Company's Plan as at April 30, 2020 and April 30, 2019, and changes during the period ended on those dates, is presented as follows:

Three months ended	April 30, 2020		April 30, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding at beginning of period	1,805,000	33.80	1,382,900	25.66
Granted	10,000	49.70	500,000	38.35
Exercised	(40,000)	19.72	(10,000)	6.55
Outstanding at end of period	<b>1,775,000</b>	<b>34.29</b>	<b>1,872,900</b>	<b>29.15</b>
Exercisable at end of period	<b>562,000</b>	<b>28.00</b>	<b>693,900</b>	<b>22.00</b>

Six months ended	April 30, 2020		April 30, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Outstanding at beginning of period	1,744,500	29.89	1,440,900	25.13
Granted	310,000	46.10	500,000	38.35
Exercised	(279,500)	19.94	(68,000)	11.55
Outstanding at end of period	<b>1,775,000</b>	<b>34.29</b>	<b>1,872,900</b>	<b>29.15</b>
Exercisable at end of period	<b>562,000</b>	<b>28.00</b>	<b>693,900</b>	<b>22.00</b>

The Company uses the fair value method for recording compensation expense related to equity instruments awarded to employees, officers and directors in accordance with IFRS 2, *Share Based Payments*. For the purposes of expensing stock options, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The Company recorded a non-cash charge of \$0.9 million (Q2/2019 - \$0.7 million) and \$1.6 million this fiscal year to date compared to \$1.1 million last fiscal year to date.

For options granted in the period, the fair value of each stock option on the date of the grant was estimated using the Black-Scholes option pricing model as set out below. Estimated volatility is calculated on a daily basis using historical closing prices, as adjusted for certain events that management deemed to be non-recurring and non-indicative of future events over a period, noted below, which reflects the expected life of the options.

	Options Granted FY 2020	Options Granted FY 2019
Risk-free interest rate	1.22%–1.54%	1.79%
Estimated volatility	26%	26%
Dividend yield	\$0.44–\$0.54	\$0.44
Expected life (in years)	5.0–6.3	5.0
Weighted average fair value	\$10.66	\$8.23
Weighted average share price at grant date	\$46.10	\$38.35

**Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended April 30, 2020 and 2019**

*(in thousands of Canadian dollars, except as indicated)*

**9. Income taxes**

Income tax expense is recognized based on management's best estimate of the estimated annual income tax rate expected for the full financial year applied to the pre-tax income for the interim period for each entity in the consolidated group. As a result of foreign exchange fluctuations, acquisitions and the relative mix of income earned in differing jurisdictions, the Company has determined that a reasonable estimate of a weighted average annual tax rate cannot be determined for the consolidated group.

For the three months ended April 30, 2020, the Company recorded a tax expense of \$7.8 million (22.4% effective tax rate) as compared with a tax expense of \$4.8 million (22.5%) in the prior year's second quarter.

**10. Earnings per share**

Basic earnings per share is calculated by dividing Net income by the weighted average number of common shares outstanding during the period.

	Three months ended		Six months ended	
	2020	April 30 2019	2020	April 30 2019
Net income for the period	\$ 27,089	\$ 16,537	\$ 43,225	\$ 31,501
Weighted average number of common shares outstanding	54,990	54,640	54,890	54,640
<b>Basic earnings per share</b>	<b>\$ 0.49</b>	<b>\$ 0.30</b>	<b>\$ 0.79</b>	<b>\$ 0.58</b>

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive common shares. The Company only has stock options as a potential dilutive to common shares. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding shares for the period) based on the monetary value of the subscription rights attached to the stock options. The number of shares calculated above is compared to the number of shares that would have been issued assuming the exercise of the stock options.

	Three months ended		Six months ended	
	2020	April 30 2019	2020	April 30 2019
Net income for the period	\$ 27,089	\$ 16,537	\$ 43,225	\$ 31,501
Weighted average number of common shares outstanding	54,990	54,640	54,890	54,640
Adjustment for stock options	538	355	490	355
Weighted average number of common shares outstanding for diluted EPS	55,528	54,995	55,380	54,995
<b>Diluted earnings per share</b>	<b>\$ 0.49</b>	<b>\$ 0.30</b>	<b>\$ 0.78</b>	<b>\$ 0.57</b>

**11. Acquisitions**

Acquisitions have been recorded under the acquisition method of accounting and results have been included in the unaudited condensed consolidated interim financial statements from their respective acquisition dates. Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill.

**Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended April 30, 2020 and 2019**

*(in thousands of Canadian dollars, except as indicated)*

**2020 acquisition of Dialogic**

On December 31, 2019, Enghouse acquired 100% of the issued and outstanding common shares of Dialogic Group Inc. (“Dialogic”). Headquartered in Parsippany, New Jersey, Dialogic partners with leading mobile operators, system integrators and technology developers to deploy its solutions via its worldwide network of offices. Dialogic is an industry leader in media processing software, with a highly scalable solution that supports real-time video conferencing and collaboration applications across all devices. Dialogic’s infrastructure products offer a best-in-class Session Border Controller and several software-based network solutions to communication service providers.

The acquisition was completed for an aggregate purchase price of \$54.6 million, with U.S. \$5.5 million remaining in escrow that is subject to adjustment. Results for Dialogic are included in both IMG and AMG from the date of acquisition. In April 2020 the Company received U.S. \$2.4 million related to consideration originally paid to the sellers that was contingent on achieving certain targets in respect of maintenance renewals. This contingent refund was recorded at its fair value as at the acquisition date based on known information, as well as historical trends, for contract renewals. The U.S. \$2.4 million received has been used to settle the contingent refund asset. The difference between the fair value as at the acquisition date and the amount received of U.S. \$2.4 million has been recognized through other income as a post-acquisition change in management’s estimate of the fair value of the contingent refund asset.

**2019 acquisitions**

**Asset Management Group**

The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of \$86.3 million, with \$2.3 million held in escrow that is subject to adjustment. During the first two quarters of fiscal 2020, \$0.5 million was paid to the sellers in respect of hold-backs.

**Interactive Management Group**

The Company completed three acquisitions in fiscal 2019, acquiring 100% of the issued and outstanding common shares or assets for an aggregate purchase price of \$56.1 million, with \$2.9 million subject to hold-back and adjustment, which is not held in escrow. The balance of \$0.6 million, previously held in escrow, was received by the Company during the second quarter of 2020.

**Purchase price allocations**

	<b>Dialogic Preliminary 2020</b>	<b>AMG Final 2019</b>	<b>IMG Preliminary 2019</b>
Cash and cash equivalents	\$ 6,906	\$ 31,951	\$ 4,757
Short-term investments	-	-	219
Accounts receivable	17,752	7,689	13,166
Prepaid expenses and other assets	3,336	4,720	3,846
Property and equipment	610	1,295	302
Deferred income tax assets	-	2,509	5,680
Acquired software	28,976	26,362	31,735
Customer relationships	13,209	12,296	24,387
Right-of-use assets	7,781	-	-
Goodwill	12,946	21,493	26,179
<b>Total assets acquired</b>	<b>\$ 91,516</b>	<b>\$ 108,315</b>	<b>\$ 110,271</b>
Current liabilities assumed	\$ 30,847	\$ 15,437	\$ 44,381
Non-current lease obligations	6,097	-	-
Deferred income tax liabilities	2	6,591	9,840
<b>Total liabilities assumed</b>	<b>\$ 36,946</b>	<b>\$ 22,028</b>	<b>\$ 54,221</b>
<b>Net assets acquired for consideration</b>	<b>\$ 54,570</b>	<b>\$ 86,287</b>	<b>\$ 56,050</b>

**Notes to Condensed Consolidated Interim Financial Statements**

**For the six months ended April 30, 2020 and 2019**

*(in thousands of Canadian dollars, except as indicated)*

**12. Segment information**

The Company has two operating segments, IMG and AMG, and evaluates segment performance based on revenue and results from operations. A description of the Company's segments is provided in Note 1. The accounting policies followed by these segments are the same as those described in the summary of significant accounting policies.

Certain segment information previously presented has been changed to conform to the presentation adopted for the current period. This change was made to conform to how management and the chief operating decision maker view the business with increasing regionalization of shared service centers. This change had no impact on segment revenue or direct costs and has been applied retrospectively.

**Three months ended April 30, 2020**

	<b>IMG</b>	<b>AMG</b>	<b>Total</b>
Revenue	\$ 89,925	\$ 50,975	\$ 140,900
Direct costs	(20,874)	(18,825)	(39,699)
<b>Revenue, net of direct costs</b>	<b>69,051</b>	<b>32,150</b>	<b>101,201</b>
Operating expenses excluding special charges	(25,632)	(15,412)	(41,044)
Depreciation of property and equipment	(518)	(240)	(758)
Depreciation of right-of-use assets	(1,386)	(982)	(2,368)
<b>Segment profit</b>	<b>\$ 41,515</b>	<b>\$ 15,516</b>	<b>\$ 57,031</b>
Special charges			121
Corporate and shared service expenses			(10,876)
<b>Results from operating activities</b>			<b>\$ 46,276</b>

**Three months ended April 30, 2019**

	<b>IMG</b>	<b>AMG</b>	<b>Total</b>
Revenue	\$ 44,530	\$ 44,673	\$ 89,203
Direct costs	(11,764)	(15,696)	(27,460)
<b>Revenue, net of direct costs</b>	<b>32,766</b>	<b>28,977</b>	<b>61,743</b>
Operating expenses excluding special charges	(16,417)	(11,028)	(27,445)
Depreciation of property and equipment	(377)	(122)	(499)
<b>Segment profit</b>	<b>\$ 15,972</b>	<b>\$ 17,827</b>	<b>\$ 33,799</b>
Special charges			(56)
Corporate and shared service expenses			(7,122)
<b>Results from operating activities</b>			<b>\$ 26,621</b>

**Six months ended April 30, 2020**

	<b>IMG</b>	<b>AMG</b>	<b>Total</b>
Revenue	\$ 152,798	\$ 98,758	\$ 251,556
Direct costs	(36,088)	(36,088)	(72,176)
<b>Revenue, net of direct costs</b>	<b>116,710</b>	<b>62,670</b>	<b>179,380</b>
Operating expenses excluding special charges	(46,851)	(28,080)	(74,931)
Depreciation of property and equipment	(973)	(672)	(1,645)
Depreciation of right-of-use assets	(2,444)	(1,947)	(4,391)
<b>Segment profit</b>	<b>\$ 66,442</b>	<b>\$ 31,971</b>	<b>\$ 98,413</b>
Special charges			(1,455)
Corporate and shared service expenses			(19,839)
<b>Results from operating activities</b>			<b>\$ 77,119</b>

**Six months ended April 30, 2019**

	<b>IMG</b>	<b>AMG</b>	<b>Total</b>
Revenue	\$ 87,994	\$ 87,254	\$ 175,248
Direct costs	(23,039)	(31,633)	(54,672)
<b>Revenue, net of direct costs</b>	<b>64,955</b>	<b>55,621</b>	<b>120,576</b>
Operating expenses excluding special charges	(31,479)	(21,857)	(53,336)
Depreciation of property and equipment	(780)	(249)	(1,029)
<b>Segment profit</b>	<b>\$ 32,696</b>	<b>\$ 33,515</b>	<b>\$ 66,211</b>
Special charges			(56)
Corporate and shared service expenses			(13,739)
<b>Results from operating activities</b>			<b>\$ 52,416</b>

**Notes to Condensed Consolidated Interim Financial Statements****For the six months ended April 30, 2020 and 2019***(in thousands of Canadian dollars, except as indicated)***13. Litigation and contingencies****General**

The Company provides its customers with a qualified indemnity against the infringement of third-party intellectual property rights. From time to time, various owners of patents and copyrighted works send the Company or its customers letters alleging that the Company's products do or might infringe upon the owner's intellectual property rights, and/or suggesting that the Company or its customers should negotiate a license agreement with the owner. The Company's policy is to never knowingly infringe upon any third party's intellectual property rights. Accordingly, where appropriate, the Company forwards any such allegation or licensing request to its outside legal counsel for review. The Company generally attempts to resolve any such matter by informing the owner of the Company's position concerning non-infringement or invalidity. Even though the Company attempts to resolve these matters without litigation, it is always possible that the owner of a patent or copyrighted work will sue the Company.

In response to correspondence from and, in a few instances, litigation instigated by, third-party patent holders, a few of the Company's customers have attempted to tender to the Company the defense of its products under contractual indemnity provisions. With respect to this litigation, and any other litigation the Company becomes involved with, under a contractual indemnity or any other legal theory, the Company has and will continue to consider all its options for resolution and vigorously assert all appropriate defenses. There are no material claims outstanding against the Company at April 30, 2020.

**14. Changes in non-cash operating working capital**

	<b>Three months ended April 30</b>		<b>Six months ended April 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
(Increase) decrease in accounts receivable	(1,760)	1,068	(16,558)	(2,413)
(Increase) decrease in prepaid expenses and other assets	(3,058)	1,445	(3,500)	3,380
Increase (decrease) in accounts payable and accrued liabilities	7,476	394	(6,731)	(8,984)
(Decrease) increase in provisions	(772)	(79)	126	(208)
(Decrease) increase in income taxes payable	(554)	(951)	476	280
Increase (decrease) in deferred revenue	9,504	(3,927)	26,723	7,318
	<b>10,836</b>	<b>(2,050)</b>	<b>536</b>	<b>(627)</b>