



Enghouse Releases Third Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – September 7, 2017 – Enghouse Systems Limited (TSX:ENGH) today announced its third quarter (unaudited) financial results for the period ended July 31, 2017.

Third quarter revenue was \$82.8 million, an increase of 8.4% over revenue of \$76.4 million in the third quarter last year. On a year to date basis, revenue was \$241.1 million compared to \$229.3 million last year. The revenue increase primarily reflects incremental revenue contributions from acquisitions. On a year to date basis foreign exchange negatively impacted revenue by \$8.2 million compared to last year. Hosted and maintenance services revenue was \$43.4 million in the quarter, an increase of 14.6% over the same period last year.

Operating expenses before special charges related to restructuring of acquired operations were \$35.7 million compared to \$31.4 million in the prior year's third quarter and include incremental operating costs related to acquired operations, net of the unfavourable impact of foreign exchange. Non-cash amortization charges in the quarter were \$7.4 million compared to \$7.0 million in the prior year's third quarter and include amortization charges for acquired software and customer relationships from acquired operations. On a year to date basis operating expenses before special charges were \$101.7 million compared to \$98.9 million and include incremental operating costs related to acquired operations, net of the favourable impact of foreign exchange on operating costs compared to last year to date.

Net income for the quarter was \$11.2 million (\$0.41 per diluted share) compared to the prior year's third quarter net income of \$10.4 million (\$0.38 per diluted share). Results from operating activities for the quarter were \$21.9 million compared to \$20.6 million in the prior year's third quarter.

Enghouse generated strong cash flows from operations of \$25.1 million in the quarter compared to \$16.4 million last year, an increase of 53.6% and \$54.1 million year to date compared to \$43.9 million last year, an increase of 23.2%. The Company closed the quarter with \$103.8 million in cash, cash equivalents and short-term investments, compared to \$85.9 million at October 31, 2016. The cash balance was achieved after year-to-date payments comprised of \$16.2 million (net of cash acquired and holdbacks) for Tollgrade Communications Inc. (acquired April 12, 2017), \$1.7 million to partially settle loans inherited from the Presence Technology, S.L. acquisition (completed October 28, 2016), \$1.0 million for prior period acquisitions, and \$11.9 million in dividends paid.

Adjusted EBITDA for the quarter was \$22.6 million (\$0.83 per diluted share) compared to \$21.6 million (\$0.79 per diluted share) in last year's third quarter. Adjusted EBITDA for the year to date was \$66.3 million (\$2.43 per diluted share) compared to \$60.0 million (\$2.20 per diluted share) last year. This includes the net negative impact of \$3.8 million related to foreign exchange on a year to date basis compared to last year, which would have resulted in a 16.9% increase compared to the prior year excluding the impact of foreign exchange.

The Board of Directors has approved an eligible quarterly dividend of \$0.16 per common share, payable on November 30, 2017 to shareholders of record at the close of business on November 16, 2017.

Enghouse remains committed to its acquisition strategy and continues to seek accretive acquisitions.

A conference call to discuss the results will be held on Friday September 8, 2017 at 8:45 a.m. EST. To participate, please call +1-416-640-5946 or North American Toll-Free +1-866-233-4606. No PIN is required.

About Enghouse

Enghouse Systems Limited is a leading global provider of enterprise software solutions serving a variety of distinct vertical markets. Its strategy is to build a diverse software company through strategic acquisitions targeting the Contact Center, Networks (OSS/BSS) and Transportation/Public Safety sectors. Enghouse shares are listed on the Toronto Stock Exchange under the symbol "ENGH". Further information about Enghouse may be obtained from the Company's website at www.enghouse.com.

Non-GAAP Measures

The Company uses non-GAAP measures to assess its operating performance. Securities regulations require that companies caution readers that earnings and other measures adjusted to a basis other than GAAP do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies. Accordingly, they should not be considered in isolation. The Company uses Adjusted EBITDA as a measure of operating performance. Therefore, Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Adjusted EBITDA is calculated as results from operating activities adjusted for depreciation of property, plant and equipment, and special charges for acquisition related restructuring costs. Management uses Adjusted EBITDA to evaluate operating performance as it excludes amortization of software and intangibles (which is an accounting allocation of the cost of software and intangible assets arising on acquisition), any impact of finance and tax related activities, asset depreciation, other income and restructuring costs primarily related to acquisitions.

Adjusted EBITDA:

The table below reconciles Adjusted EBITDA to the most directly comparable IFRS measure, Results from operating activities:

	Three Months ended		Nine Months ended	
	July 31, 2017	July 31, 2016	July 31, 2017	July 31, 2016
Total Revenue	\$ 82,756	\$ 76,350	\$ 241,139	\$ 229,257
Results from operating activities	21,893	20,581	63,824	56,540
Depreciation of property, plant and equipment	619	830	1,828	2,447
Special charges	133	151	614	970
Adjusted EBITDA	\$ 22,645	\$ 21,562	\$ 66,266	\$ 59,957
Adjusted EBITDA margin	27.4%	28.2%	27.5%	26.2%
Adjusted EBITDA per diluted share	\$ 0.83	\$ 0.79	\$ 2.43	\$ 2.20

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	July 31, 2017	October 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 97,238	\$ 78,436
Short-term investments	6,562	7,423
Accounts receivable, net	81,540	73,588
Prepaid expenses and other assets	9,239	9,720
	194,579	169,167
Non-current assets		
Long-term deposits and accounts receivable, net	1,064	1,357
Property, plant and equipment	5,130	5,696
Intangible assets	82,511	86,632
Goodwill	148,423	144,578
Deferred income tax assets	9,418	11,765
	\$ 441,125	\$ 419,195
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 58,737	\$ 55,440
Income taxes payable	3,585	5,139
Dividends payable	4,314	3,767
Provisions	681	2,111
Deferred revenue	58,525	54,300
Current portion of long-term loans	391	-
	126,233	120,757
Non-current liabilities		
Deferred income tax liabilities	21,582	21,053
Deferred revenue	5,045	4,788
Net employee defined benefit obligation	2,347	-
Long-term loans	2,439	4,049
	157,646	150,647
Shareholders' Equity		
Share capital	70,555	69,555
Contributed surplus	4,497	3,875
Retained earnings	207,194	187,649
Accumulated other comprehensive income	1,233	7,469
Total shareholders' equity	283,479	268,548
Total liabilities and shareholders' equity	\$ 441,125	\$ 419,195

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2017	2016	2017	2016
Revenue				
Software licenses	\$ 24,480	\$ 23,936	\$ 72,469	\$ 69,150
Hosted and maintenance services	43,411	37,879	122,487	113,985
Professional services	12,979	13,510	41,799	42,427
Hardware	1,886	1,025	4,384	3,695
	82,756	76,350	241,139	229,257
Direct costs				
Software licenses	1,749	1,718	5,311	4,078
Services	22,211	21,909	67,060	66,397
Hardware	1,027	603	2,653	2,333
	24,987	24,230	75,024	72,808
Revenue, net of direct costs	57,769	52,120	166,115	156,449
Operating expenses				
Selling, general and administrative	23,599	19,133	66,417	62,189
Research and development	11,525	11,425	33,432	34,303
Depreciation of property, plant and equipment	619	830	1,828	2,447
Special charges	133	151	614	970
	35,876	31,539	102,291	99,909
Results from operating activities	21,893	20,581	63,824	56,540
Amortization of acquired software and customer relationships	(7,397)	(7,009)	(22,365)	(20,857)
Finance income	32	19	131	73
Finance expenses	(142)	(46)	(391)	(214)
Other (expense) income	(50)	9	101	64
	14,336	13,554	41,300	35,606
Provision for income taxes	3,154	3,171	9,358	8,242
Net income for the period	\$ 11,182	\$ 10,383	\$ 31,942	\$ 27,364
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation differences from foreign operations	(12,097)	(1,178)	(4,119)	(10,635)
Transfer to net income of realized gains on available for sale investments	-	-	-	(14)
Unrealized gain (loss) on available for sale investments	5	(609)	(2,440)	(808)
Deferred income tax (expense) recovery	(1)	81	323	109
	(12,093)	(1,706)	(6,236)	(11,348)
Comprehensive (loss) income	\$ (911)	\$ 8,677	\$ 25,706	\$ 16,016
Earnings per share				
Basic	\$ 0.41	\$ 0.39	\$ 1.19	\$ 1.02
Diluted	\$ 0.41	\$ 0.38	\$ 1.17	\$ 1.01

Enghouse Systems Limited

Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars)

(Unaudited)

	Share Capital -number	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Retained earnings \$	Total \$
Balance – November 1, 2016	26,906,962	69,555	3,875	7,469	187,649	268,548
Net income	-	-	-	-	31,942	31,942
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	(4,119)	-	(4,119)
Transfer to net income of realized gains on available for-sale investments	-	-	-	-	-	-
Unrealized loss on available-for-sale investments	-	-	-	(2,440)	-	(2,440)
Deferred income tax recovery	-	-	-	323	-	323
Comprehensive income for the period	-	-	-	(6,236)	31,942	25,706
Employee share options:						
Value of services recognized	-	-	809	-	-	809
Proceeds on issuing shares	53,750	1,000	(187)	-	-	813
Dividends	-	-	-	-	(12,397)	(12,397)
Balance – July 31, 2017	26,960,712	70,555	4,497	1,233	207,194	283,479
Balance – November 1, 2015	26,587,262	64,203	4,029	20,254	154,866	243,352
Net income	-	-	-	-	27,364	27,364
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	(10,635)	-	(10,635)
Transfer to net income of realized gains on available- for-sale investments	-	-	-	(14)	-	(14)
Unrealized loss on available-for-sale investments	-	-	-	(808)	-	(808)
Deferred income tax recovery	-	-	-	109	-	109
Comprehensive income for the period	-	-	-	(11,348)	27,364	16,016
Employee share options:						
Value of services recognized	-	-	748	-	-	748
Proceeds on issuing shares	237,700	3,320	(638)	-	-	2,682
Dividends	-	-	-	-	(10,726)	(10,726)
Balance – July 31, 2016	26,824,962	67,523	4,139	8,906	171,504	252,072

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended July 31		Nine months ended July 31	
	2017	2016	2017	2016
Cash flows from operating activities				
Net income	\$ 11,182	\$ 10,383	\$ 31,942	\$ 27,364
Adjustments for:				
Depreciation of property, plant and equipment	619	830	1,828	2,447
Amortization of acquired software and customer relationships	7,397	7,009	22,365	20,857
Stock-based compensation expense	265	172	809	748
Provision for income taxes	3,154	3,171	9,358	8,242
Finance expenses and other expense/income	192	37	290	150
	22,809	21,602	66,592	59,808
Changes in non-cash operating working capital	4,518	(3,255)	(2,544)	(9,757)
Income taxes paid	(2,218)	(1,996)	(9,904)	(6,101)
Net cash flows from operating activities	25,109	16,351	54,144	43,950
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(106)	(284)	(1,025)	(2,603)
Purchase of other software	(255)	(586)	(1,475)	(1,205)
Acquisitions, net of cash acquired of \$3,637 (2016 - \$2,202)	-	(6,828)	(16,170)	(36,181)
Purchase consideration for prior period acquisitions	(579)	(646)	(1,023)	(4,089)
Net (purchase) sale of short-term investments	(196)	175	(1,526)	(520)
Net cash flows used in investing activities	(1,136)	(8,169)	(21,219)	(44,598)
Cash flows from financing activities				
Issuance of share capital	244	174	813	2,682
Repayment of loans	-	-	(1,667)	-
Payment of cash dividend	(4,312)	(3,754)	(11,850)	(10,162)
Net cash flows used in financing activities	(4,068)	(3,580)	(12,704)	(7,480)
Effect of currency translation adjustments on cash and cash equivalents	(3,571)	784	(1,419)	(489)
Net increase (decrease) in cash and cash equivalents during the period	16,334	5,386	18,802	(8,617)
Cash and cash equivalents - beginning of period	80,904	80,128	78,436	94,131
Cash and cash equivalents - end of period	\$ 97,238	\$ 85,514	\$ 97,238	\$ 85,514

Enghouse Systems Limited

Selected Segment Reporting Information

(In thousands of Canadian dollars)
(Unaudited)

	For the three months ended July 31		For the nine months ended July 31	
	2017	2016	2017	2016
Revenue:				
Asset Management Group	\$ 35,949	\$ 29,709	\$ 99,701	\$ 85,316
Interactive Management Group	46,807	46,641	141,438	143,941
Total	\$ 82,756	\$ 76,350	\$ 241,139	\$ 229,257
Asset Management Group:				
- Segment profit before special charges	\$ 10,708	\$ 8,455	\$ 27,993	\$ 21,683
- Special charges	(133)	(105)	(477)	(618)
Asset Management Group profit	\$ 10,575	\$ 8,350	\$ 27,516	\$ 21,065
Interactive Management Group:				
- Segment profit before special charges	\$ 13,451	\$ 14,548	\$ 41,979	\$ 42,177
- Special charges	-	(46)	(137)	(352)
Interactive Management Group profit	\$ 13,451	\$ 14,502	\$ 41,842	\$ 41,825
Corporate expenses	(2,133)	(2,271)	(5,534)	(6,350)
Results from operating activities	\$ 21,893	\$ 20,581	\$ 41,931	\$ 56,540
Amortization of acquired software and customer relationships	(7,397)	(7,009)	(22,365)	(20,857)
Finance income	32	19	131	73
Finance expenses	(142)	(46)	(391)	(214)
Other (expense) income	(50)	9	101	64
Income before income taxes	\$ 14,336	\$ 13,554	\$ 41,300	\$ 35,606

For further information please contact:

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