



Enghouse Releases First Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – March 7, 2019 – Enghouse Systems Limited (TSX:ENGH) today announced its first quarter (unaudited) and financial results for the period ended January 31, 2019.

First quarter revenue increased to \$86.0 million, compared to revenue of \$85.1 million in the first quarter of the prior year. The revenue increase primarily reflects contributions from acquisitions, which were offset by a decline in license revenue in the Interactive Management Group. Income from operating activities was \$25.8 million compared to \$24.5 million in the prior year's first quarter, an increase of 5.2%. Net income for the quarter was \$15.0 million or \$0.27 per diluted share compared to \$6.8 million or \$0.12 per diluted share in the prior year's first quarter. Last year's first quarter included a one-time charge of U.S. \$6.2 million to reflect the impact of United States Tax Reform.

Adjusted EBITDA for the first quarter was \$26.3 million or \$0.48 per diluted share, compared to \$25.3 million or \$0.46 per diluted share last year, with the increase being attributable to contributions from acquisitions and operating cost synergies.

Operating expenses before special charges related to restructuring of acquired operations were \$33.0 million compared to \$33.9 million in the prior year's first quarter and reflect incremental operating costs related to acquisitions, net of operating cost synergies. Non-cash amortization charges on acquired software and customer relationships from acquired operations were \$7.1 million for the quarter compared to \$7.2 million in the prior year's first quarter.

The Company generated cash flows from operating activities of \$24.2 million compared to \$23.1 million in the first quarter of fiscal 2018, a 4.5% increase. As a result, Enghouse closed the quarter with \$190.5 million in cash, cash equivalents and short-term investments, compared to \$193.9 million at October 31, 2018. The cash balance was achieved after payments of \$4.9 million for cash dividends and \$22.4 million (net of cash acquired) for acquisitions concluded in the current fiscal year and \$1.1 million for acquisitions closed in prior years.

On December 21, 2018, the Company declared a stock dividend 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. This dividend doubled the number of shares outstanding to 54,638,024 as at January 31, 2019 and effectively achieved a two-for-one stock split. Today, the Board of Directors approved a 22% increase to the Company's eligible quarterly dividend from \$0.09 per common share to \$0.11 per common share, payable on May 31, 2019 to shareholders of record at the close of business on May 17, 2019. Enghouse has now increased its dividend in each of the past eleven years, by over 10% each year.

A conference call to discuss the results will be held on Friday, March 8, 2019 at 8:45 a.m. EST. To participate, please call +1-647-792-1278 or North American Toll-Free +1-888-504-7961. No PIN required.

About Enghouse

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

Non-GAAP Measures

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

Adjusted EBITDA:

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

	Three months ended	
	January 31, 2019	January 31, 2018
Total Revenue	\$ 86,045	\$ 85,075
Results from operating activities	\$ 25,795	\$ 24,512
Depreciation of property, plant and equipment	530	670
Special charges	-	129
Adjusted EBITDA	\$ 26,325	\$ 25,311
Adjusted EBITDA margin	30.6%	29.8%
Adjusted EBITDA per diluted share	\$ 0.48	\$ 0.46

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	January 31 2019	October 31 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 178,001	\$ 187,551
Short-term investments	12,536	6,386
Accounts receivable, net	72,003	62,085
Prepaid expenses and other assets	10,572	8,951
	273,112	264,973
Non-current assets:		
Property, plant and equipment, net	5,032	5,279
Intangible assets, net	71,361	59,895
Goodwill	168,339	155,419
Deferred income tax assets	8,598	9,634
	193,330	230,227
Total assets	\$ 526,442	\$ 495,200
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 41,473	\$ 44,271
Income taxes payable	5,634	4,904
Dividends payable	4,917	4,912
Provisions	141	268
Deferred revenue	78,084	64,020
Current portion of long-term loans	-	122
	130,249	118,497
Non-current liabilities:		
Non-current portion of income taxes payable	6,818	7,466
Deferred income tax liabilities	17,752	13,115
Deferred revenue	2,691	2,169
Net employee defined benefit obligation	2,397	2,354
Long-term loans	760	1,475
	30,428	27,579
Total liabilities	160,667	145,076
Shareholders' Equity		
Share capital	79,852	78,997
Contributed surplus	5,138	4,866
Retained earnings	271,362	260,506
Accumulated other comprehensive income	9,423	5,755
Total shareholders' equity	365,775	350,124
Total liabilities and shareholders' equity	\$ 526,442	\$ 495,200

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Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

	Three months ended January 31	
	2019	2018
Revenue		
Software licenses	\$ 18,728	\$ 22,097
Hosted and maintenance services	50,813	46,307
Professional services	13,501	14,377
Hardware	3,003	2,294
	86,045	85,075
Direct costs		
Software licenses	1,361	2,035
Services	23,545	23,184
Hardware	2,306	1,425
	27,212	26,644
Revenue, net of direct costs	58,833	58,431
Operating expenses		
Selling, general and administrative	20,456	21,429
Research and development	12,052	11,691
Depreciation of property, plant and equipment	530	670
Special charges	-	129
	33,038	33,919
Results from operating activities	25,795	24,512
Amortization of acquired software and customer relationships	(7,116)	(7,162)
Foreign exchange losses	(110)	(2,531)
Finance income	498	122
Finance expenses	(31)	(60)
Other income	28	742
Income before income taxes	19,064	15,623
Provision for income taxes	4,100	8,810
Net income for the period	\$ 14,964	\$ 6,813
<u>Items that are or may be reclassified subsequently to profit or loss:</u>		
Foreign currency translation gain from foreign operations	2,887	1,464
Unrealized gain on investments in equity securities designated at FVOCI	-	324
Deferred income tax expense	-	(43)
Other comprehensive income	2,887	1,745
Comprehensive income	\$ 17,851	\$ 8,558
Earnings per share		
Basic	\$ 0.27	\$ 0.13
Diluted	\$ 0.27	\$ 0.12

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)
(Unaudited)

	Share capital # **	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income \$	Retained earnings \$	Total \$
As at November 1, 2018 as previously presented	54,580,024	78,997	4,866	5,755	260,506	350,124
IFRS 9 Transition adjustment	-	-	-	781	(781)	-
IFRS 15 Transition adjustment	-	-	-	-	1,590	1,590
Adjusted balance as at November 1, 2018	54,580,024	78,997	4,866	6,536	261,315	351,714
Net income for the period	-	-	-	-	14,964	14,964
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	2,887	-	2,887
Comprehensive income for the period	-	-	-	2,887	14,964	17,851
Employee share options:						
Value of services recognized	-	-	408	-	-	408
Proceeds on issuing shares	58,000	855	(136)	-	-	719
Dividends declared	-	-	-	-	(4,917)	(4,917)
As at January 31, 2019	54,638,024	79,852	5,138	9,423	271,362	365,775
As at November 1, 2017	53,986,424	71,422	4,715	8,487	221,775	306,399
Net income for the period	-	-	-	-	6,813	6,813
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	1,464	-	1,464
Unrealized gain on investments in equity securities designated at FVOCI*	-	-	-	324	-	324
Deferred income tax expense	-	-	-	(43)	-	(43)
Comprehensive income for the period	-	-	-	1,745	6,813	8,558
Employee share options:						
Value of services recognized	-	-	399	-	-	399
Proceeds on issuing shares	70,400	890	(146)	-	-	744
Dividends declared	-	-	-	-	(4,323)	(4,323)
As at January 31, 2018	54,056,824	72,312	4,968	10,232	224,265	311,777

* Unrealized gain on investments in equity securities designated at FVOCI were originally referred to as available-for-sale investments in the 2018 consolidated financial statements

** 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 January 31, 2019 and 2018.

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Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended January 31	
	2019	2018
Cash flows from operating activities		
Net income	\$ 14,964	\$ 6,813
Adjustments for:		
Depreciation of property, plant and equipment	530	670
Amortization of acquired software and customer relationships	7,116	7,162
Stock-based compensation expense	408	399
Provision for income taxes	4,100	8,810
Finance expenses and other income	3	(682)
	27,121	23,172
Changes in non-cash operating working capital	1,423	2,913
Income taxes paid	(4,390)	(2,980)
Net cash flows from operating activities	24,154	23,105
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(209)	(600)
Acquisitions, net of cash acquired of \$6,139 (2018 - \$1,068)	(22,396)	(2,991)
Purchase consideration for prior period acquisitions	(1,105)	(1,926)
Net (purchase) sale of short-term investments	(6,108)	985
Net cash flows used in investing activities	(29,818)	(4,532)
Cash flows from financing activities		
Issuance of share capital	719	744
Repayment of loans	(957)	(368)
Payment of cash dividend	(4,912)	(4,319)
Net cash flows used in financing activities	(5,150)	(3,943)
Effect of currency translation adjustments on cash and cash equivalents	1,264	698
Net (decrease) increase in cash and cash equivalents during the period	(9,550)	15,328
Cash and cash equivalents - beginning of period	187,551	120,608
Cash and cash equivalents - end of period	\$ 178,001	\$ 135,936

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Selected Segment Reporting Information

(In thousands of Canadian dollars)

(Unaudited)

	For the three months ended January 31	
	2019	2018
Revenue:		
Asset Management Group	\$ 42,581	\$ 36,680
Interactive Management Group	43,464	48,395
Total	\$ 86,045	\$ 85,075
Asset Management Group:		
- Segment profit before special charges	\$14,599	\$11,542
- Special charges	-	(129)
Asset Management Group profit	\$ 14,599	\$ 11,413
Interactive Management Group:		
- Segment profit before special charges	\$ 13,445	\$ 15,597
Interactive Management Group profit	\$ 13,445	\$ 15,597
Corporate expenses	(2,249)	(2,498)
Results from operating activities	\$ 25,795	\$ 24,512
Amortization of acquired software and customer relationships	(7,116)	(7,162)
Foreign exchange loss	(110)	(2,531)
Finance income	498	122
Finance expenses	(31)	(60)
Other income	28	742
Income before income taxes	\$ 19,064	\$ 15,623

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