



Enghouse Systems

Software engineered for results

NEWS

Enghouse Releases Second Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – (June 10, 2014) – Enghouse Systems Limited (TSX:ESL) today announced its unaudited second quarter financial results for the period ended April 30, 2014.

Second quarter revenue was \$55.0 million, an increase of 23% over revenue of \$44.5 million in the second quarter last year. The increase in revenue reflects a combination of contributions from acquisitions, the positive impact of foreign exchange and organic growth. Revenue includes hosted and maintenance services contributions of \$28.3 million in the quarter, an increase of 21% over last year. Adjusted EBITDA for the quarter was \$13.9 million or \$0.52 per diluted share compared to \$10.7 million or \$0.40 per diluted share in last year's second quarter. Results from operating activities for the quarter were \$12.5 million compared to \$9.7 million in the prior year's second quarter, an increase of 29% over the prior year. Net income for the quarter was \$6.6 million or \$0.24 per diluted share compared to the prior year's second quarter net income of \$4.9 million or \$0.19 per share.

On a year to date basis, revenue was \$102.4 million for the year compared to \$86.5 million last year, an increase of 18%, while net income was \$12.7 million or \$0.47 per diluted share compared to \$8.3 million or \$0.32 per diluted share, an increase of 53%. Adjusted EBITDA was \$26.0 million or \$0.97 per diluted share compared to \$20.3 million or \$0.77 per diluted share last year.

Operating expenses increased to \$26.3 million from \$22.3 million in the prior year's second quarter and include incremental operating costs related to acquisitions, foreign exchange and special charges of \$0.8 million related to restructuring of acquired operations. Non-cash amortization charges in the quarter were \$4.2 million compared to \$3.9 million in the prior year's second quarter and include amortization charges for acquired software and customer relationships including acquisitions completed in the current year.

Enghouse closed the quarter with \$101.0 million in cash, cash equivalents and short-term investments, compared to \$90.3 million at October 31, 2013. This is after net cash paid of \$8.2 million for the acquisition of IT Sonix AG, completed March 3, 2014, \$1.8 million for Information Access Technology Inc., acquired November 4, 2013, final payments of \$3.4 million made on previous acquisitions and dividends of \$4.2 million paid year to date. The Company continues to have no long-term debt.

The Board of Directors has approved an eligible quarterly dividend of \$0.10 per common share, payable on August 29, 2014 to shareholders of record at the close of business on August 15, 2014.

Enghouse remains committed to diversifying its revenue stream and continues to seek accretive acquisitions to grow its market share.

A conference call to discuss the results will be held on Wednesday, June 11, 2014 at 8:45 a.m. EST. To participate, please call 1-416-850-9144 or North American Toll-Free 1-866-400-3310. 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 larger and more diverse software company through strategic acquisitions and managed growth. Enghouse shares are listed on the Toronto Stock Exchange under the symbol "ESL". Further information about Enghouse may be obtained from the Company's web site 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 income before income taxes adjusted for depreciation of property, plant and equipment, amortization of acquired software and customer relationships, finance income, finance expenses, other income, 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 income before income taxes:

	Three Months ended		Six Months ended	
	April 30, 2014	April 30, 2013	April 30, 2014	April 30, 2013
Total Revenue	\$ 54,951	\$ 44,511	\$ 102,443	\$ 86,486
Income before income taxes	8,301	6,238	16,003	10,586
Depreciation of property, plant and equipment	566	410	1,095	878
Amortization of acquired software and customer relationships	4,231	3,876	8,141	7,460
Finance income	(124)	(94)	(267)	(427)
Finance expenses	75	96	133	177
Other income	(1)	(448)	(8)	(809)
Special charges	810	599	922	2,414
Adjusted EBITDA	\$ 13,858	\$ 10,677	\$ 26,019	\$ 20,279
Adjusted EBITDA margin	25%	24%	25%	23%
Adjusted EBITDA per diluted share	\$ 0.52	\$ 0.40	\$ 0.97	\$ 0.77

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	April 30, 2014	October 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 82,802	\$ 70,109
Short-term investments	18,212	20,188
Accounts receivable, net	44,454	36,444
Prepaid expenses and other assets	7,766	5,839
	153,234	132,580
Non-current assets:		
Property, plant and equipment	3,944	3,599
Intangible assets	145,228	132,358
Deferred income tax assets	9,718	9,419
	159,190	155,376
Total assets	\$ 312,124	\$ 277,956
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 31,956	\$ 32,659
Income taxes payable	506	1,555
Dividends payable	2,613	2,083
Accrued provisions	3,576	3,427
Deferred revenue	50,992	39,325
	89,643	79,049
Non-current liabilities:		
Deferred income tax liabilities	17,948	14,482
Deferred revenue	2,357	1,797
Total liabilities	109,948	95,328
Shareholders' Equity		
Share capital	59,436	58,514
Contributed surplus	3,332	3,175
Retained earnings	123,830	115,800
Accumulated other comprehensive income	15,578	5,139
Total shareholders' equity	202,176	182,628
Total liabilities and shareholders' equity	\$ 312,124	\$ 277,956

Enhouse Systems Limited

Condensed Consolidated Interim Statements of Operations and Comprehensive Income

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

(Unaudited)

	Three months ended April 30		Six months ended April 30	
	2014	2013	2014	2013
Revenue				
Software licenses	\$ 18,872	\$ 13,624	\$ 34,635	\$ 28,688
Hosted and maintenance services	28,345	23,394	53,359	43,957
Professional services	6,100	6,077	11,232	11,568
Hardware	1,634	1,416	3,217	2,255
	54,951	44,511	102,443	86,468
Direct costs				
Software licenses	1,684	649	2,884	2,078
Services	13,377	10,892	25,093	20,476
Hardware	1,078	1,004	2,097	1,597
	16,139	12,545	30,074	24,151
Revenue, net of direct costs	38,812	31,966	72,369	62,317
Operating expenses				
Selling, general and administrative	15,514	13,517	28,190	26,923
Research and development	9,440	7,772	18,160	15,115
Depreciation of property, plant and equipment	566	410	1,095	878
Special charges	810	599	922	2,414
	26,330	22,298	48,367	45,330
Results from operating activities	12,482	9,668	24,002	16,987
Amortization of acquired software and customer relationships	(4,231)	(3,876)	(8,141)	(7,460)
Finance income	124	94	267	427
Finance expenses	(75)	(96)	(133)	(177)
Other income	1	448	8	809
Income before income taxes	8,301	6,238	16,003	10,586
Provision for income taxes	1,743	1,335	3,273	2,248
Net income for the period	\$ 6,558	\$ 4,903	\$ 12,730	\$ 8,338
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation differences from foreign operations	751	(478)	10,521	383
Transfer to net income of realized gains on available for sale investments	(17)	(443)	(37)	(868)
Unrealized (loss) gain on available for sale investments	(40)	210	(57)	1,097
Deferred income tax recovery (expense)	7	30	12	(122)
Other comprehensive income (loss)	701	(681)	10,439	490
Comprehensive income	\$ 7,259	\$ 4,222	\$ 23,169	\$ 8,828
Earnings per share				
Basic	\$ 0.25	\$ 0.19	\$ 0.49	\$ 0.32
Diluted	\$ 0.24	\$ 0.19	\$ 0.47	\$ 0.32

Enghouse Systems Limited

Condensed Consolidated Interim 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, 2013	26,042,962	58,514	3,175	5,139	115,800	182,628
Net income	-	-	-	-	12,730	12,730
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	10,521	-	10,521
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(37)	-	(37)
Unrealized loss on available-for-sale investments	-	-	-	(57)	-	(57)
Deferred income tax recovery	-	-	-	12	-	12
Comprehensive income for the period	-	-	-	10,439	12,730	23,169
Employee share options:						
Value of services recognized	-	-	364	-	-	364
Proceeds on issuing shares	83,500	922	(207)	-	-	715
Dividends	-	-	-	-	(4,700)	(4,700)
Balance – April 30, 2014	26,126,462	59,436	3,332	15,578	123,830	202,176
Balance – November 1, 2012	25,780,562	55,751	2,847	(29)	99,371	157,940
Net income	-	-	-	-	8,338	8,338
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	383	-	383
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(868)	-	(868)
Unrealized gain on available-for-sale investments	-	-	-	1,097	-	1,097
Deferred income tax expense	-	-	-	(122)	-	(122)
Comprehensive income for the period	-	-	-	490	8,338	8,828
Employee share options:						
Value of services recognized	-	-	423	-	-	423
Proceeds on issuing shares	172,400	1,864	(489)	-	-	1,375
Dividends	-	-	-	-	(3,756)	(3,756)
Balance – April 30, 2013	25,952,962	57,615	2,781	461	103,953	164,810

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended April 30 2014	2013	Six months ended April 30 2014	2013
Cash flows from operating activities				
Net income	\$ 6,558	\$ 4,903	\$ 12,730	\$ 8,338
Adjustments for:				
Depreciation of property, plant and equipment	566	410	1,095	878
Amortization of acquired software and customer relationships	4,231	3,876	8,141	7,460
Stock-based compensation expense	205	286	364	423
Income tax expense	1,743	1,335	3,273	2,248
Finance expenses and other income	74	(352)	125	(632)
	13,377	10,458	25,728	18,715
Changes in non-cash operating working capital	2,874	(544)	1,214	(473)
Income tax paid	(2,385)	(601)	(3,172)	(2,786)
Net cash flows from operating activities	13,866	9,313	23,770	15,456
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(131)	(677)	(788)	(971)
Acquisitions, net of cash acquired of \$969 (\$3,617 - 2013)	(8,282)	(6,846)	(10,060)	(16,831)
Purchase consideration for prior period acquisitions	(3,040)	-	(3,422)	-
Net sale of short-term investments	4,861	8,831	3,246	4,803
Net cash flows used in investing activities	(6,592)	1,308	(11,024)	(12,999)
Cash flows from financing activities				
Issuance of share capital	354	850	715	1,375
Payment of cash dividend	(2,087)	(1,680)	(4,170)	(3,356)
Net cash flows used in financing activities	(1,733)	(830)	(3,455)	(1,981)
Effect of currency translation adjustments on cash and cash equivalents	264	(267)	3,402	39
Net increase in cash and cash equivalents during the period	5,805	9,524	12,693	515
Cash and cash equivalents- beginning of period	76,997	50,535	70,109	59,544
Cash and cash equivalents - end of period	\$ 82,802	\$ 60,059	\$ 82,802	\$ 60,059

Enghouse Systems Limited
Selected Segment Reporting Information

(in thousands of Canadian dollars)
(Unaudited)

	For the three months ended April 30		For the six months ended April 30	
	2014	2013	2014	2013
Revenue:				
Asset Management Group	\$ 11,054	\$ 8,243	\$ 20,746	\$ 13,489
Interactive Management Group	43,897	36,268	81,697	72,979
Total	\$ 54,951	\$ 44,511	\$ 102,443	\$ 86,468
Segment Profit:				
Asset Management Group	\$ 2,748	\$ 747	\$ 4,955	\$ 1,856
Interactive Management Group	11,100	9,963	21,705	17,039
Corporate expenses	(1,366)	(1,042)	(2,658)	(1,908)
Amortization of acquired software and customer relationships	(4,231)	(3,876)	(8,141)	(7,460)
Finance income	124	94	267	427
Finance expenses	(75)	(96)	(133)	(177)
Other income	1	448	8	809
Total	\$ 8,301	\$ 6,238	\$ 16,003	\$ 10,586

For further information please contact:

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