



Enghouse Releases Second Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – June 6, 2019 – Enghouse Systems Limited (TSX:ENGH) today announced its second quarter (unaudited) financial results for the period ended April 30, 2019.

Second quarter revenue increased to \$89.2 million, compared to revenue of \$85.2 million in the second quarter of the prior year. The revenue increase primarily reflects contributions from acquisitions and incremental license revenue in both operating groups. Results from operating activities were \$26.6 million compared to \$24.7 million in the prior year's second quarter, an increase of 7.9%. Net income for the quarter was \$16.5 million or \$0.30 per diluted share compared to \$15.3 million or \$0.28 per diluted share in the prior year's second quarter.

Adjusted EBITDA for the second quarter was \$27.2 million or \$0.49 per diluted share, compared to \$25.4 million or \$0.46 per diluted share last year, with the increase being attributable to incremental revenue contributions from acquisitions and operating cost synergies.

On a year-to-date basis, revenue was \$175.2 million, compared to revenue of \$170.3 million in the prior year. Results from operating activities was \$52.4 million compared to \$49.2 million in the prior year-to-date, an increase of 6.6%. On a year-to-date basis Adjusted EBITDA was \$53.5 million or \$0.97 per diluted share compared to \$50.7 million or \$0.93 per diluted share last year.

Operating expenses before special charges related to restructuring of acquired operations were \$35.1 million compared to \$34.4 million in the prior year's second 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 \$6.9 million for the quarter compared to \$7.4 million in the prior year's second quarter.

The Company generated cash flows from operating activities of \$21.6 million compared to \$21.8 million in the second quarter of fiscal 2018. On a year to date basis, cash flows from operating activities was \$45.8 million, an increase of 1.9% compared to the prior year. As a result, Enghouse closed the quarter with \$205.5 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 \$9.8 million for cash dividends and \$25.6 million (net of cash acquired) for acquisitions concluded in the current fiscal year and \$1.1 million for acquisitions closed in prior years.

Subsequent to quarter end, Enghouse completed the acquisitions of Vidyo, Inc. and Espial Group Inc. The acquisitions extend the Company's product portfolio to include enterprise-class video software solutions to enable customers to more efficiently collaborate and interact, as well as a solution portfolio to help video service providers launch the next generation video offerings for cable, IPTV and App-based IP video services.

Today, the Board of Directors approved the Company's eligible quarterly dividend of \$0.11 per common share, payable on August 30, 2019 to shareholders of record at the close of business on August 16, 2019.

A conference call to discuss the results will be held on Friday, June 7, 2019 at 8:45 a.m. EST. To participate, please call +1-647-792-1278 or North American Toll-Free +1-888-504-7961. Confirmation code - 3100882.

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		Six Months ended	
	April 30, 2019	April 30, 2018	April 30, 2019	April 30, 2018
Total Revenue	\$ 89,203	\$ 85,205	\$ 175,248	\$ 170,280
Results from operating activities	26,621	24,665	52,416	49,177
Depreciation of property, plant and equipment	499	659	1,029	1,329
Special charges	56	52	56	181
Adjusted EBITDA	\$ 27,176	\$ 25,376	\$ 53,501	\$ 50,687
Adjusted EBITDA margin	30.5%	29.8%	30.5%	29.8%
Adjusted EBITDA per diluted share	\$ 0.49	\$ 0.46	\$ 0.97	\$ 0.93

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	April 30, 2019	October 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 196,884	\$ 187,551
Short-term investments	8,635	6,386
Accounts receivable, net	72,518	62,085
Prepaid expenses and other assets	10,995	8,951
	289,032	264,973
Non-current assets:		
Property, plant and equipment, net	5,158	5,279
Intangible assets, net	67,048	59,895
Goodwill	170,092	155,419
Deferred income tax assets	9,021	9,634
	191,319	180,227
Total assets	\$ 540,351	\$ 495,200
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 42,784	\$ 44,271
Income taxes payable	7,388	4,904
Dividends payable	6,011	4,912
Provisions	60	268
Deferred revenue	75,098	64,020
Current portion of long-term loans	-	122
	131,341	118,497
Non-current liabilities:		
Non-current portion of income taxes payable	6,962	7,466
Deferred income tax liabilities	15,454	13,115
Deferred revenue	3,255	2,169
Net employee defined benefit obligation	2,409	2,354
Long-term loans	760	1,475
	28,840	27,579
Total liabilities	160,181	145,076
Shareholders' Equity		
Share capital	79,934	78,997
Contributed surplus	5,831	4,866
Retained earnings	281,888	260,506
Accumulated other comprehensive income	12,517	5,755
Total shareholders' equity	380,170	350,124
Total liabilities and shareholders' equity	\$ 540,351	\$ 495,200

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		Six months ended	
	2019	April 30, 2018	2019	April 30, 2018
Revenue				
Software licenses	\$ 21,519	\$ 20,915	\$ 40,247	\$ 43,012
Hosted and maintenance services	49,470	47,728	100,283	94,035
Professional services	15,145	14,472	28,646	28,849
Hardware	3,069	2,090	6,072	4,384
	89,203	85,205	175,248	170,280
Direct costs				
Software licenses	1,370	1,692	2,731	3,727
Services	24,181	23,161	47,726	46,345
Hardware	1,909	1,244	4,215	2,669
	27,460	26,097	54,672	52,741
Revenue, net of direct costs	61,743	59,108	120,576	117,539
Operating expenses				
Selling, general and administrative	21,440	21,119	41,896	42,548
Research and development	13,127	12,613	25,179	24,304
Depreciation of property, plant and equipment	499	659	1,029	1,329
Special charges	56	52	56	181
	35,122	34,443	68,160	68,362
Results from operating activities	26,621	24,665	52,416	49,177
Amortization of acquired software and customer relationships	(6,884)	(7,356)	(14,000)	(14,518)
Foreign exchange gains and (losses)	674	1,407	564	(1,124)
Finance income	507	66	1,005	188
Finance expenses	(24)	(24)	(55)	(84)
Other income	447	694	475	1,436
Income before income taxes	21,341	19,452	40,405	35,075
Provision for income taxes	4,804	4,134	8,904	12,944
Net income for the period	\$ 16,537	\$ 15,318	\$ 31,501	\$ 22,131
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation gain from foreign operations	3,094	4,052	5,981	5,516
Unrealized loss on investments in equity securities designated at FVOCI	-	(393)	-	(69)
Deferred income tax recovery	-	52	-	9
Other comprehensive income	3,094	3,711	5,981	5,456
Comprehensive income	\$ 19,631	\$ 19,029	\$ 37,482	\$ 27,587
Earnings per share				
Basic	\$ 0.30	\$ 0.28	\$ 0.58	\$ 0.41
Diluted	\$ 0.30	\$ 0.28	\$ 0.57	\$ 0.41

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	-	-	-	-	31,501	31,501
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	5,981	-	5,981
Comprehensive income for the period	-	-	-	5,981	31,501	37,482
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)
As at April 30, 2019	54,648,024	79,934	5,831	12,517	281,888	380,170
As at November 1, 2017	53,986,424	71,422	4,715	8,487	221,775	306,399
Net income for the period	-	-	-	-	22,131	22,131
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	5,516	-	5,516
Unrealized gain on investments in equity securities designated at FVOCI*	-	-	-	(69)	-	(69)
Deferred income tax expense	-	-	-	9	-	9
Comprehensive income for the period	-	-	-	5,456	22,131	27,587
Employee share options:						
Value of services recognized	-	-	935	-	-	935
Proceeds on issuing shares	234,800	2,587	(459)	-	-	2,128
Dividends declared	-	-	-	-	(9,203)	(9,203)
As at April 30, 2018	54,221,224	74,009	5,191	13,943	234,703	327,846

* Unrealized loss on investments in equity securities designated at FVOCI was 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 April 30, 2019 and 2018.

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended		Six months ended	
	2019	April 30, 2018	2019	April 30, 2018
Cash flows from operating activities				
Net income for the period	\$ 16,537	\$ 15,318	\$ 31,501	\$ 22,131
Adjustments for:				
Depreciation of property, plant and equipment	499	659	1,029	1,329
Amortization of acquired software and customer relationships	6,884	7,356	14,000	14,518
Stock-based compensation expense	709	536	1,117	935
Provision for income taxes	4,804	4,134	8,904	12,944
Finance expenses and other income	(423)	(670)	(420)	(1,352)
	29,010	27,333	56,131	50,505
Changes in non-cash operating working capital	(2,050)	(2,346)	(627)	567
Income taxes paid	(5,330)	(3,145)	(9,720)	(6,125)
Net cash flows from operating activities	21,630	21,842	45,784	44,947
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(572)	(331)	(781)	(931)
Acquisitions, net of cash acquired of \$143 (Q2/18 - \$167), 2019 - \$6,282 (2018 - \$1,235)	(3,170)	(6,684)	(25,566)	(9,675)
Purchase consideration for prior period acquisitions	-	(3,153)	(1,105)	(5,079)
Net sale (purchase) of short-term investments	4,255	(253)	(1,853)	732
Net cash flows from (used in) investing activities	513	(10,421)	(29,305)	(14,953)
Cash flows from financing activities				
Issuance of share capital	66	1,384	785	2,128
Repayment of loans	-	(33)	(957)	(401)
Payment of cash dividend	(4,917)	(4,324)	(9,829)	(8,643)
Net cash flows used in financing activities	(4,851)	(2,973)	(10,001)	(6,916)
Effect of currency translation adjustments on cash and cash equivalents	1,591	1,231	2,855	1,929
Net increase in cash and cash equivalents during the period	18,883	9,679	9,333	25,007
Cash and cash equivalents - beginning of period	178,001	135,936	187,551	120,608
Cash and cash equivalents - end of period	\$ 196,884	\$ 145,615	\$ 196,884	\$ 145,615

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,	
	2019	2018	2019	2018
Revenue:				
Asset Management Group	\$ 44,673	\$ 37,651	\$ 87,254	\$ 74,331
Interactive Management Group	44,530	47,554	87,994	95,949
Total	\$ 89,203	\$ 85,205	\$ 175,248	\$ 170,280
Asset Management Group:				
- Segment profit before special charges	\$ 17,018	\$ 13,015	\$ 31,617	\$ 24,557
- Special charges	-	(52)	-	(181)
Asset Management Group profit	\$ 17,018	\$ 12,963	\$ 31,617	\$ 24,376
Interactive Management Group:				
- Segment profit before special charges	\$ 12,854	\$ 14,600	\$ 26,299	\$ 30,197
- Special charges	(56)	-	(56)	-
Interactive Management Group profit	\$ 12,798	\$ 14,600	\$ 26,243	\$ 30,197
Corporate expenses	(3,195)	(2,898)	(5,444)	(5,396)
Results from operating activities	\$ 26,621	\$ 24,665	\$ 52,416	\$ 49,177
Amortization of acquired software and customer relationships	(6,884)	(7,356)	(14,000)	(14,518)
Foreign exchange gain/(loss)	674	1,407	564	(1,124)
Finance income	507	66	1,005	188
Finance expenses	(24)	(24)	(55)	(84)
Other income	447	694	475	1,436
Income before income taxes	\$ 21,341	\$ 19,452	\$ 40,405	\$ 35,075

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