



Enghouse Releases Third Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – (September 10, 2014) – Enghouse Systems Limited (TSX:ESL) today announced its unaudited third quarter financial results for the period ended July 31, 2014.

Third quarter revenue was \$55.5 million, an increase of 20% over revenue of \$46.2 million in the third 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 \$29.4 million in the quarter, an increase of 25% over last year. Adjusted EBITDA for the quarter was \$14.4 million or \$0.53 per diluted share compared to \$12.2 million or \$0.46 per diluted share in last year's third quarter. Results from operating activities for the quarter were \$13.5 million compared to \$11.7 million in the prior year's third quarter, an increase of 15% over the prior year. Net income for the quarter was \$7.2 million or \$0.27 per diluted share compared to the prior year's third quarter net income of \$6.3 million or \$0.24 per share.

On a year to date basis, revenue was \$157.9 million compared to \$132.7 million last year, an increase of 19%, while net income was \$19.9 million or \$0.74 per diluted share compared to \$14.6 million or \$0.55 per diluted share, an increase of 36%. Adjusted EBITDA was \$40.4 million or \$1.50 per diluted share compared to \$32.5 million or \$1.23 per diluted share last year.

Operating expenses increased to \$26.0 million from \$21.2 million in the prior year's third quarter and include incremental operating costs related to acquisitions, foreign exchange and special charges of \$0.3 million related to restructuring of acquired operations. Non-cash amortization charges in the quarter were \$4.3 million compared to \$4.0 million in the prior year's third quarter and include amortization charges for acquired software and customer relationships including acquisitions completed in the current year.

Enghouse generated cash flows from operating activities of \$17.0 million in the quarter and \$40.7 million year to date compared to \$14.8 million in the prior year's third quarter and \$30.3 million in fiscal 2013. The Company closed the quarter with \$105.0 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 \$7.5 million for the acquisition of Basset AB, completed July 1, 2014, \$8.3 million for IT Sonix AG, completed March 3, 2014, \$1.8 million for Information Access Technology Inc., acquired November 4, 2013 and final payments of \$4.0 million made on previous acquisitions. Dividends of \$6.8 million have also been paid year to date. The Company continues to have no debt.

The Board of Directors has approved an eligible quarterly dividend of \$0.10 per common share, payable on November 28, 2014 to shareholders of record at the close of business on November 14, 2014.

Shortly after quarter end, the Company completed the acquisition of Jinny Software Limited ("Jinny") for a purchase price of approximately \$19.3 million. Combined with the acquisition of Basset AB on July 1, 2014, the Company has significantly expanded the scale of its Asset Management Group. Jinny has operations in Latin America, Africa and the Middle East, while Basset is based in Sweden and has operations in Europe and the Middle East. Enghouse remains committed to further 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 Thursday, September 11, 2014 at 8:45 a.m. EST. To participate, please call 1-416-640-5946 or North American Toll-Free 1-866-233-4585. 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		Nine Months ended	
	July 31, 2014	July 31, 2013	July 31, 2014	July 31, 2013
Total Revenue	\$ 55,488	\$ 46,247	\$157,931	\$ 132,715
Income before income taxes	9,250	8,020	25,253	18,606
Depreciation of property, plant and equipment	577	425	1,672	1,303
Amortization of acquired software and customer relationships	4,273	4,025	12,414	11,485
Finance income	(119)	(90)	(386)	(517)
Finance expenses	99	81	232	258
Other income	(35)	(307)	(43)	(1,116)
Special charges	334	77	1,256	2,491
Adjusted EBITDA	\$ 14,379	\$ 12,231	\$ 40,398	\$ 32,510
Adjusted EBITDA margin	26%	26%	26%	24%
Adjusted EBITDA per diluted share	\$ 0.53	\$ 0.46	\$ 1.50	\$ 1.23

Enghouse Systems Limited

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	July 31, 2014	October 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 85,331	\$ 70,109
Short-term investments	19,627	20,188
Accounts receivable, net	39,134	36,444
Income tax receivable	203	-
Prepaid expenses and other assets	7,651	5,839
	151,946	132,580
Non-current assets:		
Property, plant and equipment	3,783	3,599
Intangible assets	150,203	132,358
Deferred income tax assets	7,137	9,419
	157,123	145,376
Total assets	\$ 313,069	\$ 277,956
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 35,752	\$ 32,659
Income taxes payable	-	1,555
Dividends payable	2,614	2,083
Accrued provisions	3,601	3,427
Deferred revenue	48,380	39,325
	90,347	79,049
Non-current liabilities:		
Deferred income tax liabilities	17,693	14,482
Deferred revenue	2,235	1,797
Total liabilities	110,275	95,328
Shareholders' Equity		
Share capital	59,567	58,514
Contributed surplus	3,616	3,175
Retained earnings	128,431	115,800
Accumulated other comprehensive income	11,180	5,139
Total shareholders' equity	202,794	182,628
Total liabilities and shareholders' equity	\$ 313,069	\$ 277,956

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	
	2014	2013	2014	2013
Revenue				
Software licenses	\$ 18,172	\$ 15,189	\$ 52,807	\$ 43,877
Hosted and maintenance services	29,424	23,543	82,783	67,500
Professional services	6,617	6,013	17,849	17,581
Hardware	1,275	1,502	4,492	3,757
	55,488	46,247	157,931	132,715
Direct costs				
Software licenses	1,142	1,113	4,026	3,191
Services	14,071	11,243	39,164	31,719
Hardware	838	941	2,935	2,538
	16,051	13,297	46,125	37,448
Revenue, net of direct costs	39,437	32,950	111,806	95,267
Operating expenses				
Selling, general and administrative	16,202	13,298	44,392	40,221
Research and development	8,856	7,421	27,016	22,536
Depreciation of property, plant and equipment	577	425	1,672	1,303
Special charges	334	77	1,256	2,491
	25,969	21,221	74,336	66,551
Results from operating activities	13,468	11,729	37,470	28,716
Amortization of acquired software and customer relationships	(4,273)	(4,025)	(12,414)	(11,485)
Finance income	119	90	386	517
Finance expenses	(99)	(81)	(232)	(258)
Other income	35	307	43	1,116
	9,250	8,020	25,253	18,606
Income before income taxes	9,250	8,020	25,253	18,606
Provision for income taxes	2,035	1,723	5,308	3,971
Net income for the period	\$ 7,215	\$ 6,297	\$ 19,945	\$ 14,635
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation differences from foreign operations	(4,376)	(162)	6,145	221
Transfer to net income of realized gains on available for sale investments	(19)	(1,333)	(56)	(2,201)
Unrealized (loss) gain on available for sale investments	(6)	1,275	(64)	2,267
Deferred income tax recovery (expense)	3	8	16	(9)
	(4,398)	(212)	6,041	278
Other comprehensive income (loss)				
	\$ 2,817	\$ 6,085	\$ 25,986	\$ 14,913
Comprehensive income				
Earnings per share				
Basic	\$ 0.28	\$ 0.24	\$ 0.76	\$ 0.57
Diluted	\$ 0.27	\$ 0.24	\$ 0.74	\$ 0.55

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	-	-	-	-	19,945	19,945
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	6,145	-	6,145
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(56)	-	(56)
Unrealized loss on available-for-sale investments	-	-	-	(64)	-	(64)
Deferred income tax recovery	-	-	-	16	-	16
Comprehensive income for the period	-	-	-	6,041	19,945	25,986
Employee share options:						
Value of services recognized	-	-	676	-	-	676
Proceeds on issuing shares	98,500	1,053	(235)	-	-	818
Dividends	-	-	-	-	(7,314)	(7,314)
Balance – July 31, 2014	26,141,462	59,567	3,616	11,180	128,431	202,794
Balance – November 1, 2012	25,780,562	55,751	2,847	(29)	99,371	157,940
Net income	-	-	-	-	14,635	14,635
Other Comprehensive Income:						
Cumulative Translation Adjustment	-	-	-	221	-	221
Transfer to net income of realized gains on available-for-sale investments	-	-	-	(2,201)	-	(2,201)
Unrealized loss on available-for-sale investments	-	-	-	2,267	-	2,267
Deferred income tax expense	-	-	-	(9)	-	(9)
Comprehensive income for the period	-	-	-	278	14,635	14,913
Employee share options:						
Value of services recognized	-	-	704	-	-	704
Proceeds on issuing shares	207,400	2,128	(544)	-	-	1,584
Dividends	-	-	-	-	(5,835)	(5,835)
Balance – July 31, 2013	25,987,962	57,879	3,007	249	108,171	169,306

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	
	2014	2013	2014	2013
Cash flows from operating activities				
Net income	\$ 7,215	\$ 6,297	\$ 19,945	\$ 14,635
Adjustments for:				
Depreciation of property, plant and equipment	577	425	1,672	1,303
Amortization of acquired software and customer relationships	4,273	4,025	12,414	11,485
Stock-based compensation expense	312	281	676	704
Income tax expense	2,035	1,723	5,308	3,971
Finance expenses and other income	64	(226)	189	(858)
	14,476	12,525	40,204	31,240
Changes in non-cash operating working capital	3,646	3,029	4,860	2,556
Income tax paid	(1,145)	(724)	(4,317)	(3,510)
Net cash flows from operating activities	16,977	14,830	40,747	30,286
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(525)	(194)	(1,313)	(1,165)
Acquisitions, net of cash acquired of \$969 (\$3,617 - 2013)	(7,469)	(381)	(17,529)	(17,212)
Purchase consideration for prior period acquisitions	(579)	(2,593)	(4,001)	(2,593)
Net sale of short-term investments	(1,955)	(10,881)	1,291	(6,078)
Net cash flows used in investing activities	(10,528)	(14,049)	(21,552)	(27,048)
Cash flows from financing activities				
Issuance of share capital	103	209	818	1,584
Payment of cash dividend	(2,613)	(2,076)	(6,783)	(5,432)
Net cash flows used in financing activities	(2,510)	(1,867)	(5,965)	(3,848)
Effect of currency translation adjustments on cash and cash equivalents	(1,410)	(181)	1,992	(142)
Net increase (decrease) in cash and cash equivalents during the period	2,529	(1,267)	15,222	(752)
Cash and cash equivalents- beginning of period	82,802	60,059	70,109	59,544
Cash and cash equivalents - end of period	\$ 85,331	\$ 58,792	\$ 85,331	\$ 58,792

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	
	2014	2013	2014	2013
Revenue:				
Asset Management Group	\$ 10,891	\$ 9,983	\$ 31,637	\$ 23,472
Interactive Management Group	44,597	36,264	126,294	109,243
Total	\$ 55,488	\$ 46,247	\$ 157,931	\$ 132,715
Segment Profit:				
Asset Management Group	\$ 2,501	\$ 2,714	\$ 7,455	\$ 4,571
Interactive Management Group	12,475	10,273	34,181	27,311
Corporate expenses	(1,508)	(1,258)	(4,166)	(3,166)
Amortization of acquired software and customer relationships	(4,273)	(4,025)	(12,414)	(11,485)
Finance income	119	90	386	517
Finance expenses	(99)	(81)	(232)	(258)
Other income	35	307	43	1,116
Total	\$ 9,250	\$ 8,020	\$ 25,253	\$ 18,606

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