



Enghouse Releases Third Quarter Results

FOR IMMEDIATE RELEASE

Markham, Ontario – September 12, 2019 – Enghouse Systems Limited (TSX:ENGH) today announced its third quarter (unaudited) and financial results for the period ended July 31, 2019.

Third quarter revenue was \$101.3 million, a 16.8% increase compared to revenue of \$86.7 million in the third quarter of the prior year. The revenue increase primarily reflects contributions from acquisitions. Results from operating activities were \$27.0 million compared to \$26.7 million in the prior year's third quarter, which reflects the impact of changes in product mix on gross margins and, as expected, lower operating margin contributions from acquisitions in their initial period after acquisition. Net income for the quarter was \$14.7 million or \$0.27 per diluted share with increased amortization and a foreign exchange loss.

Adjusted EBITDA for the third quarter was \$28.1 million or \$0.51 per diluted share, compared to \$27.4 million or \$0.50 per diluted share last year, with the increase being attributable to incremental revenue contributions from acquisitions.

On a year-to-date basis, revenue was \$276.5 million, compared to revenue of \$257.0 million in the prior year. Results from operating activities were \$79.4 million compared to \$75.9 million in the prior year-to-date, an increase of 4.7%. On a year-to-date basis Adjusted EBITDA was \$81.6 million or \$1.48 per diluted share compared to \$78.1 million or \$1.43 per diluted share last year.

Operating expenses before special charges related to restructuring of acquired operations were \$42.0 million compared to \$34.1 million in the prior year's third quarter and reflect incremental operating costs related to recent acquisitions. Non-cash amortization charges on acquired software and customer relationships from acquired operations were \$8.5 million for the quarter compared to \$7.2 million in the prior year's third quarter.

The Company generated cash flows from operating activities of \$13.9 million compared to \$29.3 million in the third quarter of fiscal 2018. On a year to date basis, cash flows from operating activities was \$59.6 million. This relates to unfavorable working capital adjustments from new acquisitions which, when acquired, had severance obligations and significant payable balances that have since been settled. Enghouse closed the quarter with \$141.3 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 \$15.8 million for cash dividends and \$94.2 million (net of cash acquired) for acquisitions concluded in the current fiscal year and \$1.1 million for acquisitions closed in prior years.

During the quarter, Enghouse completed the acquisitions of Vidyo Inc. and Espial Group Inc. for an aggregate purchase price of \$68.7 million, net of cash acquired. These acquisitions reported revenue consistent with expectations and were accretive to earnings in the quarter.

Today, the Board of Directors approved the Company's eligible quarterly dividend of \$0.11 per common share, payable on November 29, 2019 to shareholders of record at the close of business on November 15, 2019.

A conference call to discuss the results will be held on Friday, September 13, 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: 7941353.

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		Nine months ended	
	July 31, 2019	July 31, 2018	July 31, 2019	July 31, 2018
Total Revenue	\$ 101,274	\$ 86,743	\$ 276,522	\$ 257,023
Results from operating activities	27,017	26,724	79,433	75,901
Depreciation of property, plant and equipment	570	540	1,599	1,869
Special charges	470	152	526	333
Adjusted EBITDA	\$ 28,057	\$ 27,416	\$ 81,558	\$ 78,103
Adjusted EBITDA margin	27.7%	31.6%	29.5%	30.4%
Adjusted EBITDA per diluted share	\$ 0.51	\$ 0.50	\$ 1.48	\$ 1.43

Condensed Consolidated Interim Statements of Financial Position

(in thousands of Canadian dollars)

(Unaudited)

	July 31 2019	October 31 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 133,422	\$ 187,551
Short-term investments	7,912	6,386
Accounts receivable, net	81,048	62,085
Prepaid expenses and other assets	11,224	8,951
	233,606	264,973
Non-current assets:		
Property, plant and equipment, net	6,225	5,279
Intangible assets, net	122,489	59,895
Goodwill	203,562	155,419
Deferred income tax assets	9,202	9,634
	\$ 575,084	\$ 495,200
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 53,588	\$ 44,271
Income taxes payable	9,740	4,904
Dividends payable	6,016	4,912
Provisions	6,617	268
Deferred revenue	87,693	64,020
Current portion of long-term loans	-	122
	163,654	118,497
Non-current liabilities:		
Non-current portion of income taxes payable	5,079	7,466
Deferred income tax liabilities	20,952	13,115
Deferred revenue	2,270	2,169
Net employee defined benefit obligation	2,354	2,354
Long-term loans	738	1,475
	195,047	145,076
Shareholders' Equity		
Share capital	80,645	78,997
Contributed surplus	6,289	4,866
Retained earnings	290,533	260,506
Accumulated other comprehensive income	2,570	5,755
Total shareholders' equity	380,037	350,124
Total liabilities and shareholders' equity	\$ 575,084	\$ 495,200

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	
	2019	2018	2019	2018
Revenue				
Software licenses	\$ 22,081	\$ 22,410	\$ 62,328	\$ 65,422
Hosted and maintenance services	58,416	48,586	158,699	142,621
Professional services	15,281	14,123	43,927	42,972
Hardware	5,496	1,624	11,568	6,008
	101,274	86,743	276,522	257,023
Direct costs				
Software licenses	1,327	1,740	4,058	5,467
Services	26,399	22,990	74,125	69,335
Hardware	4,023	1,058	8,238	3,727
	31,749	25,788	86,421	78,529
Revenue, net of direct costs	69,525	60,955	190,101	178,494
Operating expenses				
Selling, general and administrative	24,890	21,884	66,786	64,432
Research and development	16,578	11,655	41,757	35,959
Depreciation of property, plant and equipment	570	540	1,599	1,869
Special charges	470	152	526	333
	42,508	34,231	110,668	102,593
Results from operating activities	27,017	26,724	79,433	75,901
Amortization of acquired software and customer relationships	(8,453)	(7,245)	(22,453)	(21,763)
Foreign exchange (losses) and gains	(131)	659	433	(465)
Finance income	469	90	1,474	278
Finance expenses	(11)	(50)	(66)	(134)
Other (expenses) income	(64)	504	411	1,940
	18,827	20,682	59,232	55,757
Income before income taxes	18,827	20,682	59,232	55,757
Provision for income taxes	4,166	4,620	13,070	17,564
Net income for the period	\$ 14,661	\$ 16,062	\$ 46,162	\$ 38,193
<u>Items that are or may be reclassified subsequently to profit or loss:</u>				
Foreign currency translation (loss) gain from foreign operations	(9,947)	(3,929)	(3,966)	1,331
Unrealized gain on investments in equity securities designated at FVOCI	-	625	-	851
Deferred income tax expense	-	(83)	-	(113)
	(9,947)	(3,387)	(3,966)	2,069
Other comprehensive (loss) income	(9,947)	(3,387)	(3,966)	2,069
Comprehensive income	\$ 4,714	\$ 12,675	\$ 42,196	\$ 40,262
Earnings per share				
Basic	\$ 0.27	\$ 0.30	\$ 0.84	\$ 0.71
Diluted	\$ 0.27	\$ 0.29	\$ 0.84	\$ 0.70

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(in thousands of Canadian dollars)
(Unaudited)

	Share capital # **	Share capital \$	Contributed surplus \$	Accumulated other comprehensive (loss) 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	-	-	-	-	46,162	46,162
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	(3,966)	-	(3,966)
Comprehensive income for the period	-	-	-	(3,966)	46,162	42,196
Employee share options:						
Value of services recognized	-	-	1,723	-	-	1,723
Proceeds on issuing shares	113,500	1,648	(300)	-	-	1,348
Dividends declared	-	-	-	-	(16,944)	(16,944)
As at July 31, 2019	54,693,524	80,645	6,289	2,570	290,533	380,037
As at November 1, 2017	53,986,424	71,422	4,715	8,487	221,775	306,399
Net income for the period	-	-	-	-	38,193	38,193
Other comprehensive income (net of tax):						
Cumulative translation adjustment	-	-	-	1,331	-	1,331
Unrealized gain on investments in equity securities designated at FVOCI*	-	-	-	851	-	851
Deferred income tax expense	-	-	-	(113)	-	(113)
Comprehensive income for the period	-	-	-	2,069	38,193	40,262
Employee share options:						
Value of services recognized	-	-	1,171	-	-	1,171
Proceeds on issuing shares	445,000	5,890	(1,063)	-	-	4,827
Dividends declared	-	-	-	-	(14,102)	(14,102)
As at July 31, 2018	54,431,424	77,312	4,823	10,556	245,866	338,557

* 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 July 31, 2019 and 2018.

Condensed Consolidated Interim Statements of Cash Flows

(in thousands of Canadian dollars)

(Unaudited)

	Three months ended		Nine months ended	
	2019	July 31 2018	2019	July 31 2018
Cash flows from operating activities				
Net income for the period	\$ 14,661	\$ 16,062	\$ 46,162	\$ 38,193
Adjustments for:				
Depreciation of property, plant and equipment	570	540	1,599	1,869
Amortization of acquired software and customer relationships	8,453	7,245	22,453	21,763
Stock-based compensation expense	606	236	1,723	1,171
Provision for income taxes	4,166	4,620	13,070	17,564
Finance expenses and other expenses (income)	75	(454)	(345)	(1,806)
	28,531	28,249	84,662	78,754
Changes in non-cash operating working capital	(10,174)	6,041	(10,801)	6,608
Income taxes paid	(4,495)	(5,016)	(14,215)	(11,141)
Net cash flows from operating activities	13,862	29,274	59,646	74,221
Cash flows from investing activities				
Purchase of property, plant and equipment, net	(559)	(607)	(1,340)	(1,538)
Acquisitions, net of cash acquired of \$27,683 (Q3/18 - \$Nil), YTD 2019 - \$33,965 (2018 - \$1,235)	(68,667)	-	(94,233)	(9,675)
Purchase consideration for prior period acquisitions	-	(1,866)	(1,105)	(6,945)
Net sale (purchase) of short-term investments	743	1,754	(1,110)	2,486
Net cash flows used in investing activities	(68,483)	(719)	(97,788)	(15,672)
Cash flows from financing activities				
Issuance of share capital	563	2,699	1,348	4,827
Repayment of loans	-	(334)	(957)	(735)
Payment of cash dividend	(6,011)	(4,880)	(15,840)	(13,523)
Net cash flows used in financing activities	(5,448)	(2,515)	(15,449)	(9,431)
Effect of currency translation adjustments on cash and cash equivalents	(3,393)	(1,890)	(538)	39
Net (decrease) increase in cash and cash equivalents during the period	(63,462)	24,150	(54,129)	49,157
Cash and cash equivalents - beginning of period	196,884	145,615	187,551	120,608
Cash and cash equivalents - end of period	\$ 133,422	\$ 169,765	\$ 133,422	\$ 169,765

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	
	2019	2018	2019	2018
Revenue:				
Asset Management Group	\$ 44,405	\$ 39,194	\$ 131,659	\$ 113,525
Interactive Management Group	56,869	47,549	144,863	143,498
Total	\$ 101,274	\$ 86,743	\$ 276,522	\$ 257,023
Asset Management Group:				
- Segment profit before special charges	\$ 11,726	\$ 14,114	\$ 43,343	\$ 38,670
- Special charges	(159)	(152)	(159)	(333)
Asset Management Group profit	\$ 11,567	\$ 13,962	\$ 43,184	\$ 38,337
Interactive Management Group:				
- Segment profit before special charges	\$ 18,727	\$ 15,724	\$ 45,026	\$ 45,921
- Special charges	(311)	-	(367)	-
Interactive Management Group profit	\$ 18,416	\$ 15,724	\$ 44,659	\$ 45,921
Corporate expenses	(2,966)	(2,962)	(8,410)	(8,357)
Results from operating activities	\$ 27,017	\$ 26,724	\$ 79,433	\$ 84,258
Amortization of acquired software and customer relationships	(8,453)	(7,245)	(22,453)	(21,765)
Foreign exchange (loss) gain	(131)	659	433	(465)
Finance income	469	90	1,474	278
Finance expenses	(11)	(50)	(66)	(134)
Other (expenses) income	(64)	504	411	1,940
Income before income taxes	\$ 18,827	\$ 20,682	\$ 59,232	\$ 55,757

For further information please contact:

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