



April 20, 2017

EFI Reports First Quarter 2017 Results

FREMONT, Calif., April 20, 2017 (GLOBE NEWSWIRE) -- Electronics For Imaging, Inc. (Nasdaq:EFII), a world leader in customer-focused digital printing innovation, today announced its preliminary results for the first quarter of 2017.

For the quarter ended March 31, 2017, the Company reported revenue of \$228.7 million, down 2% compared to first quarter 2016 revenue of \$234.1 million. GAAP net income was \$5.5 million, up 160% compared to \$2.1 million for the same period in 2016 or \$0.12 per diluted share, up 200% compared to \$0.04 per diluted share for the same period in 2016. Non-GAAP net income was \$25.8 million, down 2% compared to non-GAAP net income of \$26.3 million for the same period in 2016 or \$0.55 per diluted share, flat compared to \$0.55 per diluted share for the same period in 2016. Cash flow from operating activities was \$14.9 million, up 66% compared to \$9.0 million during the same period in 2016.

"We are pleased that our financial discipline allowed EFI to achieve the midpoint of our non-GAAP EPS outlook despite a slow start to the year," said Guy Gecht, CEO of EFI. "To address the challenges we faced in Q1 we are taking steps to better execute on our pipeline, while further leveraging the solid growth in the textile printing business, the start of the Nozomi beta rollout and our new product introductions in the back half of the year."

EFI will discuss the Company's financial results by conference call at 2:00 p.m. PDT today. Instructions for listening to the conference call over the Web are available on the investor relations portion of EFI's website at www.efi.com.

About EFI

EFI™ is a global technology company, based in Silicon Valley, and is leading the worldwide transformation from analog to digital imaging. We are passionate about fueling customer success with products that increase competitiveness and boost productivity. To do that, we develop breakthrough technologies for the manufacturing of signage, packaging, textiles, ceramic tiles, and personalized documents, with a wide range of printers, inks, digital front ends, and a comprehensive business and production workflow suite that transforms and streamlines the entire production process. (www.efi.com)

Safe Harbor for Forward Looking Statements

Our first quarter 2017 GAAP EPS results of \$0.12 excludes a stock-based compensation expense of approximately \$1.2 million that is currently under review for determination of whether to include that expense in the first or second quarter of 2017. The resolution of this review could negatively impact our reported first quarter 2017 GAAP EPS results by up to 3 cents per share.

Certain statements in this press release are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements other than statements of historical fact including words such as "address", "anticipate", "believe", "consider", "continue", "develop", "estimate", "expect", "further", "look", and "plan" and statements in the future tense are forward looking statements. The statements in this press release that could be deemed forward-looking statements include statements regarding EFI's strategy, plans, expectations regarding its revenue growth, introduction of new products, product portfolio, productivity, future opportunities for EFI and its customers, demand for products, and any statements or assumptions underlying any of the foregoing.

Forward-looking statements are subject to certain risks and uncertainties that could cause our actual future results to differ materially, or cause a material adverse impact on our results. Potential risks and uncertainties include, but are not necessarily limited to, potential differences between the results disclosed in this release and the Company's final results when disclosed in its Quarterly Report on Form 10-Q as a result of developments that may arise between now and the disclosure of the final results; intense competition in each of our businesses, including competition from products developed by EFI's customers; unforeseen expenses; fluctuations in currency exchange rates; the difficulty of aligning expense levels with revenue; management's ability to forecast revenues, expenses and earnings; our ability to successfully integrate

acquired businesses; changes in the mix of products sold; the uncertainty of market acceptance of new product introductions; challenge of managing asset levels, including inventory and variations in inventory levels; the uncertainty of continued success in technological advances; the challenges of obtaining timely, efficient and quality product manufacturing and supply of components; any world-wide financial and economic difficulties and downturns; adverse tax-related matters such as tax audits, changes in our effective tax rate or new tax legislative proposals; the unpredictability of development schedules and commercialization of products by the leading printer manufacturers and declines or delays in demand for our related products; the impact of changing consumer preferences on demand for our textile products; litigation involving intellectual property rights or other related matters; the uncertainty regarding the amount and timing of future share repurchases by EFI and the origin of funds used for such repurchases; the market prices of EFI's common stock prior to, during and after the share repurchases; and any other risk factors that may be included from time to time in the Company's SEC reports.

The statements in this press release are made as of the date of this press release and are subject to revision until the Company will have filed its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. EFI undertakes no obligation to update information contained in this press release.

For further information regarding risks and uncertainties associated with EFI's businesses, please refer to the section entitled "Risk Factors" in the Company's SEC filings, including, but not limited to, its annual report on Form 10-K and its quarterly reports on Form 10-Q, copies of which may be obtained by contacting EFI's Investor Relations Department by phone at 650-357-3828 or by email at investor.relations@efi.com or EFI's Investor Relations website at www.efi.com.

Use of Non-GAAP Financial Information

To supplement our condensed consolidated financial results prepared under generally accepted accounting principles, or GAAP, we use non-GAAP measures of net income and earnings per diluted share that are GAAP net income and GAAP earnings per diluted share adjusted to exclude certain costs, expenses, and gains. A reconciliation of the adjustments to GAAP results for the three months ended March 31, 2017 and 2016 is provided below. In addition, an explanation of how management uses non-GAAP financial information to evaluate its business, the substance behind management's decision to use this non-GAAP financial information, the material limitations associated with the use of non-GAAP financial information, the manner in which management compensates for those limitations, and the substantive reasons management believes that this non-GAAP financial information provides useful information to investors is included under "About our Non-GAAP Net Income and Adjustments" after the tables below.

These non-GAAP measures are not in accordance with or an alternative to GAAP and may be materially different from other non-GAAP measures, including similarly titled non-GAAP measures, used by other companies. The presentation of this additional information should not be considered in isolation from, as a substitute for, or superior to, net income or earnings per diluted share prepared in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect certain items that may have a material impact upon our reported financial results. We expect to continue to incur expenses of a nature similar to the non-GAAP adjustments described above, and exclusion of these items from our non-GAAP net income and non-GAAP earnings per diluted share should not be construed as an inference that these costs are unusual, infrequent, or non-recurring.

Electronics For Imaging, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2017	2016
Revenue	\$ 228,691	\$ 234,133
Cost of revenue	105,026	115,736
Gross profit	123,665	118,397
Operating expenses:		
Research and development	38,907	37,122
Sales and marketing	42,804	41,530
General and administrative	20,883	20,832

Amortization of identified intangibles	10,778	9,229
Restructuring and other	918	2,715
	<hr/>	<hr/>
Total operating expenses	114,290	111,428
Income from operations	9,375	6,969
Interest expense	(4,660)	(4,358)
Interest income and other (income) expense, net	287	(221)
Income before income taxes	5,002	2,390
Benefit from (provision for) income taxes	463	(287)
Net income	<u>\$ 5,465</u>	<u>\$ 2,103</u>
<u>Diluted EPS calculation</u>		
Net income	<u>\$ 5,465</u>	<u>\$ 2,103</u>
Net income per diluted common share	<u>\$ 0.12</u>	<u>\$ 0.04</u>
Shares used in diluted per share calculation	<u>47,208</u>	<u>47,923</u>

Stock Based Compensation. As permitted by ASU 2016-09, Stock Compensation — Improvements to Employee Share Based Payment Accounting, which we adopted in Q2 2016, we have elected to account for forfeitures when they occur instead of estimating the expected forfeiture rate. Adoption of this provision during the second quarter of 2016 resulted in a retroactive net income adjustment of \$0.2 million in the first quarter of 2016.

Electronics For Imaging, Inc.
Reconciliation of GAAP Net Income to Non-GAAP Net Income
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,		
	2017	2016	Ex-Currency 2017
	<hr/>	<hr/>	<hr/>
Net income	\$ 5,465	\$ 2,103	\$ 5,465
Cost of revenue related to fair value inventory adjustment	1,024	—	1,024
Ex-currency adjustment	—	—	1,157
Stock based compensation — Cost of revenue	698	1,010	698
Stock based compensation — Research and development	2,850	4,684	2,850
Stock based compensation — Sales and marketing	2,063	2,835	2,063
Stock based compensation — General and administrative	3,435	5,489	3,435
Amortization of identified intangibles	10,778	9,229	10,778
Restructuring and other	918	2,715	918
General and administrative:			
Acquisition-related transaction costs	729	478	729
Changes in fair value of contingent consideration	1,283	(205)	1,283
Litigation settlements	19	320	19
Interest income and other (income) expense, net			
Non-cash interest expense related to our convertible notes	3,171	3,004	3,171
Foreign exchange fluctuation related to contingent consideration	(103)	507	(103)
Balance sheet currency remeasurement impact	—	—	1,059
Tax effect of non-GAAP adjustments	(6,518)	(5,880)	(6,939)
Non-GAAP net income	<u>\$ 25,812</u>	<u>\$ 26,289</u>	<u>\$ 27,607</u>
Non-GAAP net income per diluted common share	\$ 0.55	\$ 0.55	\$ 0.58

Shares used in diluted per share calculation

47,208

47,923

47,208

Stock Based Compensation. As permitted by ASU 2016-09, Stock Compensation — Improvements to Employee Share Based Payment Accounting, which we adopted in Q2 2016, we have elected to account for forfeitures when they occur instead of estimating the expected forfeiture rate. Adoption of this provision during the second quarter of 2016 resulted in a retroactive net income adjustment of \$0.2 million in the first quarter of 2016

Electronics For Imaging, Inc.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	March 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 151,096	\$ 164,313
Short-term investments	292,403	295,428
Accounts receivable, net	225,529	220,813
Inventories	113,810	99,075
Other current assets	40,013	36,637
Total current assets	822,851	816,266
Property and equipment, net	103,181	103,304
Goodwill	371,674	359,841
Intangible assets, net	136,458	122,997
Other assets	85,258	79,088
Total assets	<u>\$1,519,422</u>	<u>\$ 1,481,496</u>
Liabilities & Stockholders' equity		
Accounts payable	\$ 109,835	\$ 114,287
Accrued and other liabilities	164,333	139,318
Income taxes payable	10,256	10,256
Total current liabilities	284,424	263,861
Convertible senior notes, net	308,000	304,484
Imputed financing obligation related to build-to-suit lease	14,024	14,152
Noncurrent contingent and other liabilities	54,048	42,786
Deferred tax liabilities	14,940	16,351
Noncurrent income taxes payable	11,882	12,030
Total liabilities	687,318	653,664
Total stockholders' equity	832,104	827,832
Total liabilities and stockholders' equity	<u>\$1,519,422</u>	<u>\$ 1,481,496</u>

Electronics For Imaging, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

**Three Months Ended
March 31,**

2017

2016

Cash flows from operating activities:		
Net income	\$ 5,465	\$ 2,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,929	13,008
Deferred taxes	(1,010)	(3,827)
Stock-based compensation, net of cash settlements	9,046	11,265
Provision for inventory obsolescence	752	2,272
Provision for bad debts and sales-related allowances	2,822	4,140
Non-cash accretion of interest expense on convertible notes and imputed financing obligation	3,672	3,273
Other non-cash charges and gains	2,486	2,878
Changes in operating assets and liabilities, net of effect of acquired businesses	(23,264)	(26,147)
Net cash provided by operating activities	<u>14,898</u>	<u>8,965</u>
Cash flows from investing activities:		
Purchases of short-term investments	(35,149)	(58,323)
Proceeds from sales and maturities of short-term investments	38,235	110,417
Purchases of restricted investments and cash equivalents	(4,405)	—
Purchases, net of proceeds from sales, of property and equipment	(3,789)	(5,213)
Businesses purchased, net of cash acquired	(5,700)	(7,982)
Net cash provided by (used for) investing activities	<u>(10,808)</u>	<u>38,899</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,855	4,909
Purchases of treasury stock and net share settlements	(22,455)	(23,092)
Repayment of debt assumed through business acquisitions and debt issuance costs	(411)	(4,492)
Contingent consideration payments related to businesses acquired	(1,265)	(1,443)
Net cash used for financing activities	<u>(18,276)</u>	<u>(24,118)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	969	2,319
Decrease in cash and cash equivalents	(13,217)	26,065
Cash and cash equivalents at beginning of period	164,313	164,091
Cash and cash equivalents at end of period	<u>\$ 151,096</u>	<u>\$ 190,156</u>

Stock Based Compensation. ASU 2016-09, Stock Compensation — Improvements to Employee Share Based Payment Accounting, which we adopted in Q2 2016, eliminated the requirement to reclassify gross excess tax benefits related to stock-based compensation from operating to financing activities in the statement of cash flows. The retrospective application to prior periods resulted in a \$0.2 million increase in cash flows provided by operating activities for the quarter ended March 31, 2016, and a corresponding decrease in cash flows provided by financing activities. As permitted by ASU 2016-09, we have elected to account for forfeitures when they occur instead of estimating the expected forfeiture rate. Adoption of this provision during the second quarter of 2016 required a retroactive net income adjustment of \$0.2 million in the first quarter of 2016, and adjustments to stock-based compensation, deferred taxes, and net income in the Condensed Consolidated Statement of Cash Flows.

Electronics For Imaging, Inc.
Revenue by Operating Segment and Geographic Area
(in thousands)
(unaudited)

Revenue by Operating Segment	Three Months Ended March 31,	
	2017	2016
Industrial Inkjet	\$ 123,263	\$ 125,798
Productivity Software	35,058	32,540

Fiery	70,370	75,795
Total	<u>\$ 228,691</u>	<u>\$ 234,133</u>
Revenue by Geographic Area		
Americas	\$ 109,895	\$ 120,266
EMEA	88,033	83,583
APAC	30,763	30,284
Total	<u>\$ 228,691</u>	<u>\$ 234,133</u>
Revenue Ex-Currency Adjustment		
	2,747	—
Total	<u>\$ 231,438</u>	<u>\$ 234,133</u>

About our Non-GAAP Net Income and Adjustments

Use of Non-GAAP Financial Information

To supplement our condensed consolidated financial results prepared in accordance with GAAP, we use non-GAAP measures of net income and earnings per diluted share that are GAAP net income and GAAP earnings per diluted share adjusted to exclude certain costs, expenses, and gains.

We believe that the presentation of non-GAAP net income and non-GAAP earnings per diluted share provides important supplemental information regarding certain costs, expenses, gains, and significant items that we believe are important to understanding financial and business trends relating to our financial condition and results of operations. Non-GAAP net income and non-GAAP earnings per diluted share are among the primary indicators used by management as a basis for planning and forecasting future periods and by management and our Board of Directors to determine whether our operating performance has met specified targets and thresholds. Management uses non-GAAP net income and non-GAAP earnings per diluted share when evaluating operating performance because it believes the exclusion of the items described below, for which the amounts and/or timing may vary significantly depending on our activities and other factors, facilitates comparability of our operating performance from period to period. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our business and the valuation of our Company.

Use and Economic Substance of Non-GAAP Financial Measures

We compute non-GAAP net income, and non-GAAP earnings per diluted share by adjusting GAAP net income and GAAP earnings per diluted share to remove the impact of amortization of acquisition-related intangibles, stock-based compensation expense, restructuring and other expenses, acquisition-related transaction expenses, costs to integrate such acquisitions into our business, incremental cost of revenue due to the fair value adjustment to inventories acquired in business combinations, changes in the fair value of contingent consideration, litigation settlement charges, and non-cash interest expense related to our 0.75% convertible senior notes ("Notes"). We use a constant non-GAAP tax rate of 19%, which we believe reflects the long term average tax rate based on our international structure and geographic distribution of revenue and profit.

Ex-Currency. To better understand trends in our business, we believe it is helpful to adjust our statement of operations to exclude the impact of year-over-year changes in the translation of foreign currencies into U.S. dollars. This is a non-GAAP measure that is calculated by adjusting revenue and non-GAAP net income by using historical exchange rates in effect during the comparable prior year period and removing the balance sheet currency remeasurement impact from interest income and other income (expense), net, including removal of any hedging gains and losses. We refer to these adjustments as "ex-currency." Management believes the ex-currency measures provide investors with an additional perspective on year-over-year financial trends and enables investors to analyze our operating results in the same way management does. The year-over-year currency impact can be determined as the difference between year-over-year actual growth rates and year-over-year ex-currency growth rates.

These excluded items are described below:

- 1 Inventory acquired in the acquisition of FFPS is required to be recorded at fair value rather than historical cost in accordance with ASC 805. The fair value of FFPS inventory reflects the manufacturing cost plus a portion of the expected gross profit. We have adjusted our cost of revenue to reflect the expected gross profit that was included in the inventory valuation under ASC 805. We believe this adjustment is useful to investors to understand the gross profit trends of our ongoing business.

- | Intangible assets acquired to date are being amortized on a straight-line basis.
- | Stock-based compensation expense of \$9.0 and \$14.0 million during the three months ended March 31, 2017 and 2016, respectively, consists of \$9.0 and \$11.3 million of stock-based compensation expense recognized in accordance with ASC 718, Stock Compensation, and the non-cash settlement of \$2.7 million of vacation liabilities settled through the issuance of RSUs during the three months ended March 31, 2016, which is not included in the GAAP presentation of our stock-based compensation expense.
- | Restructuring and other expenses consists of:
 - | Restructuring charges incurred as we consolidate the number and size of our facilities and, as a result, reduce the size of our workforce.
 - | Expenses incurred to integrate businesses acquired of \$0.5 and \$0.1 million for the three months ended March 31, 2017 and 2016 respectively.
- | Acquisition-related transaction costs associated with businesses acquired during the periods reported and anticipated transactions of \$0.7 and \$0.5 million for the three months ended March 31, 2017 and 2016 respectively.
- | Changes in fair value of contingent consideration. Our management determined that we should analyze the total return provided by the investment when evaluating operating results of an acquired entity. The total return consists of operating profit generated from the acquired entity compared to the purchase price paid, including the final amounts paid for contingent consideration without considering any post-acquisition adjustments related to changes in the fair value of the contingent consideration. Because our management believes the final purchase price paid for the acquisition reflects the accounting value assigned to both contingent consideration and to the intangible assets, we exclude the GAAP impact of any adjustments to the fair value of acquisition-related contingent consideration from the operating results of an acquisition in subsequent periods, including the related foreign exchange fluctuation impact. We believe this approach is useful in understanding the long-term return provided by our acquisitions and that investors benefit from a supplemental non-GAAP financial measure that excludes the impact of this adjustment.
- | Non-cash interest expense on our Notes. Our Notes may be settled in cash on conversion. We are required to separately account for the liability (debt) and equity (conversion option) components of the Notes in a manner that reflects our non-convertible debt borrowing rate. Accordingly, for GAAP purposes, we are required to amortize a debt discount equal to the fair value of the conversion option as interest expense on our \$345 million of 0.75% convertible senior notes that were issued in a private placement in September 2014 over the term of the Notes.
- | Litigation settlements. We settled or accrued reserves related several litigation claims of \$0.3 million during the three months ended March 31, 2016.
- | We use a constant non-GAAP tax rate of 19%, which we believe reflects the long term average tax rate based on our international structure and geographic distribution of revenue and profit. The long-term average tax rate is calculated in accordance with the principles of ASC 740, Income Taxes, to estimate the non-GAAP income tax provision in each jurisdiction in which we operate after excluding the tax effect of the non-GAAP items described above.

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