



EXFO Reports First-Quarter Results for Fiscal 2015

- **Sales reach US\$56.7 million, up year-over-year from US\$56.0 million**
- **Gross margin amounts to 62.6% of sales, up year-over-year from 62.2%**
- **Adjusted EBITDA totals US\$3.2 million, up year-over-year from US\$2.3 million**

QUEBEC CITY, CANADA, January 7, 2015 — EXFO Inc. (NASDAQ: EXFO; TSX: EXF) reported today financial results for the first quarter ended November 30, 2014.

Sales reached US\$56.7 million in the first quarter of fiscal 2015 compared to US\$56.0 million in the first quarter of 2014 and US\$59.7 million in the fourth quarter of 2014.

Bookings attained US\$54.2 million in the first quarter of fiscal 2015 compared to US\$57.9 million in the same period last year and US\$57.3 million in the fourth quarter of 2014. The company's book-to-bill ratio was 0.96 in the first quarter of 2015.

Gross margin before depreciation and amortization* amounted to 62.6% of sales in the first quarter of fiscal 2015 compared to 62.2% in the first quarter of 2014 and 63.0% in the fourth quarter of 2014.

IFRS net earnings in the first quarter of fiscal 2015 totaled US\$1.5 million, or US\$0.02 per diluted share, compared to a net loss of US\$0.7 million, or US\$0.01 per share, in the same period last year and net earnings of US\$1.2 million, or US\$0.02 per diluted share, in the fourth quarter of 2014. IFRS net earnings in the first quarter of 2015 included US\$1.0 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs and a foreign exchange gain of US\$2.0 million.

Adjusted EBITDA** totaled US\$3.2 million, or 5.6% of sales, in the first quarter of fiscal 2015 compared to US\$2.3 million, or 4.1% of sales, in the first quarter of 2014 and US\$5.8 million, or 9.6% of sales, in the fourth quarter of 2014.

"Although market demand remained muted, we recorded year-over-year increases in sales, gross margin and earnings in the first quarter of fiscal 2015," said Germain Lamonde, EXFO's Chairman, President and CEO. "The telecom industry continued morphing from hardware-centric to SDN and NFV architectures (virtualized networks) and from fixed to mobile networking, while industry consolidation is ongoing in the background. I expect these elements to gradually turn into positive drivers for EXFO as fiscal 2015 unfolds, given our strong solutions offering."

"At EXFO, we have progressed against our strategic agenda, evolving into a solutions supplier and strengthening our market position and pipeline, especially in the wireless sector and in end-to-end visibility and customer experience assurance solutions," Mr. Lamonde added. "Considering recent wins at tier-1 network operators, growing business opportunities for our productivity-enhancing, end-to-end solutions and tight internal cost controls, I am pleased with their impact on earnings growth in the first quarter and remain confident EXFO will significantly increase its profitability in fiscal 2015."

Selected Financial Information
(In thousands of US dollars)

| | Q1 2015 | Q4 2014 | Q1 2014 |
|--|--------------------|--------------------|--------------------|
| Sales | \$ 56,724 | \$ 59,742 | \$ 56,003 |
| Gross margin* | \$ 35,487 62.6% | \$ 37,633 63.0% | \$ 34,818 62.2% |
| Other selected information: | | | |
| IFRS net earnings (loss) | \$ 1,481 | \$ 1,204 | \$ (747) |
| Amortization of intangible assets | \$ 1,098 | \$ 1,117 | \$ 1,182 |
| Stock-based compensation costs | \$ 400 | \$ 424 | \$ 463 |
| Net income tax effect of the above items | \$ (58) | \$ (62) | \$ (67) |
| Foreign exchange gain (loss) | \$ 1,975 | \$ (334) | \$ 802 |
| Adjusted EBITDA** | \$ 3,197 | \$ 5,756 | \$ 2,292 |

Operating Expenses

Selling and administrative expenses totaled US\$21.0 million, or 37.1% of sales in the first quarter of fiscal 2015 compared to US\$21.7 million, or 38.8% of sales, in the same period last year and US\$21.5 million, or 35.9% of sales, in the fourth quarter of 2014.

Gross research and development expenses amounted to US\$13.3 million, or 23.5% of sales, in the first quarter of fiscal 2015 compared to US\$13.3 million, or 23.8% of sales, in the first quarter of 2014 and US\$12.5 million, or 20.8% of sales, in the fourth quarter of 2014.

Net R&D expenses totaled US\$11.7 million, or 20.6% of sales, in the first quarter of fiscal 2015 compared to US\$11.3 million, or 20.1% of sales, in the same period last year and US\$10.8 million, or 18.2% of sales, in the fourth quarter of 2014.

First-Quarter Highlights

- **Sales.** During the first quarter, EXFO booked a new system order with a tier-1 wireless operator for an initial deployment that should lead to significant revenue over time. EXFO's sales increased year-over-year in Europe, Middle East and Africa (EMEA) and to a lesser extent in Asia-Pacific in the first quarter of 2015 but decreased in the Americas. Geographical split was at 48% from the Americas, 32% from EMEA, and 20% from Asia-Pacific with top customer accounting for 4.1% of sales while the top three represented 11.1%.
- **Profitability.** EXFO generated adjusted EBITDA of US\$3.2 million, or 5.6% of sales, in the first quarter of 2015. The company also delivered US\$1.9 million in cash flows from operating activities. EXFO had a cash position of US\$57.6 million and no debt as at November 30, 2014.
- **Innovation.** EXFO launched three new products in the first quarter, including a new version of its TravelHawk Pro, a live 4G/LTE troubleshooting tool now capturing up to 30 Gbit/s of data for deep analysis; CPRI (common public radio interface) test capabilities for the FTB-700G and FTB-800 NetBlazer series that are critical for fiber-to-the-antenna (FTTA) network deployments; and expanded testing functionalities for the Packet Blazer product family, allowing carrier labs and network equipment manufacturers to fully qualify and test 100G network elements.

Business Outlook

EXFO forecasts sales between US\$52.0 million and US\$57.0 million for the second quarter of fiscal 2015, while IFRS net results are expected to range between a net loss of US\$0.03 per share and net earnings of US\$0.01 per share. IFRS net loss/earnings include US\$0.02 per share in after-tax amortization of intangible assets and stock-based compensation costs.

This guidance was established by management based on existing backlog as of the date of this press release, seasonality, expected bookings for the remaining of the quarter, as well as exchange rates as of the day of this press release.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review its financial results for the first quarter of fiscal 2015. To listen to the conference call and participate in the question period via telephone, dial 1-416-641-6700. Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CPA, CA, Vice-President of Finance and Chief Financial Officer, will participate in the call. An audio replay of the conference call will be available one hour after the event until 11:59 p.m. on January 14, 2015. The replay number is 1-402-977-9141 and the reservation number is 21753961. The audio Webcast and replay of the conference call will also be available on EXFO's Website at www.EXFO.com, under the Investors section.

About EXFO

Listed on the NASDAQ and TSX stock exchanges, EXFO is a leading provider of next-generation test, service assurance and end-to-end quality of experience solutions for mobile and fixed network operators and equipment manufacturers in the global telecommunications industry. EXFO's intelligent solutions with contextually relevant analytics improve end-user quality of experience, enhance network performance and drive operational efficiencies throughout the network and service delivery lifecycle. Key technologies supported include 3G, 4G/LTE, VoLTE, IMS, video, Ethernet/IP, SNMP, OTN, FTTx, xDSL and various optical technologies accounting for more than 38% of the global portable fiber-optic test market. EXFO has a staff of approximately 1600 people in 25 countries, supporting more than 2000 customers worldwide. For more information, visit www.EXFO.com and follow us on the [EXFO Blog](#), [Twitter](#), [LinkedIn](#), [Facebook](#), [Google+](#) and [YouTube](#).

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as may, expect, believe, plan, anticipate, intend, could, estimate, continue, or similar expressions or the negative of such expressions are intended to identify forward-looking statements. In addition, any statement that refers to expectations, projections or other characterizations of future events and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements due to various factors including, but not limited to, macroeconomic uncertainty as well as capital spending and network deployment levels in the telecommunications industry (including our ability to quickly adapt cost structures with anticipated levels of business and our ability to manage inventory levels with market demand); future economic, competitive, financial and market conditions; consolidation in the global telecommunications test and service assurance industry and increased competition among vendors; capacity to adapt our future product offering to future technological changes; limited visibility with regards to timing and nature of customer orders; longer sales cycles for complex systems involving customers' acceptances delaying revenue recognition; fluctuating exchange rates; concentration of sales; timely release and market acceptance of our new products and other upcoming products; our ability to successfully expand international operations; our ability to successfully integrate businesses that we acquire; and the retention of key technical and management personnel. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and operations are detailed in our Annual Report, on Form 20-F, and our other filings with the U.S. Securities and Exchange Commission and the Canadian securities commissions. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but we cannot assure that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. These statements speak only as of the date of this document. Unless required by law or applicable regulations, we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.

NON-IFRS MEASURES

EXFO provides non-IFRS measures (gross margin before depreciation and amortization* and adjusted EBITDA**) as supplemental information regarding its operational performance. The company uses these measures for the purpose of evaluating historical and prospective financial performance, as well as its performance relative to competitors. These measures also help the company to plan and forecast for future periods as well as to make operational and strategic decisions. EXFO believes that providing this information, in addition to IFRS measures, allows investors to see the company's results through the eyes of management, and to better understand its historical and future financial performance.

The presentation of this additional information is not prepared in accordance with IFRS. Therefore, the information may not necessarily be comparable to that of other companies and should be considered as a supplement to, not a substitute for, the corresponding measures calculated in accordance with IFRS.

* Gross margin before depreciation and amortization represents sales less cost of sales, excluding depreciation and amortization.

** Adjusted EBITDA represents net earnings (loss) before interest, income taxes, depreciation and amortization, stock-based compensation costs and foreign exchange gain or loss.

The following table summarizes the reconciliation of adjusted EBITDA to IFRS net earnings (loss), in thousands of US dollars:

Adjusted EBITDA (unaudited)

| | <u>Q1 2015</u> | <u>Q4 2014</u> | <u>Q1 2014</u> |
|---|-----------------|-----------------|-----------------|
| IFRS net earnings (loss) for the period | \$ 1,481 | \$ 1,204 | \$ (747) |
| Add (deduct): | | | |
| Depreciation of property, plant and equipment | 1,245 | 1,258 | 1,275 |
| Amortization of intangible assets | 1,098 | 1,117 | 1,182 |
| Interest income | (217) | (30) | (27) |
| Income taxes | 1,165 | 1,449 | 948 |
| Stock-based compensation costs | 400 | 424 | 463 |
| Foreign exchange (gain) loss | (1,975) | 334 | (802) |
| Adjusted EBITDA for the period | <u>\$ 3,197</u> | <u>\$ 5,756</u> | <u>\$ 2,292</u> |
| Adjusted EBITDA in percentage of sales | <u>5.6%</u> | <u>9.6%</u> | <u>4.1%</u> |

For more information

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EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

| | As at November 30, 2014 | As at August 31, 2014 |
|--|--|--------------------------------------|
| | | |
| Assets | | |
| Current assets | | |
| Cash | \$ 52,221 | \$ 54,121 |
| Short-term investments | 5,389 | 5,726 |
| Accounts receivable | | |
| Trade | 48,074 | 46,031 |
| Other | 2,610 | 2,001 |
| Income taxes and tax credits recoverable | 4,363 | 3,796 |
| Inventories | 34,551 | 35,232 |
| Prepaid expenses | 2,502 | 2,281 |
| | 149,710 | 149,188 |
| Tax credits recoverable | 38,982 | 41,745 |
| Property, plant and equipment | 40,007 | 42,780 |
| Intangible assets | 6,078 | 7,293 |
| Goodwill | 25,140 | 26,488 |
| Deferred income taxes | 10,273 | 9,816 |
| Other assets | 548 | 721 |
| | \$ 270,738 | \$ 278,031 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 35,672 | \$ 29,553 |
| Provisions | 508 | 532 |
| Income taxes payable | 727 | 840 |
| Deferred revenue | 7,728 | 8,990 |
| | 44,635 | 39,915 |
| Deferred revenue | 2,952 | 3,319 |
| Deferred income taxes | 2,733 | 3,087 |
| Other liabilities | 711 | 340 |
| | 51,031 | 46,661 |
| Shareholders' equity | | |
| Share capital | 111,015 | 111,491 |
| Contributed surplus | 16,540 | 16,503 |
| Retained earnings | 115,116 | 113,635 |
| Accumulated other comprehensive loss | (22,964) | (10,259) |
| | 219,707 | 231,370 |
| | \$ 270,738 | \$ 278,031 |

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Earnings

(in thousands of US dollars, except share and per share data)

| | Three months ended | |
|--|--------------------|-----------|
| | November 30, | |
| | 2014 | 2013 |
| Sales | \$ 56,724 | \$ 56,003 |
| Cost of sales ⁽¹⁾ | 21,237 | 21,185 |
| Selling and administrative | 21,032 | 21,708 |
| Net research and development | 11,658 | 11,281 |
| Depreciation of property, plant and equipment | 1,245 | 1,275 |
| Amortization of intangible assets | 1,098 | 1,182 |
| Interest income | (217) | (27) |
| Foreign exchange gain | (1,975) | (802) |
| Earnings before income taxes | 2,646 | 201 |
| Income taxes | 1,165 | 948 |
| Net earnings (loss) for the period | \$ 1,481 | \$ (747) |
| Basic and diluted net earnings (loss) per share | \$ 0.02 | \$ (0.01) |
| Basic weighted average number of shares outstanding (000's) | 60,335 | 60,217 |
| Diluted weighted average number of shares outstanding (000's) | 60,980 | 60,217 |

(1) The cost of sales is exclusive of depreciation and amortization, shown separately.

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Comprehensive Loss

(in thousands of US dollars)

| | Three months ended | |
|---|--------------------|------------|
| | November 30, | |
| | 2014 | 2013 |
| Net earnings (loss) for the period | \$ 1,481 | \$ (747) |
| Other comprehensive income (loss), net of income taxes | | |
| Items that will not be reclassified subsequently to net earnings | | |
| Foreign currency translation adjustment | (11,735) | (1,948) |
| Items that may be reclassified subsequently to net earnings | | |
| Unrealized losses on forward exchange contracts | (1,505) | (240) |
| Reclassification of realized losses on forward exchange contracts in net loss | 162 | 174 |
| Deferred income tax effect of losses on forward exchange contracts | 373 | 18 |
| Other comprehensive loss | (12,705) | (1,996) |
| Comprehensive loss for the period | \$ (11,224) | \$ (2,743) |

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

| | Three months ended November 30, 2013 | | | | |
|--|---|--------------------------------|------------------------------|---|---|
| | Share Capital | Contributed Surplus | Retained earnings | Accumulated other comprehensive loss | Total shareholders' equity |
| Balance as at September 1, 2013 | \$ 109,837 | \$ 17,186 | \$ 112,852 | \$ (3,423) | \$ 236,452 |
| Exercise of stock options | 106 | - | - | - | 106 |
| Reclassification of stock-based compensation costs | 1,435 | (1,435) | - | - | - |
| Stock-based compensation costs | - | 417 | - | - | 417 |
| Net loss for the period | - | - | (747) | - | (747) |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | - | - | - | (1,948) | (1,948) |
| Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$18 | - | - | - | (48) | (48) |
| Total comprehensive loss for the period | - | - | (747) | (1,996) | (2,743) |
| Balance as at November 30, 2013 | <u>\$ 111,378</u> | <u>\$ 16,168</u> | <u>\$ 112,105</u> | <u>\$ (5,419)</u> | <u>\$ 234,232</u> |

| | Three months ended November 30, 2014 | | | | |
|---|---|--------------------------------|------------------------------|---|---|
| | Share Capital | Contributed Surplus | Retained earnings | Accumulated other comprehensive loss | Total shareholders' equity |
| Balance as at September 1, 2014 | \$ 111,491 | \$ 16,503 | \$ 113,635 | \$ (10,259) | \$ 231,370 |
| Redemption of share capital | (919) | 66 | - | - | (853) |
| Reclassification of stock-based compensation costs | 443 | (443) | - | - | - |
| Stock-based compensation costs | - | 414 | - | - | 414 |
| Net earnings for the period | - | - | 1,481 | - | 1,481 |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | - | - | - | (11,735) | (11,735) |
| Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$373 | - | - | - | (970) | (970) |
| Total comprehensive loss for the period | - | - | 1,481 | (12,705) | (11,224) |
| Balance as at November 30, 2014 | <u>\$ 111,015</u> | <u>\$ 16,540</u> | <u>\$ 115,116</u> | <u>\$ (22,964)</u> | <u>\$ 219,707</u> |

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

| | Three months ended | |
|---|---------------------------|-------------|
| | November 30, | |
| | 2014 | 2013 |
| Cash flows from operating activities | | |
| Net earnings (loss) for the period | \$ 1,481 | \$ (747) |
| Add (deduct) items not affecting cash | | |
| Stock-based compensation costs | 400 | 463 |
| Depreciation and amortization | 2,343 | 2,457 |
| Deferred revenue | (1,027) | (1,752) |
| Deferred income taxes | (332) | 625 |
| Changes in foreign exchange gain/loss | (1,028) | (108) |
| | 1,837 | 938 |
| Changes in non-cash operating items | | |
| Accounts receivable | (5,036) | (1,657) |
| Income taxes and tax credits | (212) | 743 |
| Inventories | (1,181) | (2,312) |
| Prepaid expenses | (336) | 171 |
| Other assets | 1 | 6 |
| Accounts payable, accrued liabilities and provisions | 6,836 | 5,485 |
| Other liabilities | (19) | (26) |
| | 1,890 | 3,348 |
| Cash flows from investing activities | | |
| Additions to short-term investments | (13,691) | (9,781) |
| Proceeds from disposal and maturity of short-term investments | 13,766 | 9,772 |
| Additions to capital assets | (754) | (701) |
| | (679) | (710) |
| Cash flows from financing activities | | |
| Exercise of stock options | – | 106 |
| Redemption of share capital | (853) | – |
| | (853) | 106 |
| Effect of foreign exchange rate changes on cash | | |
| | (2,258) | (365) |
| Change in cash | | |
| | (1,900) | 2,379 |
| Cash – Beginning of the period | 54,121 | 45,386 |
| Cash – End of the period | \$ 52,221 | \$ 47,765 |
| Supplementary information | | |
| Income taxes paid | \$ 367 | \$ 642 |