



EXFO Reports Second-Quarter Results for Fiscal 2015

- **Sales reach US\$51.0 million, stable year-over-year**
- **Bookings attain US\$54.7 million, book-to-bill ratio of 1.07**
- **Gross margin amounts to 61.7% of sales, up year-over-year**
- **Adjusted EBITDA totals US\$1.2 million, up year-over-year**

QUEBEC CITY, CANADA, March 24, 2015 — EXFO Inc. (NASDAQ: EXFO; TSX: EXF) reported today financial results for the second quarter ended February 28, 2015.

Sales reached US\$51.0 million in the second quarter of fiscal 2015 compared to US\$51.2 million in the second quarter of 2014 and US\$56.7 million in the first quarter of 2015.

Bookings attained US\$54.7 million in the second quarter of fiscal 2015 compared to US\$58.7 million in the same period last year and US\$54.2 million in the first quarter of 2015. The company's book-to-bill ratio was 1.07 in the second quarter of 2015.

Gross margin before depreciation and amortization* amounted to 61.7% of sales in the second quarter of fiscal 2015 compared to 60.8% in the second quarter of 2014 and 62.6% in the first quarter of 2015.

IFRS net earnings in the second quarter of fiscal 2015 totaled US\$0.9 million, or US\$0.02 per diluted share, compared to a net loss of US\$1.3 million, or US\$0.02 per share, in the same period last year and net earnings of US\$1.5 million, or US\$0.02 per diluted share, in the first quarter of 2015. IFRS net earnings in the second 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\$3.0 million.

Adjusted EBITDA** totaled US\$1.2 million, or 2.3% of sales, in the second quarter of fiscal 2015 compared to -US\$1.0 million, or -2.0% of sales, in the second quarter of 2014 and US\$3.2 million, or 5.6% of sales, in the first quarter of 2015.

"EXFO progressed along its strategic course towards becoming a trusted, end-to-end solutions supplier with a significant bookings increase in this segment during the first half of fiscal 2015," said Germain Lamonde, EXFO's Chairman, President and CEO. "At Mobile World Congress, we showcased several new, high-impact solutions, including our new analytics platform that offers unmatched end-to-end visibility of wireless network performance and service delivery; our subscriber experience analytics solution providing real-time visibility and prioritization of service-impacting issues; and our new test process automation and compliance assurance solution. Judging by the positive response we received for all our new products and solutions, we are in a good position to accelerate revenue in the second half of fiscal 2015."

"I am pleased we completed the first half of 2015 with adjusted EBITDA improving from US\$1.3 million to US\$4.4 million and gross margin increasing by 60 basis points to 62.1%, despite stable revenue year-over-year," Mr. Lamonde added. "Given our strong funnel of large deals, recently introduced solutions and ongoing cost-reduction initiatives, I am confident we will deliver marked growth in adjusted EBITDA in fiscal 2015 and beyond."

Selected Financial Information
(In thousands of US dollars)

	Q2 2015	Q1 2015	Q2 2014
Sales	\$ 50,990	\$ 56,724	\$ 51,179
Gross margin*	\$ 31,444 61.7%	\$ 35,487 62.6%	\$ 31,106 60.8%
Other selected information:			
IFRS net earnings (loss)	\$ 931	\$ 1,481	\$ (1,339)
Amortization of intangible assets	\$ 1,019	\$ 1,098	\$ 1,074
Stock-based compensation costs	\$ 388	\$ 400	\$ 402
Net income tax effect of the above items	\$ (53)	\$ (58)	\$ (64)
Foreign exchange gain	\$ 2,987	\$ 1,975	\$ 2,292
Adjusted EBITDA**	\$ 1,158	\$ 3,197	\$ (1,002)

Operating Expenses

Selling and administrative expenses totaled US\$20.2 million, or 39.6% of sales in the second quarter of fiscal 2015 compared to US\$21.5 million, or 42.1% of sales, in the same period last year and US\$21.0 million, or 37.1% of sales, in the first quarter of 2015. In the first half of 2015, SG&A expenses totaled US\$41.2 million, or 38.2% of sales.

Gross research and development expenses amounted to US\$12.2 million, or 23.9% of sales, in the second quarter of fiscal 2015 compared to US\$13.0 million, or 25.5% of sales, in the second quarter of 2014 and US\$13.3 million, or 23.5% of sales, in the first quarter of 2015. In the first half of 2015, gross R&D expenses totaled US\$25.5 million, or 23.7% of sales.

Net R&D expenses totaled US\$10.5 million, or 20.6% of sales, in the second quarter of fiscal 2015 compared to US\$11.0 million, or 21.4% of sales, in the same period last year and US\$11.7 million, or 20.6% of sales, in the first quarter of 2015. In the first half of 2015, net R&D expenses totaled US\$22.2 million, or 20.6% of sales.

Second-Quarter Highlights

- **Sales.** EXFO's revenues were stable year-over-year in the second quarter of 2015 and in the first half of 2015 due to a negative US currency impact and market weakness in Europe, Middle East and Africa (EMEA). Sales increased year-over-year in the Americas, but decreased in EMEA. Geographical split was 53% from the Americas, 25% from EMEA and 22% from Asia-Pacific in the second quarter. EXFO's top customer accounted for 5.6% of sales, while the top three represented 15.2% in the second quarter.
- **Profitability.** EXFO generated adjusted EBITDA of US\$1.2 million, or 2.3% of sales, in the second quarter of 2015. The company also delivered US\$5.7 million in cash flows from operating activities. Following the completion of a C\$30.0 million (US\$24.0 million) substantial issuer bid, EXFO had a cash position of US\$32.9 million and no debt at the end of the quarter.
- **Innovation.** EXFO launched Xtract, an open analytics platform that provides mobile operators with end-to-end network and service visibility to accelerate and prioritize network optimization, and a quality of experience benchmarking platform that works in tandem with EXFO Mobile Agent, a software application converting smartphones into real-time probes. These solutions leverage technologies from the recent BysteSphere and Aito Technologies acquisitions. The company also introduced common public radio interface (CPRI) software testing options for the FTB-700G and FTB-780 NetBlazer series to simplify fiber-to-the-antenna (FTTA) and distributed antenna system (DAS) deployments; and released iCERT, an added functionality on EXFO's OTDR (optical time domain reflectometry) software, which automatically certifies cable installations in data centers and enterprises. Altogether, the company introduced seven new solutions or major enhancements in the first half of the fiscal year.

Business Outlook

EXFO forecasts sales between US\$56.0 million and US\$61.0 million for the third quarter of fiscal 2015, while IFRS net results are expected to range between a net loss of US\$0.01 per share and net earnings of US\$0.03 per share. IFRS net loss/earnings include US\$0.01 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 second 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 March 31, 2015. The replay number is 1-402-977-9141 and the reservation number is 21762798. 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.

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

Adjusted EBITDA (unaudited)

	<u>Q2 2015</u>	<u>Q1 2015</u>	<u>Q2 2014</u>
IFRS net earnings (loss) for the period	\$ 931	\$ 1,481	\$ (1,339)
Add (deduct):			
Depreciation of property, plant and equipment	1,256	1,245	1,243
Amortization of intangible assets	1,019	1,098	1,074
Interest income	(35)	(217)	(49)
Income taxes	586	1,165	(41)
Stock-based compensation costs	388	400	402
Foreign exchange gain	(2,987)	(1,975)	(2,292)
Adjusted EBITDA for the period	<u>\$ 1,158</u>	<u>\$ 3,197</u>	<u>\$ (1,002)</u>
Adjusted EBITDA in percentage of sales	<u>2.3%</u>	<u>5.6%</u>	<u>(2.0)%</u>

For more information

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EXFO Inc.

Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at February 28, 2015	As at August 31, 2014
Assets		
Current assets		
Cash	\$ 30,357	\$ 54,121
Short-term investments	2,582	5,726
Accounts receivable		
Trade	41,308	46,031
Other	1,924	2,001
Income taxes and tax credits recoverable	4,788	3,796
Inventories	32,238	35,232
Prepaid expenses	2,435	2,281
	115,632	149,188
Tax credits recoverable	35,977	41,745
Property, plant and equipment	37,083	42,780
Intangible assets	4,776	7,293
Goodwill	23,003	26,488
Deferred income tax assets	10,826	9,816
Other assets	502	721
	\$ 227,799	\$ 278,031
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 35,215	\$ 29,553
Provisions	427	532
Income taxes payable	615	840
Deferred revenue	8,359	8,990
	44,616	39,915
Deferred revenue	2,912	3,319
Deferred income tax liabilities	2,503	3,087
Other liabilities	1,308	340
	51,339	46,661
Shareholders' equity		
Share capital	86,527	111,491
Contributed surplus	17,153	16,503
Retained earnings	116,047	113,635
Accumulated other comprehensive loss	(43,267)	(10,259)
	176,460	231,370
	\$ 227,799	\$ 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 February 28, 2015	Six months ended February 28, 2015	Three months ended February 28, 2014	Six months ended February 28, 2014
Sales	\$ 50,990	\$ 107,714	\$ 51,179	\$ 107,182
Cost of sales ⁽¹⁾	19,546	40,783	20,073	41,258
Selling and administrative	20,168	41,200	21,537	43,245
Net research and development	10,506	22,164	10,973	22,254
Depreciation of property, plant and equipment	1,256	2,501	1,243	2,518
Amortization of intangible assets	1,019	2,117	1,074	2,256
Interest income	(35)	(252)	(49)	(76)
Foreign exchange gain	(2,987)	(4,962)	(2,292)	(3,094)
Earnings (loss) before income taxes	<u>1,517</u>	<u>4,163</u>	<u>(1,380)</u>	<u>(1,179)</u>
Income taxes	<u>586</u>	<u>1,751</u>	<u>(41)</u>	<u>907</u>
Net earnings (loss) for the period	<u>\$ 931</u>	<u>\$ 2,412</u>	<u>\$ (1,339)</u>	<u>\$ (2,086)</u>
Basic and diluted net earnings (loss) per share	\$ 0.02	\$ 0.04	\$ (0.02)	\$ (0.03)
Basic weighted average number of shares outstanding (000's)	59,216	59,775	60,414	60,316
Diluted weighted average number of shares outstanding (000's)	59,813	60,396	60,414	60,316

(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 February 28, 2015	Six months ended February 28, 2015	Three months ended February 28, 2014	Six months ended February 28, 2014
Net earnings (loss) for the period	\$ 931	\$ 2,412	\$ (1,339)	\$ (2,086)
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	(18,566)	(30,301)	(9,580)	(11,528)
Items that may be reclassified subsequently to net earnings				
Unrealized losses on forward exchange contracts	(2,697)	(4,202)	(1,289)	(1,529)
Reclassification of realized losses on forward exchange contracts in net earnings (loss)	338	500	191	365
Deferred income tax effect of losses on forward exchange contracts	622	995	294	312
Other comprehensive loss	<u>(20,303)</u>	<u>(33,008)</u>	<u>(10,384)</u>	<u>(12,380)</u>
Comprehensive loss for the period	<u>\$ (19,372)</u>	<u>\$ (30,596)</u>	<u>\$ (11,723)</u>	<u>\$ (14,466)</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Six months ended February 28, 2014				
	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	195	-	-	-	195
Redemption of share capital	(831)	(106)	-	-	(937)
Reclassification of stock-based compensation costs	2,136	(2,136)	-	-	-
Stock-based compensation costs	-	843	-	-	843
Net loss for the period	-	-	(2,086)	-	(2,086)
Other comprehensive loss					
Foreign currency translation adjustment	-	-	-	(11,528)	(11,528)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$312	-	-	-	(852)	(852)
Total comprehensive loss for the period				(14,466)	(14,466)
Balance as at February 28, 2014	<u>\$ 111,337</u>	<u>\$ 15,787</u>	<u>\$ 110,766</u>	<u>\$ (15,803)</u>	<u>\$ 222,087</u>

	Six months ended February 28, 2015				
	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	(26,314)	1,211	-	-	(25,103)
Reclassification of stock-based compensation costs	1,350	(1,350)	-	-	-
Stock-based compensation costs	-	789	-	-	789
Net earnings for the period	-	-	2,412	-	2,412
Other comprehensive loss					
Foreign currency translation adjustment	-	-	-	(30,301)	(30,301)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$995	-	-	-	(2,707)	(2,707)
Total comprehensive loss for the period				(30,596)	(30,596)
Balance as at February 28, 2015	<u>\$ 86,527</u>	<u>\$ 17,153</u>	<u>\$ 116,047</u>	<u>\$ (43,267)</u>	<u>\$ 176,460</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended February 28, 2015	Six months ended February 28, 2015	Three months ended February 28, 2014	Six months ended February 28, 2014
Cash flows from operating activities				
Net earnings (loss) for the period	\$ 931	\$ 2,412	\$ (1,339)	\$ (2,086)
Add (deduct) items not affecting cash				
Stock-based compensation costs	388	788	402	865
Depreciation and amortization	2,275	4,618	2,317	4,774
Deferred revenue	1,531	504	1,024	(728)
Deferred income taxes	(11)	(343)	(324)	301
Changes in foreign exchange gain/loss	(1,770)	(2,798)	(793)	(901)
	<u>3,344</u>	<u>5,181</u>	<u>1,287</u>	<u>2,225</u>
Changes in non-cash operating items				
Accounts receivable	3,719	(1,317)	6,182	4,525
Income taxes and tax credits	(1,211)	(1,423)	(1,686)	(943)
Inventories	(752)	(1,933)	(1,221)	(3,533)
Prepaid expenses	(165)	(501)	(787)	(616)
Other assets	(2)	(1)	(40)	(34)
Accounts payable, accrued liabilities and provisions	824	7,660	(94)	5,391
Other liabilities	(13)	(32)	(17)	(43)
	<u>5,744</u>	<u>7,634</u>	<u>3,624</u>	<u>6,972</u>
Cash flows from investing activities				
Additions to short-term investments	(5,818)	(19,509)	(4,790)	(14,571)
Proceeds from disposal and maturity of short-term investments	8,300	22,066	4,790	14,562
Additions to capital assets	(2,045)	(2,799)	(1,695)	(2,396)
	<u>437</u>	<u>(242)</u>	<u>(1,695)</u>	<u>(2,405)</u>
Cash flows from financing activities				
Repayment of long-term debt	–	–	(307)	(307)
Exercise of stock options	–	–	89	195
Redemption of share capital	(24,250)	(25,103)	(937)	(937)
	<u>(24,250)</u>	<u>(25,103)</u>	<u>(1,155)</u>	<u>(1,049)</u>
Effect of foreign exchange rate changes on cash				
	<u>(3,795)</u>	<u>(6,053)</u>	<u>(1,475)</u>	<u>(1,840)</u>
Change in cash	(21,864)	(23,764)	(701)	1,678
Cash – Beginning of the period	<u>52,221</u>	<u>54,121</u>	<u>47,765</u>	<u>45,386</u>
Cash – End of the period	<u>\$ 30,357</u>	<u>\$ 30,357</u>	<u>\$ 47,064</u>	<u>\$ 47,064</u>
Supplementary information				
Income taxes paid	\$ 457	\$ 824	\$ 229	\$ 871
Additions to capital assets	\$ 2,048	\$ 2,938	\$ 1,196	\$ 2,680