

January 10, 2017

## EXFO Reports First-Quarter Results for Fiscal 2017

- | **Sales increase 11.9% year-over-year to US\$61.8 million**
- | **Bookings rise 12.6% year-over-year to US\$65.9 million (book-to-bill ratio of 1.07)**
- | **Gross margin reaches 63.1% of sales**
- | **Adjusted EBITDA improves 19.6% year-over-year to US\$6.3 million (10.2% of sales)**

QUEBEC CITY, Jan. 10, 2017 /CNW Telbec/ - EXFO Inc. (NASDAQ: EXFO; TSX: EXF) reported today financial results for the first quarter ended November 30, 2016.

Sales reached US\$61.8 million in the first quarter of fiscal 2017 compared to US\$55.2 million in the first quarter of 2016 and US\$62.9 million in the fourth quarter of 2016.

Bookings attained US\$65.9 million in the first quarter of fiscal 2017 compared to US\$58.5 million in the same period last year and US\$62.4 million in the fourth quarter of 2016. The company's book-to-bill ratio was 1.07 in the first quarter of 2017.

Gross margin before depreciation and amortization\* amounted to 63.1% of sales in the first quarter of fiscal 2017 compared to 63.5% in the first quarter of 2016 and 61.6% in the fourth quarter of 2016.

IFRS net earnings in the first quarter of fiscal 2017 totaled US\$3.3 million, or US\$0.06 per diluted share, compared US\$1.8 million, or US\$0.03 per diluted share, in the same period last year and US\$2.3 million, or US\$0.04 per diluted share, in the fourth quarter of 2016. IFRS net earnings in the first quarter of 2017 included US\$0.4 million in after-tax amortization of intangible assets, US\$0.3 million in stock-based compensation costs and a foreign exchange gain of US\$0.5 million.

Adjusted EBITDA\* totaled US\$6.3 million, or 10.2% of sales, in the first quarter of fiscal 2017 compared to US\$5.3 million, or 9.6% of sales, in the first quarter of 2016 and US\$6.2 million, or 9.8% of sales, in the fourth quarter of 2016.

EXFO closed the acquisition of Absolute Analysis' assets in late October for US\$5.0 million in cash and US\$3.5 million in stock. At the end of the first quarter of fiscal 2017, EXFO had a cash position of US\$39.3 million and no debt.

"Fiscal 2017 has gotten off to a strong start with double-digit increases in sales, bookings and adjusted EBITDA in the first quarter, highlighting growing market traction of both of our product groups," said Germain Lamonde, EXFO's Chairman, President and CEO. "I am particularly pleased with robust results from our optical and high-speed transport businesses, where we are gaining market share and taking advantage of the 100G investment cycle in long-haul networks, Metro links and data centers. We also benefited from calendar year-end purchases by some communications service providers and early returns from our industry-only, all-in-one optical RF analyzer for mobile network operators. We remain fully confident about achieving our adjusted EBITDA goal of US\$26 million in 2017."

### Selected Financial Information (In thousands of US dollars)

	Q1 2017	Q4 2016	Q1 2016
Physical-layer sales	\$ 42,016	\$ 39,777	\$ 37,477
Protocol-layer sales	20,009	23,445	18,629
Foreign exchange losses on forward exchange contracts	(240)	(364)	(874)
Total sales	\$ 61,785	\$ 62,858	\$ 55,232
Physical-layer bookings	\$ 44,090	\$ 39,826	\$ 38,878
Protocol-layer bookings	22,009	22,969	20,469
Foreign exchange losses on forward exchange contracts	(240)	(364)	(874)
Total bookings	\$ 65,859	\$ 62,431	\$ 58,473
Book-to-bill ratio (bookings/sales)	1.07	0.99	1.06

Gross margin before depreciation and amortization*	\$ 38,972	\$ 38,713	\$ 35,095
	63.1%	61.6%	63.5%

**Other selected information:**

IFRS net earnings	\$ 3,303	\$ 2,252	\$ 1,766
Amortization of intangible assets	\$ 427	\$ 292	\$ 300
Stock-based compensation costs	\$ 258	\$ 302	\$ 376
Net income tax effect of the above items	\$ (64)	\$ (31)	\$ (28)
Foreign exchange gain (loss)	\$ 512	\$ (293)	\$ 310
Adjusted EBITDA*	\$ 6,321	\$ 6,172	\$ 5,286

**Operating Expenses**

Selling and administrative expenses totaled US\$21.6 million, or 35.0% of sales in the first quarter of fiscal 2017 compared to US\$20.3 million, or 36.7% of sales, in the same period last year and US\$21.6 million, or 34.3% of sales, in the fourth quarter of 2016.

Net R&D expenses totaled US\$11.3 million, or 18.3% of sales, in the first quarter of fiscal 2017 compared to US\$9.9 million, or 18.0% of sales, in the first quarter of 2016 and US\$11.3 million, or 18.0% of sales, in the fourth quarter of 2016.

**First-Quarter Highlights**

- | Sales and bookings. Sales and bookings increased 11.9% and 12.6% year-over-year, respectively, mainly due to strong market demand in EXFO's three major selling regions and for optical and high-speed solutions. The company also benefited from a large wireless deal in Asia-Pacific in the first quarter. From a segmented revenue standpoint, 56% of sales originated from the Americas, 23% from EMEA and 21% from Asia-Pacific, while Physical-layer sales represented 68% of total sales and Protocol-layer sales 32%. EXFO's top customer accounted for 13.8% of sales, while the top three represented 23.3%. This represents an unusually high concentration level for EXFO, but reflects greater success with Tier-1 operators.
- | Profitability. EXFO generated adjusted EBITDA of US\$6.3 million, or 10.2% of sales, in the first quarter of 2017 compared to US\$5.3 million, or 9.6% of sales, in the first quarter of 2016.
- | Innovation. EXFO acquired substantially all the assets of Absolute Analysis in the first quarter to combine radio frequency (RF) test software with its own optical and Ethernet technologies. EXFO also introduced three other new solutions including a power meter, variable attenuator and optical switch modules for its LTB-8 platform dedicated to the high-speed optical lab market, a segment of increased focus. Finally, EXFO supplied OpenReach, British Telecom's local network business, with an initial order of MaxTesters to support its G.fast pilot project.

**Business Outlook**

EXFO forecasts sales between US\$58.0 million and US\$63.0 million for the second quarter of fiscal 2017, while IFRS net results are expected to range between a loss of US\$0.01 per share and earnings of US\$0.03 per share. IFRS net results include US\$0.01 per share in after-tax amortization of intangible assets and stock-based compensation costs as well as an anticipated foreign exchange loss of US\$800,000 based on today's exchange rates.

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 first-quarter results for fiscal 2017. To listen to the conference call and participate in the question period via telephone, dial 1-704-288-0432. Please take note the following conference ID number will be required: 30629172. Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CPA, Vice-President of Finance and Chief Financial Officer, will participate in the call. An audio replay of the conference call will be available two hours after the event until 11:59 p.m. on January 17, 2017. The replay number is 1-855-859-2056 and the conference ID number is 30629172. The audio Webcast and replay of the conference call will also be available on EXFO's Website at [www.EXFO.com](http://www.EXFO.com), under the Investors section.

**About EXFO**

EXFO provides communications service providers (CSPs) with test automation and 3D analytics solutions to ensure the smooth deployment, maintenance and management of next-generation, physical, virtual, fixed and mobile networks. The company has also forged strong relationships with network equipment manufacturers (NEMs) to develop deep expertise that migrates from the lab to the field and beyond. EXFO's key differentiation comes from combining intelligent, automated and cloud-based test and monitoring solutions with real-time analytics to deliver unmatched end-to-end visibility and

assurance—from a network, services and end-user level. EXFO is no. 1 in portable optical testing and boasts the largest active service assurance deployment worldwide. For more information, visit [www.EXFO.com](http://www.EXFO.com) and follow us on the [EXFO Blog](#).

### 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 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, in thousands of US dollars:

#### Adjusted EBITDA

	<u>Q1 2017</u>	<u>Q4 2016</u>	<u>Q1 2016</u>
IFRS net earnings for the period	\$ 3,303	\$ 2,252	\$ 1,766
Add (deduct):			
Depreciation of property, plant and equipment	903	957	975
Amortization of intangible assets	427	292	300
Interest (income) expense	(20)	(112)	63
Income taxes	1,962	2,188	2,116

Stock-based compensation costs	258	302	376
Foreign exchange gain	(512)	(293)	(310)
Adjusted EBITDA for the period	<u>\$ 6,321</u>	<u>\$ 6,172</u>	<u>\$ 5,286</u>
Adjusted EBITDA in percentage of sales	<u>10.2%</u>	<u>9.8%</u>	<u>9.6%</u>

**EXFO Inc.**  
**Condensed Unaudited Interim Consolidated Balance Sheets**

(in thousands of US dollars)

	<u>As at November 30, 2016</u>	<u>As at August 31, 2016</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 35,061	\$ 43,208
Short-term investments	4,281	4,087
Accounts receivable		
Trade	43,476	42,993
Other	3,321	2,474
Income taxes and tax credits recoverable	4,047	4,208
Inventories	33,880	33,004
Prepaid expenses	2,781	3,099
	<u>126,847</u>	<u>133,073</u>
<b>Tax credits recoverable</b>	33,800	34,594
<b>Property, plant and equipment</b>	35,530	35,978
<b>Intangible assets</b>	10,855	3,391
<b>Goodwill</b>	21,418	21,928
<b>Deferred income tax assets</b>	7,901	8,240
<b>Other assets</b>	372	589
	<u>\$ 236,723</u>	<u>\$ 237,793</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 34,779	\$ 37,174
Provisions	308	299
Income taxes payable	567	971
Deferred revenue	8,910	9,486
	<u>44,564</u>	<u>47,930</u>
<b>Deferred revenue</b>	5,681	5,530
<b>Deferred income tax liabilities</b>	2,546	2,857
<b>Other liabilities</b>	29	75
	<u>52,820</u>	<u>56,392</u>
<b>Shareholders' equity</b>		
Share capital	89,352	85,516
Contributed surplus	18,018	18,150
Retained earnings	129,612	126,309
Accumulated other comprehensive loss	(53,079)	(48,574)
	<u>183,903</u>	<u>181,401</u>
	<u>\$ 236,723</u>	<u>\$ 237,793</u>

**Condensed Unaudited Interim Consolidated Statements of Earnings**

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

	<b>Three months ended November 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Sales</b>	<u>\$ 61,785</u>	<u>\$ 55,232</u>
Cost of sales <sup>(1)</sup>	22,813	20,137
Selling and administrative	21,595	20,252
Net research and development	11,314	9,933
Depreciation of property, plant and equipment	903	975
Amortization of intangible assets	427	300
Interest (income) expense	(20)	63
Foreign exchange gain	<u>(512)</u>	<u>(310)</u>
<b>Earnings before income taxes</b>	5,265	3,882
<b>Income taxes</b>	<u>1,962</u>	<u>2,116</u>
<b>Net earnings for the period</b>	<u>\$ 3,303</u>	<u>\$ 1,766</u>
<b>Basic and diluted net earnings per share</b>	\$ 0.06	\$ 0.03
<b>Basic weighted average number of shares outstanding (000's)</b>	53,884	53,814
<b>Diluted weighted average number of shares outstanding (000's)</b>	55,001	54,535

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

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**Condensed Unaudited Interim Consolidated Statements of Comprehensive Loss**

(in thousands of US dollars)

	<b>Three months ended November 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Net earnings for the period</b>	\$ 3,303	\$ 1,766
Other comprehensive income (loss), net of income taxes		
Items that will not be reclassified subsequently to net earnings		
Foreign currency translation adjustment	(4,217)	(2,509)
Items that may be reclassified subsequently to net earnings		
Unrealized gains/losses on forward exchange contracts	(561)	(270)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	181	878
Deferred income tax effect of gains/losses on forward exchange contracts	<u>92</u>	<u>(148)</u>
Other comprehensive loss	<u>(4,505)</u>	<u>(2,049)</u>
<b>Comprehensive loss for the period</b>	<u>\$ (1,202)</u>	<u>\$ (283)</u>

**EXFO Inc.**

**Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity**

(in thousands of US dollars)

**Three months ended November 30, 2015**

**Accumulated  
other**

**Total**

	Share capital	Contributed surplus	Retained earnings	comprehensive loss	shareholders' equity
Balance as at September 1, 2015	\$ 86,045	\$ 17,778	\$ 117,409	\$ (52,005)	\$ 169,227
Redemption of share capital	(1)	-	-	-	(1)
Reclassification of stock-based compensation costs	723	(723)	-	-	-
Stock-based compensation costs	-	341	-	-	341
Net earnings for the period	-	-	1,766	-	1,766
Other comprehensive income (loss)					
Foreign currency translation adjustment	-	-	-	(2,509)	(2,509)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$148	-	-	-	460	460
Total comprehensive loss for the period					(283)
Balance as at November 30, 2015	<u>\$ 86,767</u>	<u>\$ 17,396</u>	<u>\$ 119,175</u>	<u>\$ (54,054)</u>	<u>\$ 169,284</u>

**Three months ended November 30, 2016**

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2016	\$ 85,516	\$ 18,150	\$ 126,309	\$ (48,574)	\$ 181,401
Issuance of share capital	3,490	-	-	-	3,490
Reclassification of stock-based compensation costs	346	(346)	-	-	-
Stock-based compensation costs	-	214	-	-	214
Net earnings for the period	-	-	3,303	-	3,303
Other comprehensive loss					
Foreign currency translation adjustment	-	-	-	(4,217)	(4,217)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$92	-	-	-	(288)	(288)
Total comprehensive loss for the period					(1,202)
Balance as at November 30, 2016	<u>\$ 89,352</u>	<u>\$ 18,018</u>	<u>\$ 129,612</u>	<u>\$ (53,079)</u>	<u>\$ 183,903</u>

**EXFO Inc.**

**Condensed Unaudited Interim Consolidated Statements of Cash Flows**

(in thousands of US dollars)

	<b>Three months ended November 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net earnings for the period	\$ 3,303	\$ 1,766
Add (deduct) items not affecting cash		
Stock-based compensation costs	258	376
Depreciation and amortization	1,330	1,275
Deferred revenue	(75)	1,511
Deferred income taxes	147	573
Changes in foreign exchange gain/loss	(538)	(344)
	<u>4,425</u>	<u>5,157</u>
Changes in non-cash operating items		
Accounts receivable	(2,558)	(2,024)
Income taxes and tax credits	(344)	(278)
Inventories	(1,248)	(3,226)
Prepaid expenses	258	54
Other assets	13	193

Accounts payable, accrued liabilities and provisions	(1,425)	3,375
Other liabilities	-	(28)
	<u>(879)</u>	<u>3,223</u>
<b>Cash flows from investing activities</b>		
Additions to short-term investments	(296)	(21)
Additions to capital assets	(1,237)	(1,309)
Business combination	(5,000)	-
	<u>(6,533)</u>	<u>(1,330)</u>
<b>Cash flows from financing activities</b>		
Bank loan	-	315
Redemption of share capital	-	(1)
	<u>-</u>	<u>314</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>(735)</u>	<u>(197)</u>
<b>Change in cash</b>	(8,147)	2,010
<b>Cash - Beginning of the period</b>	43,208	25,864
<b>Cash - End of the period</b>	<u>\$ 35,061</u>	<u>\$ 27,874</u>
<b>Supplementary information</b>		
Income taxes paid	\$ 958	\$ 608

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