



EXFO Reports Fourth-Quarter and Fiscal 2016 Results

Q4 2016

- **Sales increase 11.1% year-over-year to US\$62.9 million**
- **Bookings improve 13.7% year-over-year to US\$62.4 million**
- **Adjusted EBITDA rises 24.4% year-over-year to US\$6.2 million**

Fiscal 2016

- **Sales increase 4.7% to US\$232.6 million**
- **Bookings improve 7.7% to US\$240.3 million**
- **Adjusted EBITDA surges 59.9% to US\$22.0 million**
- **Cash position improves US\$19.9 million to US\$47.3 million**

QUEBEC CITY, CANADA, October 12, 2016 — EXFO Inc. (NASDAQ: EXFO) (TSX: EXF) announced today financial results for the fourth quarter and fiscal year ended August 31, 2016.

Sales in the fourth quarter of fiscal 2016 reached US\$62.9 million compared to US\$60.9 million in the third quarter of 2016 and US\$56.6 million in the fourth quarter of 2015. Annual sales increased 4.7% to US\$232.6 million in fiscal 2016 from US\$222.1 million in 2015.

Bookings totaled US\$62.4 million for a book-to-bill ratio of 0.99 in the fourth quarter of fiscal 2016 compared to US\$59.7 million in the third quarter of 2016 and US\$54.9 million in the fourth quarter of 2015. Overall for fiscal 2016, bookings increased 7.7% to US\$240.3 million for a book-to-bill ratio of 1.03 from US\$223.1 million in 2015.

Gross margin before depreciation and amortization* attained 61.6% of sales in the fourth quarter of fiscal 2016 compared to 60.8% in the third quarter of 2016 and 61.2% in the fourth quarter of 2015. In fiscal 2016, gross margin improved to 62.6% of sales from 61.7% in 2015.

In the fourth quarter of fiscal 2016, IFRS net earnings amounted to US\$2.3 million, or US\$0.04 per diluted share, compared to net earnings of US\$0.9 million, or US\$0.02 per diluted share in the third quarter of 2016 and US\$2.3 million, or US\$0.04 per diluted share, in the fourth quarter of 2015. IFRS net earnings in the fourth quarter of 2016 included US\$0.3 million in after-tax amortization of intangible assets, US\$0.3 million in stock-based compensation costs and a foreign exchange loss of US\$0.3 million. In comparison, the company reported a foreign exchange gain of US\$2.4 million in the fourth quarter of 2015.

In fiscal 2016, IFRS net earnings totaled US\$8.9 million, or US\$0.16 per diluted share, compared to US\$5.3 million, or US\$0.09 per diluted share, in 2015. IFRS net earnings in 2016 included US\$1.1 million in after-tax amortization of intangible assets, US\$1.4 million in stock-based compensation costs and a foreign exchange gain of US\$0.2 million. In comparison, the company reported a foreign exchange gain of US\$7.2 million in fiscal 2015.

Adjusted EBITDA* totaled US\$6.2 million, or 9.8% of sales, in the fourth quarter of fiscal 2016 compared to US\$5.3 million, or 8.7% of sales, in the third quarter of 2016 and US\$5.0 million, or 8.8% of sales, in the fourth quarter of 2015. In fiscal 2016, adjusted EBITDA surged 59.9% to US\$22.0 million from US\$13.8 million in 2015.

Cash and short-term investments increased by US\$19.9 million to US\$47.3 million at the end of fiscal 2016 from US\$27.4 million at the end of 2015.

“I am quite pleased with EXFO’s progress in fiscal 2016 in terms of sales, bookings and profitability, including a 60% increase in adjusted EBITDA to US\$22.0 million, ahead of the US\$20 million target we had set at the beginning of the year,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “Many of the transformations implemented in 2015 started to pay off, contributing to market-share gains in strategic areas and delivering expected bookings and revenue growth in both our Physical-layer and Protocol-layer product groups. Our fourth quarter was particularly gratifying with double-digit sales, bookings and adjusted EBITDA growth year-over-year.”

“Throughout 2016, we continued redefining EXFO for ongoing success and market-share gains by strengthening our innovation edge, strategic position and go-to-market capabilities, while leveraging new growth vectors and market segments,” Mr. Lamonde added. “Combined with our solid foundation in high-speed optical testing and holistic test and systems offering, we are well positioned to sustain profitable growth in 2017 as the pace of network transformation is accelerating. With a heightened focus on execution, disciplined spending and improving our gross margin, I am confident we will increase adjusted EBITDA faster than revenue to achieve at least US\$26 million in 2017.”

Selected Financial Information (unaudited)

(In thousands of US dollars)

	Q4 2016	Q3 2016	Q4 2015	FY 2016	FY 2015
Physical-layer sales	\$ 39,777	\$ 42,074	\$ 34,967	\$151,910	\$ 144,060
Protocol-layer sales	23,445	19,260	22,419	83,324	80,591
Foreign exchange losses on forward exchange contracts	(364)	(438)	(792)	(2,651)	(2,562)
Total Sales	\$ 62,858	\$ 60,896	\$ 56,594	\$ 232,583	\$ 222,089
Physical-layer bookings	\$ 39,826	\$ 41,797	\$ 35,521	\$ 155,320	\$ 144,673
Protocol-layer bookings	22,969	18,389	20,187	87,631	80,948
Foreign exchange losses on forward exchange contracts	(364)	(438)	(792)	(2,651)	(2,562)
Total Bookings	\$ 62,431	\$ 59,748	\$ 54,916	\$ 240,300	\$ 223,059
Book-to-bill ratio (Bookings/Sales)	0.99	0.98	0.97	1.03	1.00
Gross margin before depreciation and amortization*	\$ 38,713 61.6%	\$ 37,016 60.8%	\$ 34,619 61.2%	\$ 145,517 62.6%	\$ 137,050 61.7%
Other selected information:					
Net earnings	\$ 2,252	\$ 919	\$ 2,323	\$ 8,900	\$ 5,298
Amortization of intangible assets	\$ 292	\$ 294	\$ 322	\$ 1,172	\$ 2,883
Stock-based compensation costs	\$ 302	\$ 386	\$ 133	\$ 1,378	\$ 1,295
Restructuring charges	\$ -	\$ -	\$ 1,637	\$ -	\$ 1,637
Net income tax effect of the above items	\$ (31)	\$ (31)	\$ (371)	\$ (120)	\$ (531)
Foreign exchange gain (loss)	\$ (293)	\$ (957)	\$ 2,425	\$ 161	\$ 7,212
Adjusted EBITDA*	\$ 6,172	\$ 5,301	\$ 4,962	\$ 22,039	\$ 13,779

Operating Expenses

Selling and administrative expenses totaled US\$21.6 million, or 34.3% of sales, in the fourth quarter of fiscal 2016 compared to US\$20.8 million, or 34.2% of sales, in the third quarter of 2016 and US\$20.5 million, or 36.3% of sales, in the fourth quarter of 2015. In fiscal 2016, selling and administrative expenses amounted to US\$82.2 million, or 35.3% of sales, compared to US\$82.2 million, or 37.0% of sales, in 2015.

Net R&D expenses amounted to US\$11.3 million, or 18.0% of sales, in the fourth quarter of fiscal 2016 compared to US\$11.3 million, or 18.6% of sales, in the third quarter of 2016 and US\$10.9 million, or 19.3% of sales, in the fourth quarter of 2015. In fiscal 2016, net R&D expenses decreased to US\$42.7 million, or 18.4% of sales, from US\$44.0 million, or 19.8% of sales, in 2015.

Fiscal 2016 Highlights

- **Sales.** Total sales increased 4.7% to US\$232.6 million in fiscal 2016 largely due to EXFO's leadership in portable optical testing and a 100G investment cycle, especially in the United States. Sales of Physical-layer solutions (optical and copper access) increased 5.4% year-over-year, while sales of Protocol-layer solutions (transport, datacom, service assurance, analytics and wireless products) improved 3.4%.

Annual sales in the Americas and Asia-Pacific regions increased by 6.7% and 5.6%, respectively, while sales in Europe, Middle East and Africa (EMEA) were relatively stable.

EXFO's largest customer accounted for 7.1% of sales in fiscal 2016, while the company's top-three customers represented 15.6%. In comparison, EXFO's largest customer accounted for 7.1% of sales in 2015, while the company's top-three customers represented 14.4%.

- **Profitability.** EXFO generated adjusted EBITDA of US\$22.0 million, or 9.5% of sales, in fiscal 2016 compared to US\$13.8 million, or 6.2% of sales, in 2015. The company also delivered US\$24.4 million in cash flows from operating activities in 2016.
- **Innovation.** EXFO launched 15 new products or major enhancements in fiscal 2016. Key new product introductions included TestFlow, a unique cloud-based, field test automation solution simplifying and accelerating complex, labor-intensive deployment activities for home-broadband and wireless radio access networks (RAN); LTB-8 platform, a multi-module test and software-sharing automation suite accelerating high-speed optical testing in lab and manufacturing environments; a whole new family of OTDRs (a segment in which EXFO dominates), raising industry standards for technical specifications and time savings in characterizing optical networks; iSAM, an intelligent service activation software bringing speed and simplicity to testing Ethernet services; MaxTester-940 Fiber Certifier OLTS (optical loss test set) for data center and enterprise markets; and the telecom industry's first G.fast handheld test set for the roll out of ultra-broadband services on copper links.

Business Outlook

EXFO forecasts sales between US\$59.0 million and US\$64.0 million for the first 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.

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.

For fiscal 2017, EXFO is targeting double-digit growth in adjusted EBITDA to least US\$26 million.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review fourth quarter and year-end financial results for fiscal 2016. 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: 78994192. 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 two hours after the event until 11:59 p.m. on October 19, 2016. The replay number is 1-855-859-2056 and the conference ID number is 78994192. 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

EXFO provides communications service providers (CSPs) with test orchestration 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 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 (constant currency data, 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 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.

Constant currency data represents data before foreign currency impact. Data for the current period is translated using foreign exchange rates of the corresponding period from the preceding year.

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, restructuring charges, stock-based compensation costs and foreign exchange gain or loss.

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

Adjusted EBITDA

	<u>Q4 2016</u>	<u>Q3 2016</u>	<u>Q4 2015</u>	<u>FY 2016</u>	<u>FY 2015</u>
IFRS net earnings for the period	\$ 2,252	\$ 919	\$ 2,323	\$ 8,900	\$ 5,298
Add (deduct):					
Depreciation of property, plant and equipment	957	958	1,171	3,814	4,835
Amortization of intangible assets	292	294	322	1,172	2,883
Interest and other (income) expenses	(112)	(309)	61	(828)	(155)
Income taxes	2,188	2,096	1,740	7,764	5,198
Restructuring charges	–	–	1,637	–	1,637
Stock-based compensation costs	302	386	133	1,378	1,295
Foreign exchange (gain) loss	293	957	(2,425)	(161)	(7,212)
Adjusted EBITDA for the period	<u>\$ 6,172</u>	<u>\$ 5,301</u>	<u>\$ 4,962</u>	<u>\$ 22,039</u>	<u>\$ 13,779</u>
Adjusted EBITDA in percentage of sales	<u>9.8%</u>	<u>8.7%</u>	<u>8.8%</u>	<u>9.5%</u>	<u>6.2%</u>

For more information

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