

June 29, 2017

EXFO Reports Third Quarter Results for Fiscal 2017

- | **Sales reach US\$58.5 million**
- | **Bookings attain US\$63.7 million, book-to-bill ratio of 1.09**
- | **Adjusted EBITDA totals US\$2.3 million**
- | **Cost savings from restructuring of US\$8.0 million expected in FY 2018**

QUEBEC CITY, June 29, 2017 /CNW Telbec/ - EXFO Inc. (NASDAQ: EXFO, TSX: EXF), the network test, monitoring and analytics experts, reported today financial results for the third quarter ended May 31, 2017.

Sales reached US\$58.5 million in the third quarter of fiscal 2017 compared to US\$60.9 million in the third quarter of 2016 and US\$60.0 million in the second quarter of 2017.

Bookings attained US\$63.7 million in the third quarter of fiscal 2017 compared to US\$59.7 million in the same period last year and US\$55.9 million in the second quarter of 2017. The company's book-to-bill ratio was 1.09 in the third quarter of 2017.

Gross margin before depreciation and amortization* amounted to 58.0% of sales in the third quarter of fiscal 2017 compared to 60.8% in the third quarter of 2016 and 61.7% in the second quarter of 2017. Excluding restructuring charges of US\$1.6 million or 2.7% of sales, gross margin would have amounted to 60.7% in the third quarter of 2017.

IFRS net loss in the third quarter of fiscal 2017 totaled US\$4.3 million, or US\$0.08 per share, compared to net earnings of US\$0.9 million, or US\$0.02 per share, in the same period last year and net earnings of US\$1.0 million, or US\$0.02 per share, in the second quarter of 2017. IFRS net loss in the third quarter of 2017 included US\$3.6 million in after-tax restructuring expenses, US\$0.9 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs and a foreign exchange gain of US\$1.7 million.

Adjusted EBITDA* totaled US\$2.3 million, or 3.9% of sales, in the third quarter of fiscal 2017 compared to US\$5.3 million, or 8.7% of sales, in the third quarter of 2016 and US\$4.9 million, or 8.1% of sales, in the second quarter of 2017.

At the beginning of March, EXFO acquired UK-based Ontology Systems for a consideration of US\$7.7 million, net of cash acquired, plus an earnout estimated at US\$1.4 million based on future sales.

In early May, EXFO announced a restructuring plan to streamline its monitoring solutions portfolio. This plan, which resulted in US\$3.8 million of restructuring charges in the third quarter of 2017, is expected to generate annual cost savings of US\$8.0 million.

"Although bookings were robust at US\$63.7 million, the timing of orders and necessity to rebuild backlog affected our financial results in the third quarter of 2017," said Philippe Morin, EXFO's Chief Executive Officer. "Looking at the bigger picture, we continued capturing market share in optical and high-speed Ethernet testing in the field, data centers and labs as reflected by sales and bookings growth of 6.2% and 4.2% nine months into the fiscal year. We also addressed an underperforming product line within our monitoring solutions portfolio and fined-tuned our go-to-market strategy to sharpen our focus and enhance profitability. We should begin benefitting from our restructuring efforts in the fourth quarter, but the full impact will be felt in fiscal 2018."

Selected Financial Information (In thousands of US dollars)

	Q3 2017	Q2 2017	Q3 2016
Physical-layer sales	\$ 41,007	\$ 38,038	\$ 42,074
Protocol-layer sales	17,678	22,097	19,260
Foreign exchange losses on forward exchange contracts	(180)	(105)	(438)
Total sales	\$ 58,505	\$ 60,030	\$ 60,896

Physical-layer bookings	\$ 47,157	\$ 34,031	\$ 41,797
Protocol-layer bookings	16,691	21,992	18,389
Foreign exchange losses on forward exchange contracts	(180)	(105)	(438)
Total bookings	\$ 63,668	\$ 55,918	\$ 59,748
Book-to-bill ratio (bookings/sales)	1.09	0.93	0.98
Gross margin before depreciation and amortization*	\$ 33,950	\$ 37,041	\$ 37,016
	58.0%	61.7%	60.8%

Other selected information:

IFRS net earnings (loss)	\$ (4,304)	\$ 1,008	\$ 919
Amortization of intangible assets	\$ 1,046	\$ 768	\$ 294
Stock-based compensation costs	\$ 372	\$ 353	\$ 386
Restructuring charges	\$ 3,813	\$ -	\$ -
Net income tax effect of the above items	\$ (357)	\$ (162)	\$ (31)
Foreign exchange (gain) loss	\$ (1,725)	\$ 272	\$ 957
Adjusted EBITDA*	\$ 2,300	\$ 4,875	\$ 5,301

Operating Expenses

Selling and administrative expenses totaled US\$22.6 million, or 38.6% of sales in the third quarter of fiscal 2017 compared to US\$20.8 million, or 34.2% of sales, in the same period last year and US\$21.3 million, or 35.4% of sales, in the second quarter of 2017.

Net R&D expenses totaled US\$13.3 million, or 22.7% of sales, in the third quarter of fiscal 2017 compared to US\$11.3 million, or 18.6% of sales, in the third quarter of 2016 and US\$11.3 million, or 18.8% of sales, in the second quarter of 2017.

EXFO recorded US\$3.8 million of restructuring charges in the third quarter of fiscal 2017, of which US\$1.6 million (2.7% of sales) was included in cost of sales, US\$0.9 million (1.6% of sales) in selling and administrative expenses and US\$1.3 million (2.2% of sales) in net R&D expenses.

Third-Quarter Highlights

- 1 **Sales and bookings.** Sales decreased 3.9% year-over-year to US\$58.5 million in the third quarter of 2017 mainly due to the timing of orders and necessity to rebuild backlog as bookings improved 6.6% to US\$63.7 million. After nine months into fiscal 2017, sales and bookings increased 6.2% and 4.2%, respectively. Physical-layer sales accounted for 70% of total revenue in the third quarter of 2017, while Protocol-layer totaled 30%. Revenue contribution among the three main geographic regions in the third quarter amounted to 62% from the Americas, 20% from EMEA and 18% from Asia-Pacific. EXFO's top customer accounted for 9.9% of sales in the third quarter, while the top three customers represented 24.0%.
- 1 **Profitability.** EXFO generated adjusted EBITDA of US\$2.3 million, or 3.9% of sales, in the third quarter of 2017 and US\$13.5 million, or 7.5% of sales, after nine months into the fiscal year. In early May, the company announced a restructuring plan that is expected to deliver annual cost savings of US\$8.0 million.
- 1 **Innovation.** EXFO launched seven new solutions in the third quarter of 2017 and 15 since the beginning of the fiscal year. Key product introductions in the third quarter included a 400G test solution for the high-speed lab and manufacturing markets; a four-slot, FTB-4 Pro platform for network testing in the field, data centers and R&D labs; a software-based solution, Universal Virtual Sync, enabling communications service providers to accurately and cost-effectively measure network latency; a tunable optical time domain reflectometer (OTDR) that characterizes coarse wavelength division multiplexing (CWDM) channels in metro Ethernet links and centralized radio access networks (C-RANs); as well as an optical spectrum analyzer and two optical power meters for the lab and manufacturing markets.

Business Outlook

EXFO forecasts sales between US\$58.0 million and US\$63.0 million for the fourth quarter of fiscal 2017, while IFRS net results are expected to range between a loss of US\$0.03 per share and earnings of US\$0.01 per share. IFRS net results include US\$0.03 per share in after-tax amortization of intangible assets, after-tax restructuring charges and stock-based compensation costs as well as an anticipated foreign exchange loss of US\$0.04 per share.

This outlook was established by management based on existing backlog as of the date of this news release, expected bookings for the remaining of the quarter, exchange rates as of the day of this news release, as well as the preliminary allocation of the fair value of the total consideration for the acquisition of Ontology Partners Limited.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review third quarter results for fiscal 2017. To listen to the conference call and participate in the question period via telephone, dial 1-323-794-2093. Please take note the following participant passcode will be required: 1063188. Germain Lamonde, Executive Chairman, Philippe Morin, Chief Executive Officer, 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 8:00 p.m. on July 6, 2017. The replay number is 1-719-457-0820 and the required participant passcode is 1063188. 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 develops smarter network test, monitoring and analytics solutions for the world's leading communications service providers, network equipment manufacturers and webscale companies. Since 1985, we've worked side by side with our customers in the lab, field, data center, boardroom and beyond to pioneer essential technology and methods for each phase of the network lifecycle. Our portfolio of test orchestration and real-time 3D analytics solutions turn complex into simple and deliver business-critical insights from the network, service and subscriber dimensions. Most importantly, we help our customers flourish in a rapidly transforming industry where "good enough" testing, monitoring and analytics just aren't good enough anymore—they never were for us, anyway. For more information, visit 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 (loss) before interest, income taxes, depreciation and amortization, stock-based compensation costs, restructuring charges, 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

	<u>Q3 2017</u>	<u>Q2 2017</u>	<u>Q3 2016</u>
IFRS net earnings (loss) for the period	\$ (4,304)	\$ 1,008	\$ 919
Add (deduct):			
Depreciation of property, plant and equipment	1,029	962	958
Amortization of intangible assets	1,046	768	294
Interest (income) expense	57	(9)	(309)
Income taxes	2,012	1,521	2,096
Stock-based compensation costs	372	353	386
Restructuring charges	3,813	-	-
Foreign exchange (gain) loss	(1,725)	272	957
Adjusted EBITDA for the period	<u>\$ 2,300</u>	<u>\$ 4,875</u>	<u>\$ 5,301</u>
Adjusted EBITDA in percentage of sales	<u>3.9%</u>	<u>8.1%</u>	<u>8.7%</u>

EXFO Inc. Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	<u>As at May 31, 2017</u>	<u>As at August 31, 2016</u>
Assets		
Current assets		
Cash	\$ 34,373	\$ 43,208
Short-term investments	3,337	4,087
Accounts receivable		
Trade	41,358	42,993
Other	2,107	2,474
Income taxes and tax credits recoverable	5,090	4,208
Inventories	32,124	33,004
Prepaid expenses	3,781	3,099
	<u>122,170</u>	<u>133,073</u>
Tax credits recoverable	33,718	34,594
Property, plant and equipment	36,718	35,978
Intangible assets	11,969	3,391
Goodwill	32,756	21,928
Deferred income tax assets	6,705	8,240
Other assets	455	589
	<u>\$ 244,491</u>	<u>\$ 237,793</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 41,966	\$ 37,174
Provisions	296	299
Income taxes payable	610	971
Deferred revenue	11,556	9,486
	<u>54,428</u>	<u>47,930</u>
Deferred revenue	6,211	5,530
Deferred income tax liabilities	2,720	2,857
Other liabilities	31	75

	63,390	56,392
Shareholders' equity		
Share capital	90,376	85,516
Contributed surplus	17,721	18,150
Retained earnings	126,316	126,309
Accumulated other comprehensive loss	(53,312)	(48,574)
	<u>181,101</u>	<u>181,401</u>
	<u>\$ 244,491</u>	<u>\$ 237,793</u>

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Sales	\$ 58,505	\$ 180,320	\$ 60,896	\$ 169,725
Cost of sales ⁽¹⁾	24,555	70,357	23,880	62,921
Selling and administrative	22,572	65,422	20,798	60,615
Net research and development	13,263	35,841	11,303	31,398
Depreciation of property, plant and equipment	1,029	2,894	958	2,857
Amortization of intangible assets	1,046	2,241	294	880
Interest and other (income) expense	57	28	(309)	(716)
Foreign exchange (gain) loss	(1,725)	(1,965)	957	(454)
Earnings (loss) before income taxes	(2,292)	5,502	3,015	12,224
Income taxes	2,012	5,495	2,096	5,576
Net earnings (loss) for the period	<u>\$ (4,304)</u>	<u>\$ 7</u>	<u>\$ 919</u>	<u>\$ 6,648</u>
Basic and diluted net earnings (loss) per share	\$ (0.08)	\$ 0.00	\$ 0.02	\$ 0.12
Basic weighted average number of shares outstanding (000s)	54,593	54,328	53,940	53,894
Diluted weighted average number of shares outstanding (000s)	54,593	55,479	54,813	54,655

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

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Net earnings (loss) for the period	\$ (4,304)	\$ 7	\$ 919	\$ 6,648
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	(2,568)	(4,766)	5,488	775

Items that may be reclassified subsequently to net earnings				
Unrealized gains/losses on forward exchange contracts	(127)	(362)	1,045	825
Reclassification of realized gains/losses on forward exchange contracts in net earnings	39	359	666	2,383
Deferred income tax effect of gains/losses on forward exchange contracts	39	31	(434)	(824)
Other comprehensive income (loss)	<u>(2,617)</u>	<u>(4,738)</u>	<u>6,765</u>	<u>3,159</u>
Comprehensive income (loss) for the period	\$ (6,921)	\$ (4,731)	\$ 7,684	\$ 9,807

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

Nine months ended May 31, 2016

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Total shareholders' equity</u>
Balance as at September 1, 2015	\$ 86,045	\$ 17,778	\$ 117,409	\$ (52,005)	\$ 169,227
Redemption of share capital	(457)	55	-	-	(402)
Reclassification of stock-based compensation costs	1,238	(1,238)	-	-	-
Stock-based compensation costs	-	1,040	-	-	1,040
Net earnings for the period	-	-	6,648	-	6,648
Other comprehensive income					
Foreign currency translation adjustment	-	-	-	775	775
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$824	-	-	-	2,384	2,384
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,384</u>	<u>2,384</u>
Total comprehensive income for the period					<u>9,807</u>
Balance as at May 31, 2016	<u>\$ 86,826</u>	<u>\$ 17,635</u>	<u>\$ 124,057</u>	<u>\$ (48,846)</u>	<u>\$ 179,672</u>

Nine months ended May 31, 2017

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive loss</u>	<u>Total shareholders' equity</u>
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	1,370	(1,370)	-	-	-
Stock-based compensation costs	-	941	-	-	941
Net earnings for the period	-	-	7	-	7
Other comprehensive income (loss)					
Foreign currency translation adjustment	-	-	-	(4,766)	(4,766)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$31	-	-	-	28	28
	<u>-</u>	<u>-</u>	<u>-</u>	<u>28</u>	<u>28</u>
Total comprehensive loss for the period					<u>(4,731)</u>
Balance as at May 31, 2017	<u>\$ 90,376</u>	<u>\$ 17,721</u>	<u>\$ 126,316</u>	<u>\$ (53,312)</u>	<u>\$ 181,101</u>

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Cash flows from operating activities				
Net earnings (loss) for the period	\$ (4,304)	\$ 7	\$ 919	\$ 6,648
Add (deduct) items not affecting cash				
Stock-based compensation costs	372	983	386	1,076
Depreciation and amortization	2,075	5,135	1,252	3,737
Deferred revenue	79	3,026	1,203	4,876
Deferred income taxes	704	1,163	611	1,285
Changes in foreign exchange gain/loss	(524)	(955)	626	(333)
	<u>(1,598)</u>	<u>9,359</u>	<u>4,997</u>	<u>17,289</u>
Changes in non-cash operating items				
Accounts receivable	(901)	1,701	(5,887)	3,394
Income taxes and tax credits	(842)	(1,232)	(301)	632
Inventories	315	(9)	(759)	(6,627)
Prepaid expenses	(863)	(761)	(452)	(418)
Other assets	(103)	(127)	-	203
Accounts payable, accrued liabilities, provisions and other liabilities	1,169	1,756	4,670	6,347
	<u>(2,823)</u>	<u>10,687</u>	<u>2,268</u>	<u>20,820</u>
Cash flows from investing activities				
Additions to short-term investments	(2,571)	(2,887)	(3,109)	(3,130)
Proceeds from disposal and maturity of short-term investments	3,298	3,596	-	501
Purchases of capital assets	(2,555)	(5,448)	(1,138)	(3,374)
Business combinations, net of cash acquired	(7,479)	(12,479)	-	-
	<u>(9,307)</u>	<u>(17,218)</u>	<u>(4,247)</u>	<u>(6,003)</u>
Cash flows from financing activities				
Bank loan	-	-	-	468
Repayment of long-term debt	(1,480)	(1,480)	-	-
Redemption of share capital	-	-	(215)	(402)
	<u>(1,480)</u>	<u>(1,480)</u>	<u>(215)</u>	<u>66</u>
Effect of foreign exchange rate changes on cash	<u>(360)</u>	<u>(824)</u>	<u>1,049</u>	<u>1,526</u>
Change in cash	(13,970)	(8,835)	(1,145)	16,409
Cash - Beginning of the period	48,343	43,208	43,418	25,864
Cash - End of the period	<u>\$ 34,373</u>	<u>\$ 34,373</u>	<u>\$ 42,273</u>	<u>\$ 42,273</u>

SOURCE EXFO inc.

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