

March 29, 2017

EXFO Reports Second-Quarter Results for Fiscal 2017

- | **Sales increase 12.0% year-over-year to US\$60.0 million**
- | **Adjusted EBITDA reaches US\$4.9 million, or 8.1% of sales**
- | **Cash flows from operating activities total US\$14.4 million**

QUEBEC CITY, March 29, 2017 /CNW Telbec/ - EXFO Inc. (NASDAQ: EXFO) (TSX: EXF), the global network test, data and analytics experts, reported today financial results for the second quarter ended February 28, 2017.

Sales reached US\$60.0 million in the second quarter of fiscal 2017 compared to US\$53.6 million in the second quarter of 2016 and US\$61.8 million in the first quarter of 2017. At the halfway mark of fiscal 2017, sales increased 11.9% year-over-year to US\$121.8 million.

Bookings attained US\$55.9 million in the second quarter of fiscal 2017 compared to US\$59.7 million in the same period last year and US\$65.9 million in the first quarter of 2017. The company's book-to-bill ratio was 0.93 in the second quarter of 2017 and 1.00 at the half-way point of 2017, leading to year-over-year bookings growth of 3.0% after two quarters.

Gross margin before depreciation and amortization* amounted to 61.7% of sales in the second quarter of fiscal 2017 compared to 64.7% in the second quarter of 2016 and 63.1% in the first quarter of 2017. After six months into fiscal 2017, gross margin accounted for 62.4% of sales.

IFRS net earnings in the second quarter of fiscal 2017 totaled US\$1.0 million, or US\$0.02 per diluted share, compared US\$4.0 million, or US\$0.07 per diluted share, in the same period last year and US\$3.3 million, or US\$0.06 per diluted share, in the first quarter of 2017. IFRS net earnings in the second quarter of 2017 included US\$0.6 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs and a foreign exchange loss of US\$0.3 million. IFRS net earnings totaled US\$4.3 million in the first half of fiscal 2017 compared to US\$5.7 million in the first half of 2016. IFRS net earnings in the first half of 2017 included a foreign exchange gain of US\$0.2 million compared to a foreign exchange gain of US\$1.4 million in the first half of 2016.

Adjusted EBITDA* totaled US\$4.9 million, or 8.1% of sales, in the second quarter of fiscal 2017 compared to US\$5.3 million, or 9.9% of sales, in the second quarter of 2016 and US\$6.3 million, or 10.2% of sales, in the first quarter of 2017. At the halfway point of fiscal 2017, adjusted EBITDA totaled US\$11.2 million, or 9.2% of sales, compared to US\$10.6 million, or 9.7% of sales, in the first half of 2016.

EXFO generated US\$14.4 million in cash flows from operating activities in the second quarter of fiscal 2017 and closed the quarter with a cash position of US\$52.4 million and no debt.

Following the quarter-end, EXFO acquired Ontology Systems, a technology leader in real-time network topology discovery and service-chain mapping, for a consideration of US\$7.6 million, net of cash, plus an earnout based on future sales.

"I am particularly pleased we delivered double-digit, year-over-year revenue growth for a third consecutive quarter, even though bookings were softer than anticipated due to delays in new calendar year budget approvals and deal pushouts," said Germain Lamonde, EXFO's Founder, Chairman and CEO. "We delivered strong sales growth in the optical and 100 Gbit/s transport markets, both in the field and lab, and continued strengthening our leadership position with major product launches in the 200 Gbit/s and 400 Gbit/s test segments at the recent Optical Fiber Conference. Earlier at Mobile World Congress, we announced the acquisition of Ontology Systems' automated network topology discovery technology and the introduction of accurate, one-way latency monitoring capabilities. Once combined with our 3D analytics platform, these technologies will significantly enhance our real-time monitoring of VoWiFi, OTT video and VoIP services over hybrid physical-virtual networks and strengthen our positioning in the strategic NFV/SDN, 5G and IoT markets."

Selected Financial Information (In thousands of US dollars)

Q2 2017**Q1 2017****Q2 2016**

Physical-layer sales	\$ 38,038	\$ 42,016	\$ 32,582
Protocol-layer sales	22,097	20,009	21,990
Foreign exchange losses on forward exchange contracts	(105)	(240)	(975)
Total sales	\$ 60,030	\$ 61,785	\$ 53,597
Physical-layer bookings	\$ 34,031	\$ 44,090	\$ 34,874
Protocol-layer bookings	21,992	22,009	25,804
Foreign exchange losses on forward exchange contracts	(105)	(240)	(975)
Total bookings	\$ 55,918	\$ 65,859	\$ 59,703
Book-to-bill ratio (bookings/sales)	0.93	1.07	1.11
Gross margin before depreciation and amortization [*]	\$ 37,041	\$ 38,972	\$ 34,693
	61.7%	63.1%	64.7%
Other selected information:			
IFRS net earnings	\$ 1,008	\$ 3,303	\$ 3,963
Amortization of intangible assets	\$ 768	\$ 427	\$ 286
Stock-based compensation costs	\$ 353	\$ 258	\$ 314
Net income tax effect of the above items	\$ (162)	\$ (64)	\$ (30)
Foreign exchange (gain) loss	\$ 272	\$ (512)	\$ (1,101)
Adjusted EBITDA [*]	\$ 4,875	\$ 6,321	\$ 5,280

Operating Expenses

Selling and administrative expenses totaled US\$21.3 million, or 35.4% of sales in the second quarter of fiscal 2017 compared to US\$19.6 million, or 36.5% of sales, in the same period last year and US\$21.6 million, or 35.0% of sales, in the first quarter of 2017.

Net R&D expenses totaled US\$11.3 million, or 18.8% of sales, in the second quarter of fiscal 2017 compared to US\$10.2 million, or 19.0% of sales, in the second quarter of 2016 and US\$11.3 million, or 18.3% of sales, in the first quarter of 2017.

Second-Quarter and First-Half Highlights

- 1 **Sales and bookings.** EXFO experienced strong demand for its optical and high-speed transport test solutions, mainly in the Americas, and continued traction of its LTB-8 rackmount platform for lab and manufacturing floor applications in the second quarter of 2017. Bookings decreased 6.3% year-over-year in the second quarter primarily because the company had secured two large monitoring and analytics orders in the second quarter of 2016, but witnessed delays in network operator budget releases and deal approvals in the most recent quarter. In the first half of 2017, bookings improved 3.0% year-over-year. In terms of segmented sales, Physical-layer sales surged 16.7% year-over-year in the second quarter of 2017, while Protocol-layer sales were flat. On a geographical basis, sales increased 14.5% year-over in the Americas, 12.4% in EMEA and 6.1% in Asia Pacific. Revenue distribution among these three regions in the second quarter amounted to 50% from the Americas, 29% from EMEA and 21% from Asia-Pacific. EXFO's top customer accounted for 10.0% of sales in the second quarter and 12.0% of sales in the first half of 2017, while the top three customers represented 16.6% and 19.2% of sales, respectively.
- 1 **Profitability.** EXFO generated adjusted EBITDA of US\$4.9 million, or 8.1% of sales, in the second quarter of 2017 and US\$11.2 million, or 9.2% of sales, after six months into fiscal 2017. EXFO also delivered US\$14.4 million in cash flows from operating activities in the second quarter of 2017 to raise its cash position to US\$52.4 million at the quarter end.
- 1 **Innovation.** EXFO launched several new products during the second quarter and following the quarter-end while taking part in two key industry events: Mobile World Congress and Optical Fiber Conference. Major product introductions included a 400 Gbit/s optical transport test solution, 200 Gbit/s optical spectrum analyzer and FTB-4 test platform—all focused on optical high-speed networking applications in the lab and field; an automated inspection probe for testing multifiber connectors in data centers and radio access networks (RANs); optical RF over OBSAI (open base station architecture initiative) link test capabilities to complement recently acquired optical RF over CPRI (common public radio interface) test technology for C-RAN deployments; and the company integrated Ookla's Speedtest technology into its MaxTester residential broadband test solution. Finally, EXFO received Frost & Sullivan's Market Share Leadership Award for the sixth consecutive year by building on its No. 1 position in the portable fiber-optic test equipment market.

Business Outlook

EXFO forecasts sales between US\$58.0 million and US\$63.0 million for the third quarter of fiscal 2017, while IFRS net results are expected to range between a loss of US\$0.02 per share and earnings of US\$0.02 per share. IFRS net results

include US\$0.02 per share in after-tax amortization of intangible assets and stock-based compensation costs as well as an anticipated foreign exchange gain of US\$0.01 per share.

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 second-quarter results for fiscal 2017. To listen to the conference call and participate in the question period via telephone, dial 1-719-457-1036. Please take note the following participant passcode will be required: 6277231. Germain Lamonde, Executive Chairman, Philippe Morin, Chief Operating 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 April 5, 2017. The replay number is 1-719-457-0820 and the required participant passcode is 6277231. 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, data and analytics solutions for the world's leading communications service providers, network equipment manufacturers and web-scale companies. Since 1985, we've worked side by side with our clients 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 clients flourish in a rapidly transforming industry where "good enough" testing and data analytics just isn't good enough anymore—it never was 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 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, in thousands of US dollars:

Adjusted EBITDA

	<u>Q2 2017</u>	<u>Q1 2017</u>	<u>Q2 2016</u>
IFRS net earnings for the period	\$ 1,008	\$ 3,303	\$ 3,963
Add (deduct):			
Depreciation of property, plant and equipment	962	903	924
Amortization of intangible assets	768	427	286
Interest (income) expense	(9)	(20)	(470)
Income taxes	1,521	1,962	1,364
Stock-based compensation costs	353	258	314
Foreign exchange (gain) loss	272	(512)	(1,101)
Adjusted EBITDA for the period	<u>\$ 4,875</u>	<u>\$ 6,321</u>	<u>\$ 5,280</u>
Adjusted EBITDA in percentage of sales	<u>8.1%</u>	<u>10.2%</u>	<u>9.9%</u>

EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	<u>As at February 28, 2017</u>	<u>As at August 31, 2016</u>
Assets		
Current assets		
Cash	\$ 48,343	\$ 43,208
Short-term investments	4,074	4,087
Accounts receivable		
Trade	36,818	42,993
Other	5,435	2,474
Income taxes and tax credits recoverable	4,131	4,208
Inventories	33,039	33,004
Prepaid expenses	2,971	3,099
	<u>134,811</u>	<u>133,073</u>
Tax credits recoverable	34,159	34,594
Property, plant and equipment	36,843	35,978
Intangible assets	7,034	3,391
Goodwill	26,094	21,928
Deferred income tax assets	7,078	8,240
Other assets	435	589
	<u>\$ 246,454</u>	<u>\$ 237,793</u>
Liabilities		
Current liabilities		

Accounts payable and accrued liabilities	\$ 37,803	\$ 37,174
Provisions	258	299
Income taxes payable	545	971
Deferred revenue	11,335	9,486
	<u>49,941</u>	<u>47,930</u>
Deferred revenue	6,433	5,530
Deferred income tax liabilities	2,441	2,857
Other liabilities	30	75
	<u>58,845</u>	<u>56,392</u>
Shareholders' equity		
Share capital	89,841	85,516
Contributed surplus	17,843	18,150
Retained earnings	130,620	126,309
Accumulated other comprehensive loss	(50,695)	(48,574)
	<u>187,609</u>	<u>181,401</u>
	<u>\$ 246,454</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 February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Sales	\$ 60,030	\$ 121,815	\$ 53,597	\$ 108,829
Cost of sales ⁽¹⁾	22,989	45,802	18,904	39,041
Selling and administrative	21,255	42,850	19,565	39,817
Net research and development	11,264	22,578	10,162	20,095
Depreciation of property, plant and equipment	962	1,865	924	1,899
Amortization of intangible assets	768	1,195	286	586
Interest and other income	(9)	(29)	(470)	(407)
Foreign exchange (gain) loss	272	(240)	(1,101)	(1,411)
Earnings before income taxes	<u>2,529</u>	<u>7,794</u>	<u>5,327</u>	<u>9,209</u>
Income taxes	<u>1,521</u>	<u>3,483</u>	<u>1,364</u>	<u>3,480</u>
Net earnings for the period	<u>\$ 1,008</u>	<u>\$ 4,311</u>	<u>\$ 3,963</u>	<u>\$ 5,729</u>
Basic net earnings per share	\$ 0.02	\$ 0.08	\$ 0.07	\$ 0.11
Diluted net earnings per share	\$ 0.02	\$ 0.08	\$ 0.07	\$ 0.10
Basic weighted average number of shares outstanding (000's)	54,506	54,195	53,927	53,870
Diluted weighted average number of shares outstanding (000's)	55,681	55,341	54,615	54,575

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

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Comprehensive Income

(in thousands of US dollars)

	Three months ended February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Net earnings for the period	\$ 1,008	\$ 4,311	\$ 3,963	\$ 5,729
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	2,019	(2,198)	(2,204)	(4,713)
Items that may be reclassified subsequently to net earnings				
Unrealized gains/losses on forward exchange contracts	326	(235)	50	(220)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	139	320	839	1,717
Deferred income tax effect of gains (losses) on forward exchange contracts	(100)	(8)	(242)	(390)
Other comprehensive income (loss)	<u>2,384</u>	<u>(2,121)</u>	<u>(1,557)</u>	<u>(3,606)</u>
Comprehensive income for the period	<u>\$ 3,392</u>	<u>\$ 2,190</u>	<u>\$ 2,406</u>	<u>\$ 2,123</u>

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

(in thousands of US dollars)

Six months ended February 29, 2016

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2015	\$ 86,045	\$ 17,778	\$ 118,933	\$ (52,005)	\$ 170,751
Redemption of share capital	(244)	57	-	-	(187)
Reclassification of stock-based compensation costs	1,230	(1,230)	-	-	-
Stock-based compensation costs	-	681	-	-	681
Net earnings for the period	-	-	5,729	-	5,729
Other comprehensive income (loss)					
Foreign currency translation adjustment	-	-	-	(4,713)	(4,713)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$390	-	-	-	1,107	1,107
Total comprehensive income for the period					<u>2,123</u>
Balance as at February 29, 2016	<u>\$ 87,031</u>	<u>\$ 17,286</u>	<u>\$ 124,662</u>	<u>\$ (55,611)</u>	<u>\$ 173,368</u>

Six months ended February 28, 2017

	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	835	(835)	-	-	-
Stock-based compensation costs	-	528	-	-	528
Net earnings for the period	-	-	4,311	-	4,311
Other comprehensive income (loss)					
Foreign currency translation adjustment	-	-	-	(2,198)	(2,198)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$8	-	-	-	77	77
	<u>-</u>	<u>-</u>	<u>-</u>	<u>77</u>	<u>77</u>

Total comprehensive income for the period					2,190
Balance as at February 28, 2017	\$ 89,841	\$ 17,843	\$ 130,620	\$ (50,695)	\$ 187,609

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Cash flows from operating activities				
Net earnings for the period	\$ 1,008	\$ 4,311	\$ 3,963	\$ 5,729
Add (deduct) items not affecting cash				
Stock-based compensation costs	353	611	314	690
Depreciation and amortization	1,730	3,060	1,210	2,485
Deferred revenue	3,022	2,947	2,162	3,673
Deferred income taxes	312	459	101	674
Changes in foreign exchange gain/loss	107	(431)	(615)	(959)
	<u>6,532</u>	<u>10,957</u>	<u>7,135</u>	<u>12,292</u>
Changes in non-cash operating items				
Accounts receivable	5,160	2,602	11,305	9,281
Income taxes and tax credits	(46)	(390)	1,211	933
Inventories	924	(324)	(2,642)	(5,868)
Prepaid expenses	(156)	102	(20)	34
Other assets	(37)	(24)	10	203
Accounts payable, accrued liabilities and provisions	2,011	586	(1,644)	1,731
Other liabilities	1	1	(26)	(54)
	<u>14,389</u>	<u>13,510</u>	<u>15,329</u>	<u>18,552</u>
Cash flows from investing activities				
Additions to short-term investments	(20)	(316)	-	(21)
Proceeds from disposal and maturity of short-term investments	298	298	501	501
Purchases capital assets	(1,656)	(2,893)	(927)	(2,236)
Business combination	-	(5,000)	-	-
	<u>(1,378)</u>	<u>(7,911)</u>	<u>(426)</u>	<u>(1,756)</u>
Cash flows from financing activities				
Bank loan	-	-	153	468
Redemption of share capital	-	-	(186)	(187)
	<u>-</u>	<u>-</u>	<u>(33)</u>	<u>281</u>
Effect of foreign exchange rate changes on cash	<u>271</u>	<u>(464)</u>	<u>674</u>	<u>477</u>
Change in cash	13,282	5,135	15,544	17,554
Cash - Beginning of the period	35,061	43,208	27,874	25,864
Cash - End of the period	<u>\$ 48,343</u>	<u>\$ 48,343</u>	<u>\$ 43,418</u>	<u>\$ 43,418</u>
Supplementary information				
Income taxes paid	\$ 603	\$ 1,561	\$ 508	\$ 1,116
Additions to capital assets	\$ 2,483	\$ 3,662	\$ 1,066	\$ 2,375

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SOURCE EXFO inc.

