



CORPORATE HEADQUARTERS

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PRESS RELEASE

EXFO reports first-quarter results for fiscal 2018

- ***Sales total US\$63.4 million, above midpoint of guidance range***
- ***Bookings attain US\$65.9 million, book-to-bill ratio of 1.04***
- ***Gross margin improves to 63.3% of sales***
- ***Adjusted EBITDA reaches US\$6.1 million, 9.6% of sales***

QUEBEC CITY, CANADA, January 9, 2018 — EXFO Inc. (NASDAQ: EXFO; TSX: EXF) reported today financial results for the first quarter ended November 30, 2017.

Sales reached US\$63.4 million in the first quarter of fiscal 2018 compared to US\$61.8 million in the first quarter of 2017 and US\$63.0 million in the fourth quarter of 2017.

Bookings attained US\$65.9 million in the first quarter of fiscal 2018 compared to US\$65.9 million in the same period last year and US\$66.3 million in the fourth quarter of 2017. The company's book-to-bill ratio was 1.04 in the first quarter of 2018.

Gross margin before depreciation and amortization* amounted to 63.3% of sales in the first quarter of fiscal 2018 compared to 63.1% in the first quarter of 2017 and 61.9% in the fourth quarter of 2017.

IFRS net earnings in the first quarter of fiscal 2018 totaled US\$2.7 million, or US\$0.05 per diluted share, compared to US\$3.3 million, or US\$0.06 per diluted share, in the same period last year and US\$0.8 million, or US\$0.02 per diluted share, in the fourth quarter of 2017. IFRS net earnings in the first quarter of 2018 included US\$0.9 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs, US\$0.2 million for the positive change of the fair value of the cash contingent consideration related to the Ontology Systems acquisition, US\$0.8 million in after-tax acquisition-related costs and a foreign exchange gain of US\$1.2 million.

Adjusted EBITDA* totaled US\$6.1 million, or 9.6% of sales, in the first quarter of fiscal 2018 compared to US\$6.3 million, or 10.2% of sales, in the first quarter of 2017 and US\$8.5 million, or 13.6% of sales, in the fourth quarter of 2017.

In the first quarter of fiscal 2018, EXFO acquired a 33.1% stake in France-based Astellia, a leading provider of network and subscriber intelligence for mobile network operators, for a cash consideration of US\$10.3 million with the intent to purchase the remaining equity through a public tender offer that opened on December 15, 2017 and is scheduled to close on January 23, 2018. In late December, EXFO increased its investment in Astellia to 40.3% of the total shares outstanding by acquiring an additional 7.2% off-market for a cash consideration of US\$2.2 million. The entirety of Astellia's equity is valued at approximately US\$30.3 million.

EXFO also closed the acquisition of Yenista Optics, a supplier of complementary high-end optical test instruments for the lab and manufacturing markets, in the first quarter of 2018 for a total cash consideration of US\$9.5 million, net of cash acquired. At the end of the first quarter of 2018, EXFO held a cash position of US\$19.5 million.

Following the quarter-end, EXFO increased its credit facilities to C\$70.0 million (US\$54.3 million) and US\$9.0 million. The new credit facilities will be used to finance the acquisition of Astellia's remaining equity as well as working capital and general corporate purposes.

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“EXFO has gotten off to a running start in the first quarter of 2018 with sales above the midpoint of our guidance and strong earnings results,” said EXFO’s CEO Philippe Morin. “We leveraged the ongoing 100G optical investment cycle as fiber is being rolled out closer to the network edge and inside data centers, while benefiting from revenue contributions of recently acquired businesses. We are looking forward to close our public tender offer of Astellia’s shares in the not-too-distant future in order to significantly increase our scale and market position in the global telecom service assurance and analytics industry.”

Selected Financial Information
(In thousands of US dollars)

	Q1 2018	Q4 2017	Q1 2017
Physical-layer sales	\$ 42,513	\$ 40,802	\$ 42,016
Protocol-layer sales	20,641	22,122	20,009
Foreign exchange gains (losses) on forward exchange contracts	237	57	(240)
Total sales	\$ 63,391	\$ 62,981	\$ 61,785
Physical-layer bookings	\$ 48,352	\$ 39,322	\$ 44,090
Protocol-layer bookings	17,290	26,943	22,009
Foreign exchange gains (losses) on forward exchange contracts	237	57	(240)
Total bookings	\$ 65,879	\$ 66,322	\$ 65,859
Book-to-bill ratio (bookings/sales)	1.04	1.05	1.07
Gross margin before depreciation and amortization*	\$ 40,102 63.3%	\$ 39,009 61.9%	\$ 38,972 63.1%
Other selected information:			
IFRS net earnings	\$ 2,679	\$ 844	\$ 3,303
Amortization of intangible assets	\$ 1,119	\$ 1,048	\$ 427
Stock-based compensation costs	\$ 402	\$ 431	\$ 258
Restructuring charges	\$ –	\$ 1,266	\$ –
Changes in fair value of cash contingent consideration	\$ (155)	\$ (383)	\$ –
Net income tax effect of the above items	\$ (172)	\$ (275)	\$ (64)
Foreign exchange (gain) loss	\$ (1,218)	\$ 2,943	\$ (512)
Adjusted EBITDA*	\$ 6,059	\$ 8,545	\$ 6,321

Operating Expenses

Selling and administrative expenses totaled US\$23.2 million, or 36.6% of sales in the first quarter of fiscal 2018 compared to US\$21.6 million, or 35.0% of sales, in the same period last year and US\$20.8 million, or 33.1% of sales, in the fourth quarter of 2017. Selling and administrative expenses in the first quarter of 2018 included US\$0.8 million in acquisition-related costs as well as three months’ impact of Ontology Systems expenses and two months of Yenista Optics.

Net R&D expenses totaled US\$11.3 million, or 17.8% of sales, in the first quarter of fiscal 2018 compared to US\$11.3 million, or 18.3% of sales, in the first quarter of 2017 and US\$11.3 million, or 17.9% of sales, in the fourth quarter of 2017. Net R&D expenses in the first quarter of 2018 included three months’ impact of Ontology Systems expenses and two months of Yenista Optics.



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First-Quarter Highlights

- **Sales.** Sales increased 2.6% year-over-year mainly due to the ongoing 100G optical investment cycle as well as the positive impact of the recent Yenista Optics and Ontology Systems acquisitions. Physical-layer sales accounted for 67% of total revenue in the first quarter of 2018, while Protocol-layer sales totaled 33%. Revenue distribution among the three main selling regions in the first quarter amounted to 53% in the Americas, 23% in Europe, Middle East and Africa (EMEA) and 24% in Asia-Pacific. EXFO's top customer accounted for 13.8% of sales, while the top three represented 21.6%.
- **Profitability.** EXFO generated adjusted EBITDA of US\$6.1 million, or 9.6% of sales, in the first quarter of 2018 compared to US\$6.3 million, or 10.2% of sales, in the first quarter of 2017. The company also delivered US\$2.4 million in cash flows from operating activities in the first quarter of 2018.
- **Innovation.** EXFO launched four new products or major enhancements in the first quarter of fiscal 2018 including EX1, a multipurpose test solution for validating bandwidth speed up to full line rate Gigabit Ethernet and for monitoring quality of experience at customer premises; a compact 400G test solution for network equipment manufacturers, carrier labs and data centers; an optical spectrum analyzer delivering in-service optical signal-to-noise ratio (OSNR) measurements for networks up to 400G; and a power meter that automatically detects and adapts test parameters for passive optical network (PON) technology in use at customer premises.

Business Outlook

EXFO forecasts sales between US\$59.0 million and US\$64.0 million for the second quarter of fiscal 2018, while IFRS net loss is expected to range between US\$0.08 and US\$0.04 per share. IFRS net loss includes US\$0.02 per share in after-tax amortization of intangible assets and stock-based compensation costs, US\$0.03 per share for acquisition expenses related to the Astellia transaction, US\$0.03 per share to account for the effects of the new US tax reform on EXFO's deferred US tax assets, and an anticipated foreign exchange loss of US\$0.02 per share.

This guidance, which excludes financial results of the pending Astellia acquisition to be accounted by EXFO, was established by management based on existing backlog as of the date of this news release, seasonality, expected bookings for the remaining of the quarter, as well as exchange rates as of the day of this news 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 2018. To listen to the conference call and participate in the question period via telephone, dial 1-323-794-2551. Please take note the following participant passcode will be required: 1612195. Executive Chairman Germain Lamonde, CEO Philippe Morin and Pierre Plamondon, CPA, Chief Financial Officer and Vice-President of Finance, will participate in the call. An audio replay of the conference call will be available two hours after the event until 8 p.m. on January 16, 2018. The replay number is 1-719-457-0820 and the participant passcode is 1612195. 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](#).



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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; our ability to successfully integrate businesses that we acquire; 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; 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, restructuring charges, change in the fair value of cash contingent consideration and foreign exchange gain or loss.

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

Adjusted EBITDA

	<u>Q1 2018</u>	<u>Q4 2017</u>	<u>Q1 2017</u>
IFRS net earnings for the period	\$ 2,679	\$ 884	\$ 3,303
Add (deduct):			
Depreciation	1,154	1,008	903
Amortization	1,119	1,048	427
Interest and other (income) expense	338	275	(20)
Income taxes	1,740	1,113	1,962
Stock-based compensation costs	402	431	258
Restructuring charges	–	1,266	–
Change in fair value of cash contingent consideration	(155)	(383)	–
Foreign exchange (gain) loss	(1,218)	2,943	(512)
Adjusted EBITDA for the period	<u>\$ 6,059</u>	<u>\$ 8,545</u>	<u>\$ 6,321</u>
Adjusted EBITDA in percentage of sales	<u>9.6%</u>	<u>13.6%</u>	<u>10.2%</u>

For more information

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