

EXFO INC.
Form 6-K
April 11, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or 15d-16
Under the Securities Exchange Act of 1934

For the month of April 2018

EXFO Inc.
(Translation of registrant's name into English)

400 Godin Avenue, Quebec, Quebec, Canada G1M 2K2
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____.

TABLE OF CONTENTS

Signatures

Press Release

Unaudited Condensed Interim Consolidated Balance Sheets

Unaudited Condensed Interim Consolidated Statements of Earnings

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Unaudited Condensed Interim Consolidated Statements of Cash Flows

Notes to Unaudited Condensed Interim Consolidated Financial Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations

Form 52-109F2 - Certification of Interim Filings - Full Certificate - CEO

Form 52-109F2 - Certification of Interim Filings - Full Certificate - CFO

Table of Contents

On April 10, 2018, EXFO Inc., a Canadian corporation, reported its results of operations for the second fiscal quarter ended February 28, 2018. This report on Form 6-K sets forth the news release relating to EXFO's announcement and certain information relating to EXFO's financial condition and results of operations as well as certifications of interim filings for the second fiscal quarter of the 2018 fiscal year. This press release and information relating to EXFO's financial condition and results of operations and certifications of interim filings for the second fiscal quarter of the 2018 fiscal year are hereby incorporated as a document by reference to Form F-3 (Registration Statement under the Securities Act of 1933) declared effective as of July 30, 2001 and to Form F 3 (Registration Statement under the Securities Act of 1933) declared effective as of March 11, 2002 and to amend certain material information as set forth in these two Form F-3 documents.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EXFO INC.

By: /s/ Philippe Morin
Name: Philippe Morin
Title: Chief Executive Officer

Date: April 11, 2018

Page 2 of 55

Table of Contents

PRESS RELEASE

For immediate release

EXFO reports second quarter results for fiscal 2018

§ Successfully closes acquisition of publicly traded Astellia

§ Sales increase 7.8% to US\$64.7 million, including US\$1.8 million from Astellia

§ Bookings improve 17.3% to US\$65.6 million, including US\$2.5 million from Astellia

QUEBEC CITY, CANADA, April 10, 2018 — EXFO Inc. (NASDAQ: EXFO, TSX: EXF), the network test, monitoring and analytics experts, reported today financial results for the second quarter and first half ended February 28, 2018.

Following a successful public tender offer, EXFO achieved majority control of Astellia's share capital on January 26, 2018 and assumed full control of the France-based company on February 28, 2018. Astellia is recognized as a global leader in the performance analysis of mobile networks and subscriber experience.

Sales increased 7.8% year-over-year to US\$64.7 million in the second quarter of fiscal 2018 and 5.2% to US\$128.1 million at the halfway mark of the fiscal year. Sales, excluding the one-month contribution of Astellia, attained US\$62.9 million in the second quarter of 2018 compared to US\$60.0 million in the second quarter of 2017. Astellia contributed US\$1.8 million in sales in the second quarter and first half of 2018. Astellia's sales were reduced by US\$0.3 million to account for acquisition-related fair value adjustment of deferred revenue.

Bookings improved 17.3% year-over-year to US\$65.6 million for a book-to-bill ratio of 1.01 in the second quarter of fiscal 2018 and 8.0% to US\$131.5 million for a book-to-bill ratio of 1.03 at the halfway mark of the fiscal year. Bookings, excluding the one-month contribution of Astellia, reached US\$63.1 million in the second quarter of 2018 compared to US\$55.9 million in the same period last year. Astellia contributed US\$2.5 million in bookings in the second quarter and first half of 2018.

Gross margin before depreciation and amortization* amounted to 60.9% of sales in the second quarter of fiscal 2018 compared to 61.7% in the second quarter of 2017. Gross margin before depreciation and amortization amounted to 62.1% of sales at the halfway mark of fiscal 2018 compared to 62.4% for the same period in 2017.

Table of Contents

IFRS net loss attributable to the parent interest totaled US\$4.7 million, or US\$0.08 per share, in the second quarter of fiscal 2018 and US\$2.0 million, or US\$0.04 per share, at the halfway mark of the fiscal year. In comparison, net earnings attributable to the parent interest totaled US\$1.0 million, or US\$0.02 per diluted share, in the second quarter of 2017 and US\$4.3 million, or US\$0.08 per diluted share, in the first half of 2017. EXFO's share of Astellia's net loss amounted to US\$2.7 million in the second quarter and first half of 2018.

IFRS net loss attributable to the parent interest in the second quarter of 2018 included US\$2.7 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs, US\$0.6 million for the positive change in the fair value of the cash contingent consideration related to Ontology Systems, US\$1.5 million in after-tax acquisition costs related to Astellia, US\$0.3 million for the acquisition-related deferred revenue fair value adjustment, and US\$1.5 million in income tax expenses to account for the effects of the recent US tax reform.

IFRS net loss attributable to the parent interest in the first half of 2018 included US\$3.6 million in after-tax amortization of intangible assets, US\$0.8 million in stock-based compensation costs, US\$0.7 million for the positive change in the fair value of the cash contingent consideration related to Ontology Systems, US\$2.3 million in after-tax acquisition costs related to Astellia, US\$0.3 million for the acquisition-related deferred revenue fair value adjustment, and US\$1.5 million in income tax expenses to account for the effects of the recent US tax reform.

Adjusted EBITDA* totaled US\$2.5 million, or 3.9% of sales, in the second quarter of 2018 and US\$8.6 million, or 6.7% of sales, in the first half of the fiscal year. In comparison, adjusted EBITDA amounted to 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, in the first half of 2017. Astellia negatively affected adjusted EBITDA by US\$1.3 million in the second quarter and first half of 2018. In addition, adjusted EBITDA included acquisition-related costs of US\$1.4 million in the second quarter of 2018 and US\$2.1 million in the first half of the fiscal year.

"I am thrilled with the closing of the Astellia acquisition as it positions EXFO among the top five providers worldwide of service assurance solutions," said Philippe Morin, EXFO's Chief Executive Officer. "Together, we have created a strong critical mass with solutions deployed at more than 250 network operators, while our global sales organizations have been merged to maximize cross-selling opportunities. Similarly, our unique portfolio of complementary technologies will be combined to deliver unmatched capabilities in high-growth markets like NFV/SDN, IoT and 5G. Although this transformative acquisition involves a short-term financial impact, we expect the additional sales volume, cross-selling opportunities, efficiencies as well as complementary technology and service offerings will contribute to earnings growth in fiscal 2019."

Table of Contents

"In addition, I am pleased with the strong performance from our Physical-layer product line in the second quarter of 2018," Mr. Morin added. "Despite a seasonally soft reporting period, we delivered robust sales and bookings due to our entrenched leadership position in optical testing and contributions from recent acquisitions."

Selected Financial Information

(In thousands of US dollars)

	Q2 2018	Q2 2017	H1 2018	H1 2017
Physical-layer sales	\$43,461	\$38,038	\$85,974	\$80,054
Protocol-layer sales	20,880	22,097	41,521	42,106
Foreign exchange gains (losses) on forward exchange contracts	381	(105)	618	(345)
Total sales	\$64,722	\$60,030	\$128,113	\$121,815
Physical-layer bookings	\$41,431	\$34,031	\$89,783	\$78,121
Protocol-layer bookings	23,774	21,992	41,064	44,001
Foreign exchange gains (losses) on forward exchange contracts	381	(105)	618	(345)
Total bookings	\$65,586	\$55,918	\$131,465	\$121,777
Book-to-bill ratio (bookings/sales)	1.01	0.93	1.03	1.00
Gross margin before depreciation and amortization*	\$39,396	\$37,041	\$79,498	\$76,013
	60.9 %	61.7 %	62.1 %	62.4 %
Other selected information:				
IFRS net earnings (loss) attributable to the parent interest	\$(4,660)	\$1,008	\$(1,981)	\$4,311
Amortization of intangible assets	\$3,056	\$768	\$4,175	\$1,195
Stock-based compensation costs	\$438	\$353	\$840	\$611
Change in fair value of cash contingent consideration	\$(561)	\$	\$(716)	\$
Acquisition-related deferred revenue fair value adjustment	\$309	\$	\$309	\$
Income tax expense for US tax reform	\$1,528	\$	\$1,528	\$
Net income tax effect of the above items	\$(394)	\$(162)	\$(566)	\$(226)
Foreign exchange (gain) loss	\$(8)	\$272	\$(1,226)	\$(240)
Adjusted EBITDA*	\$2,492	\$4,875	\$8,551	\$11,196

Table of Contents

Operating Expenses

Selling and administrative expenses totaled US\$24.9 million, or 38.5% of sales in the second quarter of fiscal 2017 compared to US\$21.3 million, or 35.4% of sales, in the same period last year. At the halfway mark of fiscal 2018, selling and administrative expenses amounted to US\$48.1 million, or 37.6% of sales, compared to US\$42.9 million, or 35.2% of sales, in the first half of 2017.

Net R&D expenses totaled US\$13.1 million, or 20.2% of sales, in the second quarter of fiscal 2018 compared to US\$11.3 million, or 18.8% of sales, in the second quarter of 2017. At the halfway mark of fiscal 2018, net R&D expenses amounted to US\$24.3 million, or 19.0% of sales, compared to US\$22.6 million, or 18.5% of sales, in the first half of 2017.

Second-Quarter Highlights

Sales. Sales increased 7.8% year-over-year due to a solid performance of the Physical-layer product line, revenue contributions from the Astellia, Yenista Optics and Ontology Systems acquisitions, and the positive impact of the decrease in the average value of the US dollar versus other currencies. Physical-layer sales accounted for 68% of total revenue in the second quarter of 2018, while Protocol-layer sales totaled 32%. Revenue distribution among the three main selling regions amounted to 49% in the Americas, 33% in Europe, Middle East and Africa (EMEA) and 18% in Asia-Pacific. EXFO's top customer accounted for 9.6% of sales, while the top three represented 16.9%.

Profitability. IFRS net loss attributable to the parent interest totaled US\$4.7 million in the second quarter of 2018, while adjusted EBITDA amounted to US\$2.5 million. The company also generated US\$6.3 million in cash flows from operations in the second quarter.

Innovation. EXFO unveiled two key solutions in preparation for Mobile World Congress and Optical Fiber Conference, high-profile industry events held during and after the quarter-end. Major product introductions included SkyRAN, a scalable remote access monitoring solution for fiber-based fronthaul networks. Developed in collaboration with tier-1 mobile network operators, SkyRAN provides real-time, on-demand testing and 24/7 monitoring of optical networks and radio frequency spectrum. EXFO also introduced the CTP10 Component Test Platform with related modules, the fastest test system on the market for measuring insertion loss and return loss on a wide variety of passive optical components, including photonics integrated circuits.

Business Outlook

EXFO forecasts IFRS sales between US\$68.0 million and US\$73.0 million for the third quarter of fiscal 2018; the company anticipates that IFRS sales will be reduced by US\$0.9 million to account for the acquisition-related fair value adjustment of deferred revenue.

Table of Contents

IFRS net loss is expected to range between US\$0.19 and US\$0.15 per share. IFRS net loss includes US\$0.09 per share in after-tax amortization of intangible assets and stock-based compensation costs.

This guidance, which is a forward-looking statement, 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, Astellia's preliminary purchase price allocation (PPA) 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 second 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: 9600577. Germain Lamonde, founder and Executive Chairman, Philippe Morin, Chief Executive Officer, and Pierre Plamondon, 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 17, 2018. The replay number is 1-719-457-0820 and the required participant passcode is 9600577. 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 turns complex into simple and delivers 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.

Table of Contents

Forward-Looking Statements

This news 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 statements that refer 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 to 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, service assurance and analytics solutions markets 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 regard to the timing and nature of customer orders; delay in revenue recognition due to longer sales cycles for complex systems involving customers' acceptance; 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 to conduct business internationally; 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 you 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. This discussion and analysis should be read in conjunction with the consolidated financial statements.

Table of Contents

***NON-IFRS MEASURES**

EXFO provides non-IFRS measures (non-IFRS sales, gross margin before depreciation and amortization and adjusted EBITDA) as supplemental information regarding its operational performance. Non-IFRS sales represent total sales less acquisition-related deferred revenue fair value adjustment. Gross margin before depreciation and amortization represents sales, less cost of sales, excluding depreciation and amortization. Adjusted EBITDA represent net earnings (loss) attributable to the parent interest before interest, income taxes, depreciation and amortization, stock-based compensation costs, change in fair value of cash contingent consideration, acquisition-related deferred revenue fair value adjustment, share in net loss of an associate, gain on the deemed disposal of the investment in an associate, and foreign exchange gain or loss.

These non-IFRS measures eliminate the effect on IFRS results of non-cash and/or non-operating statement of earnings elements, as well as elements subject to significant volatility such as foreign exchange gain or loss. EXFO uses these measures for evaluating historical and prospective financial performance, as well as its performance relative to competitors. These non-IFRS measures are also the financial measures used by financial analysts to evaluate and compare EXFO's performance against competitors and industry players in the company's sector. Finally, these measures help EXFO plan and forecast future periods as well as make operational and strategic decisions. EXFO believes that providing this information, in addition to the IFRS measures, allows investors to see the company's results through the eyes of management, and to better understand historical and future financial performance. More importantly, it enables the comparison of EXFO's performance on a relatively similar basis against other public and private companies in the industry worldwide.

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.

The following table summarizes the reconciliation of non-IFRS sales to IFRS sales, in thousands of US dollars:

Non-IFRS Sales