EXFO INC.
Form 6-K
January 09, 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 January 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-______.

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On January 9, 2018, EXFO Inc., a Canadian corporation, reported its results of operations for the first fiscal quarter ended November 30, 2017. 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 first 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 first 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.

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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: January 9, 2018

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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 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	$39,009	$38,972
	63.3 %	61.9 %	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

	Q1 2018	Q4 2017	Q1 2017
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	$6,059	$8,545	$6,321
Adjusted EBITDA in percentage of sales	9.6 %	13.6 %	10.2 %

For more information

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EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at November 30, 2017	As at August 31, 2017
Assets		
Current assets		
Cash	$ 18,451	$ 38,435
Short-term investments	1,004	775
Accounts receivable		
Trade	39,784	41,130
Other	4,082	3,907
Income taxes and tax credits recoverable	4,664	4,955
Inventories	37,164	33,832
Prepaid expenses	3,946	4,202
	109,095	127,236
Tax credits recoverable	38,245	38,111
Property, plant and equipment	41,253	40,132
Investment in an associate (note 3)	9,706	
Intangible assets (note 3)	14,403	11,183
Goodwill (note 3)	39,204	35,077
Deferred income tax assets	6,599	6,555
Other assets	573	947
	$ 259,078	$ 259,241
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 38,444	$ 36,776
Provisions	1,445	3,889
Income taxes payable	748	663
Deferred revenue	10,590	11,554
Current portion of long-term debt (note 7)	510	
	51,737	52,882
Deferred revenue	5,978	6,257
Long-term debt (notes 3 and 7)	1,595	
Deferred income tax liabilities	4,317	3,116
Other liabilities	374	196
	64,001	62,451

Shareholders' equity		
Share capital (note 8)	91,009	90,411
Contributed surplus	18,016	18,184
Retained earnings	129,839	127,160
Accumulated other comprehensive loss	(43,787)	(38,965)
	195,077	196,790
	$ 259,078	$ 259,241

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

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EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended November 30, 2017	2016
Sales	$63,391	$61,785
Cost of sales [(1)] (note 9)	23,289	22,813
Selling and administrative (note 9)	23,193	21,595
Net research and development (note 9)	11,252	11,314
Depreciation of property, plant and equipment (note 9)	1,154	903
Amortization of intangible assets (note 9)	1,119	427
Change in fair value of cash contingent consideration (note 5)	(155)	
Interest and other (income) expense	338	(20)
Foreign exchange gain	(1,218)	(512)
Earnings before income taxes	4,419	5,265
Income taxes (note 10)	1,740	1,962
Net earnings for the period	$2,679	$3,303
Basic and diluted net earnings per share	$0.05	$0.06
Basic weighted average number of shares outstanding (000's)	54,805	53,884
Diluted weighted average number of shares outstanding (000's) (note 11)	55,793	55,001

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

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

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EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Comprehensive Loss

(in thousands of US dollars)

	Three months ended November 30, 2017	2016
Net earnings for the period	$2,679	$3,303
Other comprehensive income (loss), net of income taxes		
Items that will not be reclassified subsequently to net earnings		
Foreign currency translation adjustment	(4,130)	(4,217)
Items that may be reclassified subsequently to net earnings		
Unrealized gains/losses on forward exchange contracts	(524)	(561)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	(383)	181
Deferred income tax effect of gains/losses on forward exchange contracts	215	92
Other comprehensive loss	(4,822)	