EXFO INC.
Form 6-K
April 02, 2019

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 2019

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 April 2, 2019, EXFO Inc., a Canadian corporation, reported its results of operations for the second fiscal quarter ended February 28, 2019. 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 2019 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 2019 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: April 2, 2019

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PRESS RELEASE
For immediate release

EXFO reports second quarter results for fiscal 2019
Sales increased 14.2% to US$73.9 million, high end of guidance range
Bookings improved 16.0% to US$76.1 million, book-to-bill ratio of 1.03
IFRS net earnings reached US$5.2 million, US$0.09 per share
Adjusted EBITDA totaled US$8.8 million, 11.9% of sales
Cash flows from operations surged to US$18.7 million

QUEBEC CITY, CANADA, April 2, 2019 — EXFO Inc. (NASDAQ: EXFO; TSX: EXF), the communications industry's test, monitoring and analytics experts, reported today financial results for the second quarter ended February 28, 2019.

IFRS sales increased 14.2% to US$73.9 million in the second quarter of fiscal 2019 from US$64.7 million in the second quarter of 2018. Second-quarter sales for 2019 included a US$7.5 million revenue contribution from Astellia, which was reduced by US$0.6 million to account for acquisition-related fair value adjustment of deferred revenue. In comparison, Astellia had generated US$1.8 million in revenue for one month in the second quarter 2018.

Bookings, which included a US$10.3 million contribution from Astellia, improved 16.0% year-over-year to US$76.1 million in the second quarter of fiscal 2019 from US$65.6 million in the same period of 2018. In comparison, Astellia had delivered US$2.5 million in bookings for one month in the second quarter 2018. EXFO’s book-to-bill ratio was 1.03 in the second quarter of 2019.

Gross margin before depreciation and amortization* amounted to 60.7% of sales in the second quarter of fiscal 2019 compared to 60.9% in the second quarter of 2018.

IFRS net earnings in the second quarter of fiscal 2019 totaled US$5.2 million, or US$0.09 per share, compared to a net loss attributable to the parent interest[1] of US$4.7 million, or US$0.08 per share, in the second quarter of 2018. IFRS net earnings in the second quarter of 2019 included net expenses totaling US$3.9 million: US$1.9 million in after-tax amortization of intangible assets, US$0.5 million in stock-based compensation costs, US$0.5 million in after-tax restructuring charges, US$0.6 million for acquisition-related fair value adjustment of deferred revenue, and a foreign exchange loss of US$0.4 million.

These net expenses were offset by the sale of a building under EXFO’s restructuring plan that generated a gain of US$1.7 million in the second quarter of 2019. The company also benefited from a deferred income tax recovery of US$2.4 million in the second quarter of 2019.

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Adjusted EBITDA* totaled US$8.8 million, or 11.9% of sales, in the second quarter of fiscal 2019 compared to US$2.5 million, or 3.9% of sales, in the second quarter of 2018.

“EXFO delivered outstanding second quarter results with strong revenue and bookings growth, profitability and cash flow generation—all encouraging signs for our T&M and SASS product families and the leverage in our operating model,” said EXFO's CEO Philippe Morin. "Our unique value propositions resonated very well with industry executives at Mobile World Congress and Optical Fiber Conference, as our solutions enable fiber buildouts deep into the network edge, 5G wireless deployments and network virtualization. Clearly, EXFO is on track with its profitable growth strategy amid a rapidly transforming industry.”

Selected Financial Information
(In thousands of US dollars)

	Q2 2019	Q2 2018	H1 2019	H1 2018
Test and Measurement sales	$50,407	$49,884	$100,171	$100,070
Service Assurance, Systems and Services sales	23,701	14,457	43,117	27,425
Foreign exchange gains (losses) on forward exchange contracts	(181)	381	(160)	618
Total sales	$73,927	$64,722	$143,128	$128,113
Test and Measurement bookings	$45,320	$47,386	$109,316	$100,240
Service Assurance, Systems and Services bookings	30,953	17,819	48,174	30,607
Foreign exchange gains (losses) on forward exchange contracts	(181)	381	(160)	618
Total bookings	$76,092	$65,586	$157,330	$131,465
Book-to-bill ratio (bookings/sales)	1.03	1.01	1.10	1.03
Gross margin before depreciation and amortization*	$44,865	$39,396	$85,169	$79,498
	60.7 %	60.9 %	59.5 %	62.1 %
Other selected information:				
IFRS net earnings (loss) attributable to the parent interest	$5,193	$(4,660)	$(2,274)	$(1,981)
Amortization of intangible assets	$2,130	$3,056	$5,070	$4,175
Stock-based compensation costs	$461	$438	$879	$840
Restructuring charges	$577	$	$3,318	$
Change in fair value of cash contingent consideration	$	$(561)	$	$(716)
Acquisition-related deferred revenue fair value adjustment	$571	$309	$1,435	$309
Income tax expense for US tax reform	$	$1,528	$	$1,528
Gain on disposal of capital assets	$(1,732)	$	$(1,732)	$
Deferred income tax recovery	$(2,383)	$	$(2,383)	$
Net income tax effect of the above items	$(348)	$(394)	$(771)	$(566)
Foreign exchange (gain) loss	$416	$(8)	$201	$(1,226)
Adjusted EBITDA*	$8,784	$2,492	$11,512	$8,551

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Operating Expenses
Selling and administrative expenses reached US$25.5 million, or 34.4% of sales in the second quarter of fiscal 2019 compared to US$24.9 million, or 38.5% of sales, in the same period last year.

Net R&D expenses attained US$12.2 million, or 16.5% of sales, in the second quarter of fiscal 2019 compared to US$13.1 million, or 20.2% of sales, in the second quarter of 2018.

Second-Quarter Highlights
Growth. Sales increased 14.2% year-over-year mainly due to a full-quarter contribution from the Astellia acquisition, compared to one month for the same period in 2018, and revenue recognition of a US$4.9 million order for EXFO's real-time network topology software. Test and measurement sales accounted for 68% of total revenue in the second quarter of 2019, while SASS sales totaled 32%. Revenue breakdown among the three main selling regions amounted to 50% in the Americas, 34% in Europe, Middle East and Africa (EMEA) and 16% in Asia-Pacific. EXFO's top customer accounted for 14.9% of sales, while the top three represented 24.7%.

Profitability. IFRS net earnings totaled US$5.2 million in the second quarter of 2019, while adjusted EBITDA amounted to US$8.8 million, or 11.9% of sales. The company also generated US$18.7 million in cash flows from operations in the second quarter.

Innovation. EXFO showcased its new product introductions at Mobile World Congress (MWC) and Optical Fiber Conference (OFC), high-profile tradeshows held during and after the quarter-end. At MWC, EXFO provided an overview of its highly differentiated service assurance and analytics platform, including automated assurance, diagnostics and troubleshooting of 5G networks. At OFC, EXFO demonstrated the breadth and depth of its market-leading optical test offering, including its recently released Open Transceiver System for 400G testing, to allow for successful, high-speed network transformations. The company also presented its latest field test automation, cloud reporting and remote testing capabilities.

On the recognition front, EXFO received Frost & Sullivan's 2018 Customer Value Leadership Award for Global Data Analytics Solutions. This fifth award for EXFO's Service Assurance, Systems and Services (SASS) portfolio during the past year recognizes the company's ability to optimize subscriber experience and maximize benefits for communications service providers at every level of these organizations, from engineering to customer care.

[1] Represents net loss excluding share of the net loss attributable to Astellia's minority shareholders.

Business Outlook
EXFO forecasts IFRS sales between US$70.0 million and US$75.0 million for the third quarter of fiscal 2019. IFRS net loss is expected to range between US$0.04 and US$0.00 per share in the third quarter of 2019. IFRS net loss includes US$0.05 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, as well as exchange rates as of the day of this news release.

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Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review second quarter results for fiscal 2019. 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: 8906152. 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 9, 2019. The replay number is 1-719-457-0820 and the required participant passcode is 8906152. 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 (NASDAQ: EXFO) (TSX: EXF) develops smarter test, monitoring and analytics solutions for fixed and mobile network operators, webscale companies and equipment manufacturers in the global communications industry. Our customers count on us to deliver superior network performance, service reliability and subscriber insights. They count on our unique blend of equipment, software and services to accelerate digital transformations related to fiber, 4G/LTE and 5G deployments. They count on our expertise with automation, real-time troubleshooting and big data analytics, which are critical to their business performance. We've spent over 30 years earning this trust, and today 1,900 EXFO employees in over 25 countries work side by side with our customers in the lab, field, data center and beyond. For more information, visit EXFO.com and follow us on the EXFO Blog.

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 guarantee 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, including trade wars; our ability to successfully integrate businesses that we acquire; 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; 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.

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*Non-IFRS Measures
EXFO provides non-IFRS measures (gross margin before depreciation and amortization and adjusted EBITDA) as supplemental information regarding its operational performance. 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 and other income/expense, income taxes, depreciation and amortization, stock-based compensation costs, restructuring charges, change in fair value of cash contingent consideration, acquisition-related deferred revenue fair value adjustment, 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 adjusted EBITDA to IFRS net earnings (loss) attributable to the parent interest, in thousands of US dollars:

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Adjusted EBITDA

	Q2 2019	Q2 2018	H1 2019	H1 2018
IFRS net earnings (loss) attributable to the parent interest for the period	$ 5,193	$ (4,660)	$ (2,274)	$ (1,981)
Add (deduct):				
Depreciation of property, plant and equipment	1,390	1,263	2,819	2,417
Amortization of intangible assets	2,130	3,056	5,070	4,175
Interest and other (income) expense	(1,514)	334	(1,137)	672
Income taxes	(440)	2,321	1,201	4,061
Stock-based compensation costs	461	438	879	840
Restructuring charges	577		3,318	
Change in fair value of cash contingent consideration		(561)		(716)
Acquisition-related deferred revenue fair value adjustment	571	309	1,435	309
Foreign exchange (gain) loss	416	(8)	201	(1,226)
Adjusted EBITDA for the period (1)	$ 8,784	$ 2,492	$ 11,512	$ 8,551
Adjusted EBITDA in percentage of sales	11.9 %	3.9 %	8.0 %	6.7 %

(1) Includes acquisition-related costs of US$1.4 million and US$2.1 million for the three months and six months ended February 28, 2018 (nil in fiscal 2019)

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For more information
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EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at February 28, 2019	As at August 31, 2018
Assets		
Current assets		
Cash	$24,763	$12,758
Short-term investments	2,238	2,282
Accounts receivable		
Trade	41,227	47,273
Other	3,490	4,137
Income taxes and tax credits recoverable	5,124	4,790
Inventories	38,598	38,589
Prepaid expenses	5,049	5,291
Other assets	2,583	2,279
	123,072	117,399
Tax credits recoverable	46,727	47,677
Property, plant and equipment	42,036	44,310
Intangible assets	24,904	29,866
Goodwill	39,707	39,892
Deferred income tax assets	5,708	4,714
Other assets	828	686
	$282,982	$284,544
Liabilities		
Current liabilities		
Bank loan	$9,001	$10,692
Accounts payable and accrued liabilities	47,560	47,898
Provisions	1,314	2,954
Income taxes payable	687	873
Deferred revenue	23,914	16,556
Other liabilities	1,656	3,197
Current portion of long-term debt (note 5)	2,724	2,921
	86,856	85,091
Provisions	2,517	2,347
Deferred revenue	9,345	6,947
Long-term debt (note 5)	4,578	5,907
Deferred income tax liabilities	4,572	5,910

Other liabilities	327	421
	108,195	106,623
Shareholders’ equity		
Share capital (note 6)	92,878	91,937
Contributed surplus	18,277	18,428
Retained earnings	112,379	114,906
Accumulated other comprehensive loss	(48,747)	(47,350)
	174,787	177,921
	$282,982	$284,544

The accompanying notes are an integral part of these condensed unaudited interim consolidated financials 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 February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Sales	$73,927	$143,128	$64,722	$128,113
Cost of sales (1)	29,062	57,959	25,326	48,615
Selling and administrative	25,474	51,849	24,916	48,109
Net research and development	12,216	27,440	13,087	24,339
Depreciation of property, plant and equipment	1,390	2,819	1,263	2,417
Amortization of intangible assets	2,130	5,070	3,056	4,175
Change in fair value of cash contingent consideration			(561)	(716)
Interest and other (income) expense (note 3)	(1,514)	(1,137)	334	672
Foreign exchange (gain) loss	416	201	(8)	(1,226)
Share in net loss of an associate			2,080	2,080
Gain on the deemed disposal of the investment in an associate			(2,080)	(2,080)
Earnings (loss) before income taxes	4,753	(1,073)	(2,691)	1,728
Income taxes (notes 3 and 8)	(440)	1,201	2,321	4,061
Net earnings (loss) for the period	5,193	(2,274)	(5,012)	(2,333)
Net loss for the period attributable to non-controlling interest			(352)	(352)
Net earnings (loss) for the period attributable to parent interest	$5,193	$(2,274)	$(4,660)	$(1,981)
Basic and diluted net earnings (loss) attributable to parent interest per share	$0.09	$(0.04)	$(0.08)	$(0.04)
Basic weighted average number of shares outstanding (000's)	55,343	55,263	54,975	54,890
Diluted weighted average number of shares outstanding (000's) (note 9)	56,160	55,263	54,975	54,890

(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 financials statements.

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

(in thousands of US dollars)

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Net earnings (loss) for the period	$ 5,193	$ (2,274)	$ (5,012)	$ (2,333)
Other comprehensive income (loss), net of income taxes				
Items that may be reclassified subsequently to net earnings				
Foreign currency translation adjustment	1,807	(1,549)	2,286	(1,844)
Unrealized gains/losses on forward exchange contracts	496	(191)	39	(485)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	210	301	(225)	(608)
Deferred income taxes on gains/losses on forward exchange contracts	(167)	42	48	263
Other comprehensive income (loss)	2,346	(1,397)	2,148	(2,674)
Comprehensive income (loss) for the period	7,539	(3,671)	(2,864)	(5,007)
Comprehensive loss for the period attributable to non-controlling interest			(352)	(352)
Comprehensive income (loss) for the period attributable to parent interest	$ 7,539	$ (3,671)	$ (2,512)	$ (4,655)

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

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

(in thousands of US dollars)

	Six months ended February 28, 2018					
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Non-controlling interest	Total shareholders' equity
Balance as at September 1, 2017	$90,411	$ 18,184	$127,160	$ (38,965)	$	$ 196,790
Reclassification of stock-based compensation costs (note 6)	1,273	(1,273)				
Stock-based compensation costs		856				856
Business combination					(3,662)	(3,662)
Acquisition of non-controlling interest			(352)		4,014	3,662
Net loss for the period			(1,981)		(352)	(2,333)
Other comprehensive loss						
Foreign currency translation adjustment				(1,844)		(1,844)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $263				(830)		(830)
Comprehensive loss for the period						(5,007)
Balance as at February 28, 2018	$91,684	$ 17,767	$124,827	$ (41,639)	$	$ 192,639

	Six months ended February 28, 2019				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2018	$91,937	$ 18,428	$114,906	$ (47,350)	$ 177,921
Adoption of IFRS 9 (note 2)			(253)		(253)
Adjusted balance as at September 1, 2018	91,937	18,428	114,653	(47,350)	177,668
Reclassification of stock-based compensation costs (note 6)	1,067	(1,067)			
Redemption of share capital (note 6)	(126)	21			(105)
Stock-based compensation costs		895			895
Net loss for the period			(2,274)		(2,274)
Other comprehensive income (loss)					
Foreign currency translation adjustment				(1,549)	(1,549)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of				152	152

$42

Total comprehensive loss for the period					(3,671)
Balance as at February 28, 2019	$92,878	$ 18,277	$112,379	$ (48,747)	$ 174,787

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

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Cash flows from operating activities				
Net earnings (loss) for the period	$5,193	$(2,274)	$(5,012)	$(2,333)
Add (deduct) items not affecting cash				
Stock-based compensation costs	461	879	438	840
Depreciation and amortization	3,520	7,889	4,319	6,592
Gain on disposal of capital assets (note 3)	(1,732)	(1,732)		
Write-off of capital assets	261	261	124	248
Change in fair value of cash contingent consideration			(561)	(716)
Deferred revenue	6,021	9,943	3,016	2,234
Deferred income taxes	(2,124)	(2,153)	2,384	2,144
Share in net loss of an associate			2,080	2,080
Gain on deemed disposal of the investment in an associate			(2,080)	(2,080)
Changes in foreign exchange gain/loss	76	(453)	611	364
	11,676	12,360	5,319	9,373
Changes in non-cash operating items				
Accounts receivable	9,871	5,819	4,255	5,340
Income taxes and tax credits	1,031	33	(3,018)	(2,959)
Inventories	999	(362)	779	(1,174)
Prepaid expenses	22	205	(129)	189
Other assets	(327)	(339)	(528)	(524)
Accounts payable, accrued liabilities and provisions	(3,114)	18	(447)	(1,816)
Other liabilities	(1,470)	(1,521)	22	210
	18,688	16,213	6,253	8,639
Cash flows from investing activities				
Additions to short-term investments	(292)	(292)	(248)	(482)
Proceeds from disposal of short-term investments		342	234	234
Purchases of capital assets	(1,797)	(4,679)	(2,258)	(4,249)
Proceeds from disposal of capital assets (note 3)	3,318	3,318		
Investment in an associate			(2,219)	(12,530)
Business combinations, net of cash acquired			(9,580)	(19,120)
	1,229	(1,311)	(14,071)	(36,147)
Cash flows from financing activities				
Bank loan	(12,501)	(1,244)	2,064	2,066
Repayment of long-term debt	(735)	(1,452)	(200)	(270)
Redemption of share capital (note 6)	(105)	(105)		

	(13,341)	(2,801)	1,864	1,796
Effect of foreign exchange rate changes on cash	100	(96)	56	(170)
Change in cash during the period	6,676	12,005	(5,898)	(25,882)
Cash – Beginning of the period	18,087	12,758	18,451	38,435
Cash – End of the period	$24,763	$24,763	$12,553	$12,553
Supplementary information				
Income taxes paid	$615	$1,486	$587	$1,269
Additions to capital assets	$1,523	$3,371	$2,699	$5,588

As at February 28, 2018 and 2019, unpaid purchases of capital assets amounted to $1,861 and $480 respectively.

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

EXFO Inc.
Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (together "EXFO" or the "company") develops, manufactures and markets smart network test, monitoring and analytics solutions for fixed and mobile communications service providers (CSPs), web-scale operators, as well as network equipment manufacturers in the global telecommunications industry.

EXFO is a company incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its headquarters is 400 Godin Avenue, Quebec City, Quebec, Canada, G1M 2K2.

These condensed unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on April 2, 2019.

2 Basis of Presentation

These condensed unaudited interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting", and using the same accounting policies and methods used in the preparation of the company's most recent annual consolidated financial statements, except as described below. Consequently, these condensed unaudited interim consolidated financial statements should be read in conjunction with the company's most recent annual consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

Recently Issued IFRS Pronouncements

Recently issued IFRS Pronouncements Adopted in Fiscal 2019

Financial instruments

The final version of IFRS 9, "Financial Instruments", was issued in July 2014 replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting, representing a new hedge accounting model, have also been added to IFRS 9. The new standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The company adopted this new standard on September 1, 2018 using the modified retrospective method. The following table summarizes the impact of its adoption on the company's consolidated balance sheet as at September 1, 2018:

Adjustments

	As reported as at August 31, 2018		As adjusted as at September 1, 2018
Accounts receivable – trade	$47,273	$ (303)	$ 46,970
Income taxes recoverable	$4,790	$ 50	$ 4,840
Total assets	$284,544	$ (253)	$ 284,291
Retained earnings	$114,906	$ (253)	$ 114,653
Shareholders' equity	$177,921	$ (253)	$ 177,668

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In addition, the company's financial instruments are accounted for as follows under IFRS 9 as compared to the company's previous accounting policy with IAS 39:

Financial assets	Classification – IAS 39	Classification – IFRS 9
Cash	Loans and receivables	Amortized cost
Short-term investments	Available for sale	Fair value through other comprehensive income
Accounts receivable	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Forward exchange contracts	Derivatives used for hedging	Derivatives used for hedging

Financial liabilities

Bank loan	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Forward exchange contracts	Derivatives used for hedging	Derivatives used for hedging

Hedge accounting

All existing hedge relationships that were designated as effective hedging relationships under IAS 39, were re-designated, and continue to qualify for hedge accounting under IFRS 9. The adoption of IFRS 9 did not change the application of hedge accounting for the company's effective hedges.

Revenue from contracts with customers

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014. The objective of this new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. This new standard contains principles that an entity must apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity recognizes revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018. The company adopted this new standard on September 1, 2018 using the modified retrospective method. The company applied this standard retrospectively only to contracts that were not completed at the date of initial application.

The company concluded that the main areas of impact relate to the allocation of the transaction price to the various performance obligations under the contracts, the timing of revenue recognition for sales arrangement that contain customer acceptance clauses, and the sale of licenses that provide customers with the "right to use" the company's intellectual property. The adoption of the new standard had no material impact on the company's consolidated financial statements.

Foreign Currency Transactions and Advance Consideration

IFRIC 22, “Foreign Currency Transactions and Advance Consideration”, was issued in December 2016. IFRIC 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) and on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. The company adopted this interpretation retrospectively on September 1, 2018 and its adoption did not have a material impact on its consolidated financial statements.

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Recently issued IFRS Pronouncements Not Yet Adopted

Leases

IFRS 16, “Leases”, was issued in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). IFRS 16 will supersede IAS 17, “Leases”, and related interpretations. This new standard is effective for annual periods beginning on or after January 1, 2019. The company will adopt this new standard on September 1, 2019 and is currently assessing the impact that it will have on its consolidated financial statements.

Uncertainty over Income Tax Treatments

IFRIC 23, “Uncertainty over Income Tax Treatments”, was issued in June 2017. IFRIC 23 provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The company will adopt this interpretation on September 1, 2019 and is currently assessing the impact that it will have on its consolidated financial statements.

New Accounting Policy upon Adoption of Recently Issued IFRS

Revenue Recognition under IFRS 15

The company exercises judgment and use estimates in connection with determining the amounts of product and services revenues to be recognized in each accounting period.

The company accounts for revenue once a legally enforceable contract with a customer has been approved by the parties and the related promises to transfer products or services have been identified. A contract is defined by the company as an arrangement with commercial substance identifying payment terms, each party’s rights and obligations regarding the products or services to be transferred and collection is probable. The company’s contracts usually take form of a customer purchase order.

Customer contracts may include promises to transfer multiple products and services to a customer. Determining whether the products and services are considered distinct performance obligations that should be accounted for separately or as one single performance obligation may require significant judgment. The company assesses whether each promised good or service is distinct for the purpose of identifying the various performance obligations in each contract. Promised goods and services are considered distinct provided that: (i) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and (ii) the company's promise to transfer the good or service to the customer is separately identifiable or distinct from other promises in the contract. The company derives revenues from goods and services. Sales of goods, which represent the majority of the sales of the company, consist of standalone hardware products, hardware products with embedded software that are essential to providing customers the intended functionality of the solutions, stand-alone software licenses, as well as hardware products bundled with a software license. Sales of services mainly consist of professional services, consulting, stand-ready software-as-a-service (SAAS), maintenance contracts, extended warranties, installation, integration and training. The company’s performance obligations consist of a variety of products and services.

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Revenue is recognized when control of the products or services are transferred to the customers, in an amount that reflects the consideration the company expects to be entitled to in exchange for products and services. Revenue is recognized at the point in time control is transferred to the customer. For hardware sales, transfer of control to the customer typically occurs at the point the product is shipped or delivered to the customer's designated location. For ''right of use'' software license sales, transfer of control to the customer typically occurs upon shipment, electronic delivery, or when the software is available for download by the customer. For instances where software is sold along with essential services, such as integration or installation, transfer of control occurs, and revenue is typically recognized upon customer acceptance. In certain instances, acceptance is deemed to have occurred if all acceptance provisions lapse, or if the company has evidence that all acceptance provisions will be, or have been, satisfied. Revenue from software and hardware support is recognized ratably over the support period. Support services generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates, bug fixes and hardware repair and replacement. SAAS services are recognized ratably over the contract term.

If the contract contains a single performance obligation, the entire transaction price is attributed to that performance obligation. Some of the company's contracts include multiple distinct performance obligations with a combination of products and services, maintenance and support, professional services and/or training. The company allocates the transaction price among the performance obligations in an amount that depicts the relative standalone selling prices (SSP) of each obligation. Judgment is required to determine the SSP for each distinct performance obligation. The company assesses SSP based on historical pricing for products and services, whether sold alone or as part of a multiple element transaction. The company reviews sales of the product and services elements on a regular basis and updates, when appropriate, its SSP for such elements to ensure that it reflects recent pricing experience.

Financial Instruments

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Otherwise, they are designated at fair value through profit or loss.

Financial liabilities are measured at amortized cost unless they must be measured at fair value through profit or loss or if the company elects to measure them at fair value through profit or loss.

3 Restructuring Charges

In August 2018, the company implemented a restructuring plan to accelerate the integration of its newly acquired monitoring and analytics technologies from EXFO Solutions S.A.S., (formerly Astellia S.A.) and simplify its cost structure and optimize resources as the company converges toward fewer sites and reduces its workforce.

The following table summarizes changes in restructuring charges payable during the three months and six months ended February 28, 2019:

	Three months ended February 28, 2019	Six months ended February 28, 2019
Balance – Beginning of the period	$ 2,924	$ 3,167
Additions (note 7)	577	3,318
Payments	(1,706)	(4,690)
Balance – End of the period	$ 1,795	$ 1,795

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On September 9, 2018, as part of its fiscal 2018 restructuring plan and the shutdown of its facilities in Toronto, Canada, the company entered into a binding agreement to sell one of its buildings for net proceeds of $3,318,000. The transfer of ownership occurred in the second quarter of fiscal 2019, as the company continued to use the facility to finalize projects until then. The transaction resulted in a pre-tax gain of $1,732,000 that was recorded in the condensed unaudited interim consolidated statements of earnings for the three months and six months ended February 28, 2019.

In addition, during the three months ended February 28, 2019, as part of its fiscal 2018 restructuring plan and the shutdown of some of its facilities in the United States, the company transferred the ownership of certain intellectual properties held in the United States to Canada. This created a deductible tax asset in Canada and resulted in the recognition of a deferred income tax recovery of $2,383,000 during the three months ended February 28, 2019 as the recovery of this asset is probable. This deferred income tax recovery was recorded in the condensed unaudited interim consolidated statements of earnings for the three and six months ended February 28, 2019.

4 Financial Instruments

Fair Value of Financial Instruments

The company classifies its derivative and non-derivative financial assets and liabilities measured at fair value using the fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

The company’s short-term investments and forward exchange contracts are measured at fair value at each balance sheet date. The company’s short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. The company’s forward exchange contracts are classified within Level 2 of the fair value hierarchy because they are valued using quoted prices and forward exchange rates at the balance sheet dates.

The fair value of forward exchange contracts represents the amount at which they could be settled based on estimated current market rates.

The fair value of derivative and non-derivative financial assets and liabilities measured at fair value by level of fair value hierarchy, is as follows:

	As at February 28,	As at August 31, 2018

	2019			
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Short-term investments	$2,238	$	$2,282	$
Forward exchange contracts	$	$274	$	$318
Financial liabilities				
Forward exchange contracts	$	$788	$	$807

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Derivative Financial Instruments

The functional currency of the company is the Canadian dollar. The company is exposed to currency risk as a result of its export sales of products manufactured in Canada, China, France and Finland, the majority of which are denominated in US dollars and euros. This risk is partially hedged by forward exchange contracts and certain cost of sales and operating expenses (US dollars and euros). In addition, the company is exposed to currency risk as a result of its research and development activities in India (Indian rupees). This risk is partially hedged by forward exchange contracts. The company's forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

As at February 28, 2019, the company held contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized below:

US dollars – Canadian dollars

Expiry dates	Contractual amounts	Weighted average contractual forward rates
March 2019 to August 2019	$ 17,400	1.2998
September 2019 to August 2020	22,800	1.2858
September 2020 to August 2021	11,600	1.2981
September 2021 to January 2022	3,000	1.3134
Total	$ 54,800	1.2944

US dollars – Indian rupees

Expiry dates	Contractual amount	Weighted average contractual forward rate
March 2019 to August 2019	$ 1,500	71.09

The carrying amount of forward exchange contracts is equal to their fair value, which is based on the amount at which they could be settled based on estimated current market rates. The fair value of forward exchange contracts amounted to net losses of $489,000 as at August 31, 2018, and $514,000 as at February 28, 2019.

As at February 28, 2019, forward exchange contracts in the amount of $149,000 are presented as current assets in other accounts receivable, forward exchange contracts in the amount of $125,000 are presented as long-term assets in other long-term assets, forward exchange contracts in the amount of $619,000 are presented as current liabilities in accounts payable and accrued liabilities, and forward exchange contracts in the amount of $169,000 are presented as long-term liabilities in other long-term liabilities in the consolidated balance sheet. Forward exchange contracts of $62,000 included in accounts payable and accrued liabilities, for which related hedged sales are recognized, are recorded in the consolidated statement of earnings; otherwise, other forward exchange contracts are not yet recorded in the consolidated statement of earnings and are recorded in other comprehensive income.

Based on its portfolio of forward exchange contracts as at February 28, 2019, the company estimates that the portion of the net unrealized losses on these contracts as of that date, which will be realized and reclassified from accumulated other comprehensive income to net earnings (sales) over the next 12 months, amounts to $408,000.

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For the three and six months ended February 28, 2018 and 2019, the company recognized within its sales the following foreign exchange gains or losses on forward exchange contracts:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Gains (losses) on forward exchange contracts	$ (181)	$ (160)	$ 381	$ 618

5 Long-term Debt

	As at February 28, 2019	As at August 31, 2018
Unsecured, non-interest-bearing loans, denominated in euros, repayable in quarterly instalments, maturing in March 2024 and March 2025	$ 913	$ 883
Unsecured loans, denominated in euros, repayable in monthly, quarterly or bi-annual instalments, bearing interest at annual rates of nil to 5.0%, maturing at different dates between March 2020 and September 2023	3,968	4,853
Loans, secured by the universality of the assets of a subsidiary, denominated in euros, repayable in monthly instalments, bearing interest at annual rates of 0.7% to 2.0%, maturing at different dates between June 2019 and August 2022	623	828
Loans, secured by the universality of the assets of a subsidiary, denominated in euros, repayable in monthly or quarterly instalments, bearing interest at annual rates of 1.1% to 2.9%, maturing at different dates between March 2020 and July 2022	1,798	2,264
	7,302	8,828
Current portion of long-term debt	2,724	2,921
	$ 4,578	$ 5,907

Principal repayments of long-term debt over the forthcoming years are as follows:

As at February 28, 2019	As at August 31, 2018

No later than one year	$ 2,724	$ 2,921
Later than one year and no later than five years	4,427	5,745
Later than five years	151	162
	$ 7,302	$ 8,828

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6 Share Capital

The following tables summarize changes in share capital for the six months ended February 28, 2018 and 2019.

	Six months ended February 28, 2018				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2017	31,643,000	$ 1	23,068,777	$90,410	$90,411
Redemption of restricted share units	–	–	155,619	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	598	598
Balance as at November 30, 2017	31,643,000	1	23,224,396	91,008	91,009
Redemption of restricted share units	–	–	182,725	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	675	675
Balance as at February 28, 2018	31,643,000	$ 1	23,407,121	$91,683	$91,684

	Six months ended February 28, 2019				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2018	31,643,000	$ 1	23,472,995	$91,936	$91,937
Redemption of restricted share units	–	–	176,729	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	643	643
Balance as at November 30, 2018	31,643,000	1	23,649,724	92,579	92,580
Redemption of restricted share units	–	–	129,571	–	–
Redemption of share capital	–	–	(32,232)	(126)	(126)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	424	424
Balance as at February 28, 2019	31,643,000	$ 1	23,747,063	$92,877	$92,878

On January 8, 2019, the company announced that its Board of Directors had approved a share repurchase program, by way of a normal course issued bid on the open market of up to 6.3% of the issued and outstanding subordinate voting shares, representing 1,200,000 subordinate voting shares at the prevailing market price. The normal course issuer bid started on January 14, 2019 and will end on January 13, 2020 or earlier if the company repurchases the maximum number of shares permitted. All shares repurchased under the bid will be cancelled.

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7 Statements of Earnings

Sales are as follows:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Test and measurement	$ 50,407	$ 100,171	$ 49,884	$ 100,070
Service assurance, systems and services	23,701	43,117	14,457	27,425
Foreign exchange gains (losses) on forward exchange contracts	(181)	(160)	381	618
Total sales for the period	$ 73,927	$ 143,128	$ 64,722	$ 128,113

Net research and development expenses comprise the following:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Gross research and development expenses	$ 14,157	$ 31,382	$ 15,180	$ 28,243
Research and development tax credits	(1,941)	(3,942)	(2,093)	(3,904)
Net research and development expenses for the period	$ 12,216	$ 27,440	$ 13,087	$ 24,339

Inventory write-down is as follows:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Inventory write-down for the period	$ 903	$ 1,948	$ 566	$ 1,269

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Depreciation and amortization expenses by functional area are as follows:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Cost of sales				
Depreciation of property, plant and equipment	$ 436	$ 960	$ 466	$ 938
Amortization of intangible assets	1,522	4,045	2,816	3,727
	1,958	5,005	3,282	4,665
Selling and administrative expenses				
Depreciation of property, plant and equipment	442	706	203	367
Amortization of intangible assets	401	633	135	247
	843	1,339	338	614
Net research and development expenses				
Depreciation of property, plant and equipment	512	1,153	594	1,112
Amortization of intangible assets	207	392	105	201
	719	1,545	699	1,313
	$ 3,520	$ 7,889	$ 4,319	$ 6,592
Depreciation of property, plant and equipment	$ 1,390	$ 2,819	$ 1,263	$ 2,417
Amortization of intangible assets	2,130	5,070	3,056	4,175
Total depreciation and amortization expenses for the period	$ 3,520	$ 7,889	$ 4,319	$ 6,592

Employee compensation comprises the following:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Salaries and benefits	$ 35,106	$ 70,847	$ 33,527	$ 63,149
Restructuring charges	507	2,733		

Stock-based compensation costs	461	879	438	840
Total employee compensation for the period	$36,074	$74,459	$33,965	$63,989

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Stock-based compensation costs by functional area are as follows:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Cost of sales	$ 35	$ 71	$ 35	$ 71
Selling and administrative expenses	381	665	309	585
Net research and development expenses	45	143	94	184
Total stock-based compensation for the period	$ 461	$ 879	$ 438	$ 840

Restructuring charges by functional area are as follows:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Cost of sales	$ 17	$ 304	$	$
Selling and administrative expenses	98	495		
Net research and development expenses	462	2,519		
Income taxes	(45)	(42)		
Total restructuring charges for the period	$ 532	$ 3,276	$	$

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8 Income Taxes

For the three months and six months ended February 28, 2018 and 2019, the reconciliation of the income tax provision (recovery) calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision (recovery) in the financial statements is as follows:

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Income tax provision (recovery) at combined Canadian federal and provincial statutory tax rate (27%)	$ 1,283	$ (290)	$ (726)	$ 467
Increase (decrease) due to:				
Foreign income taxed at different rates	(246)	(12)	33	(70)
Non-deductible loss (non-taxable income)	(67)	33	(153)	(207)
Non-deductible expenses	25	251	569	950
Change in tax rates			167	167
Effect of the US tax reform			1,528	1,528
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	(124)	(284)	(143)	(235)
Recognition of previously unrecognized deferred income tax assets (note 3)	(2,383)	(2,383)		
Utilization of previously unrecognized deferred income tax assets	(307)	(391)	(38)	(282)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	802	3,355	1,298	2,333
Other	577	922	(214)	(590)
Income tax provision (recovery) for the period	$ (440)	$ 1,201	$ 2,321	$ 4,061

The income tax provision (recovery) consists of the following:

Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018

Current	$ 1,684	$ 3,354	$