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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to EXFO's Second Quarter Conference Call for Fiscal Year 2020. Today's conference is being recorded. At this time, I would like to hand things over to Vance Oliver, Director of Investor Relations. Please go ahead, sir.

Vance Oliver - EXFO Inc. - Director of IR

Good afternoon, and welcome to EXFO's Second Quarter Conference Call for Fiscal 2020. With me on the line today are Philippe Morin, EXFO's Chief Executive Officer; and Pierre Plamondon, CFO and Vice President of Finance; Germain Lamonde, EXFO's Founder and Executive Chairman, will also be available to answer questions during the Q&A period.

A reminder that this conference call will include certain forward-looking statements and our estimates concerning our intents, beliefs or expectations regarding future events that may affect EXFO. Please note that such comments will be affected by risks and/or uncertainties, including the impact of the coronavirus pandemic on our employees, customers and global operations. This may cause the actual results of the company to be materially different from those expressed or implied today. For more information about EXFO, I encourage you to review our Form 20-F filed with the Securities and Exchange Commission. Our annual information form is available with Canadian Securities Commissions as well.

Please note that non-IFRS numbers may be used during this conference call. A reconciliation of these non-IFRS results with IFRS numbers is available in the Q2 2020 news release on our website. All dollar amounts in this conference call are expressed in U.S. dollars, unless otherwise indicated.

So without further delay, I will turn the call over to Philippe.

Philippe Morin - EXFO Inc. - CEO & Director

Thank you, Vance, and good afternoon, everyone. First, during this difficult period, I hope that you and your families are all safe and sound. I would also like to extend my deepest gratitude to first responders, doctors, nurses and medical staff, who are putting their lives at risk daily to combat with coronavirus pandemic. They deserve our thanks and our praise.



Now turning our attention to EXFO. Despite the temporary shutdown of our manufacturing operations in China due to the coronavirus outbreak, we delivered solid bookings of \$72.9 million in the second quarter of 2020, including a double-digit increase in test and measurement orders. We also reported sales of \$55.3 million in the second quarter, while IFRS net loss amounted to \$9 million.

We consider these quarterly results a momentary setback to our long-term profitable growth strategy. The good news is that we have returned to full manufacturing capacity in China. All EXFO sites are operational, and our staff is committed to helping global network operators and webscale companies that thrive during this challenging period. Throughout this global pandemic, the safety of our employees, communities and customers remains and will continue to remain at the center of all our actions.

Following up on an IT issue that we initially reported in February, the virus was detected and quickly contained at EXFO. IT specialists were brought in to help to resolve the situation. And I can safely say this matter is behind us. We turned this incident into an opportunity to also firm up our IT security systems.

With manufacturing and IT issues firmly under control, EXFO is open for business. We are very busy with customer meetings through virtual demos, webinars and conference calls. We're finding creative ways to meet our customer needs, and we continue to book orders, albeit at a slower pace than last year at the same period. We also believe that EXFO's test and measurement solutions, along with our SASS solutions, are essential during these unprecedented times since our customers are being challenged by surge in bandwidth demand, while coping with reduced staff. The telecom industry is mission-critical more than ever, with network capacity, reliability and scalability playing an increased role in creating opportunities for EXFO's innovative solutions.

Several network operators and webscale companies, for example, have increased capital spending to meet the global trend of telecommunicating from home. EXFO, with its wealth of test and service assurance solutions, enables the deployment of such bandwidth-intensive application in a virtualized, cloud-based networks. Our solution to help customers maintain peak performance, and we also help them with faster troubleshooting under these disruptive conditions by providing geolocation analytics, virtual VPN remote monitoring and active monitoring of network and subscriber anomalies, just to name a few of our solutions.

Although we're open for business, government-imposed lockdowns in many countries, within the Americas, Europe and Asia, have affected our visibility of future business. Therefore, EXFO has decided to suspend quarterly and annual guidance. We will do our best to provide the investment community with qualitative commentary about the company's upcoming prospects, but it will not be possible to offer revenue and earnings guidance for the foreseeable future. In addition, we're continuing through engagements with our customers and our partners to assess the medium to longer-term business impact of this coronavirus pandemic. And at present time, we've decided to have tightening cost control measures, including a hold on all our future hires.

Now a little bit lost in the shuffle of this pandemic with our launch of Nova Adaptive Service Assurance in mid-February. It's the first intelligent automation platform, enabling mobile operators to deliver ultra-reliable and high-quality service experience in 4G and 5G environment. At the height of this Nova A/SA, is a real-time automated assurance solution, Nova SensAI, acting as a central nervous systems for our platform. The combined offering leverage is machine learning to provide mobile operators with heightened visibility into subscriber experience and network performance. The good news is we're already trialed with this highly differentiated service assurance solutions with 3 lead customers, and the feedback has been extremely positive.

Now in closing, I'd like to express my heartfelt thanks to the entire EXFO team for delivering under trying conditions, not only in the second quarter, but as I know as they will in the weeks ahead. What makes me most proud is that we've kept our global customer base appraised throughout and maintained a high level of customer support.

So at this point, I will turn the call over to Pierre to cover our financials.



Pierre Plamondon - EXFO Inc. - CFO & VP of Finance

Thank you, Philippe. Good afternoon, everybody. Sales decreased 25.2% to \$55.3 million in the second quarter of 2020 from \$73.9 million in the second quarter of 2019. As previously mentioned, sales dropped year-over-year mainly due to the negative impact of the COVID-19 outbreak on our manufacturing operation in China and supply chain.

In addition, we didn't benefit from the same high level of calendar year-end spending received in Q1 '19 and shipped in Q2 '19. And also, we didn't recognize into revenue a \$4.9 million order for network topology software as we did in the same period last year.

Bookings meanwhile dipped 4.2% year-over-year to \$72.9 million in the second quarter of 2020. In the second quarter of 2020, a 14.7% increase in test and measurement booking was offset by a 32.2% decrease in bookings on our SASS product lines.

As I just mentioned, we booked a multimillion-dollar contract for our network topology software in the second quarter 2019, including solutions and professional services, but we didn't benefit from such large orders in the second quarter 2020.

Gross margin before depreciation and amortization amounted to 57% of sales in the second quarter of 2020 compared to 60.7% in the second quarter of 2019. In the second quarter of 2020, the coronavirus outbreak led to a temporary shutdown of our manufacturing facility in Shenzhen, China. This negatively impacted our sales and gross margin as a portion of our cost of sales is fixed in the short term. In addition, we secured a large software contract related to our network topology mentioned before in the second quarter '19, which carries margins above our corporate average.

In terms of operating expenses, selling and administrative expenses totaled \$24.3 million or 44% of sales in the second quarter of 2020 compared to \$25.5 million or 34.4% of sales in the same period last year. The \$1.2 million decrease in SG&A expenses mainly reflects lower commission payout on a lower sales level in the same quarter of 2020.

Also, the adoption of IFRS 16 played a part in reducing our SG&A expenses year-over-year. Net R&D expenses reached \$12.6 million or 22.7% of sales in the second quarter of 2020 compared to \$12.2 million or 16.5% of sales in the second quarter '19. The \$0.4 million increase in net R&D expenses can mainly be attributed to inflation and some increases as well as project mix year-over-year. IFRS net loss in the second quarter of 2020 totaled \$9 million or minus \$0.16 per share. In comparison, IFRS net earnings reach \$5.2 million or \$0.09 per share in the second quarter of 2019.

IFRS net loss in the second quarter of 2020 included \$1.5 million in after-tax amortization of intangible assets, \$0.4 million in stock-based compensation costs and a foreign exchange loss of \$0.4 million.

Geographically, the Americas accounted for 48% of total sale in Q2 '20. Europe, Middle East, Africa represented 31% of sales, while Asia Pac totaled 21% of sales. In comparison, the sales split was 50%, 34% and 16% among the 3 geographic regions in the second quarter of 2019.

In terms of customer mix, our top customer accounted for 8.2% of total sales in Q2 '20, while our top 3 represented 19.5%. Turning to a few key points on the balance sheet, our cash position increased to \$20.9 million at the end of Q2 '20 from \$17.6 million in the previous quarter. This \$3.3 million increase is mainly due to \$7.1 million in cash flow from operations. This cash flow from operations were partially offset by \$2.1 million for the purchase of capital assets and \$1.5 million for the repayment of lease obligations and long-term debts.

At the end of Q2 '20, EXFO had a net cash position of \$2.8 million and available revolving credit facilities up to \$46.8 million.

Now at this point, I will turn the call over to the operator for the start of the Q&A. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go first to Todd Coupland.

Todd Adair Coupland - *CIBC Capital Markets, Research Division - MD of Institutional Equity Research*

Can you hear me okay?

Operator

Now we can, sir.

Todd Adair Coupland - *CIBC Capital Markets, Research Division - MD of Institutional Equity Research*

Apologies for that. I had a few questions, and I'll just walk through them here, if I could. First on the income statement. The OpEx that you had in the quarter, is that about the right level of OpEx to think about prior to seeing some turn up in sales once we get in through COVID?

Philippe Morin - *EXFO Inc. - CEO & Director*

Yes, the level -- I'll make a high-level comment, and I'm sure, Pierre will add to that. So the level of OpEx that we have right now is pretty much, I would say, at the level that right now we're operating with. As I mentioned, we've decided to put a hiring freeze and obviously, all of the other discretionary spend will be -- every dollar will be looked at. So the OpEx will probably -- from a spend point of view, will probably go down from what you've seen here. But at this point, I would say, with the hiring freeze that we have in place and the focus we're putting on any other kind of spend, I would expect our OpEx to slightly go down, but be in that kind of range.

Pierre, do you want to comment?

Pierre Plamondon - *EXFO Inc. - CFO & VP of Finance*

Yes. I would add also that the Canadian currency went down since -- in February, and that will have a positive impact on our OpEx in U.S. as well. So on the -- with the currency, we should have some savings, assuming that the currency -- Canadian dollar stay at the level that it is right now, okay? Also, with the COVID, we need to assume that traveling will be deeply reduced, and we should see some savings on the traveling in addition of the hiring freeze that we're going to -- we're doing.

Todd Adair Coupland - *CIBC Capital Markets, Research Division - MD of Institutional Equity Research*

Great. And then I just noted on free cash flow. While you just lost a few million dollars before noncash working capital items, you had big cash gains from accounts receivables. So I'm assuming that you're not going to see that every quarter. So the way to think about burn at this point is a few million dollars above noncash working capital. Is that -- tell me if I'm thinking about that correctly.

Pierre Plamondon - *EXFO Inc. - CFO & VP of Finance*

Yes, you're right. So as we have been impacted in the last month for our sales. So the accounts receivable went pretty down at the end of the quarter, which is good for the cash. We do expect that the accounts receivable will be back in line with the level that we have seen in the past in the \$50 million roughly in sales in receivable. Therefore, we will need that cash to finance the cash flow. So we should expect that the accounts receivable will go up and we'll require some cash. But despite that, we should be able to fund our operations without any problem.

Philippe Morin - EXFO Inc. - CEO & Director

And Todd, just to complement to your first -- to first question, Todd, sorry, I mean, we also are putting measure and I should have mentioned, but on the spend as well, OpEx should also go down slightly because of some of the decision we made on contractors and discretionary spending like that as well that we should -- that will decrease as we get into our second half.

Todd Adair Coupland - CIBC Capital Markets, Research Division - MD of Institutional Equity Research

And then my last question is, just update us on what the U.S. carriers are doing with respect to 5G deployment? Has that come to a complete halt and COVID needs to get out of the way before network deployments can start again. Just update us on what you're hearing from your carrier customers regarding their 5G deployment plans?

Philippe Morin - EXFO Inc. - CEO & Director

Yes. So Todd, I mean, we engage customers. Obviously, it varies by customers, right, by operators and you made specifically on Americas. But we are -- that's part of our constant engagement and dialogue we're having to understand better what will happen as the exit, they call it pandemic in terms of investment. It is clear that there are needs now for bandwidth growth. So they are looking at investment there. On the 5G side, I think it's still a bit too early to say if they're going to increase or delay. In certain other countries, in Europe, we've seen actually some of the spectrum auction to be delayed as the countries have to deal with the virus. So we're going to -- this is part of the discussions we're having and dialogues we're having with our customers to better understand how -- once we emerge out of the crisis, how the investments and where are the priorities are going to be?

Operator

Our next question comes from Thanos Moschopoulos.

Thanos Moschopoulos - BMO Capital Markets Equity Research - VP & Analyst

With respect to the supply chain, you mentioned China was up and running, but any other issues that could prove to be a risk as far as it'd be component shortages or other jurisdictions for manufacturing? Or for the time being, does it seem the next supply chain should be fine?

Philippe Morin - EXFO Inc. - CEO & Director

So a few points on that one, Thanos. Number one, as you mentioned, so our facilities in Shenzhen are up and running. We have other facilities, as you know, Quebec City, Lannion, and all manufacturing facilities are open. Now what we have to deal with is our supply chain of components being mainly out of China as well. We're able to really maintain our capability there. Where we have now, what I would call more shorter-term challenges is on freight, logistics, sometimes countries are locked down. So -- and that's giving us sometimes a bit more logistic challenge, but overall, I do view that our position with our supply chain, our facilities across our multiple sites across our -- obviously, China being up and running now, is giving us an opportunity to respond faster with our customers, and I may be, say, a competitive advantage versus some of our competitors that I know have facilities and factories in countries that are still locked down.

Thanos Moschopoulos - BMO Capital Markets Equity Research - VP & Analyst

And so how is it that your factories outside of China are operational? Is it that there are jurisdictions that aren't locked down? Or do you fall into the bucket of essential services in some jurisdictions?



Philippe Morin - EXFO Inc. - CEO & Director

Yes, that's exactly it. And we fall into essential services because of the telecommunication market. And so that's why all our factories are -- and the manufacturing facilities are open.

Thanos Moschopoulos - BMO Capital Markets Equity Research - VP & Analyst

Okay. Great. And then similarly, as you speak to the customers, obviously, a lot of uncertainty out there, but in terms of their day-to-day operations, because they are central services, are they still sending out technicians to execute on previously planned deployments? Or what are you seeing in the field from that perspective?

Philippe Morin - EXFO Inc. - CEO & Director

Yes. It's a good question, Thanos. So first of all, I would say the amount of meetings we're having is we're very active, very busy. So that's kind of the good news. A lot of our customers' meetings are done over videoconferencing and so on. But very, very creative ways to do demos and tuft is what we're going through to. In terms of projects and activities, what I would say is it falls into 2 kind of categories. Obviously, the ones that require constructions, like fiber, construction, fiber being dig in to ground and so on. Those kind of projects in most of the countries there's locked down are kind of -- are being delayed. But all of the other activities now which requires to bandwidth growth, VPNs activities and monitoring the network. What we're seeing is there's still a lot of activity there. There's still a lot of field technicians going to houses and apartments to make sure that the connectivity and the bandwidth are secured. And this is where our products and the solutions are really coming across as differentiating. We spend a lot of R&D and effort in automation and bringing more intelligence on that when a technician goes in a house, he can troubleshoot much faster. We have centralized fiber monitoring systems. So that from a central office, we can monitor where the fiber issues might happen, and we've got capability to monitor where you have congestions with our service assurance platform. So I would actually tell you that we have more activity, our funnel has actually increased on the SASS side since the COVID crisis compared to the T&M side.

Thanos Moschopoulos - BMO Capital Markets Equity Research - VP & Analyst

Okay. And then finally, in terms of the bookings number in the quarter, remind us, is this the quarter where you have a seasonal higher level of maintenance and support matters coming through?

Philippe Morin - EXFO Inc. - CEO & Director

The maintenance contract tends to happen at the end of calendar year, right? So they tend to be more of our -- the quarter hitting our Q1, Q2, sometimes a bit in Q2 for the delayed contract, but it tends to be a bit more on Q1 and Q2.

Thanos Moschopoulos - BMO Capital Markets Equity Research - VP & Analyst

Okay. Yes. So I guess where I was going with this is whether that contributed disproportionately to the bookings number. But as you said, I guess, more on Q1 impact than the Q2 impact?

Philippe Morin - EXFO Inc. - CEO & Director

Yes.

Operator

(Operator Instructions) We'll now go to Tim Savageaux.



Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

A couple of questions here. I wonder if you could talk about -- I think it's about a 15% year-over-year increase in test and measurement bookings. And give us some color on kind of what the drivers were on that increase on a year-on-year basis?

Philippe Morin - EXFO Inc. - CEO & Director

Tim, so 2 main drivers coming in. One is, again, on our -- what we call our transport and datacom portfolio. For 400 gig, 100 gig solutions, optical RF, this was, again, a good performance of our portfolio. So we're continuing -- and we tend to sell this to the webscale guys. We tend to sell this to the NEMs, but even some of the operators in their labs. So that continues to be a very strong performance. The other one, nice growth is on the manufacturing -- our manufacturing customers, so our -- what we call, MDR, another very strong quarter for manufacturing capacity. If you recall, we've reinvested and buy through an acquisition, like Yenista, and we've continued to really see some nice growth of our particular business there with manufacturers of -- I'll give you example of transceivers, but also manufacturers of optical components. And that continues to fuel some nice growth for us.

Now again, our physical interface, as physical products OTDR and so on, that continues to do really well as there's more fiber deployment and fiber to the antenna. But in terms of growth percentage, Tim, I would say it's -- the 100 gigs to 400 gigs and our manufacturing MDR's product line.

Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

That's great color. And clearly, you've built some backlog here in the quarter and which would presumably be a tailwind heading into Q3. So you've obviously got some headwinds as well. You mentioned continuing to book orders, but at a reduced rate. I wonder, in lieu of any guidance, if you could maybe talk to us about the month of March, just sort of -- what's the sort of magnitude, the kind of run rate order decline? And would you expect that to more than offset what should be something on the order of a \$10 million tailwinds in terms of building backlog heading into Q3?

Philippe Morin - EXFO Inc. - CEO & Director

Yes. I mean, that's the -- obviously, the big question in terms of visibility of what we're seeing. I would say the good news -- there's 2 good news for us. One is there is a backlog. We have good backlog in our T&M. There's a good backlog on our SASS business that we're absolutely going to leverage in the next quarter and next quarters. On the SASS side, we still have over \$60 million of backlog that we want to continue. And then, obviously, if you just do a quick math between what we had done in terms of revenue and our -- we tend to have a book-to-bill ratio of 1, you can see the type of backlog we have on the T&M side as well. So that's the first point. So the backlog is giving us a good base to work from. The second item is, I do believe the fact that we -- all of our facilities and our sites and our functions, whether because our employees are working from home, or all our facilities that are essential are operating, allows us to quickly respond with customers that they may have an urgent need. And we're seeing that out of some countries in Asia, mainly in China, that things are picking up really well and we can respond. And the third is the lack of visibility because of the coronavirus. It's very difficult, Tim, to kind of predict how our customers are going to -- in terms of ordering equipment, ordering solutions. Most of our customers have people on site. They can receive the equipment at their warehouses, but it's clearly, as I mentioned in my opening statements, a bit slower. And plus, we still don't know how quickly we're going to reemerge out of this crisis. And that's what's preventing us from giving more detailed guidance.

Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

No. No. I understand about the guidance. It's just kind of to the extent that you've got some kind of real-time data that's what I was asking about, although I understand that's probably not enough to form a trend either. On the flip side, you mentioned that and we've seen this pretty extensively throughout cable, telecom, obviously, significant increases in network traffic, leading, in many cases to expedited capacity. You made reference to that, but I wonder if you could talk a little bit more specifically about how that manifests itself kind of in EXFO's business? Whether you'd see it more kind of in access network augmentations and field tech roles to address those or more in kind of high-speed metro core capacity of -- to the



extent that you've seen customer behavior change in these last few weeks to deal with increased traffic? Any more color on kind of how that's developed would be great.

Philippe Morin - EXFO Inc. - CEO & Director

Yes. So the trend that we're seeing is on the -- there's still a need to make sure that the field techs are fully equipped with innovative solutions and automated solutions. So we're seeing -- we have launched a product called Optical Explorer a few months back. That is getting a lot of attention because it does help the field technicians to troubleshoot much, much faster than the previous solutions based on our power meters and so on. And we're seeing a need for field techs to be better-equipped so that as they go -- they're -- into a housing apartment, they can do their troubleshooting faster.

The second thing is around our centralized kind of more solutions with service assurance. We're providing geolocation analytics and that allows people to -- our operators to figure out if they're adding particular congestions into their network. Same thing on VPN, as you know, a tremendous amount of VPNs are required now. Now you got to monitor those VPNs and we're providing solutions. And these are software solutions. So that's why I've mentioning the funnel for those particular applications has increased for us. And so -- and then I would say we're really seeing opportunities where -- on fiber monitoring, in particular, this particular activities we're seeing, where people need, again, as you know, the NOC centers have fewer people. They don't -- they're not fully staffed. And to be able to provide them with solutions that are pretty automated and easy to install centrally and manage is also giving us an edge. So the place we are seeing a decrease and the slowdown, as I mentioned, is on construction, and that's -- it's kind of understandable. But I think the places we're seeing now more growth is on field technicians and then on our centralized SASS offering.

Timothy Paul Savageaux - Northland Capital Markets, Research Division - MD & Senior Research Analyst

Got it. And last question for me. One area, and you've kind of talked to it a bit, but like to get you to be a little more specific that you guys do have control orders. Obviously, you're spending, from an OpEx perspective and you've mentioned sort of anecdotally a couple of items that should be providing downward pressure. Any chance of quantifying that a bit more? Should we be expecting something like at least a 10% sequential decline in OpEx in Q3? Or as you look at all these kind of anecdotal things, how does that kind of add up?

Philippe Morin - EXFO Inc. - CEO & Director

Yes. No, I think what I would say is that, again, I think you've seen in the past, we've always been very, very diligent with our cost and our spend, and we're going to continue to do that. And whether it's on hiring freeze or no replacement or contractor spend and so on, to me, that's kind of the main focus. As we are doing our business assessment, talking to our customers around the medium term, longer term, we'll have to see what other options if we need to go there. I do feel that and maybe I'm optimistic by nature. But I do feel that based on our position, based on our solution, based on the fact that the telecom industry is so mission-critical and the backlog that we've got, that I think we can -- we're in a good position to navigate the storm. But again, there is some uncertainty that we'll need to assess in the next few weeks based on what we're seeing in the market.

Operator

Our next question is Robert Young.

Robert Young - Canaccord Genuity Corp., Research Division - Director

Do you hear me okay? Yes. The line of question that Tim is on around the backlog. If I could dig into that a little more. I understand you're not giving guidance, but perhaps -- I think you said \$60 million backlog, that's on the SASS side. Would you be able to share any backlog that you've built up

on the T&M side? The reason I'm asking about that, I'm assuming that the China shutdown to understand that's mostly T&M handheld production. Would that have built up a backlog?

Philippe Morin - EXFO Inc. - CEO & Director

Yes. That's -- Yes, so again, when you look at what happened in our Q2, we effectively lost almost a month of supply from our Shenzhen factories, which tends to be our higher volume kind of product, and therefore, quicker turnaround and sales cycle. So what I mentioned, though, to the backlog question, we have -- we've mentioned before that we have about over \$60 million, 6-0, of backlog in SASS and that's still the case. So that's a really good backlog. And then for the T&M, although we never provide a backlog, you can kind of figure out that our book-to-bill ratio tends to be close to 1, and we tend to be able to respond pretty faster -- pretty fast to -- with the T&M. So it kind of gives you the kind of the backlog that we're coming into our third quarter well.

Robert Young - Canaccord Genuity Corp., Research Division - Director

Okay. So that sounds something \$10 million to \$15 million backlog there probably. And does that convert -- you said book-to-bill is one, so that's a pretty quick version, I would assume. You'd expect that to go through the quarter?

Philippe Morin - EXFO Inc. - CEO & Director

Yes. And obviously, it's -- again, with the lockdowns and so on, it's -- in normal terms, I would say, yes, it would cover -- convert pretty quickly. But we, obviously, need to make sure that we can deliver and I'm pretty confident we will. That's just we've got to work through some of the challenges we have here with freight and logistics and so on and continue on that.

Robert Young - Canaccord Genuity Corp., Research Division - Director

The China shut down, I mean, if I look at the EXFO operations, you said everything is up and running now. The only place you've been impacted is the Shenzhen manufacturing, as I understand, all of your other manufacturing has been uninterrupted. Is that correct?

Philippe Morin - EXFO Inc. - CEO & Director

That's correct. I mean, all our factory -- obviously, we had to make sure we provide all the right security and cleanliness and associated with all the right measures that we need to do in our other facilities. But other than the COVID-19 security aspect, none of our other facilities were impacted. So that's -- again, I'll reiterate, it's good news to add all this is that we're very -- we're open for business. And I do think that, based on some of the bookings we're seeing is, I do think that it's giving us a short-term competitive advantage because I know some of our competitors are -- have facilities in countries that are still locked down.

Robert Young - Canaccord Genuity Corp., Research Division - Director

Okay. And then maybe is there any information you can give us on the timing of China production coming back? And I mean, you say it's working at full capacity now. When would that have hit full capacity? Would it have been sometime in March? Or would you have been back to normal by the end of February?

Philippe Morin - EXFO Inc. - CEO & Director

No, no, no. We were back to at the beginning really late February, but very first week of March, sometime in March. It took -- and as you know, Rob, right, there was a lot of -- trying to get all the employees back and get the whole supply chain, it took us pretty much all the month of February to get back on track. So the beginning of March is when we were back at full.

Robert Young - Canaccord Genuity Corp., Research Division - Director

Okay. And then maybe a different line of question, just around the balance sheet and your access to capital, like, your cash went up, like previous question, when you look at the balance sheet, and maybe it's a little less cash, I've seen on the balance sheet in past years. Are you happy with where it is now? How much cash do you generally think you need on the balance sheet, one, to fund your operations now? And then how much do you need to keep your customers happy who are probably looking at your balance sheet?

Philippe Morin - EXFO Inc. - CEO & Director

So I'll answer first, and then Pierre will comment. I'm sure, he'll provide more color. Again, based on where we are now, based on, again, where we -- with the fact that all our sites are open and the fact that there is bandwidth growth and aspects, we're feeling okay with where we stand on our balance sheet. I mean, we're not -- I think we've got some nice backlog to play with. And I would just make sure, from the point of our business, we are -- we're in a good position. But I'll let Pierre comment. I'm sure he has more color.

Pierre Plamondon - EXFO Inc. - CFO & VP of Finance

Yes. So as a CFO, we want to have as much as -- as much cash as possible, for sure. But we did have a line of credit up to CAD 70 million. So we're in good shape to have for the next quarters. And I think that the balance sheet that we have is strong ever for our customers. So I don't think that our customer would be afraid with what we have. And back to positive EBITDA. That's the goal that we have for the rest of the year.

Robert Young - Canaccord Genuity Corp., Research Division - Director

Okay. And maybe just one last clarification before I let the line go. When I said \$10 million to \$15 million backlog in T&M, the way I got to that was just looking at the \$55 million reported and the \$68.5 million at the midpoint of the guidance before all this happened. I'm just -- is -- am I wrong in that math? Or is there something else there from the IT systems outage I should be thinking about?

Pierre Plamondon - EXFO Inc. - CFO & VP of Finance

No. No. Rob, you're in the right ballpark.

Operator

And our next question comes from Richard Tse.

Richard Tse - National Bank Financial, Inc., Research Division - MD & Technology Analyst

Just talked about the funnel on the SASS side. I'm just kind of curious, I wasn't clear in terms of -- you guys have the capacity now to sort of fulfill all that demand?



Philippe Morin - EXFO Inc. - CEO & Director

Yes. On the SASS side, Richard, it's predominantly software solutions, right? And then we have sometimes professional services to do the integration and customization. So on both cases, I mean, again, shipping software, that's not an issue. And then on the capability to do the software integration and customization, we have absolutely the capacity to do that and no challenges there, no issue there.

Richard Tse - National Bank Financial, Inc., Research Division - MD & Technology Analyst

Okay. So you don't have to be on-site to actually deploy that? Okay. How...

Philippe Morin - EXFO Inc. - CEO & Director

And even in -- but even in some cases -- Richard, even in some cases where we have to be on-site, again, most of our customers have people on-site. So obviously, you need to be careful, it will take a bit more time. But most of the time, we don't need to be on-site, but if we do, we do have that capability to do that as well.

Richard Tse - National Bank Financial, Inc., Research Division - MD & Technology Analyst

Okay. And then there's a lot of questions on sort of the cost structure. I just sort of coming about a different way. If you kind of look at the OpEx cost structure, what proportion of your total OpEx is considered fixed costs?

Pierre Plamondon - EXFO Inc. - CFO & VP of Finance

I may answer. So I will say that most of our OpEx costs are fixed. The variable cost will be mostly the commission for sales, traveling, trade shows, some marketing, okay? But most of the costs are payroll. So if we want to reduce cost, we need to reduce the payroll cost through various mean. In Canada, we have some programs that has been announced by the government. We have to look if we can apply on that or not. And so I have to say that this is mostly fixed costs on the OpEx, unfortunately.

Richard Tse - National Bank Financial, Inc., Research Division - MD & Technology Analyst

Yes. I just sort of -- obviously, all companies rightly still want to keep the headcount in place. I would probably consider that partly variable to some extent, but those are tough decisions, obviously. With respect to like the receivables, obviously, it seems like things are going pretty well so far. But have there been any kind of discussions with your current base in terms of them thinking about maybe deferring payments? And how you're thinking about the receivables here going forward?

Pierre Plamondon - EXFO Inc. - CFO & VP of Finance

With our customers?

Richard Tse - National Bank Financial, Inc., Research Division - MD & Technology Analyst

Yes.



Pierre Plamondon - EXFO Inc. - CFO & VP of Finance

Yes. Yes. So far so good. The customer continues to pay within their terms. We'll see going forward with the state of the business each country is -- we may have some issue for collecting on due time, but most of our customer are a large company with usually some good cash balance. So I don't expect to have a huge -- high DSO increase in Q3, Q4. Maybe we will have some here and there, some customers taking a little bit more time to pay us, but I don't expect too much trouble so far.

Operator

And our next question is from Daniel Chan.

Daniel Chan - TD Securities Equity Research - Research Analyst

I just want to make sure I understand the market dynamics here. So is it safe to say that your February quarter, revenue was light because you had supply constraints given the China shutdown, but demand was still strong, and that's why you had a good book-to-bill. But come March, especially at mid-March, you saw demand kind of take a stall out a little bit, that's why you're saying that the bookings have slowed a little bit. Is that a fair summary of what's going on?

Philippe Morin - EXFO Inc. - CEO & Director

No. What I'll -- maybe I'll say in a different way. So the -- for our Q2, the bookings were strong, solid and mainly showed by 15% growth on our T&M side, which was driven by, what I mentioned earlier, 100 gig, 400 gig and so on. And then the stronger book-to-bill ratio looks better because of the supplier challenges we had in China, which allowed us to effectively only ship \$55 million. Since the COVID virus impacting now other regions in China, as we -- it's other countries, Europe and the U.S., we have seen that the booking rate is not as fast as if you compare last year to this year, and it's mainly due to the COVID crisis that, obviously, our customers are trying to navigate through working from home, navigate through the situation then the lockdown and that's caused, I guess, what I would call the bookings rate to not be as strong as it was for the same period last year, which I don't think anybody is surprised by that.

Daniel Chan - TD Securities Equity Research - Research Analyst

Yes. Okay. That's helpful. You made some commentary around uncertainty around 5G deployments. Just wondering, whether you are having the same kind of discussions around virtualization of networks?

Philippe Morin - EXFO Inc. - CEO & Director

I think diverse size of the network is continuing, Daniel. I don't think there's any change there because currently, our customers are -- have started that trend, they're going to continue to do it, it provides them with CapEx and OpEx reductions. And that, to me, is continuing. And we're seeing that with our SASS portfolio. We mainly sell now our solutions with our probes are all virtualized, all in containers. And so that trend is going to continue. I don't think it's actually going to slow down.

Operator

At this time, there are no further questions. I'll hand things back to the CEO, Philip Morin, for any additional or closing remarks.

Philippe Morin - EXFO Inc. - CEO & Director

So thank you, again. So just a few key takeaways before we conclude this call today. So again, first, EXFO reported solid bookings, \$73 million in our second quarter, and as we just mentioned, almost 15% year-on-year increase in orders for our T&M business. Second, all our full sites are fully operational and our staff is committed to help our global network operators and webscale companies to succeed during this challenging time. And third, we launched a highly differentiated solution, mobile adaptive service assurance. It does leverage machine learning to provide mobile operators with better visibility. We believe that our EXFO's solution both on T&M and our SASS will be essential in the upcoming months as our customers are challenged with this increased demand and then as well, we're coping with reduced staff. And then finally, we do have -- have to suspend our quarterly and annual guidance due to uncertainty surrounding the breadth and duration of the coronavirus pandemic. At this point, this concludes our second quarter 2020 conference call. On behalf of the entire EXFO team, I thank you for joining today and then please stay safe. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference. We would like to thank you all for your participation today. You may now disconnect.

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