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QUESTION AND ANSWER

Operator

We'll now begin the question and answer session. To join the question queue, you may press * then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press * then 2. Our first question is from Konark Gupta from Scotiabank. Please go ahead.

Konark Gupta, Scotiabank

Hi, this is Eddie filling in for Konark. Good morning, everyone. My first question is on the CapEx. Yeah, my first question is on the CapEx target reduction. Was it more function of delays and demands in certain areas or just more prudent?

Marc Parent, President, CEO & Director

I think it's prudent that we always align, you know, basically a capacity with demand. So we always need a lock step in that. That's what you see reflected here.

Constantino Malatesta, Interim Chief Financial Officer

If I can add to that, I think we, I just wanted to add effectively that this, this is lower than previous market expectations. So again, continued example of disciplined approach to capital allocation and cash management in this along with the $410 million of free cash flow, I think is an evidence of our disciplined approach to capital allocation and our focus on driving free cash flow.

Konark Gupta, Scotiabank

OK. Thank you. That's helpful. And then maybe just one more question. How is your training utilization trending in the Americas versus Europe and Asia?

Marc Parent, President, CEO & Director

Well, look, I, I think if look, let me start with you, maybe the flight activity which leads to that. But maybe look at year over year figures. I think what I think what's drives everything is the commercial flight activity, right. So airline passenger traffic. So it America is what we've seen is about 7% growth over year over year and that's driving actually perversely what you see in Americas is as we talked about we're seeing a utilization or training centres was down slightly and that's driven by the lower pilot hiring in the United States. If I look at in the Europe, Middle East passive traffic is up 5% and then in that case we're seeing corresponding utilization increased and in India were up about 7%. Anything could happen.

Nick Leontidis, Chief Operating Officer

No, I, I think the, the US utilization is down year over year and it's really just a function of the hiring demand that that is supposed to be happening right now.

Konark Gupta, Scotiabank

OK. Thanks, guys. Appreciate the time. That's all my questions.

Operator

The next question is from James McGarragle from RBC Capital Markets, please go ahead.

James McGarragle, RBC Capital Markets

Hey, good morning, congrats on a good quarter and thanks for having me on. On the impact from a potential tariffs, can you just discuss a little bit, you know, how your position to react in the event, you know, we have tariffs that are sustained and you know, have you seen any shifts in your, your customers that decision making from tariffs, you know, playing orders, looking for other options? I understand it's only been a few weeks or any colour you can provide that would be very helpful. Thanks.

Marc Parent, President, CEO & Director

Sure. Thanks for the question. Look, it's obviously a situation that we, we like everybody else, hope reaches, you know, constructive and bilateral conclusion through negotiations. But look, I think as we said in the past, we don't, we don't, we certainly don't expect to see a material impact in the short term, certainly so the next few months to a year from on this on, on our business as a whole. But it's definitely something that we're monitoring closely. And if you know, any kind of tariffs become more lasting beyond that beyond, you know, getting into more than a year or two, you know, obviously we would adapt and then we have the capacity to adapt. I mean, I mean bear in mind if you look, if you think about our business, it's a business has changed a lot over the last 20 years and more than 2/3 of our revenue is generated from services and and we deliver that in country. So, so that's not an issue. And so the main product that we sell into the United States is the full flight simulator. There's a lot of, there's, there's already a big proportion of that, which is US or EU origin. That's one factor. But again, I think there's, there's a lot of ways for us to mitigate things in if things again should last, you know, beyond, you know, should I say next two months to a year. And again, if I look at actually conversely, what we're seeing this year, but we're particularly not affected because with the lower pilot activity of hiring activity that we've seen this year on the back of OEM delays, we've actually had relatively few sales to our US customers this year. So we've only got a few deliveries going there this year, although simulator sales themselves remain strong. They're just coming from other parts of the world.

James McGarragle, RBC Capital Markets

Hey, thanks for the colour. And then on the defence results, uh, you know, the margins are obviously came in really strong in the quarter guidance, you know, maybe implies a little bit of a step down next quarter, you know, so anything to call out there in terms of one time items in Q3, you know, was there seasonality that might have helped results in the quarter? Just trying to get, you know, see how things might evolve a little bit longer term. And then Nick, you know, you've been looking at this business for a few quarters now. The team highlighted in the release margins are expected to continue to expand. So can you just talk about your level of confidence in that and, um, you know, anything in particular that you see as an opportunity, you know, in fiscal 2026? After that I can turn the line over. Thanks.

Marc Parent, President, CEO & Director

OK, good. So we'll tag team this. OK, I'll kick it off, turn over to Dino and then finish off with Nick. Look, I think what you'll reflect here is we're feeling very good about the direction of the business is certainly the team in place of which Nick is leading with very, very good job and the momentum at the front end. You just look at the order intake. I think it's nothing short of outstanding and the geopolitical environment, you know, for unfortunate reasons is showing demand for the product services that, you know, sees to it at. So the team is executing extremely well. This this there's nothing really extraordinary in that, I'm sure that's what Dino's gonna say. It really comes down here to execution, strong performance all around by the team. At the same time, there's risk reduction. Risk reduction is rampant. We're taking it very, very disciplined approach. And you know, when we look at the fourth quarter, I think you always got to remember that defence is always, you know, shall we say a lucky business quarter, quarter has a potential as we execute contracts, you know, in any given time you could generate plus or more revenue in a single quarter. So as we talk about, you know, we are raising the outlook and I think we're still being prudent about the defence business as a whole, but you know, we're very remained very competent. So maybe just turned over to you Dino.

Constantino Malatesta, Interim Chief Financial Officer

Thank you Marc, and I would echo that. I'm really, really pleased with 18%, that's why margin performance this quarter, it's an increase year over year quarter of a quarter. You know again, you're right, I think you see a lot of this being a direct result from the process changes and teams that we, changes made to the team showing through in the performance and execution. We also closed off another legacy contract. We expect another legacy contract to fall off by the end of next year. So feel good about that as well. There was a little bit of health higher than usual R&D tax credits in the quarter. Nothing overly significant contributed maybe the other half a percentage point to the margin. And that's just usual timing that we see and sometimes in the quarter of Q3. But overall really strong performance in margin and really good work done by the command.

Nick Leontidis, Chief Operating Officer

Yeah, just to echo the comments already in terms of performance. I think the teams and you know, certainly we have a different, a different attitude towards, you know, executing on the programs, you know, per the plan. I think also the mix, the mix is better. So, you know, legacy contracts, low margin contracts, I mean, I mean, there's always some of that, but the pipeline also, because you, you would have seen the, the order intake and the performance on new orders this year for defence has been quite strong. So, you know, that's also gonna help us as we look out in the future. So I, I, you know, I think, you know, we're, we're, I certainly, I'm pretty confident that, you know, we can maintain and, or exceed this level of performance.

James McGarragle, RBC Capital Markets

Thank you very much.

Operator

The next question is from Fadi Chamoun from BMO Capital Markets. Please go ahead.

Fadi Chamoun, BMO Capital Markets Equity Research

Yes, good morning. Marc, I was wondering if you can kind of offer some perspective on the board changes that were announced. Are there any specific kind of governance variable item that the board is focused on, you know, to the extent that you can share with us even from a high level kind of what does this change kind of mean for? And my second question, I apologize, I missed it at the beginning of the call a little bit, uh, we had another call going on, but the books and dates in terms of the organic growth in the Civil Aviation market, like going forward, I'm guessing the US market is a bit of a drug right now, but how should we think about the relationship in that market recovering to the delivery of Boeing starting to ramp up? Is there a lag effect between the two that we should about? And if you can offer kind of some you know, maybe even high level perspective of what, what does the rate of organic growth look like when you put all things together between business aviation and what you're seeing on the commercial aviation side?

Marc Parent, President, CEO & Director

Well, maybe let me just start with that last question, not to deflect the first one, but just basically if you got my head around that one. Look, I think civil, notwithstanding the softness that we've seen in the quarter again of in the US, as you said quite right. I mean civil had excellent results this quarter and it reflects the diversification in our civil business in itself. And you highlighted a lot of the, a lot of the components there. Look, in this quarter what we saw is basically the continuation of what we saw in previous quarters and in this in this year in pilot hiring in the US is that basically a fraction of what it was just last year. And actually third quarter was our worst quarter in that regard. And that just that's just basically because we saw continuation and perhaps more than well certainly more than we anticipated that we're not alone in that, in the amount of airplanes that were delivered by OEM's and the amount of disruption caused by groundings of aircraft across the world that really need to reflect that affected customers of you know, Airbus aircraft primarily. So for us in the where, how that reflects itself in the United States is that, well, you don't have strong pilot hiring, You don't have, sorry, you don't have a lot of new aircraft being delivered to airlines. You see the airlines basically essentially, they increased pilot hiring substantially over the last couple of years. And now basically they have, if you like for a short amount of time, too many people, too many pilots hired for, you know, the needs that they have on the aircraft that they're flying. So typically when they stop hiring pilots, what happens is that the likely effect of the large carriers are taking pilots when they hired to take them from the regionals and the regionals themselves, they're basically hiring new planets. And that creates a disproportionate amount of training in our training centres for regional aircraft in the

United States. So centres like, for example, we have a strong centre for, you know, regional pilot training in Minneapolis, for example. And although that's not a very big impact in terms of revenue itself, it kind of has a disproportionate effect in a bargains because the training we do on the type of aircraft that the regional fly, regional aircraft carriers fly, our aircraft like CRJ, like Dash H, which those airplanes have been along around for a long time and some of our simulators. So they tend to be far down the depreciation curve and therefore we make you know a larger amount of profit on it. So that's what you see happening here and it's the same factor we had before. What's changed in this particular quarter is that because of sustained situation around OEM's, we've seen actually airlines actually cancelling or deferring their training slots in the quarter. Now as I said in my remarks, you see those same airlines with the positive news that we're seeing now. You saw Boeing just recently announced that they had delivered 40 airplanes in the quarter. So that's resulting, you know, obviously in the people saying, OK, well there's, there's renewed optimism happening here. So look, again as I said watching deliveries and as they recover, I mean US, the utilization are in our US training centre should follow and they should follow relatively quickly behind. Of course that's not the only story we're talking about. Commercial aircraft sales of simulators are still very strong and you see just testimony of the strong order intake. You see that certainly people that do in the airlines enthusiasm for the future certainly not dampened that testimony by the book to bill that we have. As well, of course business aircraft, while business aircraft is doing extremely well. We come we continue to ramp up and more recently deployed training centres, for example, like our new training centre with SIMCOM that that now is wholly owned by us in Orlando or training centre Las Vegas. And we're seeing higher utilization and growth in all of those cases. And you just look at the order intake and we just added $500 million to the order intake in business aircraft as a result of the SIMCOM acquisition and associated Flexjet, you know orders or deliveries going to come out of that in terms of training slot. So look, I think as I said in my remarks, it's not a question of if there's a question of when and we're going to see strong demand. Yeah, boy, that it made. Sorry, going back to your previous question. Look, I think what you're seeing here and I'm, I'm not going to answer for the board, but what you say is a function of ongoing board renewal. You have my succession and at the same time you have a new chairman coming in and Alan is on an outstanding job leading, leading his company over the last few years. We worked very well together. And I think there's a very, you know, I think smart timing in terms of transition, my transition with, you know, bringing on a very, very strong adventure. You will have very strong determinant Galen Romanesque, but with his background Air Canada chairman of IATA in the past. To be able to be someone that's going to be able to play a very strong role in terms of certainly hiring my successor and, and having a very effective transition with, you know, the current board leading the board into the future. So I think we're all very encouraged by it.

Fadi Chamoun, BMO Capital Markets Equity Research

Appreciate it. Thank you, Marc.

Operator

The next question is from Kevin Chiang from CIBC, please go ahead.

Kevin Chiang, CIBC

Good morning. Thanks for taking my question. I apologize if you went through some of this in your prepared remarks. I was also on a call earlier, but just on the on, I guess on the announced Flexjet order with Embraer of the pretty large order for them. Just wondering how you see that opportunity for CAE posted SIMCOM deal and I know it's probably early days, but are there any investments you think you would be required to make to support training related to that large fleet order on the business aviation side?

Marc Parent, President, CEO & Director

I'll start it off and maybe hand it over to Nick. It's extremely positive for us because you know, again, we're exclusive to Flexjet. We know with a very, very well because we've been training them for years. What's positive is not only the amount of aircraft that they're buying, but they're buying the mix of aircraft, which really basically grows the accessibility that we have of training on the whole fleet of Flexjet aircraft. So again, I couldn't, I couldn't be more happy that order, but maybe Nick, you want to add?

Nick Leontidis, Chief Operating Officer

Yeah. I mean the, you know, Flexjet placed an order for 180 plus craters and phenoms. Those are those are aircraft that the, we, we currently serve in the training centre. I mean, we don't have enough capacity to deal with 183 aircraft with what we've got right now. So yes, there will be investment in more greater capacity and more phenome capacity. So, but there's no need for anything beyond that. Like no one can take that capacity in terms of space and deliver the training. And you know, this is part of the reason why you saw the order intake and you also see the, you know, the order intake as a function because one of the things we did was, so this contract when we originally consummated the JV was a 15 year agreement. We were five years. And so the agreement was reset to 15 years. And so this justifies the investments for the next batch of aircraft.

Kevin Chiang, CIBC

No, definitely makes sense. Seems like a pretty nice tailwind for you, especially post the SIMCOM transaction. Maybe it's my second question. You know, I generally think of as broadly immunized from kind of the marginal change in U.S. defence spending or broader US budgets. Just given the type of stuff you do, just wondering if that's changed or the new administration, you know, we're obviously looking at. Cost cutting maybe in a different way than previous administration, just wondering if you see anything at risk or anything that that that might have been impacted within your backlog given the given the change in administration?

Marc Parent, President, CEO & Director

And the first thing I'll say to that one is, as I've always said, is the day that sees forces will be a proxy to the US defence budget. I would be very happy. But that's not the case. I think the reality is the, what you see is a focus in the United States and all of its allies, Canada and NATO, NORAD is a strike to increase readiness of horses and that and readiness means training. When you think about what a military does when they're not in situation conflict, they train. That is all that they do. And with increasing readiness, what that means is more demand for the kinds of services and products that we do. And you see that as reflected in a very strong order backlog that we've already won and the opportunity that we have out there in terms of the biz that we have out there for, you know, basically selection by customers. So I have not, I mean what you could see, I mean is short term variations like if we see some, for example, like a shutdown of the US government, well that could have, not to say they will, I have no crystal ball to that. Or if you have continuous resolutions at that, you know has been somehow the norm in the past year, that can cause short-term disruptions. It will basically, let's say we're on a we wanted a new contract which we have won a lot and you get into a situation for example the continuous resolution or an effort circular case. What happens is the government is precluded should be able to start activity on new contract. But those are short term issues. They're not reflective of long term trends. And, finally, I think the big thing about this and defence as in civil, you know, we enjoy the benefit of having very long term contracts. So the backlog that you see goes out many, many years.

Kevin Chiang, CIBC

That's great colour. Thank you very much and have a great weekend.

Operator

The next question is from Sheila Kahyaoglou from Jefferies. Please go ahead.

Sheila Kahyaoglou, Jefferies

Yeah. I don't think there's a need to read into it. It's above one. As Marc said, revenue is $640 million, so it's a high number compared to last year, which is about $68 million lower. So, I think we get the opportunities book-to-bill above one. So, you should take that as growth.

Marc Parent, President, CEO & Director

You want to handle it Nick?

Nick Leontidis, Chief Operating Officer

Sure. I mean, on the simulator deliveries, I mean, obviously we're not, we're not changing any of our, any of our guidance. We have the same, it's gonna be I think as we said more than $0.50 and, and obviously you'll see the, the actual number, you know, some of this just depends when we're on the edge of March 31st, you know, some may be delivered in next fiscal year. But, I don't see an issue with the with the guidance that we've given today in terms of Q3, maybe I'll let Constantino. Q4, excuse me.

Constantino Malatesta, Interim Chief Financial Officer

Yeah. No, so, what I think we'll see is again products being a higher proportion of the revenue mix going forward and that's why you know, we've also adjusted the guidance to say that we will be modestly below the 22 to 23% of adjusted SOI margin range for the year.

Sheila Kahyaoglu, Jefferies

OK. And that that makes sense. Um, and then maybe just another question on, again, we see, we're seeing a growing divide among operators outlining expectations for GTF AOGs over the coming years. Some suggest AOG should be unwinding from peak levels steadily in line with RTX's own commentary. Others like Wiz are talking about beyond 2026. So just maybe if you could touch on the AGT app and what you're seeing for 2026, how we should be thinking about framing that.

Marc Parent, President, CEO & Director

Maybe I think, yeah, I think we can talk about it because it's typically some of our large customers like Indigo Airlines or have that issue.

Nick Leontidis, Chief Operating Officer

I mean, the overall, uh, we, I mean, we do track the, you know, the aircraft grounded the 320 Neos. So, the numbers going down. I mean, it's certainly coming down from where it was. I mean, we, we have, you know, Indigo as an example, they're the largest, you know, Airbus operator of Neos and have the largest fleet of grounded aircraft. And they are improving. So I think it's just a question of time as they catch up on some of the capacity issues they have to service all these, all these engines in a timely manner. But definitely, you know, I mean, they're a barometer to how this is going and their fleet is improving and we can see it through obviously training. So, you know how long it's going to take. It's not really for me to say, but I think the, you know, we definitely see improvement.

Sheila Kahyaoglu, Jefferies

Great. Thank you.

Marc Parent, President, CEO & Director

Thanks, Sheila.

Operator

The next question is from Matthew Lee from Canaccord Genuity. Please go ahead.

Matthew Lee, Canaccord Genuity

Hey thanks for taking my question. I noticed in the quarter you didn't really touch the NC B and you know I joined this call late, but you know just given the focus on deleveraging and maybe opportunity for tuck in as well as from the CapEx you mentioned, how much of a priority is buying back shares at this juncture?

Marc Parent, President, CEO & Director

I think we'd be able to kick it off. I mean we've always had the same priority that we've had with that we've prioritized the creative growth but deleveraging is post behind. So let's pick up on that one. I mean, in the end of the day, I think we've said that NCIB we would use it opportunistically and we did. But I think just today I think we reflect that where the stock is at that we thought we had better opportunities to use our cash flow a bit pick up on it, you know.

Constantino Malatesta, Interim Chief Financial Officer

Yeah, thanks Marc and good morning, Matthew. So you know we continue to talk to take a real balanced capital allocation approach, organic investments where it makes sense and older further bolstering our financial position through deleveraging. So we look at NCIB effectively like Marc said, opportunistically over time access, free cash flow. You saw in Q3, we did not purchase any additional shares because our focus is the leveraging.

Matthew Lee, Canaccord Genuity

Do you guys have a target for the year in terms of NCIB usage or you know something we can point to in that regard, or was it just more opportunistic?

Constantino Malatesta, Interim Chief Financial Officer

Absolutely. More opportunistic focus on capital allocation, looking at all opportunities depending on excess free cash flow, but definitely more of an opportunistic approach.

Matthew Lee, Canaccord Genuity

Alright, thanks.

Operator

The next question is from Cameron Doerksen from National Bank Financial. Please go ahead.

Cameron Doerksen, National Bank Financial

Yeah, thanks. Good morning. Just a quick question on working capital, obviously, you know significant positive working capital reversal in Q3. Just wondering if there's anything I guess that you are doing differently to manage your working capital flows to improve over time to something you can point to specifically that that maybe is a change in from past practices to improve cash flow from working capital?

Constantino Malatesta, Interim Chief Financial Officer

I'm gonna thank you for asking this. I'm particularly pleased with our record free cash flow generation, 4 to $10 million this quarter. I think what you're seeing here really is the direct benefit of strong execution that's especially in defence. This is allowing us to hit our billing milestones right and then the user live leverage that we have at our disposal to unlock and reduce non cash working capital to generate cash. You know, alongside continued strict inventory management, our disciplined organic investments obviously lockstep with the market. You know, this is a disciplined approach to managing your cash and it's giving us continued confidence that we will make our deleveraging commitments. So you know, I think you saw in the guidance we expect to deliver a cash conversion rate exceeding 150% in FY25 compared to our previous stated the conversion rate target without 100%. So this really is because of our focus on cash generation.

Cameron Doerksen, National Bank Financial

OK, no, that's helpful. And maybe just as a follow up, I mean on the defence side and this question for Marc, just on the future lead in fighter program in Canada, obviously you know see selected to I guess to manage that program and run cements you as the you know it's for that future program. Could you just talk a little bit about what exactly your role is here on this program and kind of what the timeline might be for this to start actually contributing financially?

Marc Parent, President, CEO & Director

Yeah. Thanks for the question, Cameron. I'm particularly very pleased of that particular announcement. I mean, this is just another really great example of just how well CAE's positioned in a growth market. So what you see here, and I can tell you and this we've been having personally these in depth discussions with the government ministers there, specifically defence, Canada is looking at stepping up government is stepping up significantly its expenditures and defence to maintain the preparedness and readiness of Canadian troops. And, basically again, that's Canada joined in the course of nations. They're doing just that. So what you see here is a definitely a shift in previous practice. This is government putting a new mechanism in place to accelerate that, the procurement of military programs. And I could tell you I I've had a very personal role in in working with governments to make that happen. And I think this is a, I would tell you, I mean, very excited about this is good for Canada's different, different seeds, good for the Canadian industry. And then, you know, in a very, very big way. And what you see here is we're becoming a key strategic partner. And what we're going to be doing here is being recognized as a strategic partner on this program. Future Flit is so essentially design and assist their project team in finalizing the procurement for requirements, accelerating the procurement process beyond anything that's done and that's been done in the past on the future fighter leading program, which of course, as I said, is going to prepare and train pilots for the transitions to the CF-35A. So you know, we had the announcement this week with the minister deposed, the minister of public works responsible for the acquisition. So I've mean, just follow what they said. You know, they've got budgeted $5 billion program at that covers position of aircraft training, courseware, procurement, instructors and on-site support for daily training delivery, you know, asset management, the base support. You know, by the way, all of the kind of stuff that we do, not only in Canada but around the world. I mean, if you look at a huge contract that we signed just recently, the FACT contract in Canada, we're doing exactly that for if you like the phases of training that or before future Flit, really to stay as to basically get very precise with regards to the timelines here. Except that we're obviously starting like immediately on this program. And the whole idea is to accelerate the procurement of this program so that the basic capability will be there when the CF35 enters service.

Cameron Doerksen, National Bank Financial

Okay then. That's great detail. Appreciate it. Thanks very much.

Marc Parent, President, CEO & Director
Thank you.

Operator

The next question is from Noah Poponak from Goldman Sachs, please go ahead.

Noah Poponak, Goldman Sachs

Hey, good morning, everyone.

Marc Parent, President, CEO & Director

Morning.

Noah Poponak, Goldman Sachs

Just wanted to go further on the civil margin. Appreciate all the detail you've provided thus far. I know you've expanded business jet capacity pretty significantly. Is that full or are you in the process of filling that such that there's a utilization you know, temporary issue in the margin? And then if we look at the aggregate acquired revenue in civil of the last five years, has that been accretive or dilutive to the margin?

Marc Parent, President, CEO & Director

And I'll turn it over to Nick. The last question. I definitely say accretive but go ahead, Nick.

Nick Leontidis, Chief Operating Officer

So, your first question. So yes, you know, we do have couple of training centres that are ramping up at the moment, namely Las Vegas and Savannah. We are as you saw from the announcement. But you know the training centre in Lake Nona is also in I would say almost at capacity. So I think there is definitely some drag that is coming from the ramp up of those two training centres and come next year, coming in April, we will be also opening Vienna. So there will be some there as well. Although Vienna will be will be ramped up quickly because we're just moving a lot of the assets that are going into Vienna initially are going to be assets that we already own and just moving around. So it shouldn't be too disruptive to the numbers themselves.

Marc Parent, President, CEO & Director

Maybe just adding to us, but just basically look at the market itself, the global business yet fleet itself is expanding the order, but deliveries of aircraft out of the visit OEM expect to be 12% higher year over year 2025 and consistent with basically previous forecast. The proportion of that, that's large jets. And I say large jets because, well, that's what we're disproportionately, that's what disproportionate amount of training we lose on large debts like they're Gulfstreams, Falcons, Global expensive, they're expected to account about 2/3 of all expenditures of new business for the next 5 years. So if you look at the market, the market, I mean that's we will see about a four. I think I'm just reading for me just the forecast here, 4.7% higher of large cabin business as forecasted between the next five years versus about 2.9% cager for medium cabin. And I think even another factor that's you know particularly important, you know for us and in concert of the SIMCOM acquisition is the fractional and charter operators. Fractionals such as Flexjet of course continue to show extremely strong performance on a year over year basis, growing much faster than the market itself. I mean, just for fractional ownership, fractional owner flight activity, to give you an example, about 65% from 2019 levels obviously prior to COVID. So and year over year, just I've been even on, it will take closer, closer take to now. I mean year over year flat fractional ownership, fractional owner operators are up 11%. And of course, all of that reflects in the amount of expenditure we made expanding our business centres like the ones that you mentioned, that Nick mentioned, Las Vegas and of course the acquisition of SIMCOM.

Noah Poponak, Goldman Sachs

So I guess without putting a specific year on it, but if we just think about the period of time in the future when you have the full utilization of the business jet expansion you've done and then you do not face you know Boeing and Airbus or delivering somewhere near demand. You don't have engines grounding airplanes, so, that market's normal. Um, again, not putting a year on it, but just in the period of time in the future when all of your inputs are relatively normalized, what do the civil margins look like?

Marc Parent, President, CEO & Director

Higher. No, look, I've been you know what I mean we're not going to get into the outlook today, but I think I said in my notes I think I used the words and I'll repeat them. I think we have ample rooms to grow beyond that for the factors that you mentioned and of course you know more absorption of overhead or the lever defect in our training centre. So I think all things being equal, I think you know the facts as you mentioned will inevitably and quite deliberately make margins go higher.

Noah Poponak, Goldman Sachs Group, Inc.

OK. And then I just also wanted to ask a little bit more about the defence margin. Did I hear correctly you say that there's only one more legacy challenged contract that rolls off in your fiscal 26?

Constantino Malatesta, Interim Chief Financial Officer

Fiscal 25 by the end of fiscal 25, there's one more that we expect to roll off.

Noah Poponak, Goldman Sachs Group, Inc.

OK.

Marc Parent, President, CEO & Director

No, that will leave, that will leave 5 contracts going into next fiscal year. We started with eight will have taken every three fiscal year and it's gonna be-

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Noah Poponak, Goldman Sachs Group, Inc.

Yeah, yeah, go ahead.

Marc Parent, President, CEO & Director

No, no, I'm just gonna ask, maybe Nick, you wanna add colour on how you feel about those type of programs?

Nick Leontidis, COO

Yeah, I mean, I think I don't see at least for now. I mean we're on track with the remainder. Some of them are out, out next, next year or whether you're after, but I mean they roll off as planned. And, you know, we feel pretty good about all the provisions that we've taken to manage the remaining work and to manage the risk with the customer. So you know, it's good that we have three out of the way, but we still have 5 and we still need to pay, pay close attention to execution on those programs. But I don't see at least at the momentm I don't see any issues.

Noah Poponak, Goldman Sachs Group, Inc.

OK. Um, understood. Thank you very much.

Marc Parent, President, CEO & Director

Thank you. Operator, we'll take just one more question as we come up on the hour.

Operator

Sounds good. Our last question is from Benoit Poirier from Desjardins Capital Markets. Please go ahead.

Benoit Poirier, Desjardins Capital Markets

Yes, good morning everyone. Just obviously on the free cash flow side better than expected. You know you provide great colour around the working cap for Q3, but when we look in terms of capital deployment, you intend to be below three time by year end. So it's gonna be a great achievement. Could you remind us your targeted level in terms of leverage longer term and given the nice inflection on free cash flow discipline around CapEx, I'm just wondering how you see capital deployment once you're at the targeted level?

Constantino Malatesta, Interim Chief Financial Officer

You know, Benoit, thanks for the question. So effectively like I said, I'm really proud of the free cash flow conversion this year, this quarter 4 to 10 million dollars. So when we look at CapEx again, it's a matter of working and talking to deploying FS on the market based on what we see and from our situation we see with our customers. We don't want to be ahead of our customers. That's the approach we have been taking. We don't deploy FS is in our marketing on spec. We invest organically to keep pace with the growth of our existing customer base. So that's why we constantly monitor the market situation. You know, we are we're taking a focused approach, pro forma leverage. You know, we want to make sure we continue to focus on investor grade performance and we're looking to be below the 2.5 times that adjusted EBITDA range by the end in the next fiscal year. So continued focus on generating free cash flow, discipline approach to CapEx, working lockstep with the market going forward.

Benoit Poirier, Desjardins Capital Markets

OK.

Constantino Malatesta, Interim Chief Financial Officer

Sorry, Benoit, really quick.

Benoit Poirier, Desjardins Capital Markets

But yeah, yeah, really quick. Just in terms of defence margin, obviously when we look at fiscal year 26, you're gonna run down further legacy contract, but also at the same time you'll be ramping up a new business that I would assume will be accretive to margin. So can you point out to some direction we might see on defence for margins for fiscal year 26? That's it.

Marc Parent, President, CEO & Director

It does sound glib, but higher obviously been well, I mean for the factors that we've talked before, I mean, but as you said we're the back, we're winning a lot of backlog here and we're replacing the new backlog as their previous to the margin target that we have you know, below double digits and I've always said that 10% you know is a waypoint noted destination. But you know we're going we're not going to get into outlook today. You saw the strong execution would be very prudent of how we execute business for obvious reasons. So look, I think that will give you as usual you know outlook as we get into next quarters.

Benoit Poirier, Desjardins Capital Markets

Thank you for the time.

Andrew Arnovitz, Senior Vice President, Investor Relations

Thanks very much to everyone joining us on the call today. I'll remind you that transcript will be available later on website and we'll talk to you after the fact should you have any additional questions.

Marc Parent, President, CEO & Director

Thanks very much.

Operator

That brings the close to today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.