REMARKS FOR CAE'S FOURTH QUARTER AND FULL FISCAL YEAR 2025

May 14, 2025

Time: 8:00 a.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Constantino Malatesta, Interim Chief Financial Officer

Mr. Nick Leontidis, Chief Operating Officer

Mr. Andrew Arnovitz, Senior Vice President, Investor Relations and Enterprise Risk Management

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Good morning, everyone, and thank you for joining us.

Before we begin, I'd like to remind you that today's remarks, including management's outlook for fiscal 26 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, May 14, 2025, and accordingly are subject to change. Such statements are based on assumptions that may not materialize and are subject to risks and uncertainties. Actual results may differ materially, and listeners are cautioned not to place undue reliance on these forward-looking statements. A description of the risks, factors and assumptions that may affect future results is contained in CAE's Annual MD&A available on our corporate website and in our filings with the Canadian Securities Administrators on SEDAR+ and the U.S. Securities and Exchange commission on EDGAR.

On the call with me this morning are Marc Parent, CAE's President and Chief Executive Officer, and Constantino Malatesta, our interim Chief Financial Officer. Nick Leontidis, CAE's Chief Operating Officer, is also on hand for the question period.

After remarks from Marc and Constantino, we'll open the call to questions from financial analysts.

Let me now turn the call over to Marc…

Marc Parent, President and Chief Executive Officer

Thanks, Andrew, and good morning, everyone.

We delivered an exceptional fourth quarter that capped a strong year across all our key financial and operational metrics. I'm very pleased with the performance and proud of how the team delivered with disciplined execution and efficient capital management.

We generated $289 million in free cash flow in the quarter, and a record $814 million for the full year, translating to a very robust cash conversion rate of 211 percent. That level of cash generation enabled us to meet our year-end leverage target, giving us a stronger financial position and increased flexibility as we look ahead.

Importantly, we also continued building momentum for long-term growth and profitability. We secured $1.3 billion in new orders in the quarter, for a record end-of-year adjusted backlog of $20.1 billion, which is up 65 percent from last year. This achievement is testament to the confidence that our customers have in CAE and the strength of demand across our markets.

Turning to our segments, I'm extremely proud of what we've accomplished, executing our strategy with dedicated focus and operational rigour.

On the Civil side, despite ongoing constraints in global aircraft supply and the temporary drop in U.S. pilot hiring, we delivered another strong quarter, demonstrating both the resilience of our business model and the strength of our global franchise. Civil achieved a record adjusted segment operating margin of 28.6 percent in Q4, and 21.5 percent for the year. Adjusted segment operating income grew six percent year over year, a particularly good result given the factors that have been holding the commercial market back from more normalized operating levels. Our backlog in Civil grew an impressive 37 percent to a record $8.8 billion, supported by $3.7 billion in new orders—including 56 full-flight simulators. During the quarter, Civil signed training and operational support solutions contracts valued at $742 million, including the sale of 14 FFSs and long-term training and airline operations digital solutions contracts.

In Defense, we accelerated our path to greater profitability. We delivered an adjusted segment operating income margin of 9.2 percent in the quarter and 7.5 percent for the year, driven by solid program execution and a near-doubling of the adjusted Defense backlog to $11.3 billion. During the quarter, Defense booked orders for $596 million, bringing the full-year total to a record $4.0 billion. It’s clear we’re gaining traction and are well positioned for continued growth in a market with significant long-term tailwinds.

With that, I’ll now turn the call over to Dino who can provide a detailed look at our financial performance. I’ll return at the end of the call to comment on our outlook. Dino?

Constantino Malatesta, Executive Vice President, Finance, and Interim Chief Financial Officer

Thank you, Marc, and good morning, everyone.

Looking at our fourth quarter results, on a consolidated basis, revenue of $1.3 billion was up 13 percent compared to the fourth quarter last year. Adjusted segment operating income was $258.8 million compared to $125.7 million last year. Quarterly EPS was 47 cents per share compared to 12 cents in the fourth quarter last year.

For the year, consolidated revenue was up 10 percent to $4.7 billion. Adjusted segment operating income was up 33% to $732.0 million, and annual adjusted net income was $385.5 million, or $1.21 per share, which is up compared to $0.87 last year.

Net finance expense this quarter amounted to $56.5 million, which is up from $52.4 million in the fourth quarter last year. I expect run-rate quarterly finance expense to be approximately $55 million in fiscal 2026, which is a bit higher than last year because of additional lease expense related to recently opened training centres in our global network in support of growth, and the financing costs associated with the consolidation of the SIMCOM joint venture in business aviation.

Income tax expense this quarter was $45.2 million, representing an effective tax rate of 25%, compared to an effective tax rate of just 14% in the fourth quarter last year. The adjusted effective tax rate, which is the income tax rate used to determine adjusted net income and adjusted EPS, was 25% this quarter compared to 47% in the fourth quarter of last year. The annual effective income tax rate in fiscal 2026 is expected to be approximately 25%, considering the income anticipated from various jurisdictions and the impact from global minimum tax legislative changes.

Net cash provided by operating activities was $322.7 million for the quarter compared to $215.2 million in the fourth quarter last year and for the year, we generated $896.5 million from operating activities compared to $566.9 million last year. This strong performance is a result of the team’s focus on execution, hitting program milestones, and being highly prudent about cash management. This effort translated into excellent free cash flow performance this year and we’re now targeting a conversion rate of 150% for fiscal 2026—and beyond. This represents a step change increase from the approximately 100% conversion rate we previously targeted and underscores the highly cash generative nature of CAE’s business.

Uses of cash involved funding CAPEX for $109.0 million in the fourth quarter and $356.2 million for the year, driven mainly by the expansion of our Civil aviation training network in lockstep with secured customer demand. These opportunities translate to some of our best returns as our simulator assets ramp up within the first few years of their deployment, reaching an average 20 to 30 percent, pre-tax, incremental return on capital employed. We remain highly focused on capital efficiency and expect total CAPEX in fiscal 2026 to be modestly lower than in fiscal 2025. This will be concentrated mainly on organic growth investments in simulator capacity to be deployed to CAE’s global network of aviation training centres, which are backed by multiyear customer contracts.

Our Net debt position at the end of the quarter was $3.2 billion, for a net debt-to-adjusted EBITDA of 2.77 times, comfortably below our end-of-year target of below three times. Consistent with our disciplined capital allocation strategy and commitment to financial resilience, we expect to further reduce net leverage to 2.5x by the end of fiscal 2026, supported by strong and sustained free cash flow generation.

Now to briefly recap our segmented performance...

In Civil, fourth quarter revenue was up 4% year over year to $728.4 million and adjusted segment operating income was up 9% year over year to $208.4 million, for a margin of 28.6%. For the year, Civil revenue was up 11% to $2.7 billion and adjusted segment operating income was up 6% to $581.5 million for an annual margin of 21.5%. Average training centre utilization was 75% for the fourth quarter, down from 78% the prior year, mainly due to the reduction in pilot hiring in the Americas related to OEM aircraft supply constraints. Utilization was 74% for the year, down from 76% the year prior. In products, we delivered 15 Civil full-flight simulators in the quarter and 61 for the year, compared to 47 deliveries in the prior year.

In Defense, fourth quarter revenue of $547.0 million was up 29% over Q4 last year. Adjusted segment operating income was $50.4 million for a 9.2% adjusted segment operating income margin. Legacy Contracts remain on track, with costs and schedules well-managed and the margin excluding Legacy Contracts was 9.9%. This compares to a negative adjusted segment operating income of $65.7 million in the fourth quarter last year. For the year, Defense revenue was up 8% at $2.0 billion, and adjusted segment operating income reached $150.5 million for an adjusted segment operating income margin of 7.5%.

Before I turn the call over to Marc, I’ll make a few comments about the potential impact of tariffs. CAE is well insulated from direct tariff impacts. Approximately 70% of CAE’s total revenue comes from services delivered within our customers’ own countries, which significantly limits our exposure to cross-border tariffs. For the U.S. market, this proportion was even higher—around 80% last year. Moreover, our flagship product, the full-flight simulator, is exempt from tariffs under the USMCA. From an enterprise risk standpoint, with roughly one-third of our workforce based in the United States, a substantial operational footprint, and an already significant U.S. bill of materials, we’re confident that we have the flexibility to effectively manage any residual risk exposure.

With that, I will ask Marc to discuss the way forward.

Marc Parent, President and Chief Executive Officer

Thanks, Dino.

Before getting into our outlook, I want to take a moment to reflect on how far we've come. Over the past few months, I've had the privilege of onboarding our new directors and our new chairman and spending time with our teams around the world, from training centers to manufacturing and engineering sites, and what I've seen confirms everything that I've always known about this remarkable company.

CAE has transformed into a purpose-driven, high-performance organization. Our mission to make the world safer isn't just words; it's really deeply embedded in who we are and what we do. Whether it's preparing pilots for complex airspace, enabling defence forces to be mission-ready, or supporting critical operations, we are there for the moments that matter.

What always strikes me most is the caliber and commitment of our people. Across 240 sites in more than 40 countries, our 13,000 employees show up every day with focus, resilience, and a deep sense of purpose. That mindset, combined with our unmatched technology, our operational excellence, and our strategic positioning, has made CAE a clear leader in this industry.

Over the last couple decades, we've evolved from an industrial products company to a global powerhouse in training and simulation. We're no longer working to meet the standard—we're defining it. And with the momentum we've built, I believe the best is still ahead.

The market has begun to recognize our progress across the business, as reflected in our stock's outperformance relative to broader North American indices. As we look ahead to fiscal 2026, we're carrying forward significant momentum, with confidence and clarity. We have an over $20.1 billion adjusted backlog, and with the financial and operational discipline we've demonstrated, we're entering the new fiscal year from a position of real strength. With continued focus on execution, innovation, and value creation, I'm confident we'll build on this foundation to deliver growth, higher margins, and stronger free cash flow.

In Civil, we remain well positioned, with strong fundamentals and solid demand across both commercial and business aviation.

Before getting into the specifics of our outlook, it's worth highlighting the recurring nature of our Civil business, which is a key reason we remain confident in its long-term resilience and growth. Recurrent training, which is required approximately every six months to maintain pilot certification, represents about 70% of total training activity. These regulatory requirements are consistent worldwide, making this portion of demand durable and relatively insulated from short-term economic volatility. The remaining 30% of training demand comes from new pilot certifications and aircraft type transitions, driven by fleet growth and pilot retirements.

In the Civil business, we also lead the market in the sale and support of full-flight simulators. While more cyclical and closely tied to aircraft deliveries, this part of the business is also supported by strong long-term fundamentals. Because of the short-term supply chain constraints that have impacted OEM aircraft output, we expect modestly lower simulator deliveries this fiscal year with a greater proportion occurring in the second half. For the year, we expect to continue winning our fair share of full-flight simulator orders.

Looking longer term, the outlook remains highly compelling. Boeing and Airbus have a combined backlog of over 17,500 aircraft, and both project the global in-service fleet to nearly double over the next 20 years. On top of that, more than 280,000 new pilots will be needed globally over the next decade to support this growth and offset retirements. These structural drivers create a clear and compelling runway for sustained growth in pilot training long-term.

In business aviation, we expect to see continued momentum as we scale operations at new training centers and ramp up recent simulator deployments. The business jet segment is benefiting from growth in the number high-net-worth individuals, strong OEM backlogs, and structural shifts toward fractional ownership. Flight activity levels in the U.S. are 15% above 2019 and fractional operators like FlexJet have seen a near 60% increase in flight hours over the same period, reinforcing the underlying demand fundamentals. Our exposure is weighted toward larger business aircraft types, which have historically demonstrated greater resilience to economic cycles—a dynamic that gives us added confidence in the current macroeconomic environment. In any event, we see no significant indications of worsening conditions at this time.

Another example of the growth and resiliency of our Civil business is our strategic expansion into air traffic controller training market—a natural adjacency that builds on our decades of experience in simulation-based training for highly regulated, safety-critical roles. This initiative has been notably capital efficient with the launch last year of our first Air Traffic Services (ATS) Training Centre in Montreal, which leverages our existing asset base and is in partnership with NAV CANADA, which manages one of the largest airspace areas in the world. A mere six months later, the centre welcomed its first students. Just over a year since announcing our entry into ATS training, CAE has now successfully trained seven cohorts of air traffic controllers and flight service specialists who have now completed their basic training and transitioned to NAV CANADA for their on-the-job training. Through this partnership, we aim to train approximately 500 personnel by 2028. Our decision to extend into this segment was driven by a clear and growing global need: by our own estimates, some 70,000 new air traffic controllers are going to be required over the next decade. Shortages, particularly in the U.S. and parts of Europe, are already putting pressure on airspace capacity and system efficiency. With our expertise in high-consequence training environments, we're well positioned to support this essential function of the aviation ecosystem, enhancing both safety and throughput while adding a new, durable revenue stream to CAE's Civil portfolio.

For Civil overall, we're taking a measured view of the first half of fiscal 2026 as we monitor broader macroeconomic conditions and OEM aircraft delivery rates. In terms of our quarterly cadence in Civil, we expect this fiscal year to begin much like last year in both revenue and margins, with performance building progressively toward a stronger second half, driven by increased training activity and product deliveries. For the year ahead, we expect segment operating income to grow in the mid- to high-single-digit percentage range with a modest increase in the annual adjusted segment operating income margin.

In Defense, CAE is well positioned to benefit from a sustained global up-cycle in military spending. The European Commission recently introduced the ReArm EU program, targeting €800 billion in defence investment by 2030, and could potentially be even greater with proposed fiscal rule exemptions. Across NATO and allied nations, including a notably stronger commitment from Canada, increasing defence budgets are driving demand for the advanced training and simulation solutions where CAE has clear competitive differentiation.

We’ve built a strong franchise in Canada over the past several years, with major program wins and extensions including FAcT contract, the RPAS contract, fixed-wing search and rescue, NFTC, and CF-18 systems engineering support contract. The Canadian federal government plans to nearly double its annual defence spending—from approximately $40 billion to over $80 billion—by 2032. In light of this substantial growth opportunity and the scale of our current program base, we’ve recently evolved our Defense organizational structure to establish Canada as a standalone region, with its own dedicated P&L leader alongside our U.S. and International segments. This change reflects the growing strategic importance of the Canadian defence market and our leadership position within it, while also enabling our International team to sharpen its focus on broader global opportunities.

We’re immensely proud to have been ranked once more as Canada’s top defence company by Canadian Defence Review magazine, marking the third time that CAE has received this honour. To me, this recognition highlights our commitment to advancing global defence capabilities through cutting-edge training solutions, ensuring we remain a trusted ally in the pursuit of security and operational readiness.

Our aim is to be Canada’s premier training partner and one clear validation of the progress we’re making came in February, when CAE was named a strategic partner to the Government of Canada for the Future Fighter Lead-in Training program. Under this initiative, we’ll design and co-develop the next generation of training for Royal Canadian Air Force fighter pilots—supporting Canada's 5th Generation fighter readiness and reinforcing our leadership in high-consequence training and mission support.

This is just one example of the long-term, high-value opportunities we see unfolding, and it highlights CAE's growing role in strengthening the capabilities of Canada and its allies. With a Defense backlog that's nearly doubled year over year and a solid foundation of program execution, we expect continued progress toward reaching our goal of a low-double-digit percentage margin and above market long-term growth.

Specifically for the year ahead, we expect the Defense to have low-double-digit percentage annual adjusted segment operating income growth and an annual segment operating income margin in the 8 to 8.5 percent range.

To sum up, CAE is entering fiscal 2026 from a position of strength. CAE remains both a highly compelling long-term growth story and at the same time, a very good port in a storm. We've built a resilient, high-performing company—one that's winning in the market, delivering for customers, and creating long-term value for shareholders. We bring together all the hallmarks of an excellent company: a record order backlog, deep customer intimacy, strong competitive differentiation, a high proportion of recurring revenue and cash flow, and exposure to secular growth markets. Our focus remains squarely on innovation and delighting our customers, coupled with capital efficiency, operational excellence, and disciplined execution.

Lastly, as we manage a planned CEO transition later this summer, the board and I are committed to a smooth and seamless handover. The process to identify the next CEO is well underway, and we're confident it will result in a leader who will carry forward CAE’s strategy, culture and momentum. I feel very good about our strong foundation, deep leadership team, and clear path ahead. CAE is exceptionally well positioned for continued success and sustainable growth well into the future.

With that, I thank you for your attention. We’re now ready to answer your questions.

Andrew Arnovitz, Senior Vice President, Investor Relations and Strategy

Thanks, Marc. Operator, we would now be pleased to take questions from financial analysts.