REMARKS FOR CAE'S SECOND QUARTER FISCAL YEAR 2025

November 13, 2024

Time: 8:00 a.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Constantino Malatesta, Interim Chief Financial Officer

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

<u>Andrew Arnovitz, Senior Vice President, Investor Relations and Enterprise Risk Management</u>

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 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, November 13, 2024, 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+ at www.sedarplus.ca and the U.S. Securities and Exchange Commission on EDGAR at www.sec.gov.

With the divestiture of CAE's Healthcare business in fiscal 2024, all comparative figures discussed here, and our financial results have been reclassified to reflect discontinued operations.

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 on hand for the question period with financial analysts.

I’m sure you’ve all seen by now the news release we issued yesterday afternoon that accompanied our Q2 results, that after 20 years at CAE, including the last 15 as President and Chief Executive Officer, and after spearheading the making of CAE as a global leader in training for simulation, civil aviation and defence and security forces, Marc Parent will be leaving the company at next year’s Annual General Meeting in August 2025, as part of an ongoing succession plan. Until this time, Marc will continue to lead CAE in his role as CEO.

The Board of Directors has retained a leading executive search firm to conduct a comprehensive global search, which will include evaluating internal and external candidates, to identify a new CEO to lead the Company into the future. The Human Resources Committee of the Board will oversee the search process with support and assistance from Marc.

On behalf of all of us at CAE, I’d like to say that we’re incredibly grateful for Marc’s exemplary leadership. His lasting impact on CAE and on the aerospace industry are unanimously recognized, and we look forward to continuing to benefit from his leadership until next year’s AGM.

With that I will turn the call over to Marc…

<u>Marc Parent, President and Chief Executive Officer</u>

Thank you, Andrew for those kind words, and good morning to everyone joining us on the call.

As Andrew said, today is business as usual, and I do want to stay focused on the quarterly results. But, you know, this is a big moment for CAE and for me personally, so I will take just a moment to say that it has been the privilege of a lifetime to lead this company. I can't tell you how proud I am of what our team has accomplished and I'm very thankful for all the support I've received.

Thanks to our extraordinary people at CAE, we can proudly say that over the last couple of decades, we've reshaped the aerospace industry by creating something truly unique. CAE trains more pilots than anyone else in the world—by far, and by leveraging technology, we've prepared countless people for the moments that matter and fulfilled our mission to make the world safer.

This is the right time for a transition process. And as our financial performance shows, which we'll get to in just a moment, we're in a solid financial position, our markets are on a long-term growth trajectory, and our competitive position in each is strong. Our innovative technology and our outstanding people now set the standard for training and safety worldwide and I'm confident that CAE has a very bright future ahead.

Now turning to the business at hand and the second quarter.

Our performance in the second quarter reflects strong demand for our Civil and Defense market solutions, and despite some of the challenges we faced in commercial aviation from OEM aircraft supply disruptions, we achieved solid results. Additionally, we extended our positive trend in Defense this quarter, with growth and margin enhancements that are largely attributable to our dedication to focus, customer centricity, and operational excellence across all of CAE's P&Ls. Highlighting our strong position in growth markets, we secured nearly $3 billion in total orders this quarter, bringing our adjusted backlog to a record $18.0 billion, which is up over 50% compared to a year ago.

In Civil, we delivered 18 full-flight simulators to customers during the quarter, and our average training centre utilization was 70 percent, a decrease of one percentage point compared to the previous year. This quarter, we experienced year-over-year growth in business aviation training, commercial training in Asia-Pacific, and simulator products. However, mainly due to OEM aircraft supply disruptions, U.S. pilot hiring remained low during the quarter, impacting the incremental pilot training demand we would have expected under more normal conditions. Overall, commercial aviation training utilization was approximately three percentage points lower than last year on average, which is still very good, but it would have been even stronger if not for the temporary pressures on initial training and pilot churn in the Americas.

We continued to deliver strong order flow in the quarter in a large secular growth market with CAE’s highly differentiated training and flight operations software solutions.

We booked $693 million in orders with Civil customers worldwide for a 1.08 times book-to-sales ratio, on revenue that's 12% higher than Q2 of last year. We ended the quarter with a record $6.7 billion total Civil adjusted backlog, which is up 13% year over year. We received orders for 16 full-flight simulators in the quarter, including four based on the COMAC C919, and we signed long-term training services and Flight Operations Solutions contracts with commercial and business jet operators worldwide.

In **Defense**, performance continued to track our expectations, driven by strong execution, risk retirement, significant backlog growth, and improving backlog quality. We made excellent progress during the quarter to renew growth and increase margins, including successfully concluding one of our Legacy Contracts from the backlog and securing a $1.7 billion transformative award under Canada's Future Aircrew Training Program. For the quarter, we recorded orders worth $2.3 billion, resulting in a 4.6 times book-to-sales ratio, leading to a record $11.4 billion in Defense adjusted backlog. This is up approximately 94 percent year over year. Over the past 12 months, the Defense book-to-sales ratio was 2.04 times.

With that, I'll now turn the call over to Dino who will provide additional details about our financial performance. Dino?

Constantino Malatesta, Interim Chief Financial Officer

Thank you, Marc, and good morning, everyone.

Consolidated revenue of $1.14 billion was 8% higher compared to the second quarter last year while **adjusted segment operating income** was $149.0 million, compared to $135.6 million in the second quarter last year. Our quarterly **adjusted EPS** was 24 cents compared to 26 cents in the second quarter last year.

We incurred **restructuring, integration and acquisition costs** of $30.9 million during the quarter. This is comprised of $5.1 million for the now completed integration of AirCentre and $25.8 million in connection with the restructuring program to streamline CAE's operating model and portfolio, optimize our cost structure and create efficiencies. This restructuring program was also completed in the second quarter and no further restructuring expenses are expected. The conclusion of these programs is beneficial to the company's free cash flow profile going forward. Also, we continue to expect to fully achieve annual run rate cost savings of approximately $20 million by the end of next fiscal year.

Net finance expense this quarter amounted to $52.9 million, which is up from $49.5 million in the preceding quarter and $47.1 million in the second quarter last year. This is mainly the result of higher finance expense on lease liabilities in support of training network expansions, partially offset by lower finance expense on long-term debt due to a decreased level of borrowings during the period.

Income tax expense this quarter was $10.4 million, for an effective tax rate of 16%. The adjusted effective income tax rate was 18%, which is the basis for the adjusted EPS.

Net cash from operating activities this quarter was $162.1 million, compared to $180.2 million in the second quarter of fiscal 2024. **Free cash flow** was $140.0 million compared to $147.4 million in the second quarter last year. The decrease was mainly due to a lower contribution in non-cash working capital. As in previous years, we usually expect a portion of our non-cash working capital investment in the first half to reverse in the second half. We also continue to target an average 100% conversion of adjusted net income to free cash flow for the year.

Capital expenditures totaled $57.0 million this quarter, with approximately 65 percent invested in growth, mainly to add capacity to our global training network to deliver on the long-term training contracts in our backlog. We are now expecting total CAPEX for fiscal 2025 to be slightly below our previously estimated range, which was indicated at $50 to $100 million higher than the $330 million we invested in fiscal 2024. This change reflects the agility of our investment process and our ability to move in lockstep with the market.

Our **Net debt** position at the end of the quarter was approximately $3.1 billion, for a net debt-to-adjusted EBITDA of 3.25 times at the end of the quarter. Before the impact of Legacy Contracts, net debt-to-adjusted EBITDA was 2.97 times. Our increased investment in SIMCOM does not change our leverage expectations. We continue to expect to be below 3 times net debt-to-adjusted EBITDA by the end of the fiscal year and our deleveraging focus remains the same.

During the quarter, CAE repurchased and cancelled a total of 392,730 common shares under its normal course issuer bid (NCIB), which began on May 30, 2024, at a weighted average price of $24.43 per common share, for a total consideration of $9.6 million.

Now turning to our segmented performance...

In Civil, second quarter revenue grew 12% year-over-year to $640.7 million, while adjusted segment operating income rose 1% to $115.9 million, resulting in an 18.1% margin. With 18 FFS deliveries, this quarter saw a notable shift in revenue mix, with a higher proportion from products compared to last year when we delivered 11.

Defense revenue rose 4% to $495.9 million, while adjusted segment operating income increased 55% to $33.1 million, delivering a 6.7% margin—right on target, thanks to strong execution from the team. Legacy Contracts remain on track, with costs and schedules well-managed. As planned, we concluded one Legacy Contract this quarter and are on track to finalize another one next quarter, with yet another following in the quarter after. This quarter, Legacy Contracts contributed around 30 basis points of margin dilution; without this impact, the adjusted segment operating income margin for Defense would have been 7%.

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

Marc Parent, President and Chief Executive Officer

Thanks, Dino.

For CAE overall, a key factor driving long-term demand in both our Civil and Defense segments is the high level of demand for pilots and pilot training to manage growth and replace those retiring.

The outlook for aviation training solutions in **Civil** is as strong as ever, driven by growth in air travel, the need for more pilots, and the requirement for continuous training to keep up with evolving aviation technologies and regulations. Our business is largely supported by the regulated training pilots and crews need to maintain certification for the global fleet of commercial and business aircraft, and this will only compound as the in-service commercial jet fleet roughly doubles within two decades. Factors like the aging pilot workforce, mandatory retirements, and sustained growth in air travel solidify our long-term confidence in CAE's future.

OEM aircraft supply disruptions intensified with recent labour disputes, but with that now positively resolved, we believe the airline industry can now begin to gradually recover from these narrowbody supply challenges, with some relief expected in the coming period as grounded aircraft return to service and new aircraft delivery rates eventually rise. Underscoring the temporary nature of these supply problems, Boeing and Airbus have a combined order backlog of nearly 15,000 aircraft, amounting to about a decade’s worth of deliveries.

With regards to business aviation specifically, I'm thrilled about the agreement announced last week to purchase a majority stake in our SIMCOM joint venture. This strategic organic investment strengthens our position in the core business aviation training market, boosts recurring revenue, and deepens our commitment to delivering top-tier training solutions for a vital customer segment. Under this agreement, both CAE and SIMCOM have also extended our exclusive business aviation training partnerships with Flexjet and its affiliates by an additional five years, securing a 15-year exclusivity period. This long-term agreement functions like an outsourcing arrangement with one of the world's premier luxury private jet companies, giving CAE increased exposure to the rapidly growing fractional jet and charter aviation markets. We anticipate this investment will be accretive to both earnings and free cash flow in our first full year going forward.

Regarding our Civil outlook, disruptions in aircraft supply have indeed impacted an incremental portion of the demand we normally see in our commercial aviation training division. Consequently, we've implemented measures to enhance operational efficiency and mitigate the decrease in training demand. Despite a persistently low pilot hiring levels in the United States, training bookings for our third and fourth quarters are higher, reinforcing our expectation for a stronger performance in the latter half of the fiscal year. Additional factors that underlie our expectations for a stronger second half include, the seasonal improvements in commercial and business aviation, accretion from our increased investment in SIMCOM, and an uptick in volume and profitability from full-flight simulator deliveries.

On balance, we're maintaining our target of approximately 10 percent annual growth in Civil adjusted segment operating income for fiscal 2025 and we continue to expect an annual Civil adjusted segment operating income margin to be between 22 and 23 percent, with ample room to grow beyond that on volume, efficiencies and mix.

In **Defense**, we're well positioned in a growth market, as the sector moves into a prolonged up-cycle with increased budgets across NATO and allied nations. Rising geopolitical tensions are driving a focus on near-peer threats, defence modernization, and readiness, fueling demand for the training and simulation solutions we offer. Our expertise spanning civil aviation and defence uniquely equips us to meet these needs.

Demand for our training solutions remains strong, driven by a global shortage of uniformed personnel, prompting militaries to partner with CAE to support readiness. By leveraging our position on programs like the Canadian FAcT, we aim to advance multi-domain training in secure synthetic environments across our global network. The foundation is solidly set for renewed growth and margin expansion in our Defense business in the coming period. We've strengthened our processes, sharpened our strategy, and enhanced our talent to improve efficiency and execution. Meanwhile, we've achieved transformative growth in our backlog of high-quality programs.

Our fiscal 2025 Defense outlook reflects the business's re-baselining and the improved visibility it provides. We anticipate annual revenue growth in the low- to mid-single digits and expect Defense adjusted segment operating income margin to increase to the 6%–7% range, with performance, like Civil, weighted more toward the second half of the year.

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

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

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