REMARKS FOR CAE'S THIRD QUARTER FISCAL YEAR 2025

February 14, 2025

Time: 8:00 a.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Constantino Malatesta, Executive Vice President, Finance, and 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 today.

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, February 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 and MD&A for the three months ended December 31, 2024, 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 on hand for the question period.

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

Before we begin, I'm sure you've all seen the news release we issued yesterday afternoon alongside our Q3 results. It announced the appointment of four new directors to CAE's Board, with Calin Rovinescu as the new Chair . The other appointees are Peter Lee, Katherine A. Lehman and Louis Têtu.

These changes come after consultations with our stakeholders, focusing on the Board's ongoing review of its composition, and a transition towards renewed Board leadership.

The four appointments are being made in conjunction with the retirement of four directors: Alan N. MacGibbon, who has served as Chair of the Board since 2022 and as a director since 2015; Margaret S. (Peg) Billson; François Olivier; and David G. Perkins. We extend our gratitude for their exceptional service and valuable contributions during their tenure, and we look forward to welcoming our new Board members to CAE.

Let me now turn the call over to Marc…

Marc Parent, President and Chief Executive Officer

Thank you, Andrew, and good morning to everyone joining us on the call.

Let me first say that I certainly echo Andrew's comments, and in particular, I want to express my heartfelt gratitude to Alan for his steadfast leadership and commitment to our shared vision for CAE. I'm also grateful to the other departing board members, François, Peg and David, for their continued support and advice through the years. As we embark on the next chapter, I'm looking forward to working with our new board members in the coming months and I'm confident that together, we will continue to build on our successes.

Before I move on to our quarterly results, I also want to take a moment to share how proud I am that CAE has been recognized as one of Canada's Top 100 Employers for the third consecutive year and has earned a spot on Forbes' Canada's Best Employers list for 2025. These honors reflect the collaborative, innovative, and empowering culture that we've built at CAE—made possible by the dedication of our 13,000 employees.

This strong foundation of talent and commitment continues to drive our success, as reflected in our outstanding third-quarter performance. During this quarter, we generated a record $410 million in free cash flow while further securing CAE's future with $2.2 billion in new orders—culminating in a record adjusted backlog of $20.3 billion.

In Civil, we finalized the purchase of an increased stake in our SIMCOM joint venture and extended our exclusive, long-term training agreement with FlexJet and its affiliates—initiatives that generated more than $500 million in additional order intake and backlog in our highly desirable business aviation training segment. In total for Civil, we booked $1.5 billion in orders for a 2-times book-to-sales ratio, on revenue that's 21% higher than Q3 of last year. We ended the quarter with a record $8.8 billion total Civil adjusted backlog, which is up 44% year over year.

In products, we received orders for 15 full-flight simulators bringing the total to 42 as of the end of the third quarter. We delivered 20 full-flight simulators this quarter—a notable increase from our first half cadence and from 13 in the same quarter last year.

Combined commercial and business aviation training centre utilization reached 76%, consistent with last year's performance, although some softness persisted longer than we expected in commercial aviation training in the Americas. Pilot hiring remained modest in that region and some of our airline customers deferred their training bookings due to ongoing short-term aircraft supply chain challenges. Partially offsetting this headwind was the continued positive momentum in business aviation training, driven by higher utilization and profitability as we ramped up our newly deployed simulators and training centres.

We also continued to make excellent progress in the market for our Flight Services software solutions. We signed orders for more than $60 million with major airlines in the Americas and Asia, and we just announced Turkish Airlines as another customer who will be adopting CAE's next-generation Unified Task Board and Crew Management solutions. The market is responding positively to this CAE innovation, which provides airline operations control centres with enhanced situational awareness and disruption management capabilities.

We also proudly inaugurated our first Air Traffic Services Training Centre in collaboration with NAV CANADA. Located on our main campus in Montreal, this newly opened training centre extends CAE's core mission of making the world safer. As a pilot, I can personally attest to the vital role that clear, effective communication between flight crews and air traffic control personnel plays in ensuring the safety of every flight. By leveraging CAE's expertise in competency-based training design, advanced instructional delivery, and data-driven technologies, we are helping to prepare the next generation of air traffic professionals for this critical responsibility.

In **Defense**, performance tracked ahead of our expectations as we made more progress toward becoming a low double-digit margin business. This was driven by strong execution, risk reduction, significant backlog growth, and improving backlog quality. During the quarter, we made excellent strides in advancing growth and expanding margins, including successfully completing another Legacy Contract from our backlog—our second this year.

Orders included a contract under the Canadian Future Aircrew Training Program, option awards to extend our support for U.S. Army Fixed Wing training and the KC-135 program for the U.S. Air Force, and ongoing modifications and updates for F-16 fighter training devices. These agreements reinforce our commitment to the long-term success of our defence customers.

For the quarter, we recorded a total $707 million in Defense orders, achieving a book-to-sales ratio of 1.50 times, contributing to a record $11.5 billion in Defense adjusted backlog—up 104% year over year. Over the last 12 months, the Defense book-to-sales ratio stood at an impressive 2.19 times.

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

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

Thank you, Marc, and good morning, everyone.

Consolidated revenue of $1.22 billion was 12% higher compared to the third quarter last year while **adjusted segment operating income** was $190.0 million, up 31% compared to $145.1 million in the last quarter . Our quarterly **adjusted EPS** was 29 cents compared to 24 cents in the third quarter last year.

Net finance expense this quarter amounted to $56.6 million, which is up from $52.9 million in the preceding quarter and $52.4 million in the quarter last year. The higher level of finance expense is mainly the result of higher lease liabilities in support of training network expansions and additional borrowings to finance the SIMCOM transaction this quarter. This was partially offset by lower finance expense on long-term debt due to a decreased level of borrowings during the period aligned with our ongoing deleveraging objectives. All things considered, we now expect net finance expense for the year to be approximately $10 million higher than last year.

Income tax expense this quarter was $34.8 million, for an effective tax rate of 17%. The adjusted effective income tax rate was 29%, which is the basis for the adjusted EPS. We continue to expect a run-rate effective income tax rate of 25%.

I'm especially pleased with our strong cash flow performance this quarter. **Net cash from operating activities** was a record $424.6 million, compared to $220.8 million in the third quarter of fiscal 2024. **Free cash flow** was a record $409.8 million compared to $190.0 million in the third quarter last year. The increase was mainly due to a higher contribution from non-cash working capital and higher net income. All told, we expect to generate strong free cash flow for the year with a conversion of adjusted net income of over 150 percent, which is an increase from our previous conversion target of approximately 100%.

Capital expenditures totaled $97.6 million this quarter, with approximately 80 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 expect total CAPEX for fiscal 2025 to be approximately $30 million higher than fiscal 2024 CAPEX of $330 million, which is lower than our previous expectations.

Our **Net debt** position at the end of the quarter was approximately $3.4 billion, for a net debt-to-adjusted EBITDA of 3.36 times. Before the impact of Legacy Contracts, net debt-to-adjusted EBITDA was 3.08 times. We remain focused on further strengthening our financial position and continue to expect to be below 3 times net debt-to-adjusted EBITDA by the end of the fiscal year.

Now turning to our segmented performance...

In Civil, third quarter revenue grew 21% year-over-year to $752.6 million, while adjusted segment operating income rose 21% to $150.8 million, resulting in an 20.0% margin. This excludes a net remeasurement gain of $72.6 million on our SIMCOM transaction, which effectively marked up our previously held equity interest in the joint venture to fair value. As Marc highlighted earlier, with 20 FFS deliveries, this quarter saw a notable shift in revenue mix, with a higher proportion from products compared to last year.

Defense revenue remained stable at $470.8 million, while adjusted segment operating income increased 88% to $39.2 million, delivering an 8.3% margin, thanks to strong execution from the team and lower net R&D expenses. Legacy Contracts remain on track, with costs and schedules well-managed. As planned, we concluded another one of our Legacy Contract this quarter and are on track to finalize a third one at the end of the fiscal year. This quarter, Legacy Contracts contributed around 70 basis points of margin dilution; without this impact, the adjusted segment operating income margin for Defense would have been 9.0%.

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

Marc Parent, President and Chief Executive Officer

Thanks, Dino.

The investment thesis for CAE remains as compelling as ever, and our record-setting $20 billion backlog reinforces my confidence in the company's bright future. A common driver across both our Civil and Defense segments is the sustained, high demand for pilots and pilot training—both to support industry growth and to replace retiring personnel. We're in an excellent position in strong markets, and these structural factors continue to fuel long-term demand for our training and operational support solutions.

In Civil, while commercial OEM aircraft supply disruptions have persisted, recent optimism surrounding production rate recovery and the return to service of aircraft that have been grounded by engine issues, is encouraging. Although some airline customers in the Americas deferred initial training reservations this quarter, those same airlines are now actively engaging with us to plan the timing and scale of their pilot hiring ramp-up and associated training needs. This is not a question of if, but when. Looking ahead, the demand for air travel, ongoing pilot retirements, and the delivery of nearly 15,000 aircraft from Boeing's and Airbus's combined backlogs over the next decade position us as a key player in a long-term secular growth story. Similarly, the outlook for business aviation training remains highly positive, especially as we continue strengthening our presence in this critical segment. Building on our increased investment in SIMCOM, Flexjet—one of the world's largest fractional jet operators—announced last week a $7 billion aircraft order and projected fleet expansion to approximately 600 aircraft by 2031. This move underscores the accelerating shift toward fractional jet ownership, which has been growing much faster than the overall market. As Flexjet's exclusive training partner, CAE is well positioned to benefit from this industry growth.

In Defense, demand for our training solutions remains robust, driven by a global shortage of uniformed personnel, prompting militaries to turn to CAE to support readiness. We are well positioned in a strengthening market as the sector enters a prolonged growth cycle, with rising budgets across NATO and allied nations. Geopolitical tensions and evolving security threats are driving defence modernization efforts, increasing the need for the training and simulation solutions that we provide.

These factors are creating substantial growth opportunities for CAE as governments and defence forces seek innovative solutions to enhance mission readiness and operational effectiveness. A prime example is the strategic partnership we announced yesterday between CAE and the Government of Canada. Through this partnership, CAE will leverage its deep expertise to work alongside the Royal Canadian Air Force (RCAF) in designing and co-developing the Future Fighter Lead-in Training (FFLIT) program. This initiative will play a critical role in preparing pilots for the transition to Canada's next-generation fighter jets, ensuring the long-term success of the CF-35A program. By integrating cutting-edge technology and advanced training methods, FFLIT will equip fighter-pilot candidates with the skills required to operate the highly sophisticated CF-35A in an increasingly complex operational landscape.

Looking ahead to the remainder of the fiscal year, in Civil, the ramp up of commercial aircraft deliveries is taking longer than expected and this is a key driver of initial training demand for newly hired pilots. With the short-term impact this is having on incremental training demand in the Americas, we now expect annual Civil adjusted segment operating income growth to be modestly below our previous outlook of approximately 10%. Also, since product deliveries are expected to account for a higher proportion of Civil revenue than initially planned, we expect the annual Civil adjusted segment operating income margin to be modestly below our previously expected range of 22 to 23 percent. Looking beyond this period, we continue to foresee ample room for margin expansion in future years on volume, efficiencies and mix.

In Defense, with the benefit of our re-baselining last fiscal year and the higher cadence and quality of execution, we now expect to achieve high-single-digit percentage revenue growth for the year, which is up from our previous expectations in the low- to mid-single-digit percentage range. We're also expecting the annual Defense adjusted segment operating income margin to be modestly above the previously indicated range of 6- to 7-percent. This puts us solidly on the path to becoming a low double-digit margin business.

Taking our Civil and Defense outlook together, we remain on track to meet our previously stated three-year EPS target while achieving strong order intake, backlog, and free cash flow.

With that, I thank you for your attention and 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.