REMARKS FOR CAE'S FOURTH QUARTER AND FULL FISCAL YEAR 2023

May 31, 2023

Time: 2:00 p.m. ET

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Ms. Sonya Branco, Executive Vice President, Finance, and Chief Financial Officer

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

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Good afternoon, 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 for FY24 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, May 31, 2023, 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.sedar.com and the U.S. Securities and Exchange commission on EDGAR at www.sec.gov.

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Sonya Branco, our Chief Financial Officer.

After remarks from Marc and Sonya, we'll open the call to questions from financial analysts. At the conclusion of that segment, we'll open the lines to members of the media.

Let me now turn the call over to Marc…

Marc Parent, President and Chief Executive Officer

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

I'm pleased with CAE's accomplishments in fiscal 2023, having seized opportunities to expand our position in growing markets with our digitally immersive training and operational support solutions. We did so, while navigating through some macroeconomic and legacy-related challenges, and over the course of the year, we delivered sequentially stronger quarterly results. We had an excellent fourth quarter, with over 40 percent adjusted segment operating income growth, leading to 23 percent growth for the year as a whole. As a testament to quality, we generated strong free cash flow with 120% conversion of annual adjusted net income. We also expanded our global reach and secured future growth with a record $5.0 billion in annual orders, for a record $10.8 billion adjusted backlog.

In Civil, we launched several new training centres and deployed 23 full-flight simulators during the year to our global network to support the major customer outsourcing agreements we secured in the U.S., Europe and Australia, and the increased pilot training demand across all segments of aviation. Exemplifying our more efficient cost structure, we eclipsed prior peak Civil margins even before the market fully recovers to pre-pandemic levels in key regions like Asia. We also booked a record $2.8 billion in annual Civil orders for a 1.3 times book-to-sales ratio, demonstrating the sustained high demand for pilot training solutions and our next generation digital flight services. These included comprehensive, long-term training agreements with airlines and business jet operators worldwide and a total of 62 full-flight simulator sales for the year. We also made excellent progress expanding our reach in digital flight services with the ongoing integration of AirCentre and the adoption of our Next Generation solutions by our longstanding airline customers. Civil concluded the year with a record adjusted backlog of $5.7 billion.

Among the more notable developments for Civil in the quarter was the announcement of our joint venture with AEGEAN, Greece's largest airline. The new centre is expected to begin pilot and cabin crew training by the end of 2023 and will be the most advanced flight training hub in Southeastern Europe powered by green energy. Since the end of the quarter, we inaugurated our Las Vegas business aviation training centre and we announced plans for another new business aviation training facility, this time in Vienna as our base in Central Europe, slated to open in the second half of calendar 2024.

Fourth quarter average training centre utilization was strong at 78%, which is up from 69% for the same period last year. For the year, utilization was 72%, which is up from 60% the year prior. Training demand in the Middle East was the strongest in the quarter, followed by the Americas and Europe. Asia has been recovering rapidly since the start of the fiscal year with Q4 training centre utilization substantially improved in that region. In business aviation, training demand was also strong, reflecting the high level of training demand and pilot turnover in that segment. In products, we delivered 17 Civil full-flight simulators in the quarter and 46 for the year, compared to 30 deliveries in the prior year.

In **Defense**, we made good progress fueling our multi-year transformation with a record $2.0 billion of annual adjusted order intake, involving training and simulation solutions for a 1.10 times book-to-sales ratio. This contributed to a $5.1 billion adjusted Defense backlog. In the quarter, we had orders totaling $565 million, including a U.S. Navy Foreign Military Sale to Korea for an MH-60R Tactical

Operational Flight Trainer, as well as extensions and expansions with the U.S. Army for fixed-wing flight training at the CAE Dothan Training Center, and with the U.S. Air Force for Initial Flight Training at the CAE Pueblo Training Center. We also entered a new agreement for comprehensive training and support services under the Australian Defence Force ASIST program.

A few of our more recent wins since the end of the quarter, really serve to underscore the progress that’s being made to renew our Defense backlog with larger and more profitable programs. As an example of our continued growth and capabilities in connection with U.S. Army aviation, Defense was awarded a contract to support Flight School Training Support Services (FSTSS) at Fort Novosel, Alabama. FSTSS is the world’s largest helicopter simulation training program, and our US$455-million contract is for training and simulation capabilities that will be used to prepare initial entry-level and graduate-level rotary wing flight training. By leveraging our expertise from our Civil Aviation training outsourcing business model, we will be building and deploying CAE owned full-flight simulators over the contract term for the CH-47F and UH-60M platforms to meet the U.S. Army Aviation Center of Excellence’s rotary wing simulation services requirements.

Also building on our prominent flight training position in lower Alabama, Defense was competitively awarded the U.S. Air Force’s Rotary Wing, Introductory Flight Training (IFT-R) contract, worth a maximum value of approximately US$111 million over the total contract term. Under the IFT-R contract, we’ll be leveraging our existing training centre in Dothan, Alabama.

Another favourable development that supports future growth was the affirmation in early April of the Bell V-280 Valor in selection for the U.S. Army's Future Long Range Assault Aircraft (FLRAA). This is noteworthy because CAE is part of Team Valor and is a key partner in the provision of training and simulation solutions for this NextGen platform.

These program awards and developments demonstrate our expanded market reach with national defence departments and OEMs. We're able to achieve this by leveraging Defense's enhanced capabilities and scale vertically, and by drawing technology, processes, and people laterally across the whole CAE enterprise. These are prime examples of the kinds of larger and more differentiated programs that will drive the multi-year Defense transformation that is currently under way.

Turning now to **Healthcare**, we gained share in the simulation market and continued to deliver double-digit revenue growth with our dynamic team and highly innovative solutions. Here too, we have been harnessing the power of our 'One CAE' mindset with a joint Civil and Healthcare presentation on the parallels between aviation and healthcare training to elevate quality and safety. Our teams recently collaborated at the industry's largest simulation event, the International Meeting of Simulation in Healthcare, and is a great demonstration of CAE's unique culture.

Before turning the call over to Sonya, I want to highlight a notable development on the **technology application front**, which is a real-world example of what we mean when we say that we're revolutionizing aviation training in Civil and Defense markets.

We conducted a field study with the Japan Air Self-Defense Force (JASDF) to validate the potential for more effective training by leveraging CAE’s latest Virtual Reality and Artificial Intelligence-enabled Digital Solutions. The study revealed a near full grade of proficiency score improvement across all JASDF participants. Our innovative training solution incorporated CAE Rise, which we originally conceived for Civil aviation, to provide more effective training through real-time objective assessment. It also included Defense’s patented biometric feedback technology, enabling instructors to modulate complexity based on students’ stress, engagement, and cognitive workload levels. These data-driven and A.I.-enabled technologies are important building blocks that will drive greater levels of training efficacy and safety. With these CAE innovations, we expect to further widen our competitive moat, unlocking a greater share of our addressable markets and developing new revenue streams.

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

<u>Ms. Sonya Branco, Executive Vice President, Finance, and Chief Financial Officer</u>

Thank you, Marc, and good afternoon, everyone.

Looking at our results, on a **consolidated basis, revenue** of $1.3 billion was up 32 percent compared to the fourth quarter last year. **Adjusted segment operating income** was $201.9 million, compared to $142.7 million last year. Quarterly **adjusted net income** was $110.9 million, or 35 cents per share, compared to 29 cents in the fourth quarter last year.

For the year, consolidated revenue was up 25 percent to $4.2 billion. **Adjusted segment operating income** was up 23% to $548.1 million, and annual **adjusted net income** was $279.2 million, or $0.88 per share compared to $0.84 last year. We incurred restructuring, integration and acquisition costs of $15.3 million during the quarter, related mainly to the integration of AirCentre, acquired last year.

Net cash provided by operating activities was $180.6 million for the quarter compared to $206.8 million in the fourth quarter last year, and for the year, we generated $408.4 million from operating activities compared to $418.2 million last year. We had strong **free cash flow** in the quarter of $172.0 million and $335.7 million for the year, for an annual cash conversion rate of 120%. We continue to target an average of 100% conversion rate going forward.

Uses of cash involved funding **capital expenditures** for $62.9 million in the fourth quarter and $268.8 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. With a record order backlog and the large number of agreements we announced over the last year to secure airline outsourcings and training network expansions in commercial and business aviation, we are expecting a higher level of organic growth investment in fiscal 2024. We currently expect total CAPEX to be approximately $50 million higher than last year, mainly in support of these accretive investments.

Our **net debt** position at the end of the quarter was $3.0 billion, for a net debt-to-adjusted EBITDA of 3.4-times. This compares to net debt of $3.1 billion and 3.7-times net debt-to-adjusted EBITDA at the end of the preceding quarter. Our leverage ratio has been improving rapidly since the middle of fiscal 2023, and we continue to expect it to be below three times by mid-fiscal-year 2024, taking into consideration our expanding EBITDA and ongoing funding of the aforementioned accretive organic growth investments.

Income tax expense this quarter was $33.3 million, representing an effective tax rate of 25%, compared to 6% for the fourth quarter of fiscal 2022. Normalized, the effective tax rate would have been 24% this quarter and 15% in the fourth quarter last year. On the same basis, the effective tax rate for the year was 22%, which we continue to expect going forward.

Net finance expense this quarter amounted to $51.4 million, which is up from $48.8 million in the preceding quarter and $32.5 million in the fourth quarter last year. Consistent with our growth investment priorities and non-cash working capital assumptions for fiscal 2024, we expect a quarterly finance expense run rate of approximately $50 million — at least for the first half of the fiscal year.

Now to briefly recap our segmented performance...

In Civil, fourth quarter revenue was up 53% year over year to $661.4 million and adjusted segment operating income was up 69% year over year to $162.9 million, for a margin of 24.6%. For the year, Civil revenue was up 34% to $2.2 billion and adjusted segment operating income was up 54% to $485.3 million for a record annual margin of 22.4%. The higher revenue for both periods was driven by higher training volumes and a higher number of FFS deliveries compared to the prior year periods. We achieved a record margin for the year, despite, as Marc referenced, not having fully recovered to 2019 levels in all regions. That's because of the excellent work that was done over the last couple of years to lower our recurring cost base, and we're also benefiting from some mix improvements from the structural expansion of business aviation and a greater proportion of revenue coming from training services overall.

In **Defense**, fourth quarter revenue of $536.0 million was up 14% over Q4 last year. Adjusted segment operating income was down 17% over last year to $30.5 million, for an operating margin of 5.7%. For the year, Defense revenue was up 15% to $1.8 billion, and adjusted segment operating income was down 55% to $53.1 million, representing a margin of 2.9%. Over the course of the year, we had sequentially stronger quarterly results as a function of execution on legacy contracts, cost mitigations and some gradual improvements in the economic headwinds we have been facing.

And in **Healthcare**, fourth quarter revenue was $59.1 million, up 12% compared to last year. Adjusted segment operating income was $8.5 million in the quarter compared to $9.6 million in Q4 of last year. For the year, Healthcare revenue was $192.7 million, up 27%, and adjusted segment operating income was $9.7 million for a margin of 5.0%.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya.

We continue to have a highly positive outlook for fiscal 2024 and beyond, notwithstanding some of the macro-level turbulence in the general economy. We see clearly defined secular trends that are highly favourable across all of CAE’s business segments.

In Civil, we’ve shown over the last year that there’s indeed a growing desire by airlines to entrust CAE with their critical training and digital operational support and crew management needs. Demand for air travel continues to thrive, and our business is driven primarily by the regulated training required to maintain the pilots and crews who operate the global in-service fleet of commercial and business aircraft. As an additional secular driver, we expect a sustained high level of pilot movements from the growth and replacement of the active pilot population. According to our estimates, over half the commercial and business jet pilots who will be active in a decade from now, have yet to even begin their training.

Given that backdrop, we expect our Civil business to continue growing at an above market rate, driven by the remaining stages of the cyclical recovery, primarily in Asia, and a sustained high level of demand for pilots and pilot training across all segments of civil aviation. In fiscal 2024, we expect low- to mid-teen percentage annual growth in Civil adjusted segment operating income, generated at the current higher margin level, and driven by higher training and product volumes and the ongoing simulator deployments to expand our global training network. We expect to see a more typical seasonal pattern for training demand this fiscal year, weighted more heavily to the second half. We also expect about three-quarters of our approximately 50 annual FFS deliveries to occur in the second half.

Turning to **Defense**, the sector is in the early stages of an extended up-cycle, driven by increased commitments by governments to defence modernization and readiness in response to geopolitical tensions. Secular tailwinds that favour our business include the increased focus on near-peer threats and a greater need for the kinds of digital immersion-based synthetic solutions that draw from CAE’s advances in Civil aviation simulation and training.

Our Defense segment is in the process of a multi-year transformation, which we expect to culminate in a substantially bigger and more profitable business. It has already become the world's leading pure-play, platform-independent training and simulation business, providing solutions across all five domains: air, land, sea, space and cyber. We’re uniquely positioned to draw on CAE’s innovations in commercial aviation to transform training with the application of advanced analytics and leading-edge technologies. This is expected to bring increased potential to capture business around the world, accelerated by an expanded capability and customer set. Our recent wins and record adjusted backlog, $9.3 billion pipeline of bids and proposals outstanding, and trailing 12-month book-to-sales ratio demonstrate that our strategy is bearing fruit.

In fiscal 2024, we expect Defense to continue renewing its backlog with larger and more profitable programs, while simultaneously working its way through a critical mass of lower-margin legacy contracts. We’re highly focused on execution, and for the fiscal year, we expect Defense to drive continued year over year quarterly performance improvements, with a heavier weighting to the second half, consistent with its historical seasonality.

And in Healthcare, we see potential to accelerate value creation as we gain share in the healthcare simulation and training market and continue to build on our top- and bottom-line growth momentum.

In **summary**, I continue to be excited about our future. I'm pleased with the important progress we made last year and expect to continue making excellent progress in the year ahead and beyond. We're on a clear path to an even bigger, stronger, and more profitable CAE in the future, and we remain well on track to our targeted three-year EPS compound growth rate in the mid-20% range.

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

<u>Andrew Arnovitz, Senior Vice President, Investor Relations and Strategy</u>

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