REMARKS FOR CAE'S FIRST QUARTER FISCAL YEAR 2024

August 9, 2023

Time: 2:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Andrew Arnovitz, Senior Vice President,

Investor Relations and Enterprise Risk Management

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

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 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, August 9, 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 is Marc Parent, CAE's President and Chief Executive Officer. Sonya Branco, our Chief Financial Officer, is not feeling well this afternoon, so I will be reading her remarks.

After remarks by Marc and myself, 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.

We're off to a strong start to the fiscal year with first quarter results driven by double-digit year-over-year growth in Civil, continued strengthening and transformation in Defense, and increased profitability in Healthcare. We made excellent progress to secure CAE's future growth with over $1 billion in total order intake, for a record $11.2 billion backlog. We also further bolstered our financial position and we're on track to meet our leverage target by mid fiscal year.

In **Civil**, our markets are thriving, and we're addressing a greater share of our customers' training and operational needs, as evidenced by our long-term training services agreements that now include nearly every major U.S. airline. We booked $730 million of orders with customers worldwide for a 1.35 times book-to-sales ratio, including 22 full-flight simulator sales and a range of multiyear training contracts in commercial and business aviation .

We delivered six full-flight simulators during the quarter, and average training centre utilization was 77%, up from 71% last year. As this increase suggests, commercial and business aviation training demand was strong across all regions, particularly as customers got their required training sessions done ahead of the busy summer travel period. While airlines in Asia Pacific are still not yet back to full capacity on international routes, they continued to make rapid progress to restore their operations to 2019 levels and beyond.

During the recent Paris Air Show, several of our airline partners inked sizable aircraft orders to be able to execute on their growth plans and we're excited to be in position to serve their needs over the next several years. Also significant during the Air Show was our announcement of a strategic alliance with Boeing whereby CAE will become a Boeing Authorized Training Provider and the first to offer its Competency-Based Training and Assessment curriculum. With this arrangement, Boeing and CAE will expand accessibility to high-quality, innovative flight training to commercial aviation customers worldwide. We're immensely proud of this collaboration with Boeing, first and foremost in our mission to advance safety, by bringing forth solutions that we believe will revolutionize the future of training. As you can imagine, we welcome any and all opportunities to help advance the industry forward. We also used the occasion of the Air Show to release our 2023 Aviation Talent Forecast, which anticipates a global need for 1.3 million new aviation professionals to join the industry as pilots, aircraft maintenance technicians and cabin crew over the next 10 years to support the expected growth of the commercial and business aviation markets.

In **Defense**, performance was in line with our expectations and we're making excellent progress to transform our business, as particularly demonstrated by our recent large strategic program wins and record $5.4 billion Defense backlog. These involve larger and more profitable opportunities that we now have the capabilities to bid and win. This quarter, we booked orders across multiple domains for training and mission support solutions with the funded portion of orders valued at $238 million for 0.50 times book-to-sales. Given the large size and number of major program wins in the U.S this quarter, the unfunded portion of contracts awarded was even more significant, at more than three times the funded portion. In total, these represent an additional $779 million contribution to adjusted backlog.

Notable awards include the contracts we announced in May to support FSTSS at Fort Novosel, Alabama and the U.S. Air Force's IFT-R contract for initial helicopter flight training out of our existing training centre in Dothan, Alabama. Both programs involve delivering simulation and training solutions that are very similar to what we offer in commercial aviation, except of course for defence customers instead of airlines. Additionally, Defense was recently awarded a contract in the Land domain that is critical to the U.S. Army's mission, namely, Phase II of their rapid prototyping effort supporting the Soldier Virtual Trainer (SVT) program for the replacement of 800-plus legacy training systems.

Since the end of the quarter, Defense has continued to leverage CAE's Dothan Training Center and our industry-leading business aviation training expertise to provide mission critical solutions for the U.S. Army with a contract for simulation-based training for the Army's key Next Generation ISR system. The High Accuracy Detection and Exploitation System (HADES) is based on the Bombardier Global 6500 business jet – a platform for which we are the Global Authorized Training Provider in Civil aviation.

And at the end of July, the Government of Canada announced the selection of SkyAlyne, a partnership between CAE and KF Aerospace, as the preferred bidder for the Future Aircrew Training (FAcT) program to provide next generation pilot and aircrew training for the Royal Canadian Air Force. This is a major development for CAE and underscores my excitement for our future in this space. We're now entering discussions with the Canadian government and our partners, and the award is anticipated in 2024. In context of securing CAE's future growth, we expect the FAcT program to become our largest contract win to date, representing a multi-billion-dollar generational training opportunity that will ensure work for CAE over the next quarter century.

Turning now to **Healthcare**, we continued to gain share in the simulation market, delivering above market revenue growth and higher profitability with our dynamic team and highly innovative solutions. We had notable contract awards for our LearningSpace centre management solution for the Thomas F. Frist, Jr. College of Medicine in Nashville, Tennessee, and a contract from the University of North Dakota for a multi-sim sale to outfit their Simulation in Motion mobile education system. And by leveraging our technology and subject-matter expertise, Healthcare entered an agreement with Abbott Laboratories to develop a training platform to support the launch of a new commercial pacemaker.

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

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

Thank you, Marc, and good afternoon, everyone.

Consolidated revenue of $1.05 billion was 13% higher compared to the first quarter last year and **adjusted segment operating income** was $145.1 million, compared to $60.9 million in the first quarter last year. Our quarterly **adjusted EPS** was 24 cents compared to 6 cents in the first quarter last year, which included a 7 cent negative EPS impact from contract profit adjustments in Defense. We incurred restructuring, integration and acquisition costs of $15.0 million during the quarter, relating mostly to the AirCentre acquisition.

Net cash from operating activities this quarter was negative $49.3 million, compared to negative $162.6 million in the first quarter of fiscal 2023. **Free cash flow** was negative $104.9 million compared to negative $182.4 million in the first quarter last year. The increase was mainly due to higher cash provided by operating activities and a lower investment in non-cash working capital. Free cash flow performance in the quarter was in line with our expectations and outlook. We usually see a higher investment in non-cash working capital accounts in the first half of the fiscal year, and as in previous years, we expect a portion of this to reverse in the second half. We continue to target a 100% conversion of adjusted net income to free cash flow for the year.

Capital expenditures totaled $90.6 million this quarter, with approximately 60 percent invested in growth, to specifically add capacity to our Civil global training network to deliver on the long-term training contracts in our backlog.

Income tax expense this quarter was $8.2 million, for an effective tax rate of 11%. The adjusted effective income tax rate was 13%, which includes a one-time favourable impact to income tax expense from a tax court decision related to the SADI program. This was offset by a one-time negative impact from higher interest expense related to the same matter.

As such, **net finance expense** this quarter amounted to $54.1 million, which is up from $51.4 million in the preceding quarter and $36.2 million in the first quarter last year. The increased finance expense relative to both prior periods mainly reflects the impact of higher interest rates on our variable rate debt instruments and the aforementioned tax court decision.

Our **Net debt** position at the end of the quarter was approximately $3.2 billion, for a net debt-to-adjusted EBITDA of 3.22 times at the end of the quarter. With this continued strengthening of our financial position, we are on track to meet our expected leverage ratio of below 3 times net debt-to-adjusted EBITDA by the middle of the fiscal year.

Now turning to our segmented performance...

In Civil, first quarter revenue was up 12% to $540.3 million compared to the first quarter last year, and adjusted segment operating income was up 37% to $119.0 million vs. the first quarter last year, for a margin of 22.0%. As we expected, we're seeing the benefit of some mix improvement in the quarter with a greater proportion of revenue coming from training services overall. Compared to Q1 last year, we had higher training utilization and increased volume from some of the recently deployed simulators in our network. This was partially offset by lower simulator deliveries, which, as we previously indicated in our outlook, are profiled more to the back half of the fiscal year.

In **Defense**, first quarter performance was right in line with our expectations and outlook for the fiscal year. We generated revenue of $471.7 million, which was up 14% over Q1 last year and adjusted segment operating income was $24.3 million for the quarter, giving us an adjusted segment operating income margin of 5.2%. This compares to a loss of $21.2 million in the first quarter last year. Defense revenue growth stems mainly from a higher level of activity on programs, while the higher adjusted segment operating income reflects the adjustments made last year and the ongoing progress we have been making to execute on legacy contracts and mitigate costs, as well as the effects of a gradual easing of economic headwinds.

And in Healthcare, first quarter revenue was $42.4 million, up from $39.6 million in Q1 last year. Adjusted segment operating income was $1.8 million in the quarter for an adjusted segment operating income margin of 4.2%. This is up nicely from Q1 of last year.

With that, I will ask Marc to discuss the way forward. **Marc Parent, President and Chief Executive Officer**

Thanks, Andrew.

Our outlook continues to be bullish for the fiscal year and beyond. We're delivering tangible success and driving strong order flow with our significant and growing backlog. Our customers in each of our markets have a greater need for innovative training and operational support solutions to succeed in evermore complex environments. As we look to the period ahead, we continue to be highly encouraged by the secular tailwinds in all segments and the growth we expect to deliver by harnessing our global market and technology leadership, and the power of One CAE.

In **Civil**, if you've travelled over the last few months, you'll know firsthand that the demand for air travel is as strong as ever. For the first quarter of this calendar year alone, worldwide passenger traffic increased by 58% compared to last year, and in the United States, the TSA reported a new daily record for passenger screening at the end of June. And yet, not all of our airline customers are back to their 2019 operating levels – specifically in Asia where international traffic is still lagging at nearly 75% of pre-pandemic activity. We see significant demand ahead for air travel in the remainder of the cyclical recovery and beyond.

We're proud to be the world's largest provider of civil aviation training services and we're on track this year to deliver approximately 1.2 million hours of training in our broad global network of training centres. No matter where you fly, chances are that your pilot or first officer has been trained in a flight simulator designed and built by CAE, or in one of our training centres around the world. Our highly differentiated solutions in the aviation market -- including the most extensive global training network, world-leading simulation products, unique technology and software solutions, and strength in training partnerships with operators and OEMs -- position us very well for the long-term.

We expect the pace of change in aviation to be substantial over the coming years. The demand for trained aviation professionals is greater than ever and continues to be driven by air traffic growth, personnel retirements and by the number of new aircraft deliveries. Consider the fact that over half the commercial and business pilots who will be active a decade from now, have yet to even begin their training. These growth dynamics, in a highly regulated market, together with our ability to win a bigger share of our customers' training needs, are indeed very significant drivers for CAE.

Given that context, we expect our Civil business to continue growing at an above market rate for the foreseeable future, and in fiscal 2024, we maintain our expectations for low- to mid-teen percentage annual growth in Civil adjusted segment operating income. With the higher level of flying activity this summer – especially in Europe, we also continue to expect a more typical seasonal pattern for training demand this fiscal year, weighted more heavily to the second half. Additionally, we still plan for about three-quarters of our approximately 50 annual full-flight simulators deliveries to occur in the second half.

Turning to **Defense**, we expect to continue executing on our multi-year transformation, which we expect to culminate in a substantially bigger and more profitable business. As we've shown with the recent FSTSS and HADES wins with the U.S. Army, we're uniquely positioned to leverage the full range of CAE's civil aviation training expertise in the defence market. In fact, the solutions we're providing on these two contracts are very similar to what we deliver to our airline and business jet customers. We're in a very good position with our recent strategic and generational wins, record $5.4 billion adjusted backlog, $8.8 billion pipeline of bids and proposals outstanding, and continued order momentum. These are all positive signs of the transformation underway.

As we look to the remainder of fiscal 2024, we continue to expect Defense to renew 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**, simulation-based training is one of the most effective ways to prepare healthcare practitioners for the moments that matter: treating patients, handling critical situations, and enhancing patient safety. We're on a path to accelerate value creation by continuing to gain share in the simulation and training market and driving top- and bottom-line growth. We have a very strong team and I expect to see Healthcare's positive momentum continue.

In summary, I continue to be excited about the future and we're on track to our targeted three-year EPS compound growth rate in the mid-20% range. I'm very pleased with the important progress we made in the first quarter and expect this to continue for the fiscal year and beyond.

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.