**REMARKS FOR CAE'S SECOND QUARTER FISCAL YEAR 2024 FINANCIAL RESULTS**

**November 14, 2023**

**Time: 2:00 p.m.**

**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 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, November 14, 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.sedarplus.ca 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 end 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 delivered a good performance overall in the second quarter, with double-digit top- and bottom-line growth, driven mainly by continued strong momentum in Civil and a higher contribution from Defense compared to the second quarter last year. We made excellent progress to secure CAE's future with nearly $1.2 billion in total adjusted order intake, for a record $11.8 billion adjusted backlog. We also further bolstered our financial position on the path to meeting our short-term leverage target.

In **Civil**, we had another quarter of excellent performance with demand for our training and flight operations solutions continuing to be robust across all regions, and notably in Asia, which has lagged in the global recovery in air travel. We booked $618 million of orders with customers worldwide for a 1.08 times book-to-sales ratio. We received orders for 15 full flight simulators, including a multi-year purchase of eight new Boeing B737 Max simulators for Ryanair and two Airbus A320 simulators for United Airlines. In commercial aviation training, we signed a multi-year training agreement with Delta Airlines, and in business aviation, we signed a multi-year agreement with Windrose Air Jetcharter. In Flight Operations, we signed long-term, next generation solutions agreements with Wizz Air and Air India.

We delivered 11 full-flight simulators to customers during the quarter, and our average training centre utilization was 71%, which is up nicely from 66% last year. The year-over-year increase points to the strength of the underlying commercial and business aviation training demand across all regions. Anyone who travelled by air this summer will know just how busy the airlines have been trying to meet passenger demand. The sequential decrease in training centre utilization that we experienced during the summer is a direct reflection of the seasonality we typically see as pilots are actively flying during that period.

In **Defense**, performance was a bit lower than the first quarter but still higher than the second quarter last year. We booked orders for $527 million for a 1.1 times book-to-sales ratio, giving us a record $5.9 billion adjusted Defense backlog. They include strategic opportunities, like the formalization of our contract with Bell Textron as part of Team Valor to provide simulation and training solutions for the all-important V-280 tiltrotor, the platform for the next-generation U.S. Army Future Long-Range Assault Aircraft program.

Other notable wins include the previously announced simulation-based training contract for the U.S. Army's key Next Generation airborne ISR system, the High Accuracy Detection and Exploitation System (HADES), which is based on the Bombardier Global 6000/6500 business jet. Defense also received an order to provide the U.S. Army with support services for the Advanced Helicopter Flight Training Support Services for aircrew and non-aircrew personnel. Additionally, defense was awarded contracts for the modification and maintenance of F-16 training devices for the U.S. Air Force, as well as for the upgrade of various training devices.

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

**Sonya Branco, Executive Vice President, Finance, and Chief Financial Officer**

Thank you, Marc, and good afternoon, everyone.

**Consolidated revenue** of $1.09 billion was 10% higher compared to the second quarter last year and **adjusted segment operating income** was $138.5 million, compared to $124.7 million in the second quarter last year. Our quarterly **adjusted EPS** was 27 cents compared to 19 cents in the second quarter last year.

We incurred restructuring, integration and acquisition costs of $37.9 million during the quarter, relating to the AirCentre and L3H MT acquisitions.

**Net cash from operating activities** this quarter was $180.2 million, compared to $138.0 million in the second quarter of fiscal 2023. **Free cash flow** was $147.5 million compared to $108.4 million in the second quarter last year. The increase was mainly due to a higher contribution from non-cash working capital. We usually see a higher investment in non-cash working capital accounts in the first half of the fiscal year. This year, I'm pleased that we've already begun to see that reversal in the second quarter, and we expect that positive trend to continue into the back half of the fiscal year. We continue to target a 100% conversion of adjusted net income to free cash flow for the year.

**Capital expenditures** totaled $61.9 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 recovery** this quarter was $8.5 million, for an effective tax rate of negative 16%. The adjusted effective income tax rate was nil, which includes the recognition of previously unrecognized deferred tax assets, which had an approximate $0.05 positive EPS impact this quarter.

**Net finance expense** this quarter amounted to $48.0 million, which is down from $54.1 million in the preceding quarter and up from $41.3 million in the second quarter last year.

Our **Net debt** position at the end of the quarter was approximately $3.2 billion, for a net debt-to-adjusted EBITDA of 3.16 times at the end of the quarter. Following the end of the quarter, we announced a definitive agreement to sell Healthcare for an enterprise value of $311 million, a decision which better positions CAE to efficiently allocate capital and resources to secure growth opportunities in our large core simulation and training markets. We intend to apply a significant portion of the net proceeds to reduce debt. The transaction is expected to close before the end of the current fiscal year, subject to closing conditions, including customary regulatory approvals. With leverage having decreased to a ratio approximating three times, we will consider evaluating options for reinstating capital returns to shareholders following the closing of the Healthcare sale transaction. We are prioritizing a balanced approach to capital allocation, including funding accretive growth, continuing to strengthen our financial position commensurate with our investment grade profile, and returning capital to shareholders.

Now turning to our segmented performance...

**In Civil,** second quarter revenue was up 13% to $572.6 million compared to the second quarter last year, and adjusted segment operating income was up 9% to $114.3 million vs. the second quarter last year, for a margin of 20.0%. Both solid improvements over last year, and as Marc referenced, CAE's second quarter is normally seasonally softer with respect to training centre utilization, which typically has some impact on business mix.

In **Defense**, second quarter performance was better than the same period last year, with revenue up 8% to $477.4 million and adjusted segment operating income up 16% to $21.3 million, giving us an adjusted segment operating income margin of 4.5%. The year-over-year growth came mainly from a higher level of activity on programs, partially offset by higher SG&A expenses from higher bid and proposal costs associated with the pursuit of a larger pipeline of Defense program opportunities. Defense performance was lower than the preceding quarter as we managed through the ongoing retirement of legacy programs from backlog. We also had lower revenue than we expected from newer and more profitable programs due to recent funding and award delays.

And in **Healthcare**, second quarter revenue was $38.5 million, down from $43.6 million in Q2 last year. Adjusted segment operating income was $2.9 million in the quarter for an adjusted segment operating income margin of 7.5%. This is up nicely from Q2 of last year.

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

**Marc Parent, President and Chief Executive Officer**

Thanks, Sonya.

Our outlook for CAE continues to be positive for the fiscal year and beyond. Our strong momentum is translating into robust order flow and a record backlog, which portend an excellent future for CAE. In our core Civil and Defense markets, our customers increasingly require innovative training and operational support solutions to perform at their best in mission-critical environments. As we look ahead, we remain highly encouraged by the favourable secular trends we see, and the growth we anticipate by leveraging our global market position, technological expertise, and the strength of our One CAE culture.

In **Civil**, we expect to continue growing at an above market rate, driven by the growth and recovery in air travel, increased penetration of the existing addressable market for training and flight services solutions, and a sustained high level of demand for pilots and pilot training across all segments of aviation. For the current fiscal year, we now expect Civil to deliver growth in the mid- to high-teens percentage range of adjusted segment operating income. Given the profile of our planned simulator deliveries and the normal seasonality of training demand, performance will be mostly weighted to the fourth quarter. The higher expected annual growth is based on our strong performance year to date and the visibility we have in the highly regulated aviation training market. In addition to continuing to grow our share of the aviation training market and expanding our position in digital flight services, we expect to maintain our leading share of FFS sales and to deliver approximately 50 FFSs for the year. Approximately half of these deliveries are slated for the fourth quarter.

Turning to **Defense**, we expect to continue making good progress transforming our business by replenishing our backlog with more profitable programs and by retiring low margin legacy contracts, which we expect to culminate in a substantially bigger and more profitable business. We have strengthened our future position in recent quarters with strategic and generational wins, including next-gen platforms, giving us a record $5.9 billion adjusted backlog. Together with a record $9.5 billion pipeline of bids and proposals outstanding, we continue to see positive signs of the transformation underway.

As we look to the remainder of fiscal 2024, the positive inflection we expected this year in Defense has been delayed because of impacts associated with the retirement of our lower-margin legacy contracts – specifically those awarded prior to COVID -- and current new program delays. While the inflationary impacts on these contracts are known and finite in nature, they continue to be the most significant factor contributing to the current low-margin performance of the business and do not reflect its underlying potential. The essential trendlines of replenishing our backlog with larger and more profitable programs and simultaneously retiring legacy contracts remain positive. However, the prevailing U.S. government budget appropriation uncertainty is slowing the ramp-up of the newer and higher margin Defense programs we've been awarded. This is also impacting the conversion of our bid pipeline to orders that we expected to generate higher margin revenue on this fiscal year. As a result, we now expect second-half Defense adjusted segment operating income margins to remain in the current single-digit percentage range. We expect to see Defense segment performance improvements materialize next fiscal year, but this will ultimately depend on the duration and magnitude of delays to new programs in the current environment.

We're firmly focused on retiring legacy contracts as soon as possible and mitigating the margin pressures associated with them. We remain pleased with the accretive margin profile on our newly awarded contracts, which are the best indication of where the future performance of Defense is headed. We maintain our conviction that the ongoing retirement of legacy programs and new order backlog growth will result in a low double-digit percentage margin business at a steady state.

Lastly, on **Healthcare**, I want to thank Jeff Evans and the entire Healthcare team for their dedication and excellent performance. We're proud of the significant contribution to patient safety that CAE Healthcare has made, and I believe Madison Industries is the right home to take the business to the next level. Like CAE, Madison's mission is rooted in making the world safer, and I believe it will be ideally positioned to support the future growth of the business, which will continue to focus on evolving simulation to drive patient safety and quality outcomes.

For CAE overall, we continue to be highly encouraged by the secular tailwinds in all segments and the growth we expect by harnessing our global market and technology leadership, and the power of One CAE.

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.

Before we open the lines, let me first ask in the interest of fairness that you please limit yourselves to a single, one-part question. If you have additional questions after that, and if time permits, please feel free to re-enter the queue.