

Annual meeting of shareholders 2018



Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

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TOWARDS NEW HORIZONS IN TRAINING

Thank you Mr. President.

Good morning ladies and gentlemen,

Greetings everyone,

Welcome to our headquarters. It gives me great pleasure to welcome you here once again for CAE's Annual Meeting of shareholders.

More than ever, CAE leads the industry as the **training partner of choice** for an ever growing number of airlines, defence forces and healthcare professionals. Every year, we train more than 120,000 pilots and we work with more than 300 airlines and major business-aircraft operators as well as more than 50 defence forces.

Our training network, the largest in the world, has more than 65 training centres and flight schools. We are present in 35 countries on four continents.

Taking a look at our financial results for fiscal 2018, it's quite clear that we are on a strong growth curve!

We've had the best year yet in our seven-decade history!

We generated record revenue and order intake and we ended the year with a record backlog. We have reason to be proud of our work and what we have achieved.

In **Civil Aviation**, our orders were at an all-time high. Following an extensive process improvement program, our flight simulators are more competitive than ever. We sold 50 full-flight simulators, once again leading the market with one of our best years ever.

In training, we increased our momentum. We signed comprehensive long-term training agreements with AirAsia, Jazz Aviation, Air Transat and Virgin Atlantic Airways, to name a few. We also won long-term training contracts with business aviation customers worldwide, including Elit'Avia and Flexjet.

Among other highlights, we inaugurated new training centres in Minneapolis, in the U.S., and in South Korea. We acquired AirAsia's share of the Asian Aviation Centre of Excellence and signed an agreement to establish a joint venture training facility in Singapore – which we finalized this month. We also launched both CAE Rise™, our newest pilot training innovation, and the CAE Master Pilot Training Program for business aviation pilots. We are the leaders in civil aviation training because we continuously innovate to open up new horizons in training.

In **Defence & Security**, our Training Systems Integration capabilities and robust bid pipeline drove historically high orders for the third consecutive year and generated a healthy backlog.

The Royal Australian Air Force, the U.S. Navy and the U.K. Ministry of Defence extended their training contracts with us. We signed contracts to deliver comprehensive helicopter training systems for both the Brazilian Navy and the Qatar Emiri Air Force, and an end-to-end training centre for remotely piloted aircraft for the UAE Air Force.

We also delivered the world's highest fidelity Predator Mission Trainer to the Italian Air Force, a simulator we jointly developed with General Atomics.

We continued to strengthen our reputation as a training systems integrator of choice for defence and security forces around the world. Customers are increasingly turning to us for our flexibility and our wealth of experience operating and delivering training across a range of business models.

In **Healthcare**, we returned to growth in fiscal 2018. Our innovative training solutions also brought us prestigious awards and strengthened our position as a leader in simulation-based healthcare education and training. CAE LucinaAR, the world's first childbirth simulator with augmented reality, and the CAE VimedixAR ultrasound simulator, both make use of the Microsoft HoloLens to transform the way we train healthcare professionals. The work of our engineers to develop these products is so impressive that Microsoft itself uses CAE's ultrasound simulator to showcase the HoloLens capabilities at its headquarters in Redmond, Washington.

This year, CAE Healthcare launched CAE Juno, a clinical skills manikin for nurses, the sector's largest market in the field. We also signed new partnerships with professional medical associations and institutes, increasing our reach and ability to help improve patient outcomes worldwide.

A good measure of a company's value is to ask the question: "how does it contribute to society?" At CAE, our mission is ultimately about making the world safer. We work hard every day to fulfill our mission: ensure that flights are **safer**, prepare defence forces **for their missions** and help medical personnel **save lives**.

In addition to sustainable and profitable financial performance, investors expect companies like ours to model social responsibility and to benefit society. I'm proud to say we are such a company, and we believe CAE's noble purpose and profits go hand-in-hand.

As an example of our leadership, we have launched a diversity and inclusion program for our employees, and at the recent Farnborough Airshow, we introduced the *CAE Women in Flight scholarship* program, demonstrating our commitment to promoting the advancement of women in the aviation industry. Women currently represent less than 5% of civil aviation pilots and instructors, and given the industry challenges, it is important to be tapping into the wider talent pool. CAE's program encourages passionate and exceptional women to accomplish their goal of becoming professional pilots.

And this year, we raised the bar in social responsibility. We defined the next phases of our Corporate Social Responsibility journey and established a 5-year plan that will help us make our world an even safer, cleaner and better place for all.

Now I'd like to ask Sonya Branco, our Chief Financial Officer, to provide us with an overview of our financial results.

Sonya Branco, Vice President, Finance and CFO

Good morning ladies and gentlemen.

CAE had a strong financial performance in fiscal 2018.

For the year, consolidated revenue was up 5% to \$2.8 billion, and net income was \$297.3 million or \$1.11 per share, excluding the impacts of the income tax recovery related to the U.S. tax reform and net gains on strategic transactions involving our Asian joint ventures. This compares to net income the year prior of \$278.4 million or \$1.03 per share, before specific items. On this basis, annual EPS was up 8%.

We received orders valued at \$3.86 billion for a record total backlog of \$7.8 billion.

Once again, Civil led our growth with year-over-year revenue increasing by 5% to \$1.6 billion and segment operating income growing 12% to \$306.2 million, for an operating margin of 18.8%, excluding the impact of the net gains related to our Asian joint ventures. We also booked record orders valued at \$2.3 billion.

In Defence, we generated revenue of \$1.09 billion, up 5% compared to the prior year. Our segment operating income rose 6% to \$127.7 million for an operating margin of 11.8%. We received total orders of \$1.4 billion for a book-to-sales ratio of 1.29x, marking the third consecutive year that annual orders exceeded revenue.

In Healthcare, revenue was up 4% to 115.2 million, and segment operating income was \$8.8 million versus \$6.6 million the previous year.

Overall for CAE, our strong operational performance translated into a good year from a cash flow standpoint. We generated \$288.9 million free cash flow for the year, which represents a cash conversion rate of 97%, excluding the impacts of the items mentioned earlier. This is in line with our annual average conversion target of 100%.

We delivered on our outlook in fiscal 2018. We're well positioned to pursue customer-driven, accretive investment opportunities in fiscal 2019, and beyond, to continue our growth.

And now let's briefly look at our financial results for the first quarter of 2019.

Progress made in the first quarter is in line with our outlook for the year, which remains unchanged.

We continue to benefit from sustained demand for the solutions offered by CAE in a strong market. Overall, our first quarter revenue increased by 10% compared with the previous year's first

quarter, reaching \$722 million, and operating income was \$98.5 million. Net income attributable to shareholders was \$69.4 million, or 26 cents per share, up 18% compared with the previous year.

Our financial position remains strong with a net debt-to-total capital ratio of 26% and net debt of \$811.5 million at the end of June. Our backlog of \$8.05 billion leaves CAE well positioned for future growth.

In addition to the share buyback program that we continue to offer, I am pleased to announce that our Board of Directors has approved an increase of 11% in our quarterly dividend, which goes from 9 to 10 cents per share. This is the eighth consecutive year that we have increased the dividend.

Between the dividend increase and the share buyback, we have almost doubled current shareholder returns in the past three years! This demonstrates our confidence in CAE's future prospects. Thank you for your attention and I now turn the podium over to our CEO, Marc Parent.

Marc Parent, President and Chief Executive Officer

Thank you Sonya.

Three years ago, I presented right here at our AGM, our pivot to training strategy, let's have a quick look at how we've done. We continued to lead the market, selling a record 153 full-flight simulators over the last 3 fiscal years! On the defence side: 90 high-end flight simulators and tactical training devices were won! Our strategic shift to training has allowed us to accelerate our growth by accessing much bigger markets. We won 8 major Training Systems Integration contracts, which you see on the screen, illustrating how defence forces are increasingly outsourcing their training to CAE. And in civil aviation, we signed 8 new airline training partnerships. Since our pivot to training three years ago, our training network is larger than ever, and CAE's shares have gone up by over 80% to reach a \$7.3 billion market cap.

Looking forward, our outlook continues to be positive.

In **civil aviation**, air travel is going to continue to increase at about 4% to 5% per year for the next 20 years. This past year alone, it grew by an unprecedented 7.5%. New city pairs are being opened up everyday and airplanes are full. The order backlog of commercial aircraft is equivalent to almost 10 years of production. For CAE, that means we have a lot of pilots and aircrews to train, in fact, in addition to the

large existing market, more than 300,000 new commercial and business aviation pilots will be needed over the next 10 years – and half of them have not started to train.

Our customers value the fact that we are a pure-play training company – everything we do is training – and they recognize CAE as an innovation leader, with the broadest training network, and the most comprehensive offering of cadet-to-captain training solutions. As testimony to our momentum, in recent months we've signed a series of important long-term airline training partnerships, which speak to CAE's credibility and market reach. They include our joint venture with Singapore Airlines, which is now operational, and our new joint venture in Colombia with Avianca Airlines, which further strengthens our position in Latin America. We signed long-term exclusive training agreements with Jetstar Japan and Asiana Airlines, both of which specifically selected CAE as an innovation leader, offering capabilities like the CAE Rise training system. Our pipeline of airline outsourcing opportunities remains highly active, and our recent successes give us even greater potential for more long-term, recurring training partnerships for CAE.

And we continue to have solid momentum in business aviation too, and we are well positioned to provide customers with an excellent experience and to continue gaining market share.

And in simulator sales, we're off to a strong start with 26 full-flight simulator sales already signed, halfway through our second quarter.

On the **defence** side, budgets continue to be on the rise worldwide, and in the U.S., they are at historical highs. We're making good progress with our Training Systems Integration strategy and I'm especially pleased with the acquisition of Alpha-Omega Change Engineering, announced earlier this month, which expands our position in the U.S. defence market, the largest in the world. Much like our acquisition a few years ago of the NATO Flying Training in Canada, or NFTC, program, this acquisition enhances our core capabilities as a training systems integrator and grows our position on enduring platforms such as fighter aircraft. This pure-play services business also expands our ability to pursue higher-level security programs in the United States and opens up a nearly \$3 billion larger addressable market. Our worldwide defence market now stands at \$17 billion.

Another important measure is the level of our current bids and proposals which is currently over \$4.5 billion. Governments around the world are placing a high priority on mission readiness and we continue to be successful converting bids into orders to serve our customers' needs. Just last week, we announced a new contract of over \$50 million, including options, to provide the Royal New Zealand Air

Force with CAE's latest 700MR Series flight training device and support services for NH90 helicopter training.

In **healthcare**, simulation is also increasingly seen as a way to reduce preventable harm in hospitals and improve patient safety which is going to continue to stimulate our market. Our innovative new products are also well received by the market, our latest being the CAE Ares emergency care manikin, launched a few weeks ago.

One of CAE's main areas of strategic priority is innovation, and **our next horizon in training** is focused on Digital technology. CAE is a market leader in aviation training with a record of more than 70 years of industry firsts. We're now developing digital-enabled solutions to transform the way aviation training is done. These solutions enable us to deliver the best possible customer experiences, and to grow our share in large and growing markets with even greater differentiation as the worldwide training partner of choice.

Our latest digital innovation, CAE Rise, is a revolutionary training system that enables the objective assessment of pilot competencies using live data during training sessions. The system harnesses the power of cloud-based computing and analytics to provide CAE with unique and deep insights that bring our customers' aviation training experience to new levels.

And we're just getting started. Last week, we announced, in partnership with the governments of Canada and of Québec, Project Digital Intelligence, a digital transformation project to develop the next generation training solutions for aviation, defence and security and healthcare. CAE will be investing \$1 billion over the next five years in innovation, one of the largest investments in the aviation training sector in the world.

Let's take a few minutes to watch a video that sums up the high points of our announcement.

(VIDEO)

As you have seen, CAE is at the forefront of digital technology; and as the industry's thought leader, this strategic investment will take our company to the next level. By seizing the power of new technologies such as artificial intelligence, big data, augmented reality, and the Internet of things – which people now call the Internet of everything – and applying them to the science of learning, we will revolutionize the training experience of pilots, aircrews and healthcare professionals. And most of all, we will continue to help improve safety of air travel and help save lives.

Here today with us are some of the employees who work on our research and development projects. They are key players in CAE's success. Project Digital Intelligence depends on their knowledge and expertise. As part of our investment, we will create for them an innovation campus, right here at our CAE Montréal facilities. There will be cutting edge labs and collaborative workspaces where we will be able to develop our future technological breakthroughs.

I would like to thank our employees. It is their knowledge and passion that has made CAE the leader it is today, and will help us take training, and CAE, to the next level.

Before turning over to our Chair Jim Hankinson, I would like to sincerely thank him for his dedication to our Board. Jim has been the Chair of CAE's Board of Directors for the last 5 years, and he joined the Board as a Director 23 years ago.

Jim, you leave CAE a financially strong company with rigorous governance processes. You provided invaluable strategic counsel as CAE transformed into the aviation training leader it is today. It has been an honour and a privilege for all of us to benefit from your support.

I would also like to welcome CAE's new Chair, the Honourable John Manley, who has been a CAE Director for the last 10 years and brings extensive company knowledge and continuity to the fore, and we have every confidence that CAE will continue to thrive under his strong leadership.

In addition, I would like to thank all the members of our Board for their advice and support, and of course you, our shareholders, for your trust.

For the very last time, Jim, the podium is yours. Thank you very much!