

# Investor Presentation

June 2018



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# Caution regarding forward looking statements

This presentation contains forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future. These forward-looking statements include, without limitation, statements about our vision, strategies, plans, market trends and outlook, future revenues, capital spending, expansions and new initiatives, financial obligations, and expected sales. Forward-looking statements normally contain words like believe, expect, plan, intend, continue, estimate, may, will, should, strategy, future and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. A statement is forward-looking when it uses what we know and expect today to make a statement about the future. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, readers are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. All such forward-looking statements are made pursuant to the safe harbour provisions of applicable Canadian securities laws and of the United States *Private Securities Litigation Reform Act* of 1995.

You will find more information in the Section 9-*Business risk and uncertainty* of our fourth quarter and year ended March 31, 2018 MD&A for the year ended March 31, 2018. This document has been filed with the Canadian securities commissions and is available on our website ([www.cae.com](http://www.cae.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)). It has also been filed with the U.S. Securities and Exchange Commission under Form 6-K and is available on EDGAR ([www.sec.gov](http://www.sec.gov)). Forward-looking statements in this document represent our expectations as of May 25, 2018, and, accordingly, are subject to change after this date. We caution readers that the risks described are not necessarily the only ones we face; additional risks and uncertainties that are presently unknown to us or that we may currently deem immaterial may adversely affect our business. Additionally, differences could arise because of events that are announced or completed after the date of this document, including mergers, acquisitions, other business combinations and divestitures. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this report are expressly qualified by this cautionary statement.

The terms "segment operating income (SOI)", "backlog", "book-to-sales", "free cash flow", "earnings per share before specific items", "return on capital employed", "weighted average cost of capital", "net debt", "net-debt-to-capital ratio", "capital expenditures (CAPEX)", "operating profit", "gross profit", and "non-cash working capital" are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other issuers. Refer to the definitions in this presentation and to Section 3.7 - *Non-GAAP and other financial measures* in our fourth quarter and year ended March 31, 2018 MD&A for more details.





Our vision is to be the recognized global

**training partner of choice**

to enhance safety, efficiency and readiness.

## Leader in three business segments



### Civil Aviation Training Solutions

- Commercial Aviation
- Business Aviation
- Training equipment
- Ab Initio Training
- Crew sourcing

### Defence and Security

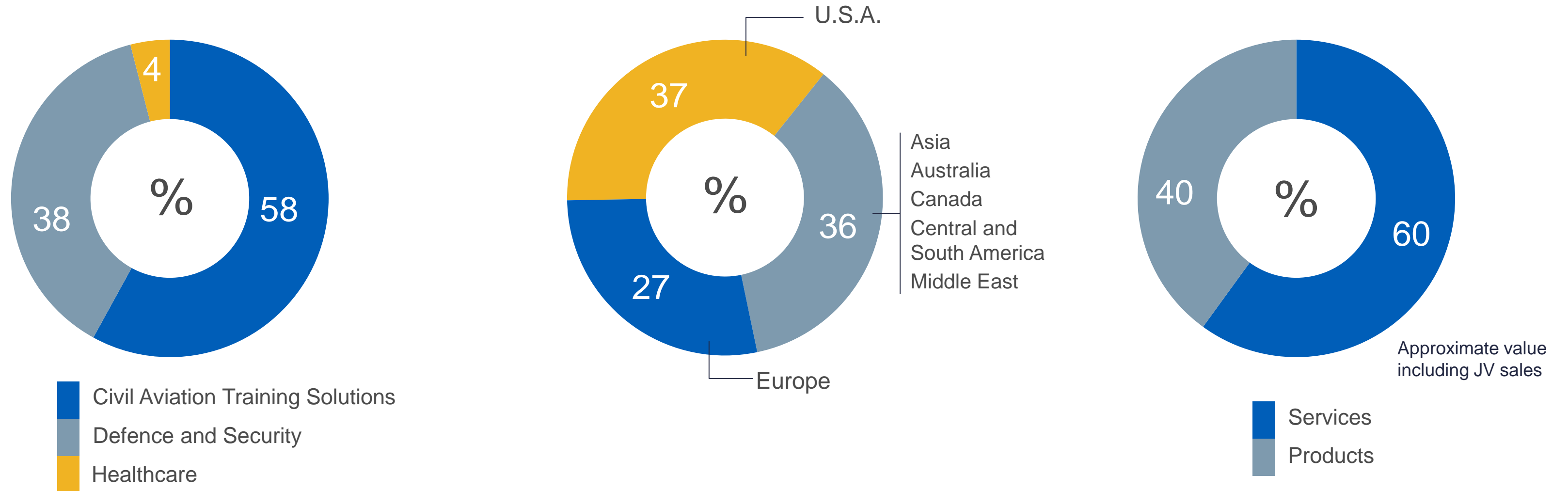
- Training Systems Integrator
- Virtual and live training
- Training equipment

### Healthcare

- Patient simulation
- Imaging/Interventional simulation
- Courseware & Audiovisual solutions
- Turnkey training solutions

# CAE at a glance

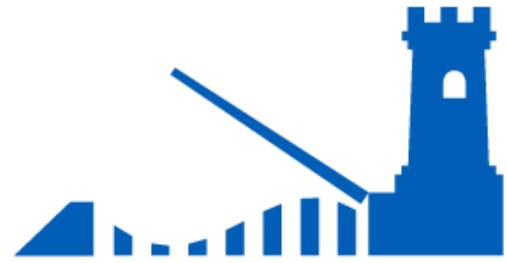
## Diversified base of business with a high degree of recurring revenue



**Total FY18 revenue: \$2.8B**



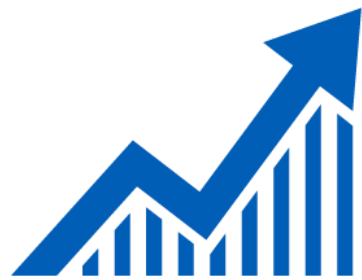
# 6 pillars of strength underlie CAE's strategy and investment thesis



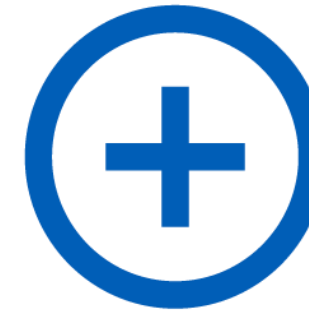
**Strong  
competitive  
moat**



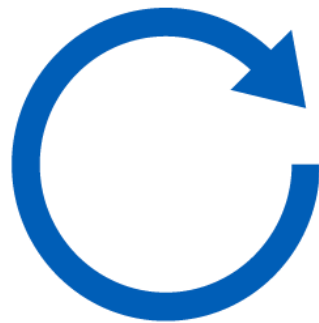
**Underlying  
secular  
tailwinds**



**Headroom  
in large  
markets**



**Potential  
for superior  
returns**

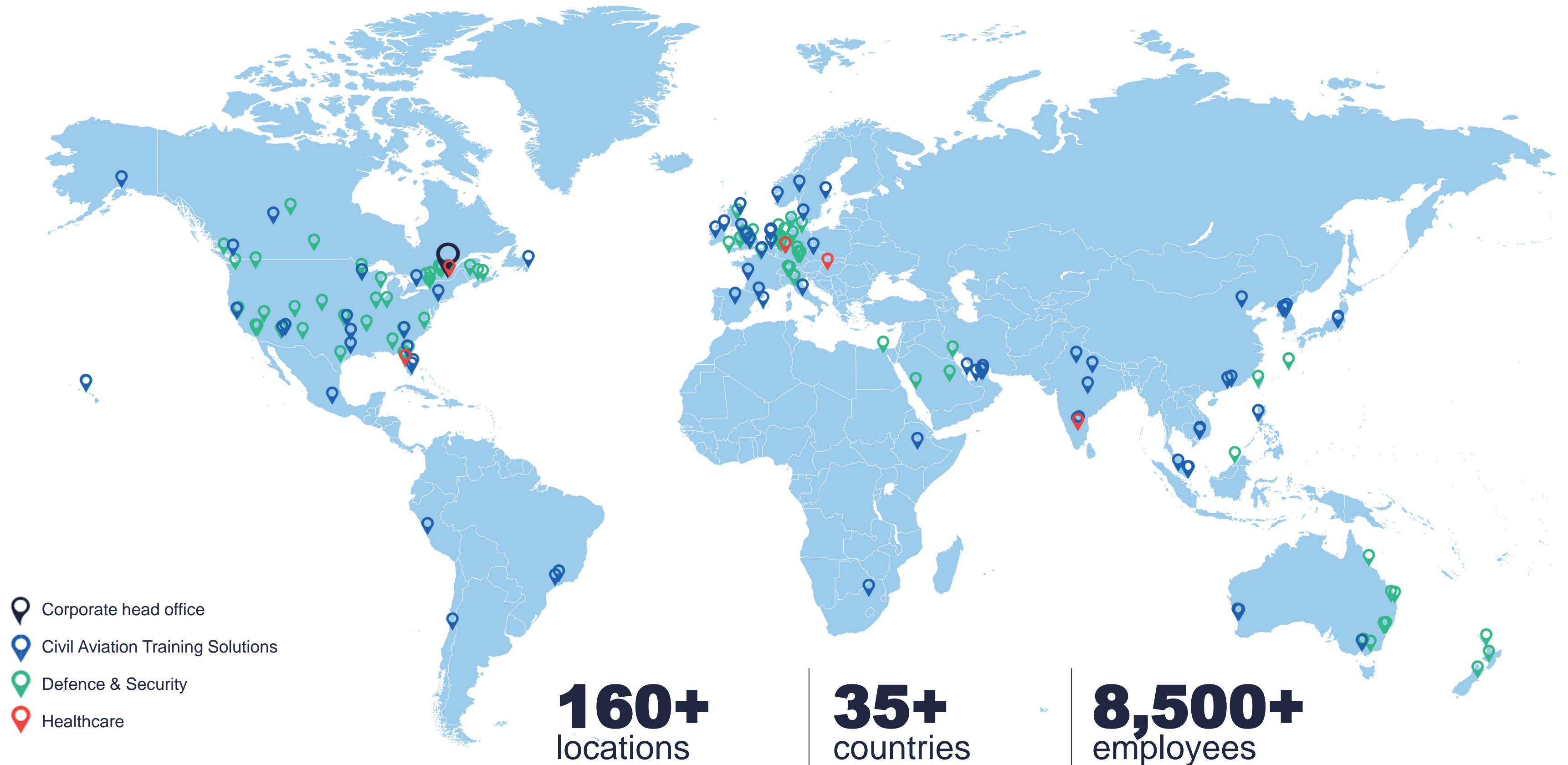


**High degree  
of recurring  
business**



**Culture  
of innovation**

# Unmatched global reach



# Consolidated financial highlights

## FY18 Results

**\$2.8 B**

**record annual revenue**  
(up 5% year over year)

**\$442.7 M**

**annual SOI\*\***  
(up 11% year over year)

**\$1.11**

**earnings per share\*\***  
(vs. \$1.03 in FY17\*)

**\$3,855 M**

**record annual  
order intake**

**1.36 : 1**

**record annual  
book-to-sales ratio**

**\$7.8 B**

**record backlog**  
(up 4% year over year)

**\$288.9 M**

**free cash flow**  
(97% cash conversion\*\*)

**12.3%**

**return on capital  
employed\*\***  
(vs. 11.2% in FY17)

**76%**

**civil training centre  
utilization rate**

**21.5 : 78.5**

**net debt-to-capital ratio**  
(vs. 26.5 : 73.5 in Q4 FY17)

\* Before specific items

\*\* Excluding impacts of the U.S. tax reform and net gains on strategic transactions relating to our Asian joint ventures



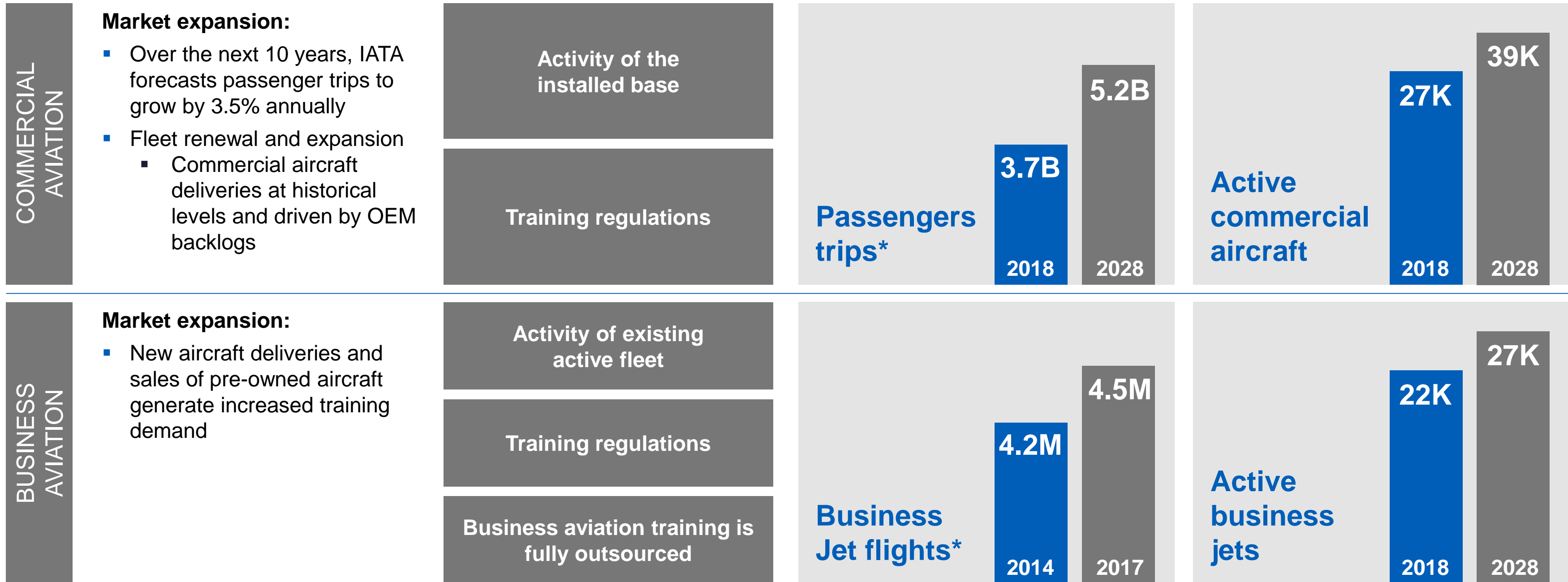
# Civil Aviation Training Solutions



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# Market drivers



**CAE Civil business is supported by strong pilot demand and the recurring (and regulated) nature of training**

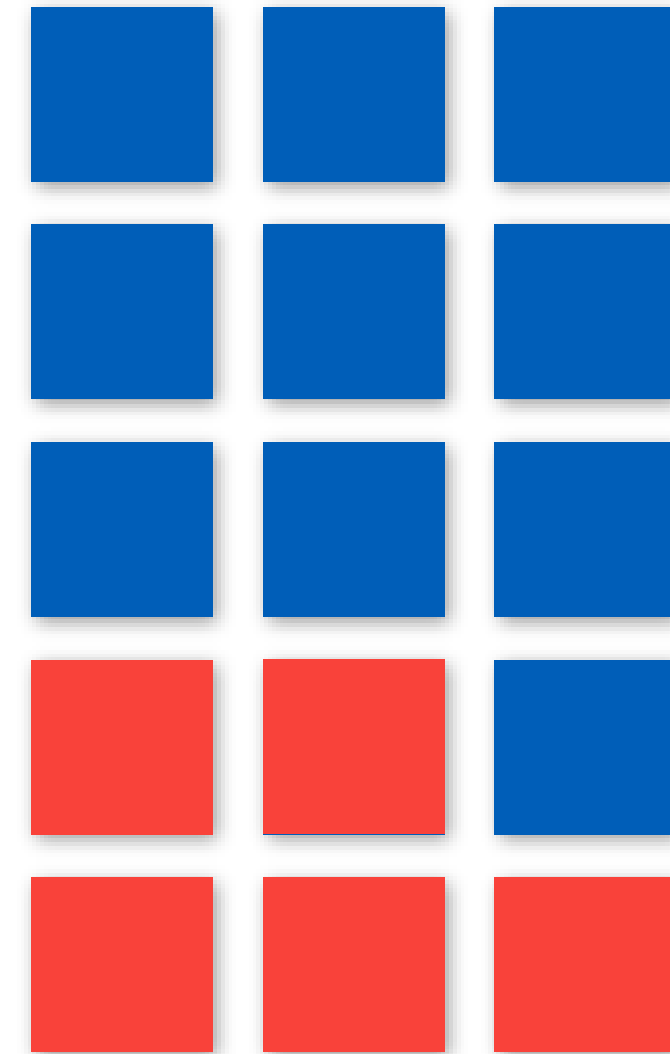
\*Passenger trips: IATA Passenger forecasts, October 2017  
 Business Jet flights: millions takeoffs and landings, FAA data



# Headroom in a large market



Civil Training Market  
**\$4.2B**

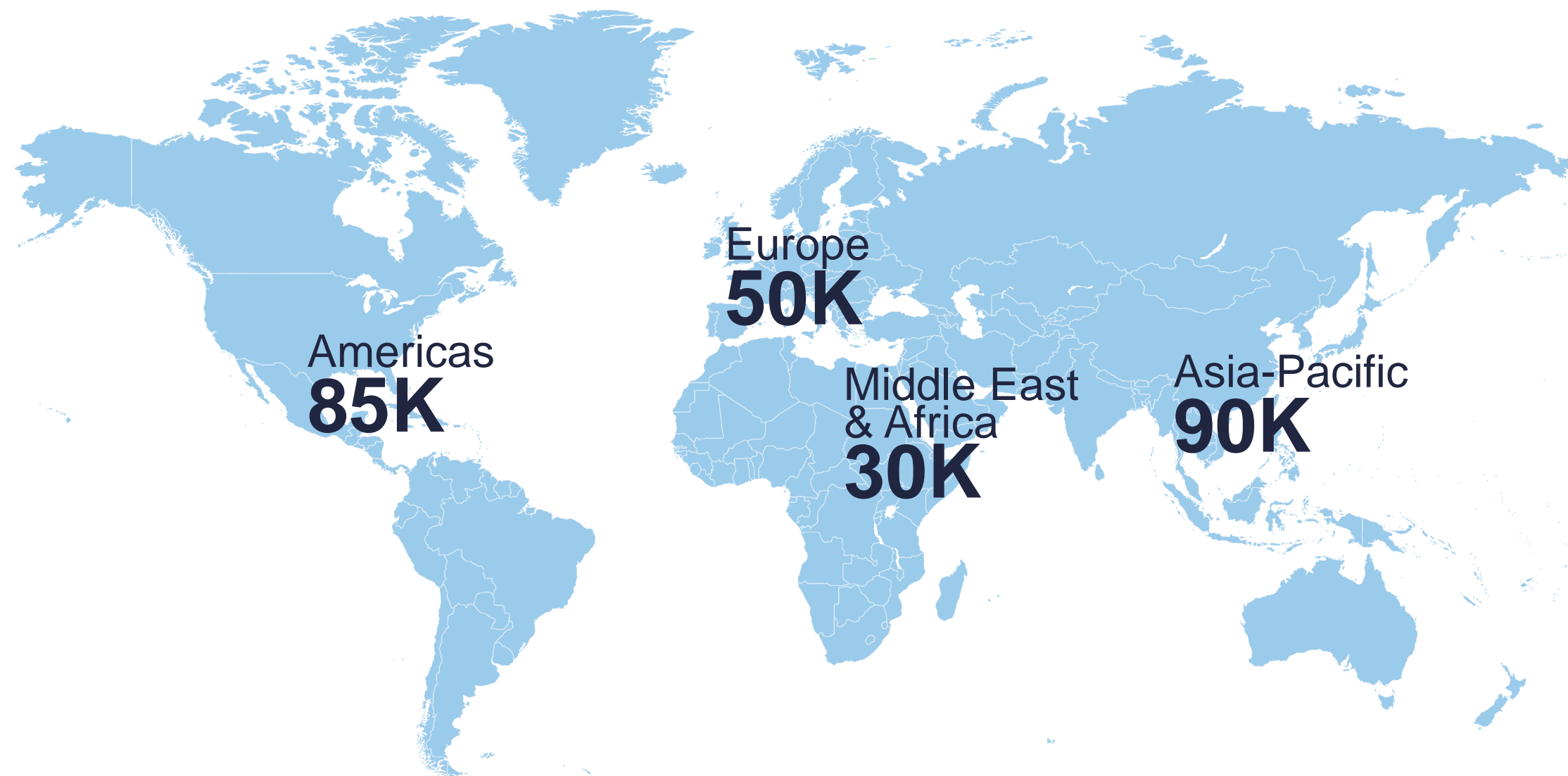
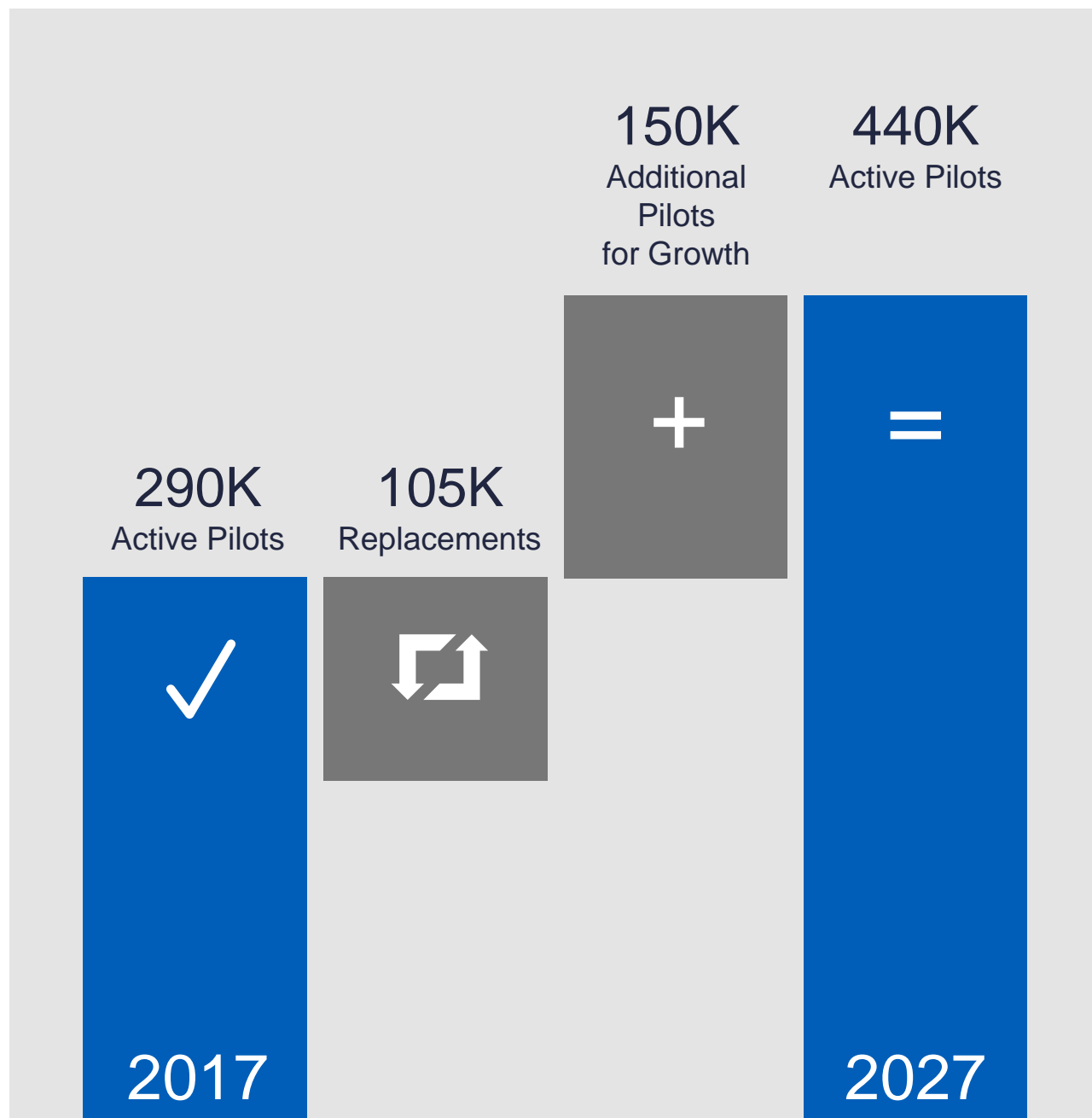


**35%**  
CAE

**CAE has potential to increase share in a large market**



# 255,000 new airline first officers needed over next 10 years



... AND 180,000 NEW CAPTAINS

\* CAE 10 year pilot demand outlook | CAE internal analysis and assessment

**50% of active commercial pilots in 2027 have not begun training yet  
CAE is well positioned to address this demand**

# World's largest civil aviation training network



50+

Training Locations



250+

Full Flight Simulators



9

Academies

160+

Aircraft



CAE trains

120,000+ pilots

every year



# Thought leadership and innovation

Trusted partner of regulatory organizations and industry associations



Constantly developing training solutions for partners

## Development of the Next Generation Training System

Supported by innovative data collection and analysis techniques, we aim to improve training quality and efficiency through the integration of untapped data-driven insights into training



Thought leadership and innovation are at the heart of our success



# Defence And Security



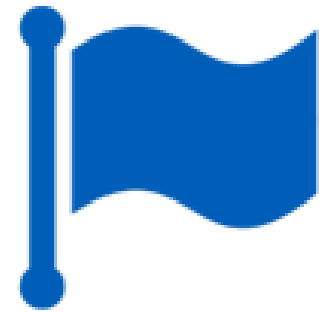
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## Market drivers



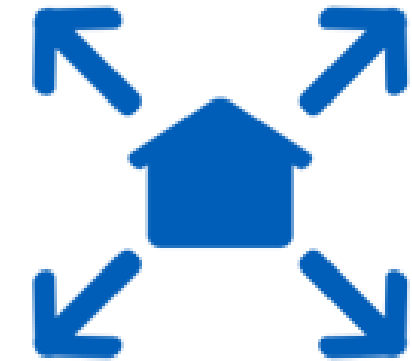
Increased  
Defence spending  
in all major markets



Requirement to  
maintain  
mission readiness

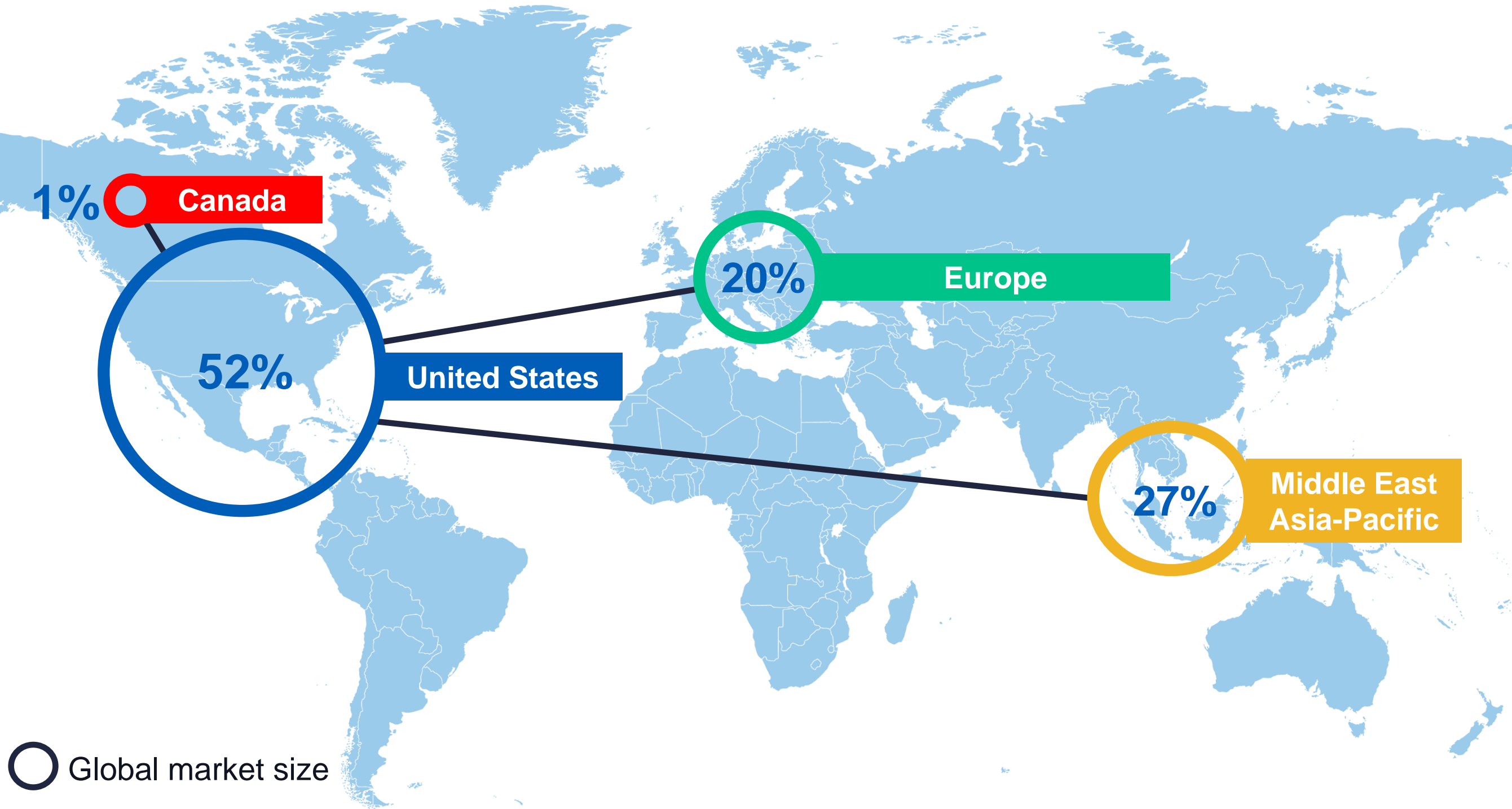


Increased use of  
simulation for  
Integrated Mission  
Training



Propensity to increase  
outsourcing of  
training solutions

# Global defence growth cycle



- 70% spending increase over 10 years
- Acquisition of Major Capital Assets
- Significant unmet needs
- Reliant on US technology

- Persistent Defence budget increases
- Aerospace & Defence firms are
  - Shaping portfolio to focus on core
  - Vertically integrating
  - Consolidating
- Trend towards increased outsourcing
- Focused on Foreign Military Sales

- Plans to recapitalize/modernize aircraft
- Near-term shortfalls delaying programs
- Increased bi-lateral cooperation
- Reliant on US technology

- Instability in ME, IN/PAK, CH, NK
- Adoption of US technology
- Focus on Naval Systems

**Increased budgets, shortage of qualified personnel & proliferation of advanced US technology are pervasive**



# A truly global defence footprint in key markets



**35**  
Countries



**50+**  
Defence Agencies



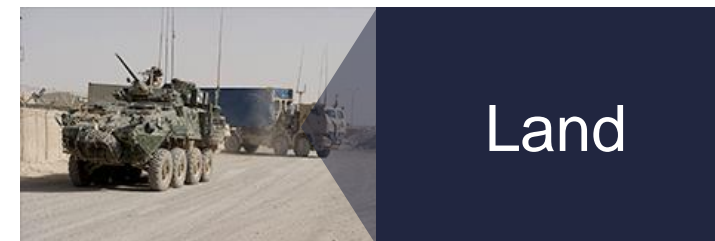
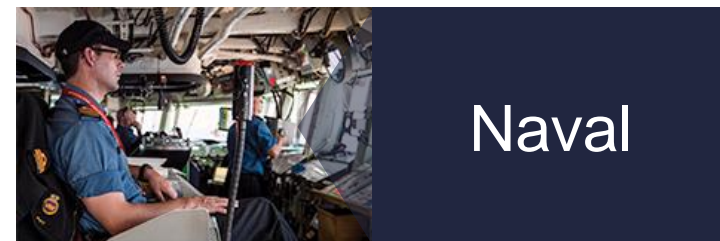
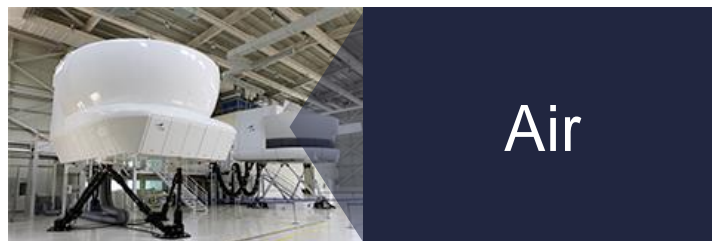
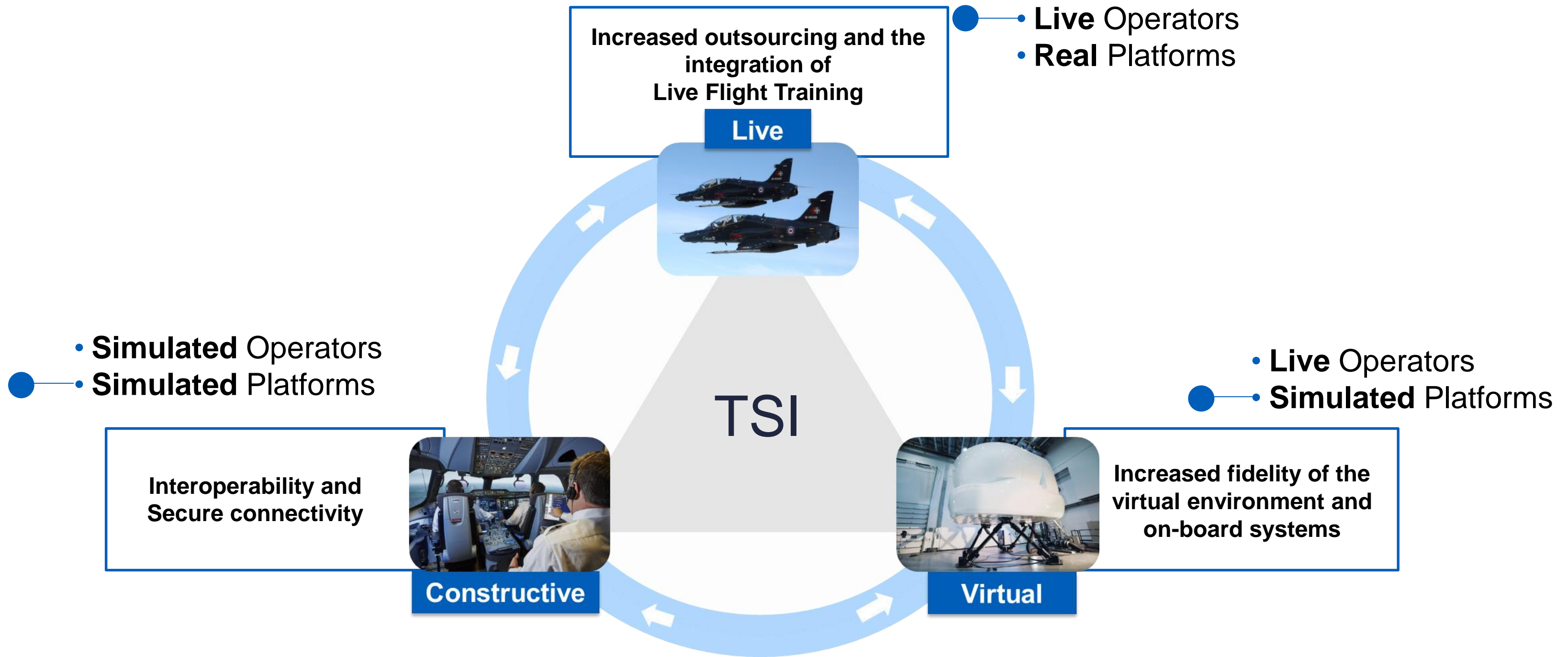
**80+**  
Locations



**70+**  
Platforms reproduced



# Training System Integration



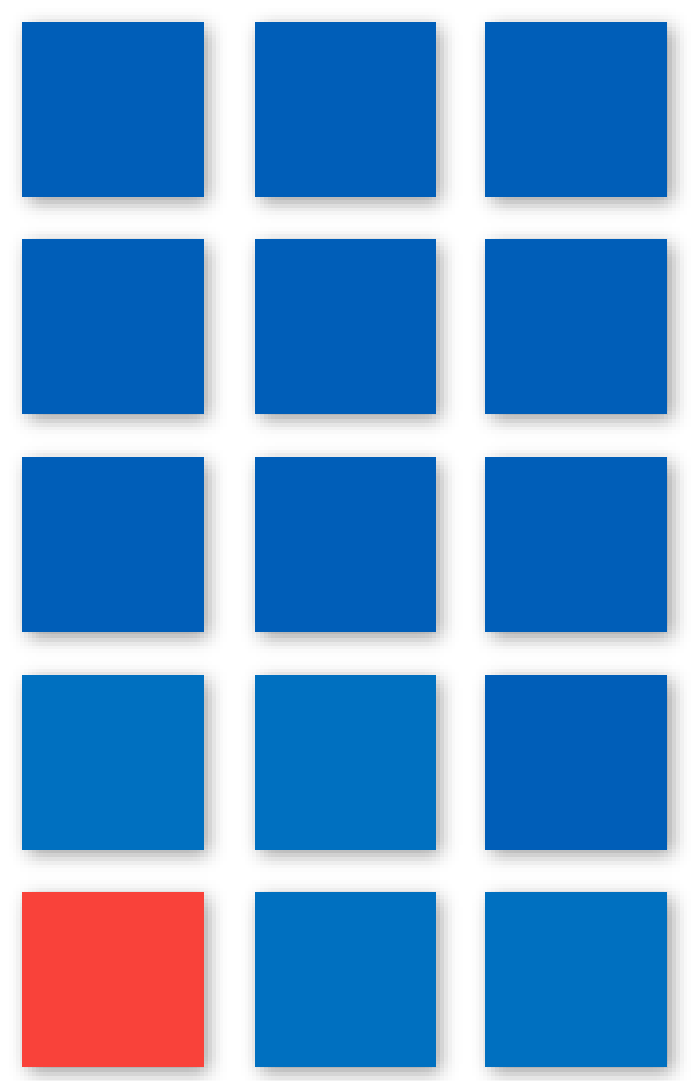


# Headroom in a large market



Training Systems Integration  
Target Market  
**\$17B+**

**\$1.09B**  
CAE



**CAE is well positioned to increase share in a \$17B+ market**



# Thought leadership and innovation



## U.S. Army

- Fixed-Wing Flight Training Program
- Lakota Training System
- Abrams Maintenance Training System



## U.S. Navy

- CNATRA Contract Instruction Services for T-45 and T-6 Aircrew Training
- T-44C Aircrew Training
- MH-60R Tech Refresh



## U.S. Air Force

- MQ-1/MQ-9 Aircrew Training
- KC-135 Aircrew Training
- C-130J Training Systems



## Royal Canadian Air Force

- NATO Flying Training in Canada (NFTC)
- C-295 Fixed Wing SAR Aircrew Training
- CC-130J and CH-147F Operational Training Systems Provider



## U.K. Royal Air Force

- Medium Support Helicopter Aircrew Training Facility
- Military Flying Training System
- Merlin Life Sustainment Program



## Royal Australian Air Force

- Management and Support of ADF Aerospace Simulators (MSAAS)
- MRH90 Training System
- P-8 Training System



## UAE Defence Forces

- Naval Training Centre (NTC)
- Joint Aviation Command AH407 / UH60 Training System
- MQ-1 (Protector) Training Program

**Innovative and comprehensive training solutions on leading platforms for Defence organizations worldwide**

# Healthcare



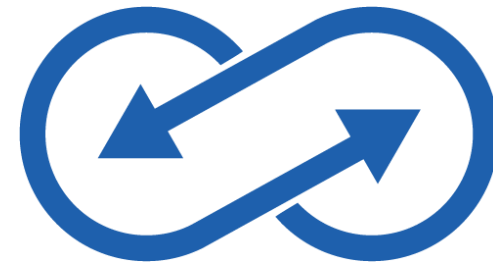
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# Why Healthcare



**Digitization of healthcare training and education with potential for increased regulation**



**Synergies with CAE augmented / virtual / mixed reality**



**Explicit desire to adopt aviation best practices**

**Opportunity to lead in a potentially much larger market as regulations take hold**



# Factors driving simulation-based training in Healthcare

Increasing use of simulation in healthcare

Digital transformation of healthcare training

Growing emphasis on patient safety

Reducing medical errors\*

Limited access to live patients during training

- Apprenticeship model
- Students paired with experienced staff
- Limited access to high-risk procedures

Medical technology revolution

Advancements in medical technology are driving the use of simulation by OEMs and clinicians



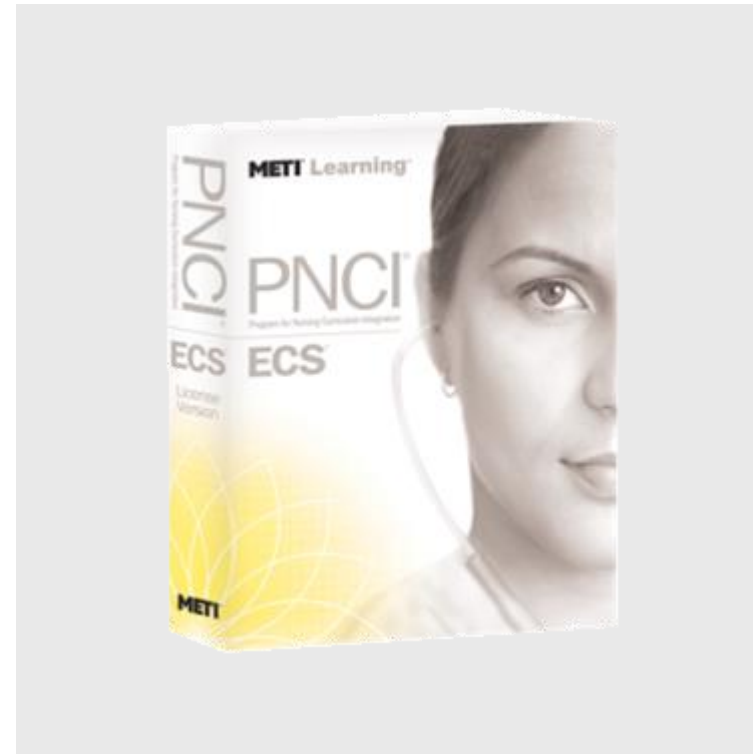
\* 3<sup>rd</sup> leading cause of death in USA



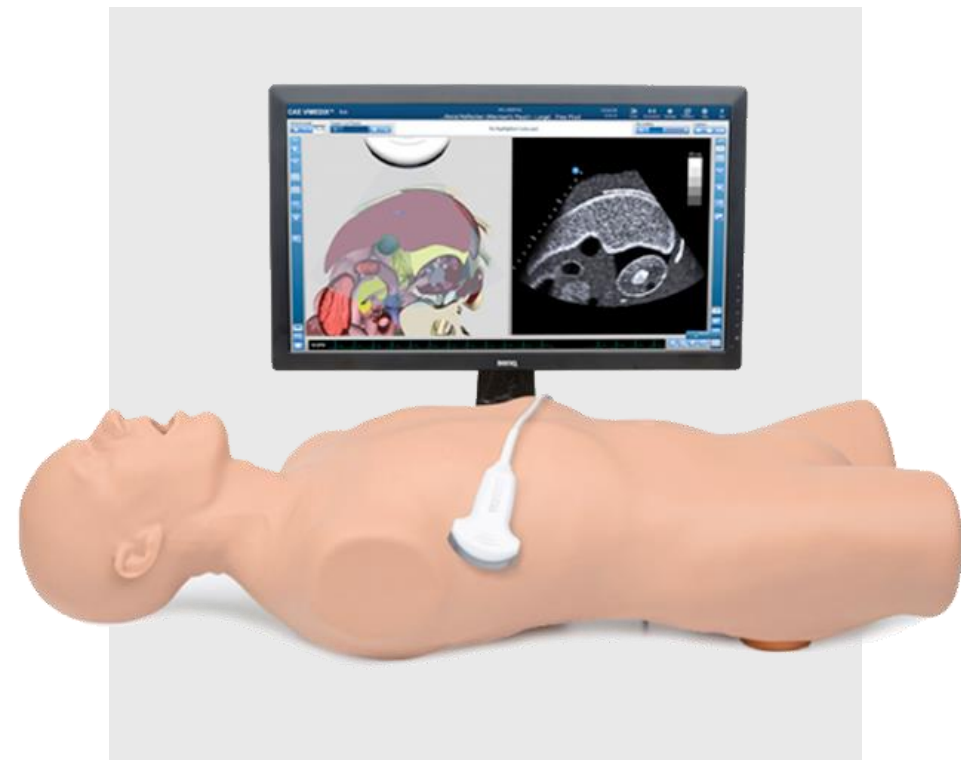
# Broadest portfolio of training solutions



Patient simulators



Courseware



Ultrasound simulators



Surgical simulators



Simulation centre management solutions



**CAE Healthcare became the first company to bring a commercial Microsoft HoloLens mixed-reality application to the medical simulation market...**



**...by using the Microsoft HoloLens, the CAE VimedixAR ultrasound simulator integrates real-time interactive holograms of the human anatomy**



# Thought leadership and innovation screen-based simulation used for maintenance of certification

- Scenario-based eLearning created in collaboration by American Society of Anesthesiologists (ASA) and CAE Healthcare deployed via the ASA Education Center
- Allow users to explore high-stakes practice scenarios in a realistic, immersive environment, at their choice of location and time
- Approved by American Board of Anesthesiology (ABA) for Maintenance of Certification Anesthesiology (MOCA) Part IV and Part 2
- CAE Muse physiology is a unique, award-winning technology that offers a solution to recertify professionals



*CAE's modeled physiology automatically and realistically responds to therapeutic interventions and includes detailed, objective performance feedback*



# Financial highlights and capital priorities



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# Priorities

1

## **Invest in superior and sustainable growth**

Market/customer-led investments in core and close adjacencies with a clear path to market share gains and attractive returns

2

## **Provide current shareholder returns while generating long term growth**

Current shareholder returns commensurate with earnings and cash performance

3

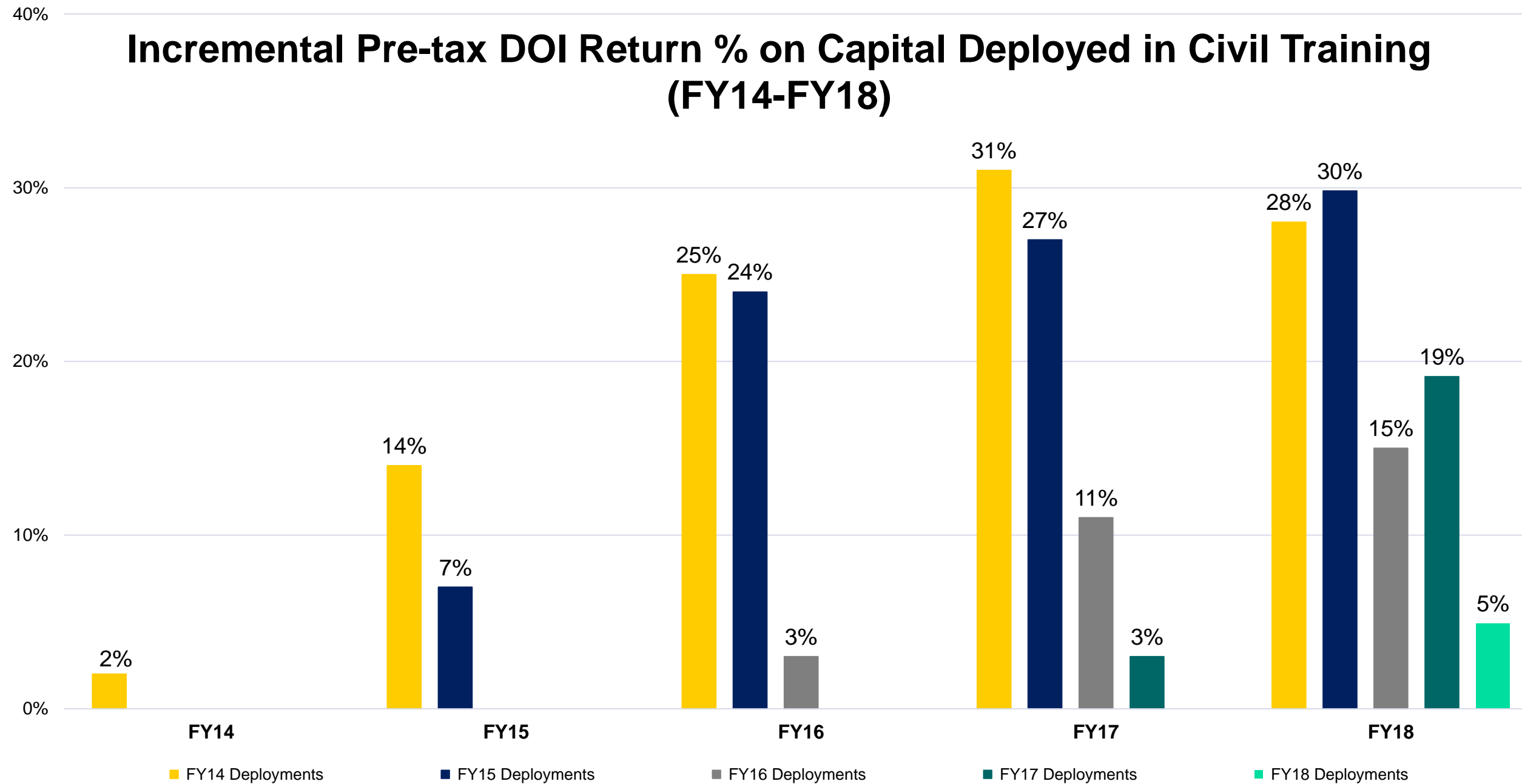
## **Maintain a strong balance sheet**

Target leverage ratio of Net Debt-to-Capital of 35-45% to maintain flexibility for growth investment opportunities



# Investment in accretive growth remains a priority given attractive return potential

1

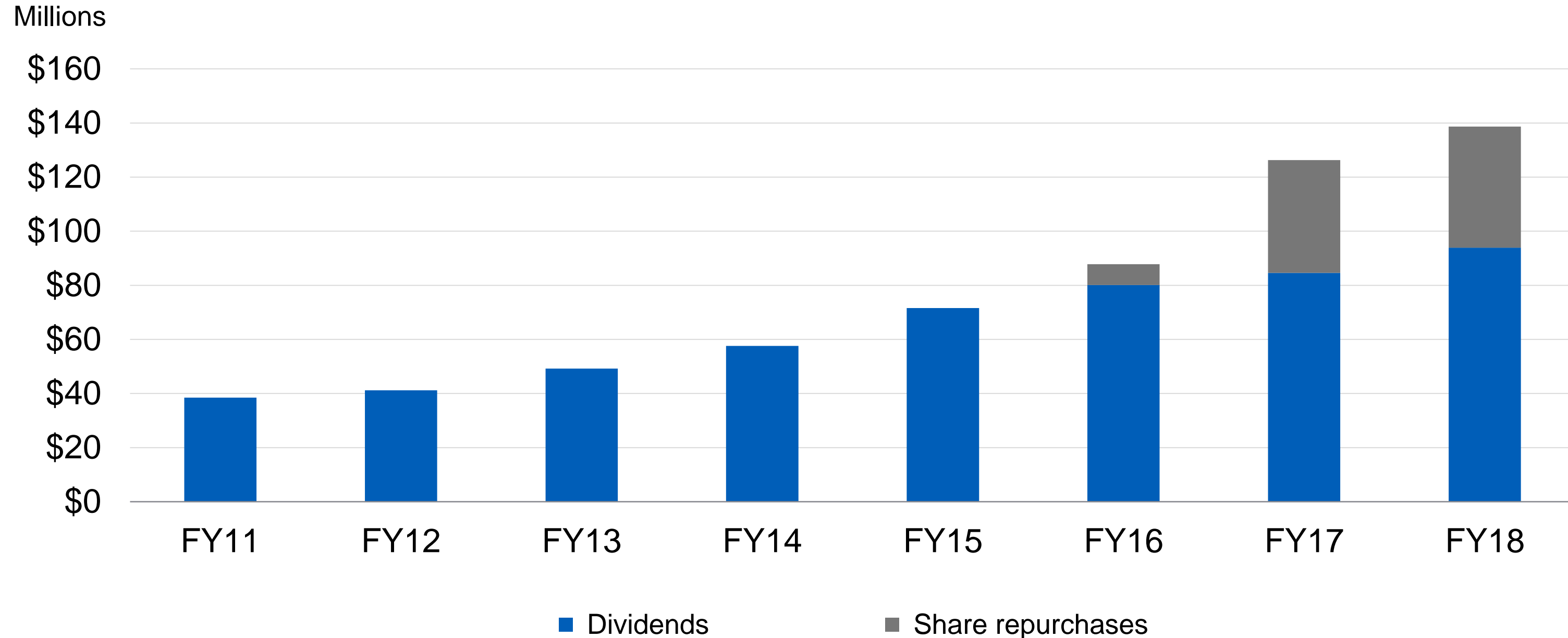


~\$316M capital investment from FY14-FY18 to deploy 47 FFSs within CAE's Civil commercial and business aviation training network

**Growth capital deployed in Civil in the last five years has grown recurring revenue and has been highly accretive**

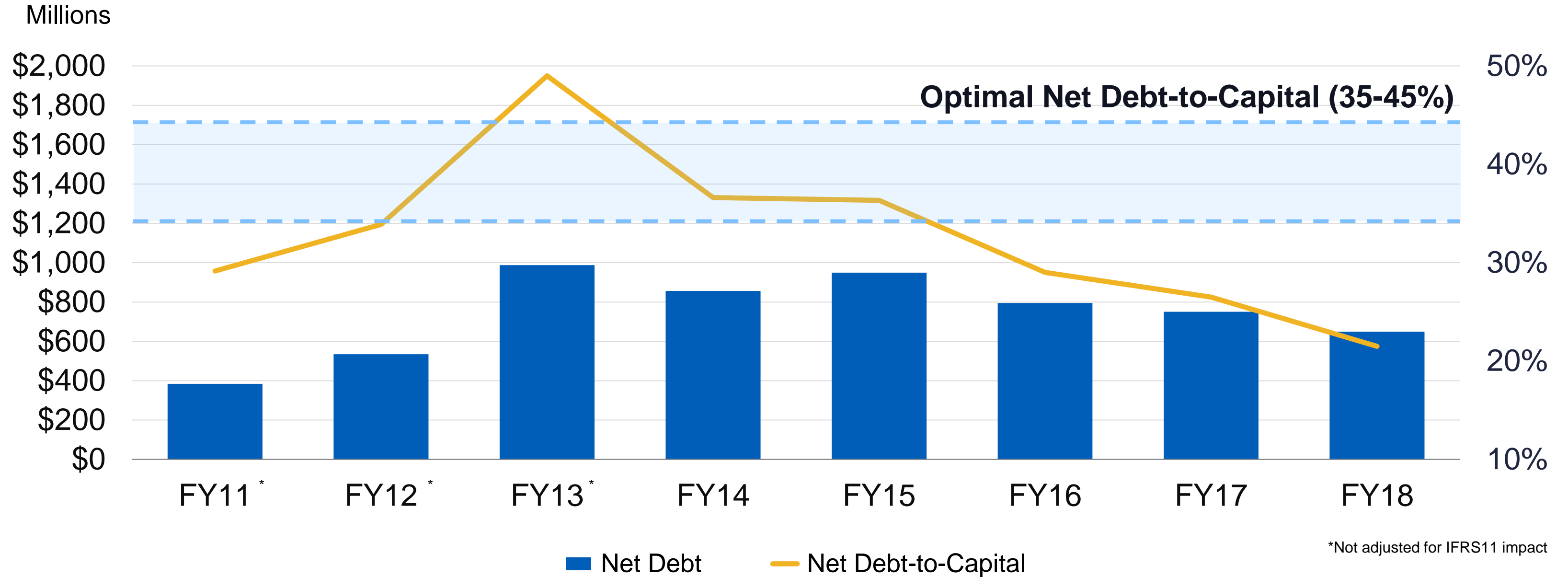
# Current shareholder returns

## Profits returned to shareholders



**CAE prioritizes a balance between long-term capital appreciation and cash returns to shareholders**

# Strong balance sheet

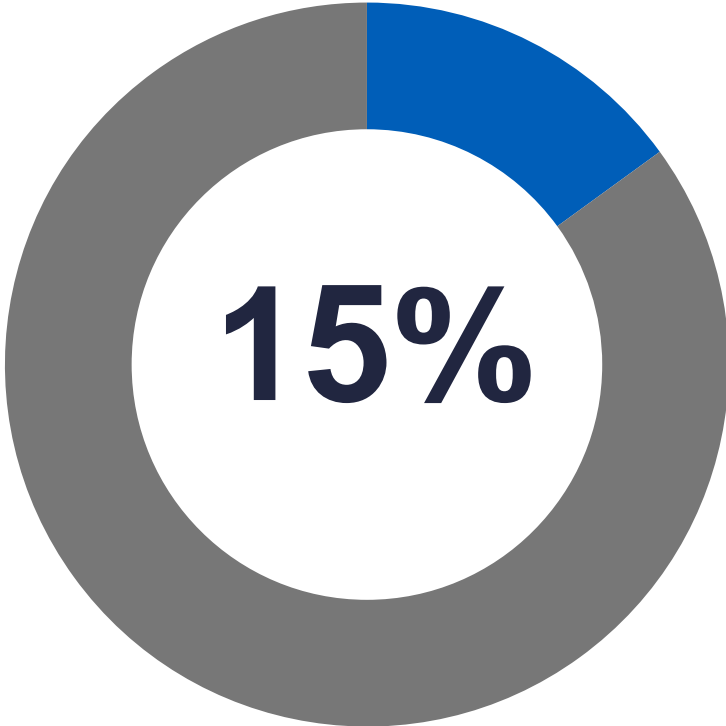


**CAE's strong financial position provides stability and flexibility to pursue accretive growth investments in our core**

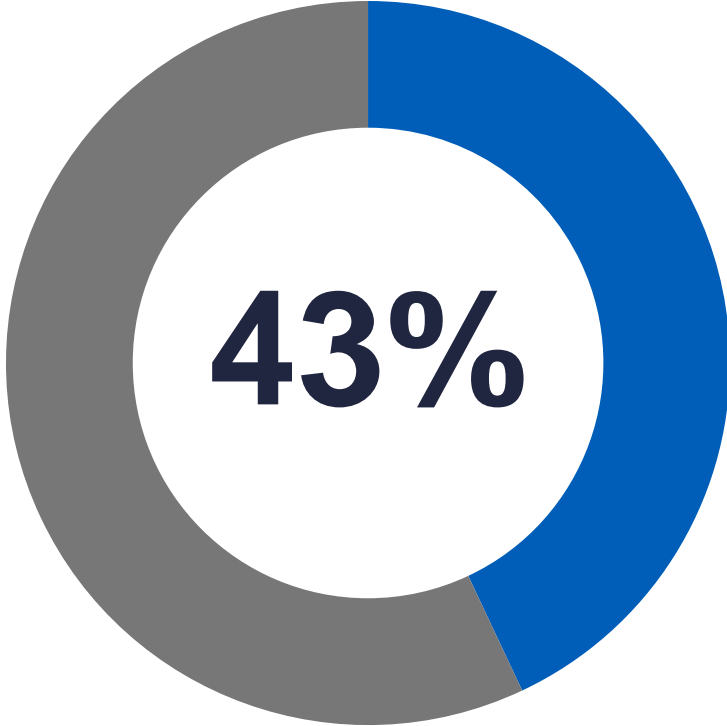


# Increased proportion of recurring revenue (services)

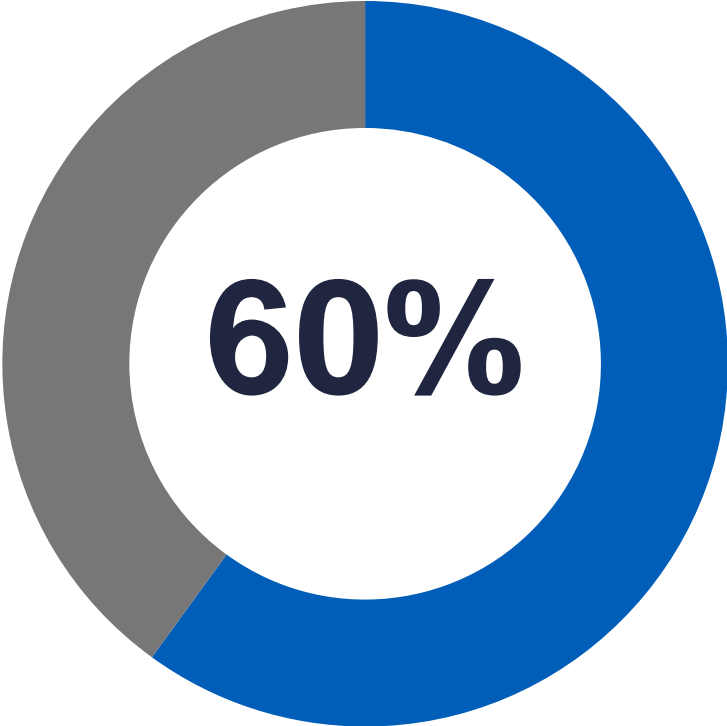
**FY2001**



**FY2008**



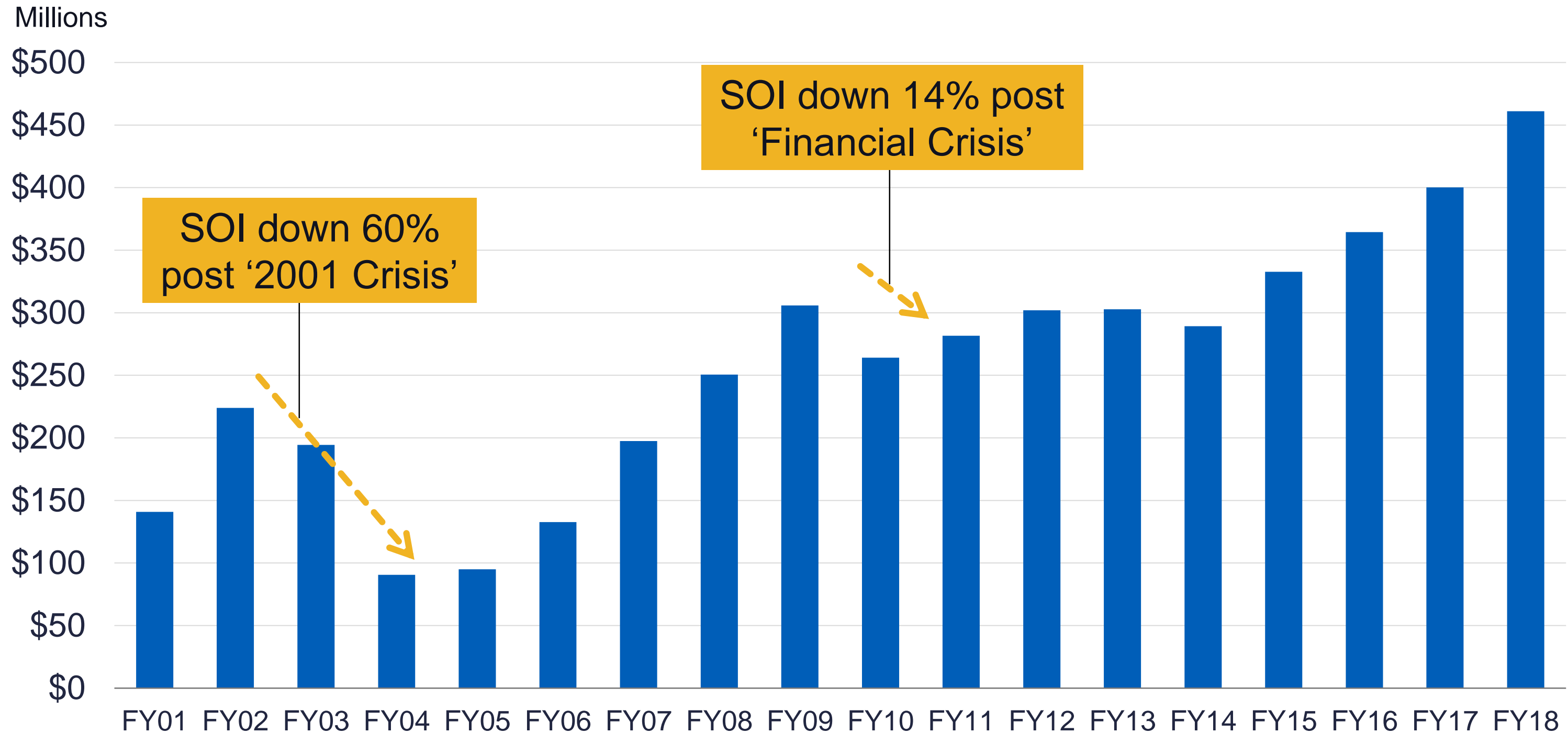
**FY2018**



■ Products ■ Services

# A resilient business model

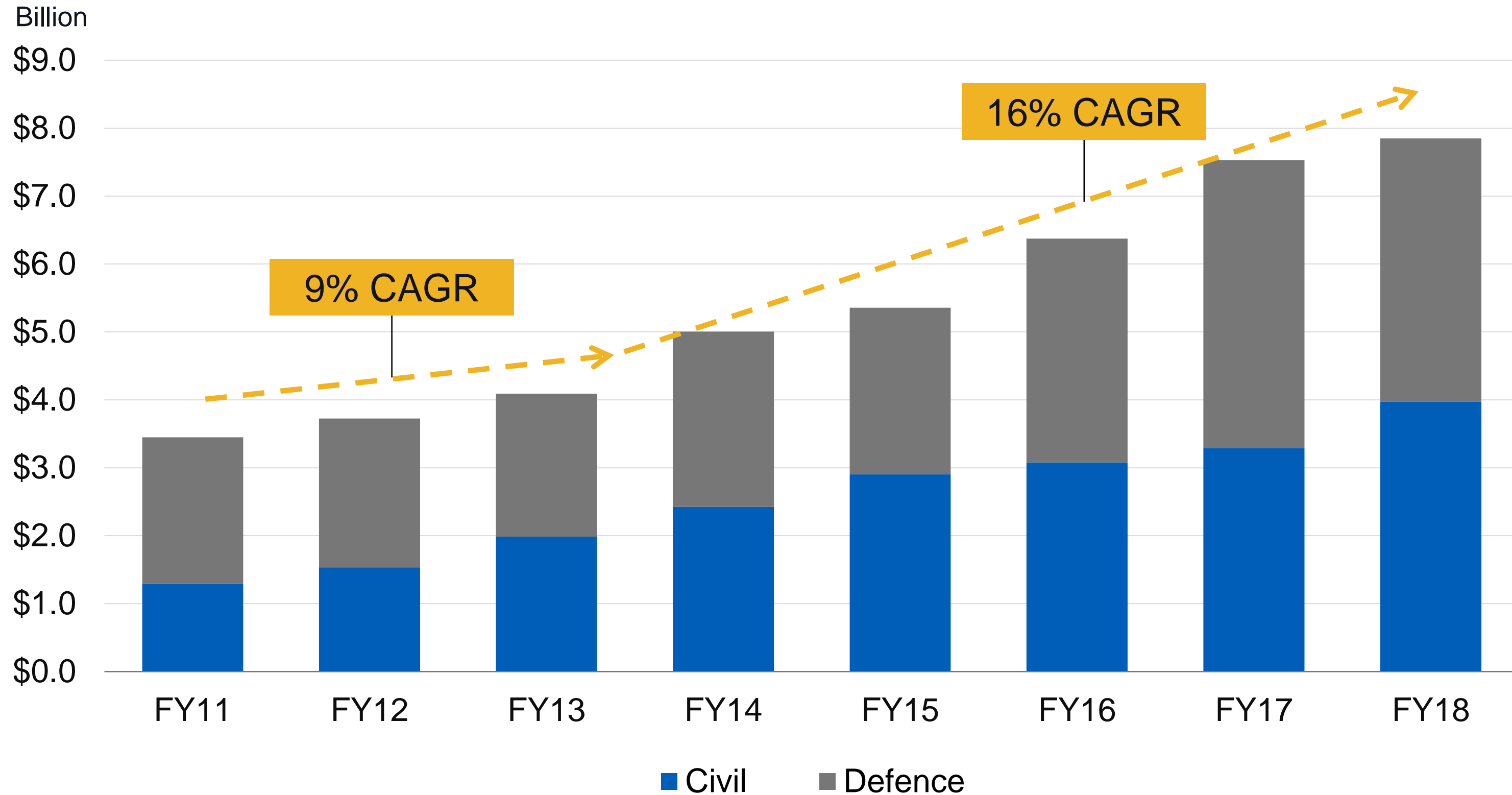
## CAE Consolidated Segment Operating Income (SOI)



FY01-FY10 Canadian GAAP; FY11-FY17 IFRS

# Strong backlog for enhanced visibility

## Total Backlog





# Compelling long term investment thesis

 <b>High Degree of Recurring Business</b>	<ul style="list-style-type: none"><li>• Services revenue approx. 60% of mix and expected to continue increasing relative to products</li><li>• Long-term contracts in regulated markets</li><li>• Large order backlog</li></ul>	 <b>Strong Competitive Moat</b>	<ul style="list-style-type: none"><li>• Market leader</li><li>• Unique comprehensive Solutions</li><li>• Unmatched global reach and scale</li><li>• Deep customer intimacy</li></ul>	 <b>Headroom in Large Markets</b>	<ul style="list-style-type: none"><li>• Large addressable markets in Civil Aviation and Defence</li><li>• Innovation leader in developing Healthcare simulation market</li></ul>
 <b>Underlying Secular Tailwinds</b>	<ul style="list-style-type: none"><li>• Long-term passenger traffic growth in Civil aviation</li><li>• Increased defence spending and rise in simulation-based training</li><li>• Rising adoption of simulation in Healthcare and potential for regulation</li></ul>	 <b>Potential for Superior Returns</b>	<ul style="list-style-type: none"><li>• Rising proportion of recurring services which portends lower volatility</li><li>• Potential to grow faster than underlying markets by increasing share in large markets</li></ul>	 <b>Culture of Innovation</b>	<ul style="list-style-type: none"><li>• Innovation leader in simulation products and training solutions</li><li>• Proven outsourcing models</li></ul>

**CAE's position for sustainable growth inside of large end markets makes it highly attractive from a risk/return standpoint**

# Outlook summary for FY2019

## CIVIL

Continued low double-digit percentage operating income growth

## DEFENCE AND SECURITY

Continued mid to high single-digit percentage operating income growth

## HEALTHCARE

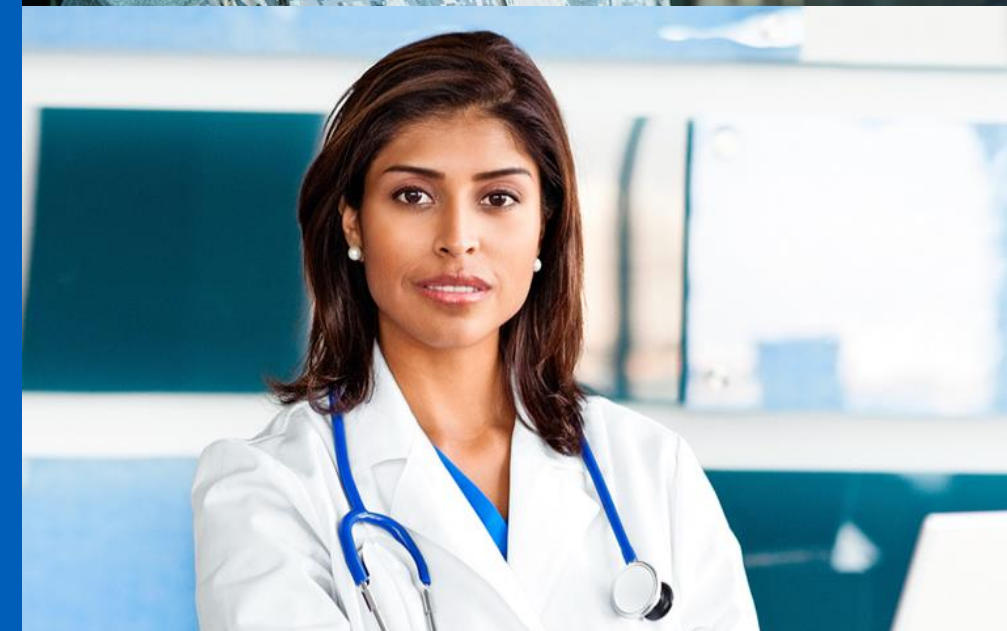
Resumption of double-digit growth

**Continued measured and profitable growth investment mainly in support of and driven by customer training outsourcing opportunities**

**Total capital expenditures of approximately \$200 M commensurate with larger scale of CAE and high level of opportunity for market-led investments offering accretive returns and free cash flows**

**Expect to exceed underlying growth of CAE's core markets**

# Appendix



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## FY18 YTD business highlights

### FY18 Q4

### FY18 YTD

	FY18 Q4	FY18 YTD
<b>EPS</b> from continuing operations	\$0.37 vs. \$0.25 (\$0.31 before specific items) in prior year	\$1.29 vs. \$0.93 (\$1.03 before specific items) in prior year
<b>Revenue</b>	\$780.7 M (+6% YoY)	\$2,830.0 M (+5% YoY)
<b>Operating profit</b>	\$141.1 M (+40% YoY)	\$461.0 M (+15% YoY)
<b>Free cash flow</b> from continuing operations	\$117.3 M (compared to \$160.4 M in prior year)	\$288.9 M (compared to \$327.9 M in prior year)
<b>Book-to-sales</b>	1.30x	1.36x
<b>Total backlog</b>	\$7.8B	

# Consolidated financial results

<b>Summary of Consolidated Results</b> <i>(amounts in millions, except per share amounts)</i>	<b>Three months ended March 31</b>	
	<b>2018</b>	<b>2017</b>
Revenue	\$ 780.7	\$ 734.7
Gross profit	260.5	235.0
Operating profit	141.1	100.9
<i>As % of revenue</i>	<i>18.1%</i>	<i>13.7%</i>
Earnings from continuing operations	103.4	69.8
Net income attributable to equity holders of the Company	100.1	66.7
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company	0.37	0.25
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company – before specific items	0.37	0.25

## Consolidated financial results

Summary of Consolidated Results <i>(amounts in millions, except per share amounts)</i>	Twelve months ended March 31	
	2018	2017
Revenue	\$ 2,830.0	\$ 2,704.5
Gross profit	876.9	811.2
Operating profit	461.0	364.7
<i>As % of revenue</i>	16.3%	13.5%
Earnings from continuing operations	355.7	257.1
Net income attributable to equity holders of the Company	347.0	251.5
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company	1.29	0.94
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company – before specific items	1.29	0.93



# Cash movements

Consolidated Cash Movements (amounts in millions)	Three months ended March 31	
	2018	2017
Cash provided by continuing operating activities (before changes in non-cash W/C)	\$ 130.8	\$ 116.9
Changes in non-cash working capital	7.0	80.6
Maintenance capex and others assets	(22.8)	(26.8)
Proceeds from the disposal of property, plant and equipment	10.6	4.1
Net proceeds from (payments to) equity accounted investees	0.2	(1.2)
Dividends received from equity accounted investees	14.0	7.3
Dividends paid	(22.5)	(20.5)
Free cash flow from continuing operations	117.3	160.4

# Cash movements

Consolidated Cash Movements (amounts in millions)	Twelve months ended March 31	
	2018	2017
Cash provided by continuing operating activities (before changes in non-cash W/C)	\$ 446.4	\$ 435.2
Changes in non-cash working capital	(43.1)	29.1
Maintenance capex and others assets	(77.6)	(68.3)
Proceeds from the disposal of property, plant and equipment	27.0	6.6
Net payments to equity accounted investees	(11.5)	(10.6)
Dividends received from equity accounted investees	37.6	16.5
Dividends paid	(89.9)	(80.6)
Free cash flow from continuing operations	288.9	327.9



Our vision is to be the recognized global

**training partner of choice**

to enhance safety, efficiency and readiness.