

# Investor Presentation

November 2017



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# CAUTION REGARDING FORWARD LOOKING STATEMENTS

This document includes forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, 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, anticipate, plan, intend, continue, estimate, may, will, should, strategy, future and similar expressions. 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.

You will find more information in the Business risk and uncertainties section of our second quarter fiscal 2018 MD&A and in our annual information form for the year ended March 31, 2017. These documents have been filed with the Canadian securities commissions and are available on our website ([www.cae.com](http://www.cae.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)). They have also been filed with the U.S. Securities and Exchange Commission under Form 40-F and are available on EDGAR ([www.sec.gov](http://www.sec.gov)). Forward-looking statements in this document represent our expectations as of November 10, 2017, 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.



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

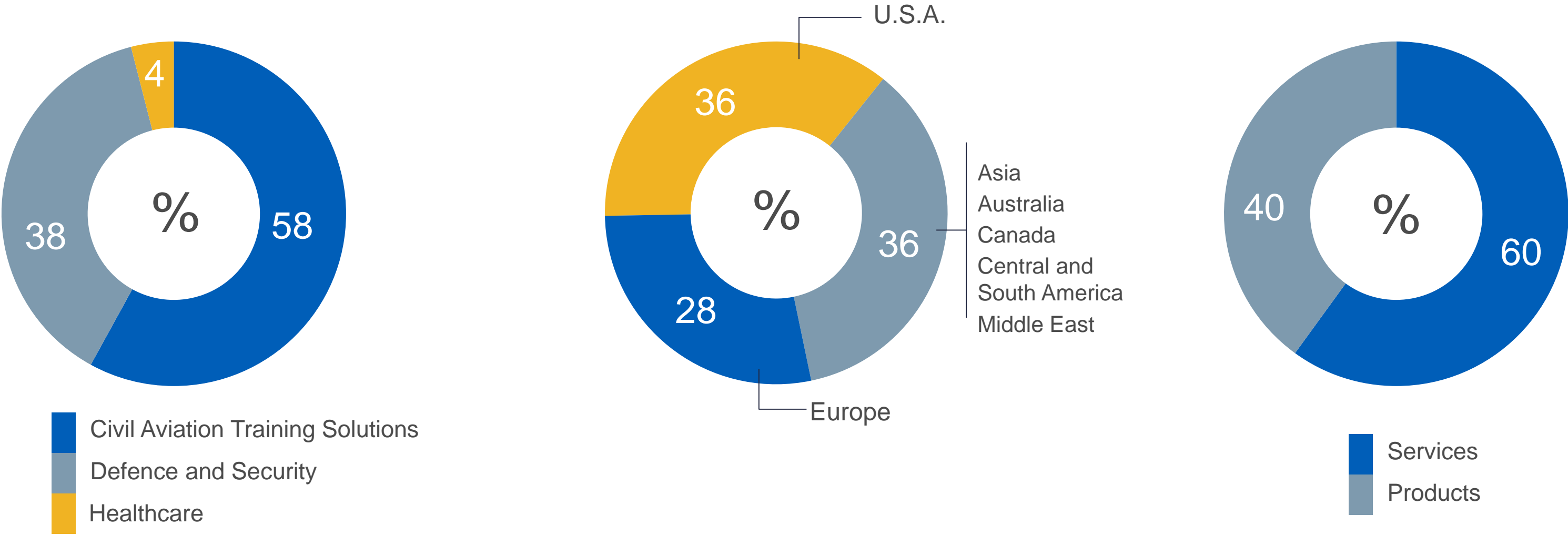
- Training Systems Integrator
- Virtual and live training
- Training equipment

### Healthcare

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

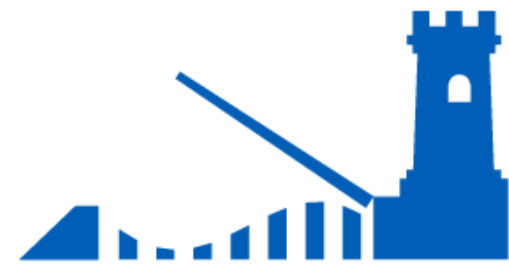
# CAE AT A GLANCE

Diversified base of business with a high degree of recurring revenue



Total FY17 revenue: \$2.7B

# 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**

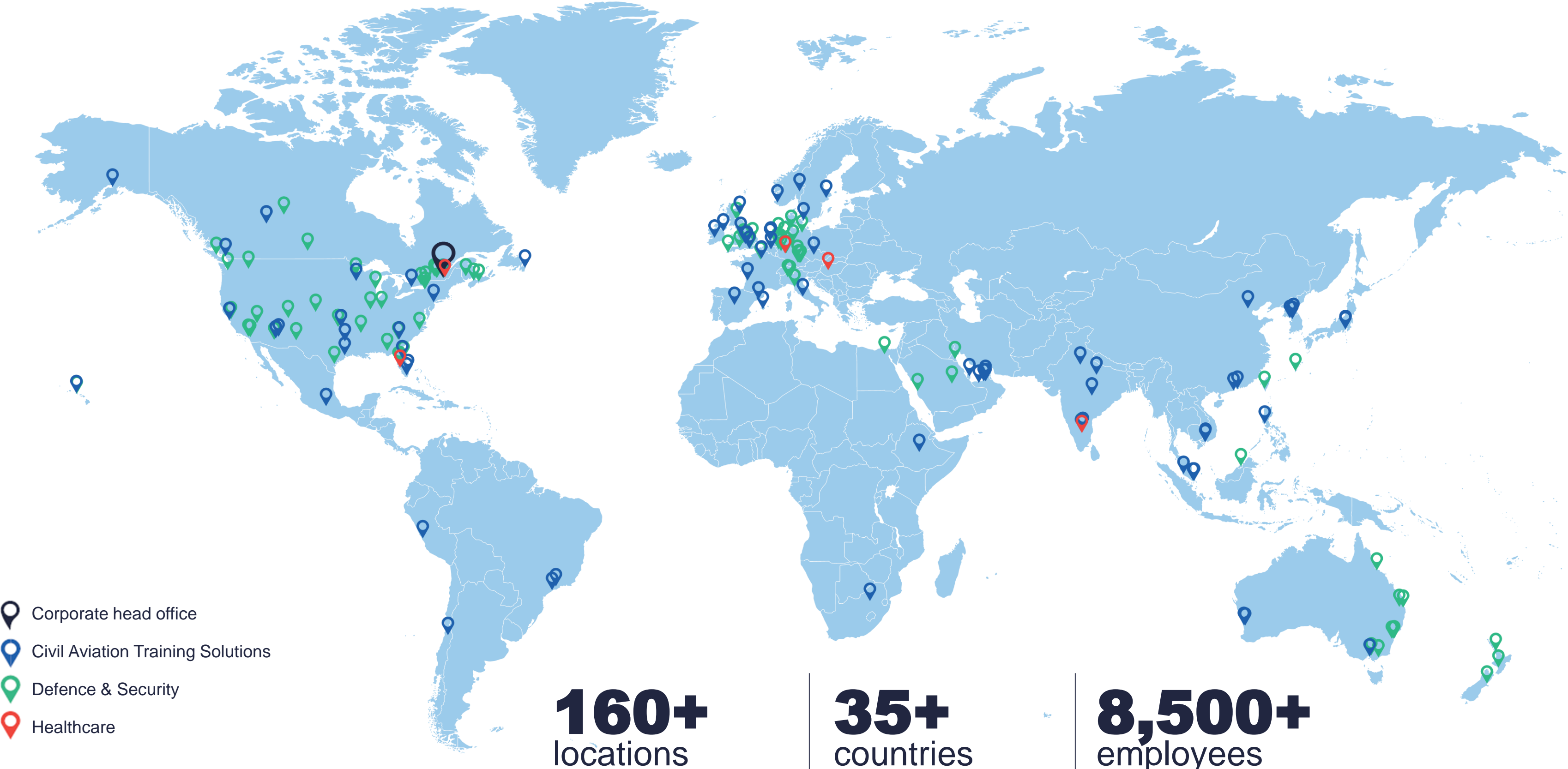


**High degree  
of recurring  
business**

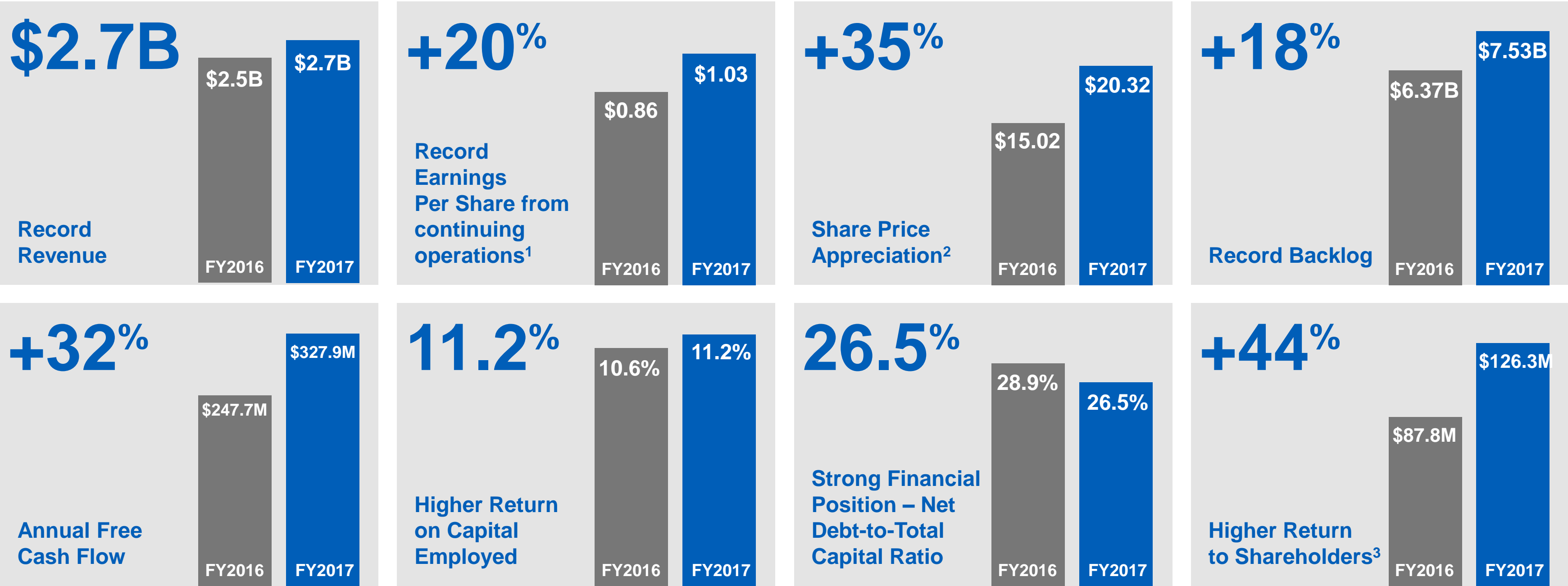


**Culture  
of innovation**

# UNMATCHED GLOBAL REACH



# FY2017 PERFORMANCE HIGHLIGHTS



1. Before specific items  
2. Closing share price on March 31 2016 and 2017  
3. Combining dividends and share buy-backs  
Note: EPS from continuing operation before specific items, backlog, return of Capital employed and free cash flow are all non-GAAP financial measures and are defined in CAE's FY2017 Management discussion and analysis



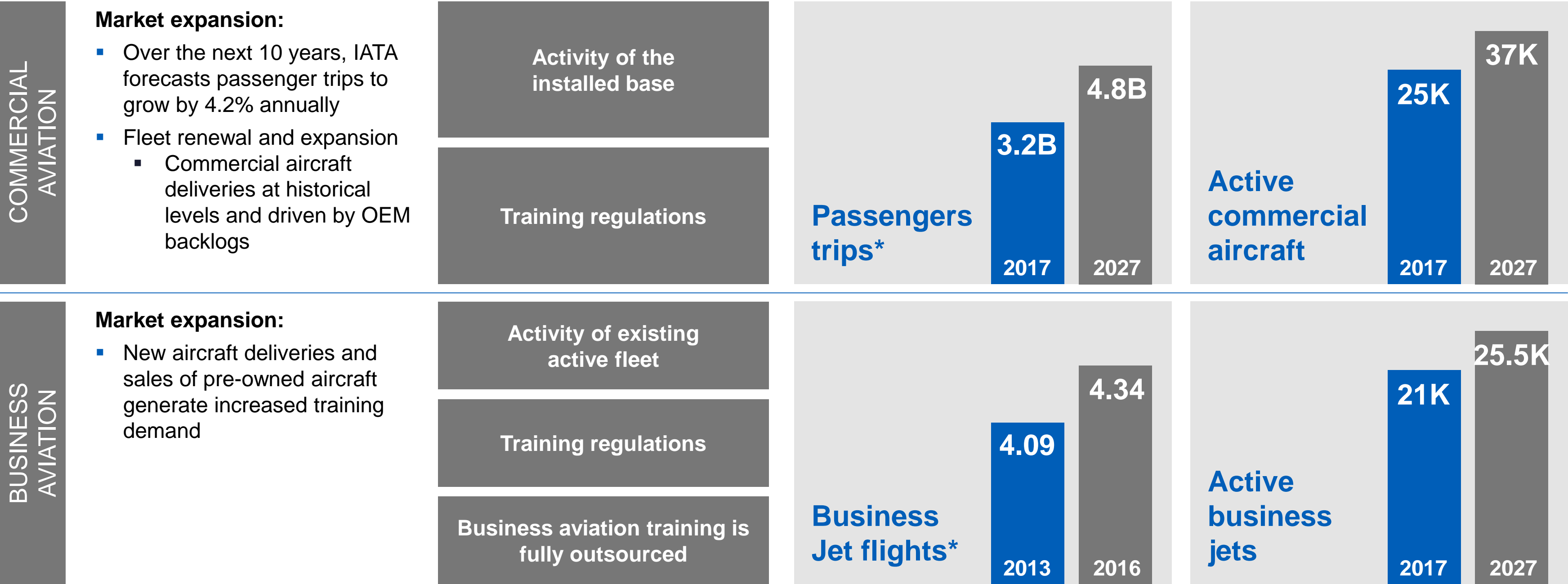
# Civil Aviation Training Solutions



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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 2016  
Business Jet flights: millions takeoffs and landings, FAA data



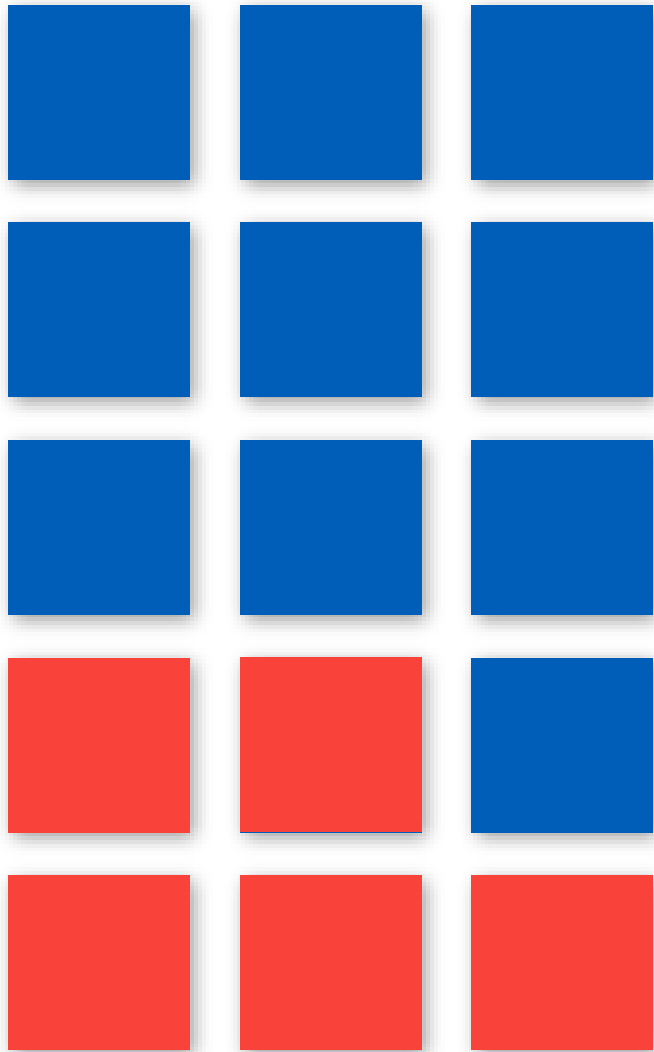
CIVIL AVIATION TRAINING SOLUTIONS

# HEADROOM IN A LARGE MARKET



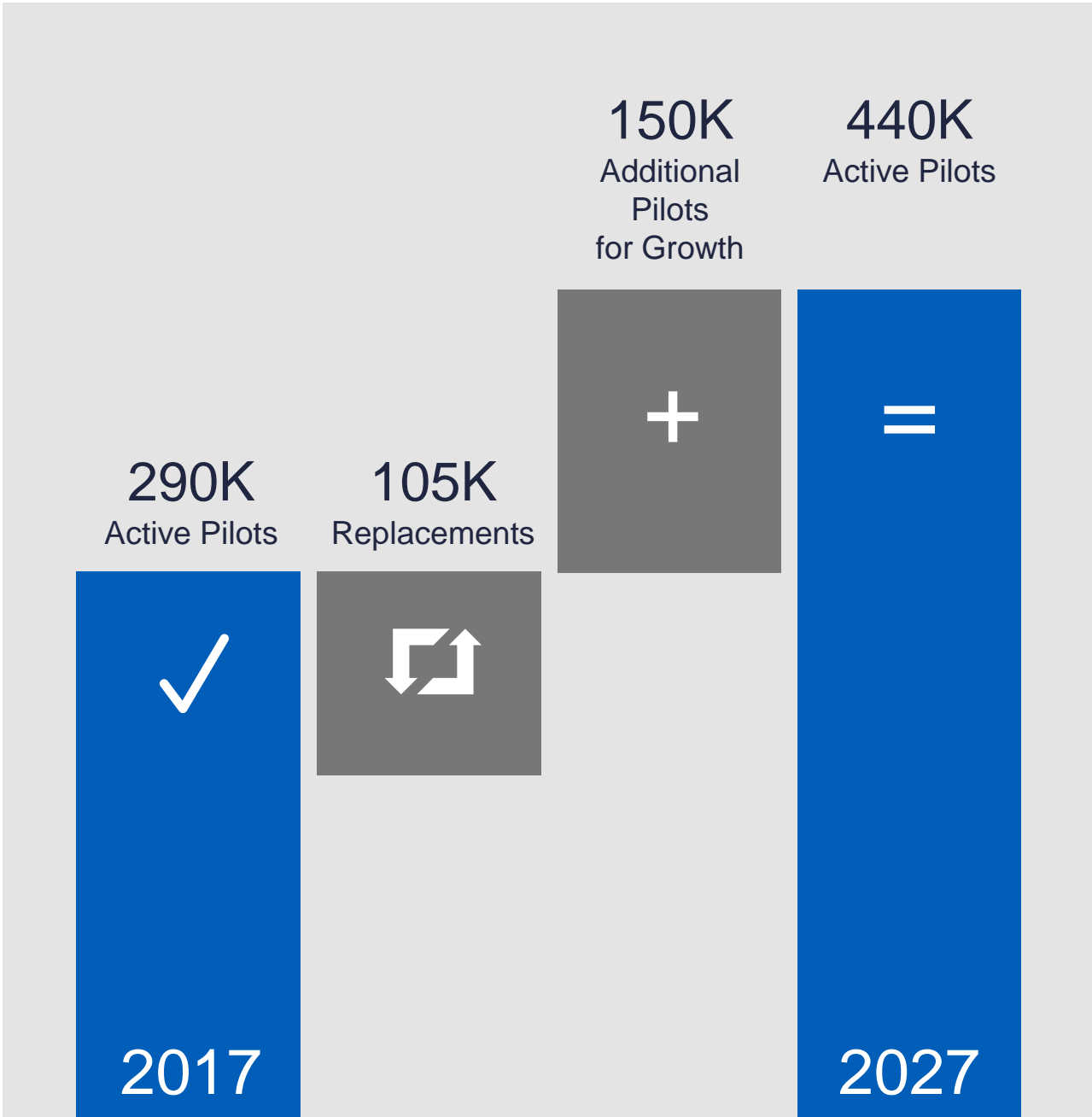
Civil Training Market  
\$3.5B

33%  
CAE

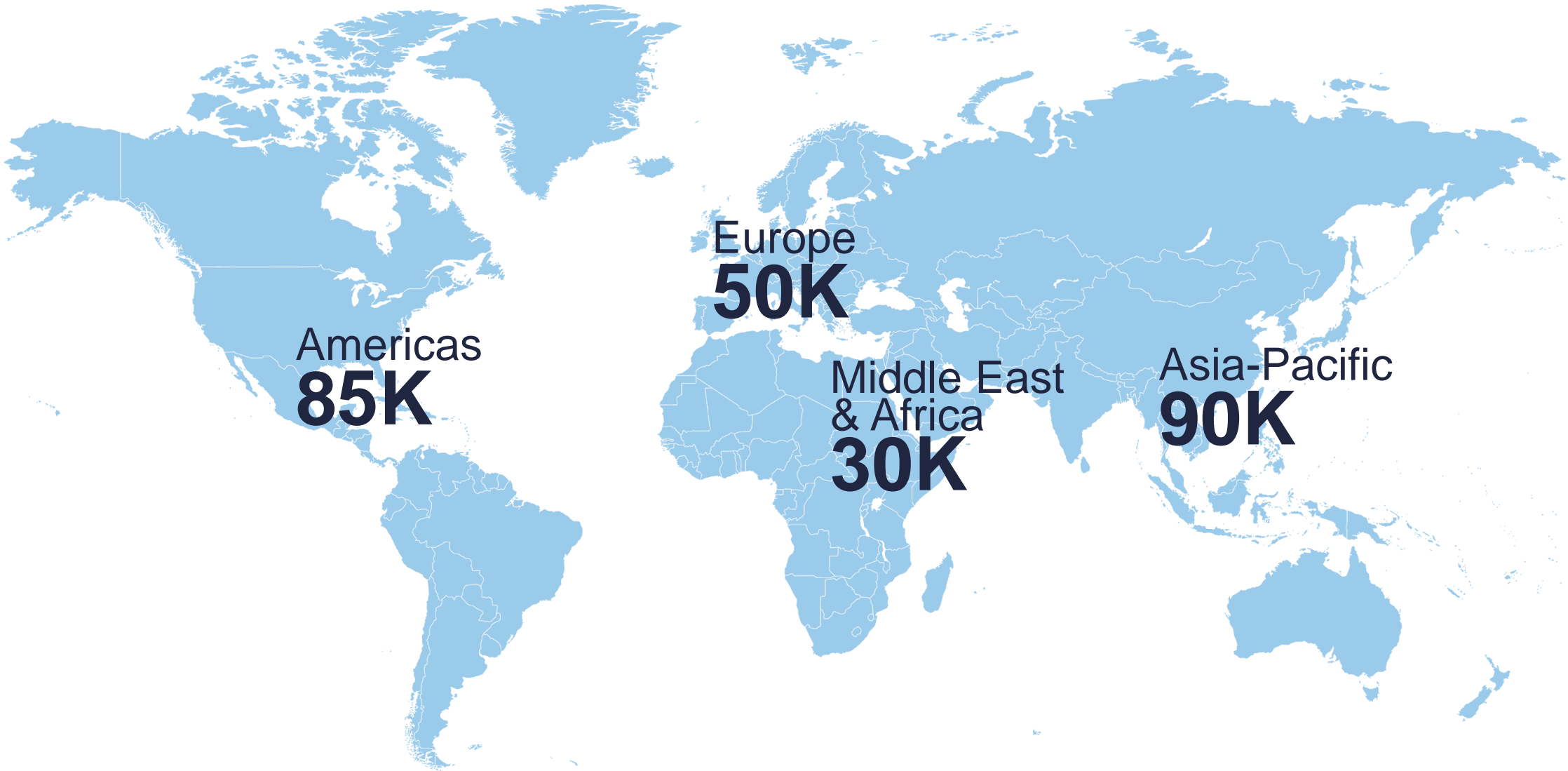


CAE has potential to increase share in a large market

255,000 NEW AIRLINE FIRST OFFICERS NEEDED OVER NEXT 10 YRS



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



... AND 180,000 NEW CAPTAINS

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

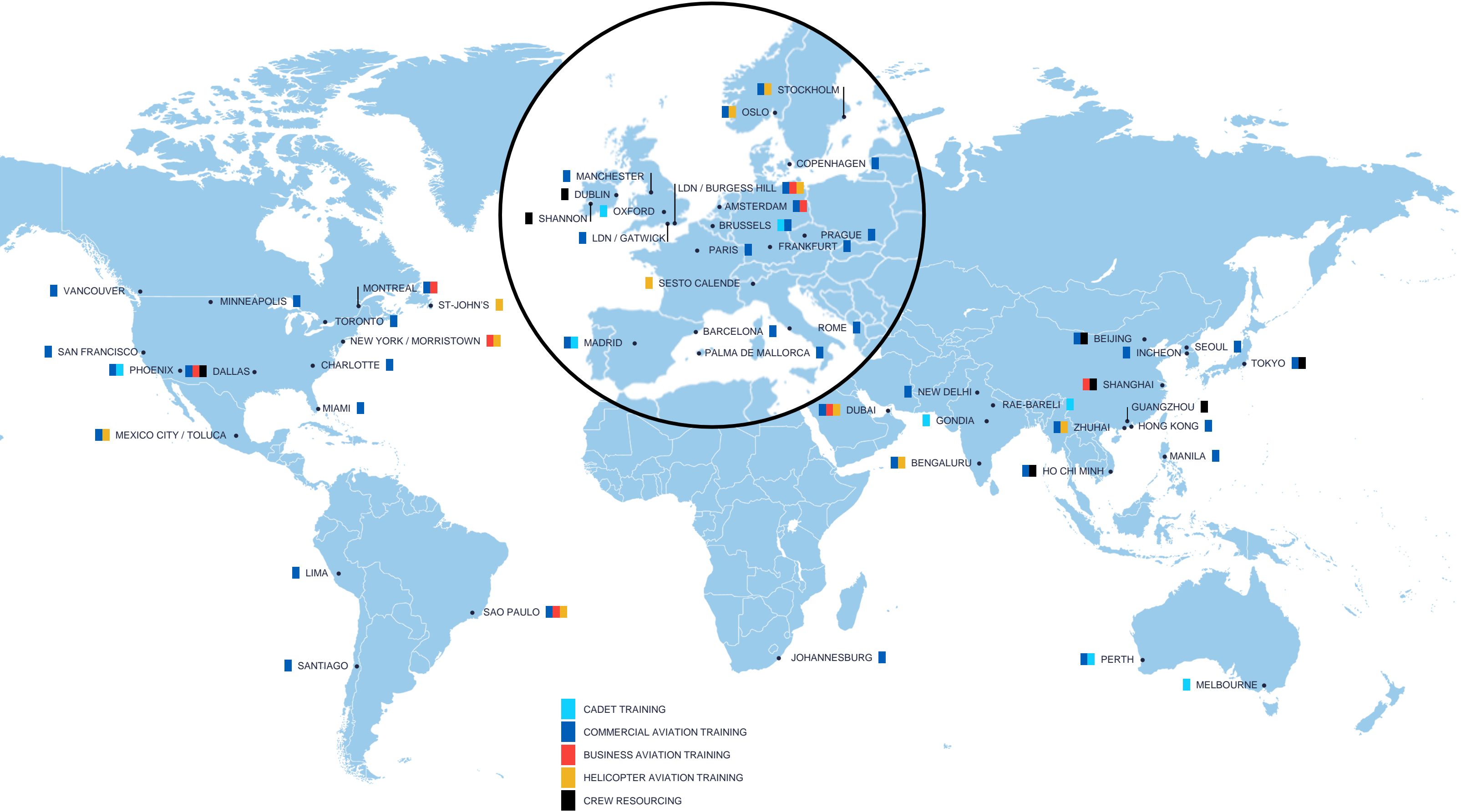


**2,000+**  
Instructors



**7** Academies | **160+** Aircraft

Train pilots from  
**>300 airlines**  
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



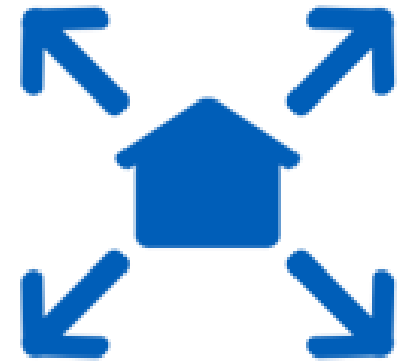
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## MARKET DRIVERS



Increase in Defence  
spending in major  
markets



Propensity to  
outsource training  
solutions

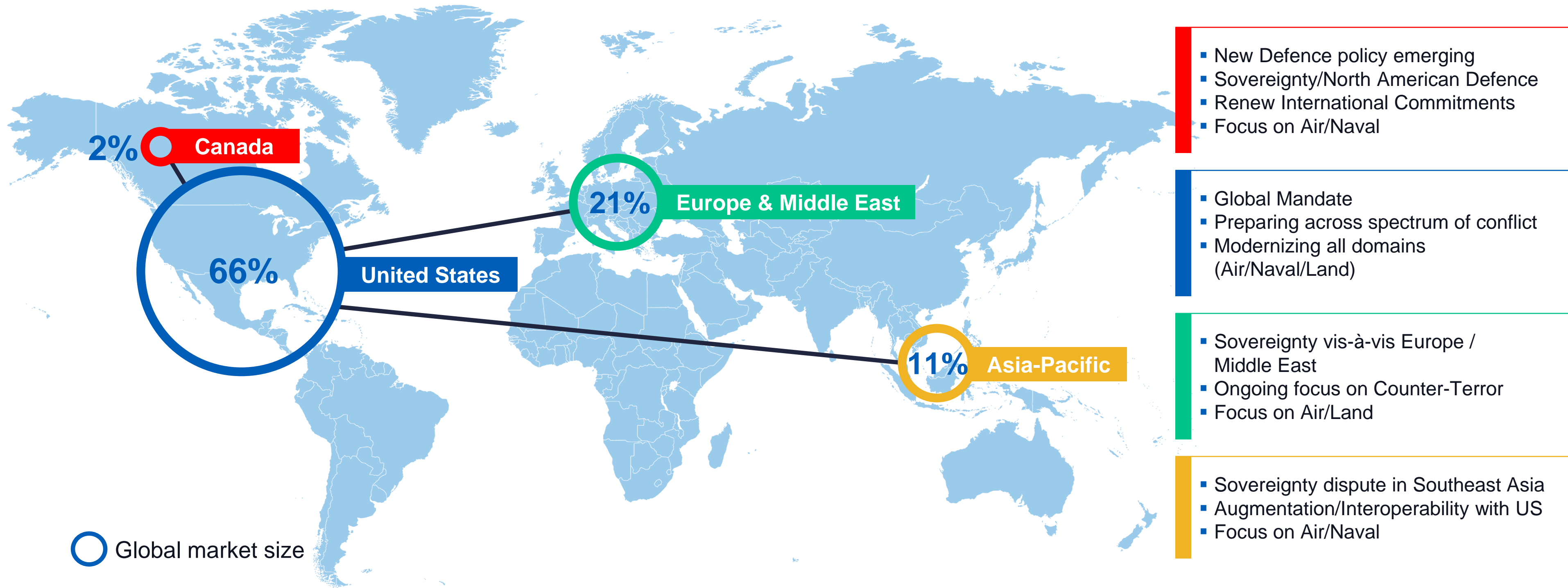


Increase of virtual  
training and simulation  
for Integrated Mission  
Training, including  
Joint and Coalition  
Forces Training



Necessity to maintain  
mission readiness

# GLOBAL DEFENCE GROWTH CYCLE



**US and other NATO and allied nations increasing defence investment**

# A TRULY GLOBAL DEFENCE FOOTPRINT IN KEY MARKETS



35  
Countries



50+  
Defence Agencies



80+  
Locations



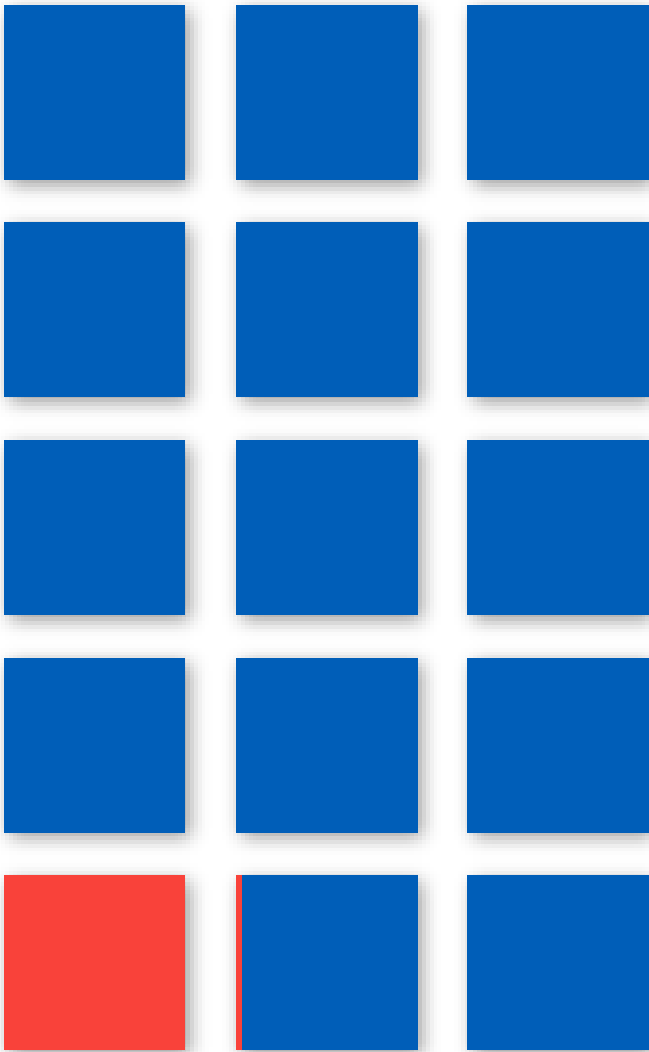
70+  
Platforms reproduced



# HEADROOM IN A LARGE MARKET



Training Systems  
Integration Target Market  
**\$15B**



D&S revenue  
**\$1.04B**

CAE is well positioned to increase share in a \$15B market

# TRAINING SYSTEM INTEGRATION



# THOUGHT LEADERSHIP AND INNOVATION



U.S. Army Fixed-Wing  
Flight Training Program



U.S. Navy T-44C  
Aircrew Training



U.S. Air Force MQ-1/  
MQ-9 aircrew training



NATO Flying Training  
in Canada (NFTC)



U.K. Medium Support  
Helicopter Aircrew  
Training Facility



Swedish Navy's Naval  
Warfare Training  
System



Naval Training Centre  
(NTC) for the United  
Arab Emirates Navy

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

# Healthcare

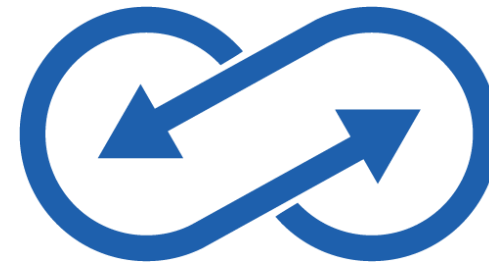
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## WHY HEALTHCARE



**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

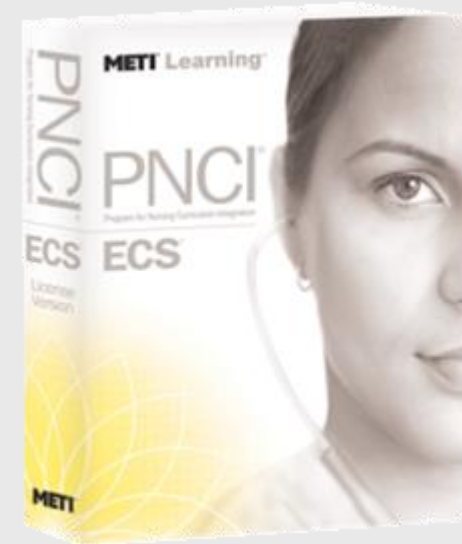


\* 3<sup>rd</sup> leading cause of death in USA

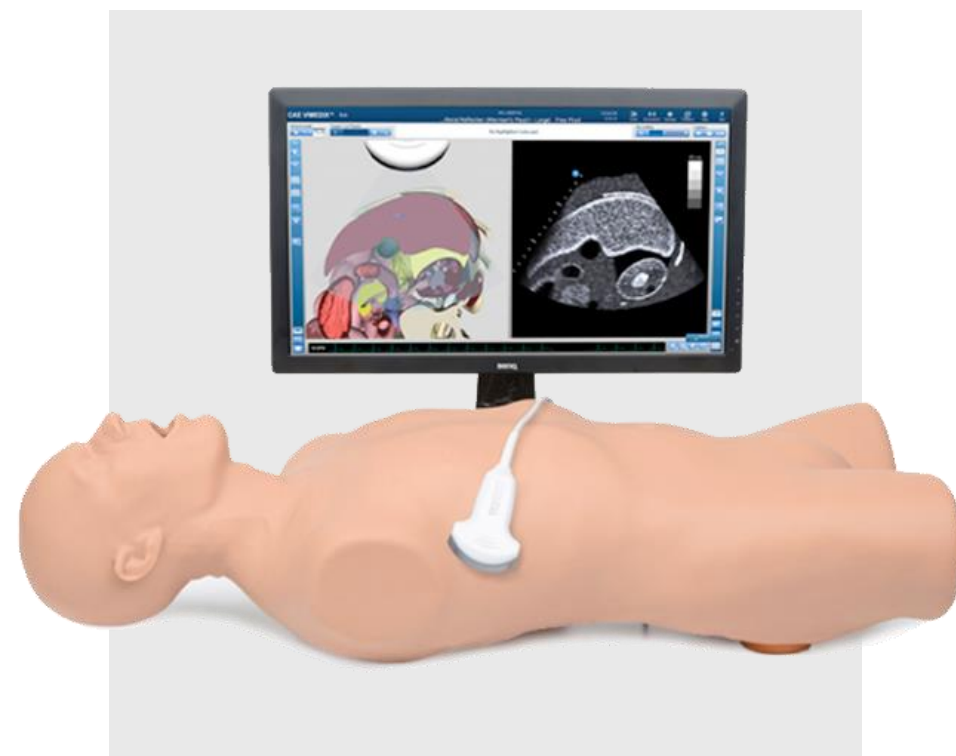
# BROADEST PORTFOLIO OF TRAINING SOLUTIONS



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

American Society of  
Anesthesiologists®



 **CAE** Healthcare



*CAE's Muse physiology automatically responds to therapeutic interventions and includes performance feedback SimTabs Virtual Environment*

# Financial highlights and capital priorities



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# PRIORITIES

1

## **Invest in sustainable growth**

Market/customer-led investments with a path to attractive, recurring returns

2

## **Provide current shareholder returns in addition to generating long term growth**

Current shareholder returns commensurate with earnings/cash performance

3

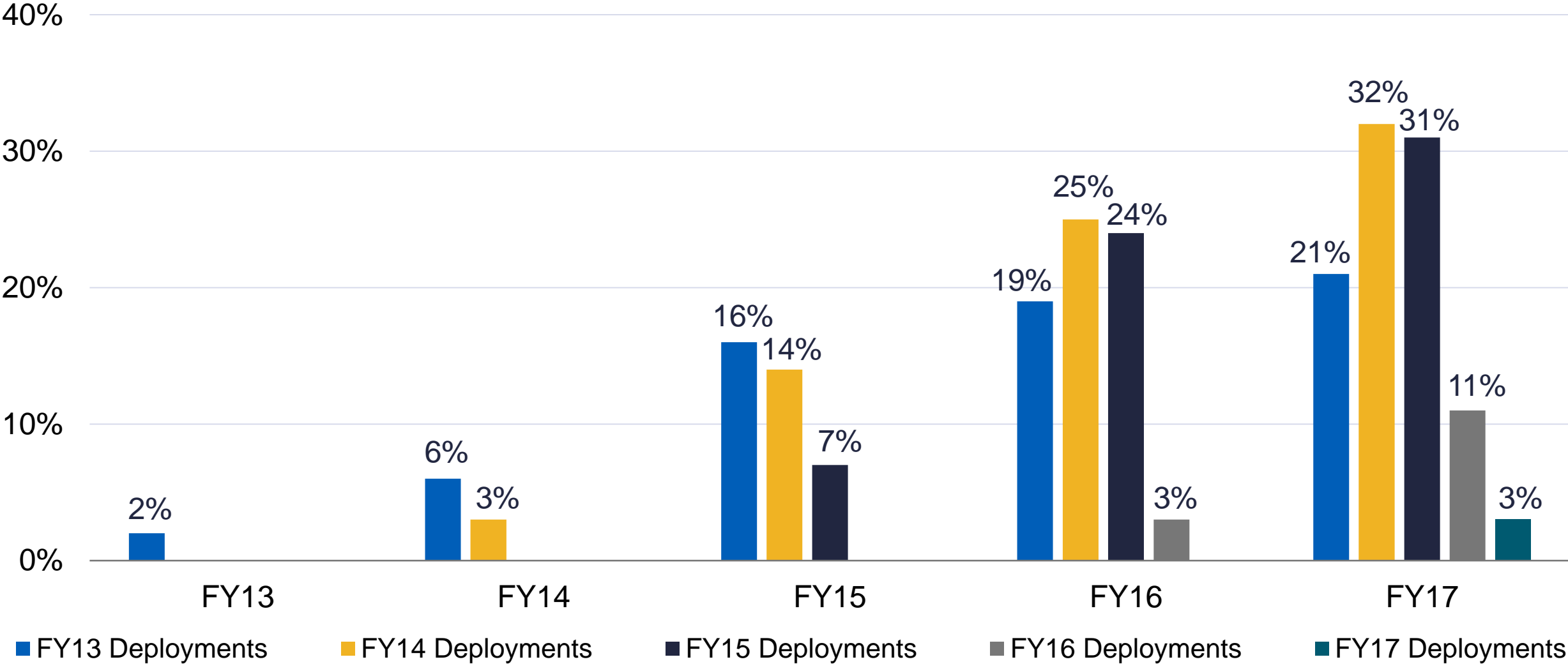
## **Maintain a strong balance sheet**

Optimal leverage ratio of Net Debt-to-Capital of 35-45%

# INVESTMENT IN ACCRETIVE GROWTH REMAINS A PRIORITY GIVEN ATTRACTIVE RETURN POTENTIAL

1

Incremental Pre-tax Return % on Capital Deployed in Civil Training  
(FY13-FY17)

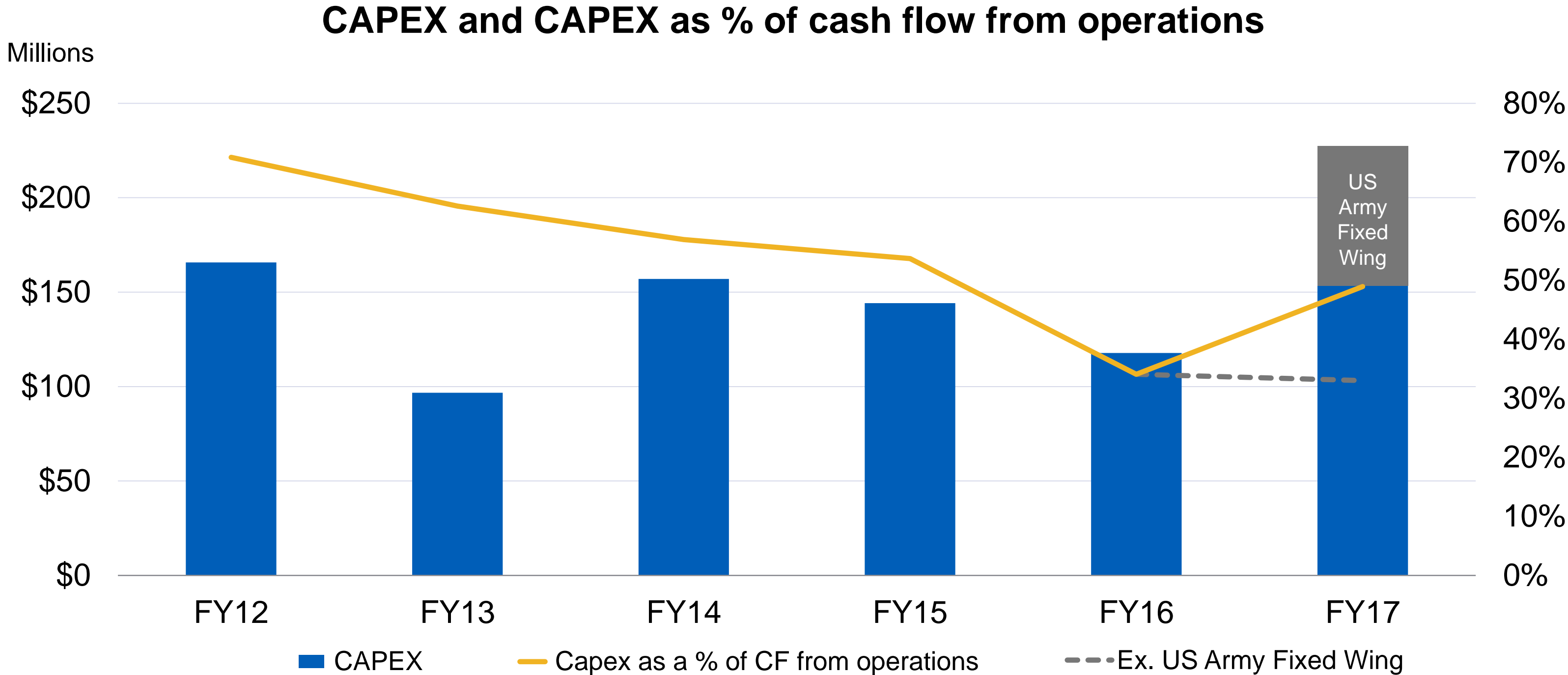


~\$290M capital investment from FY13-FY17 to deploy 47 FFSs within CAE’s Civil commercial and business aviation training network

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

CAPEX INTENSITY HAS BEEN DECREASING

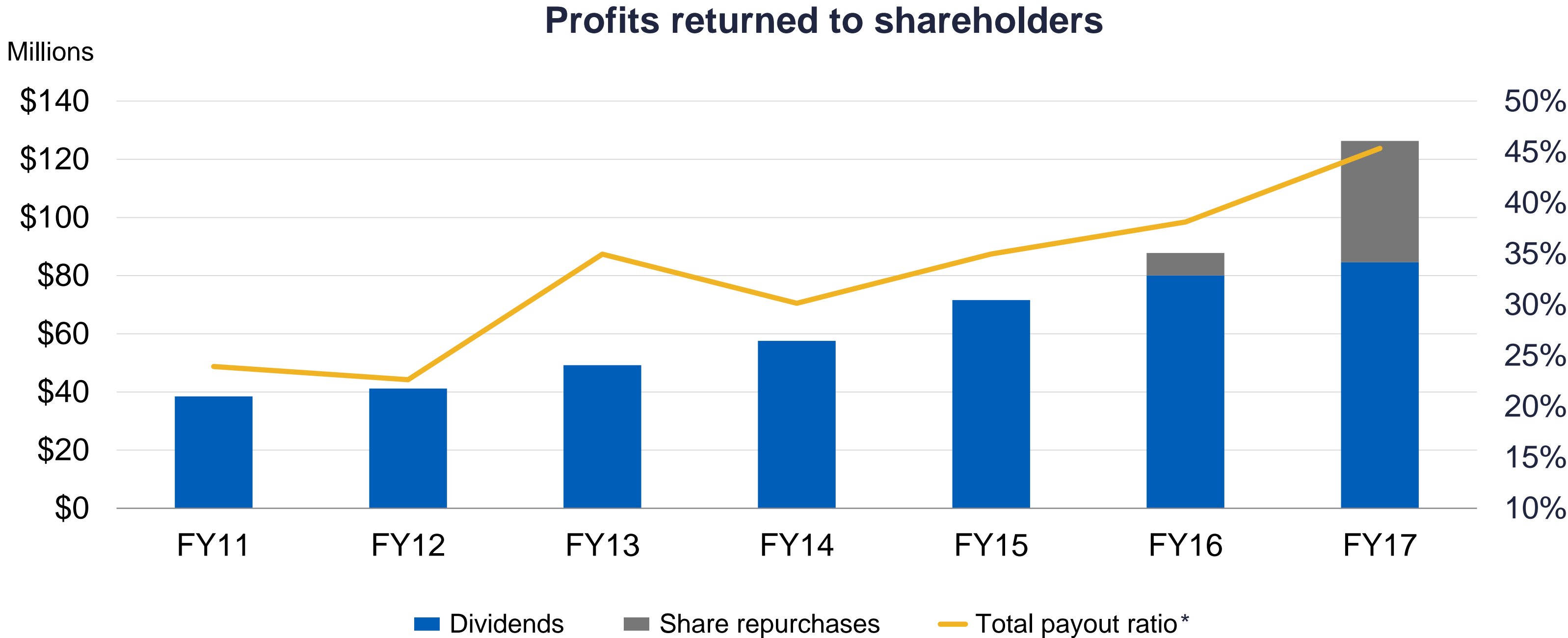
2



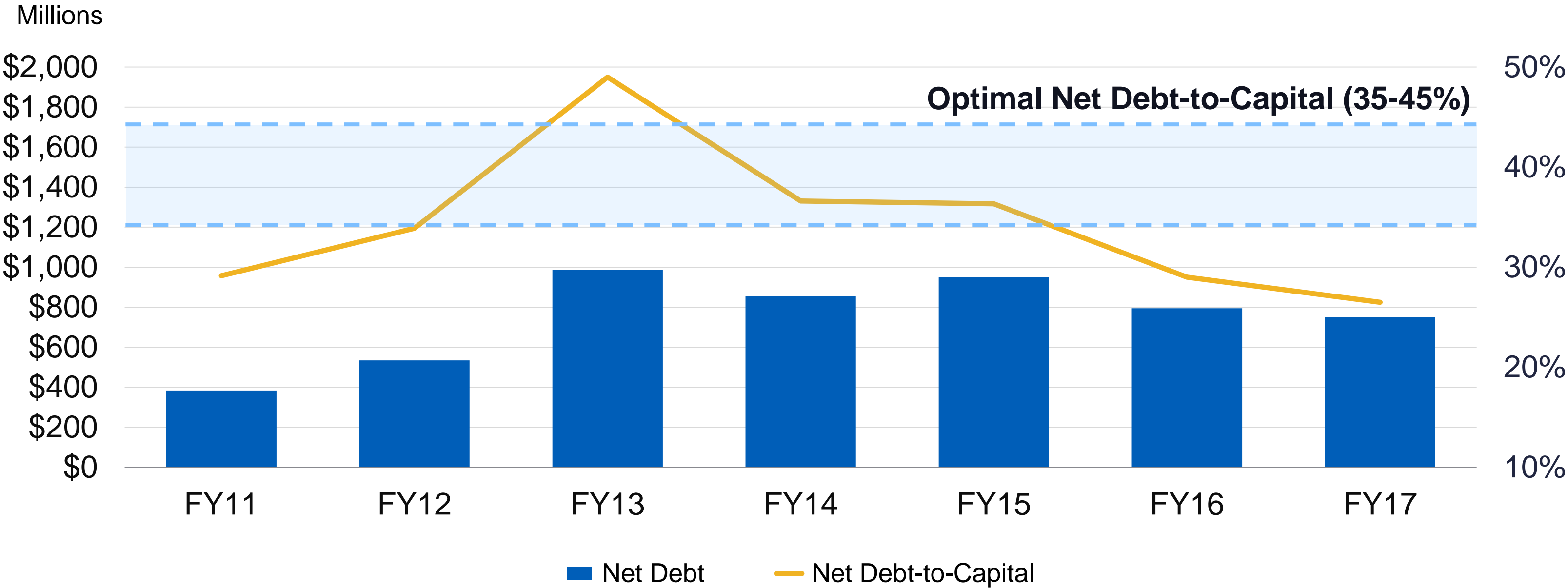
Cash flow from operations has been outpacing CAPEX over the last 5 years

CURRENT SHAREHOLDER RETURNS

2

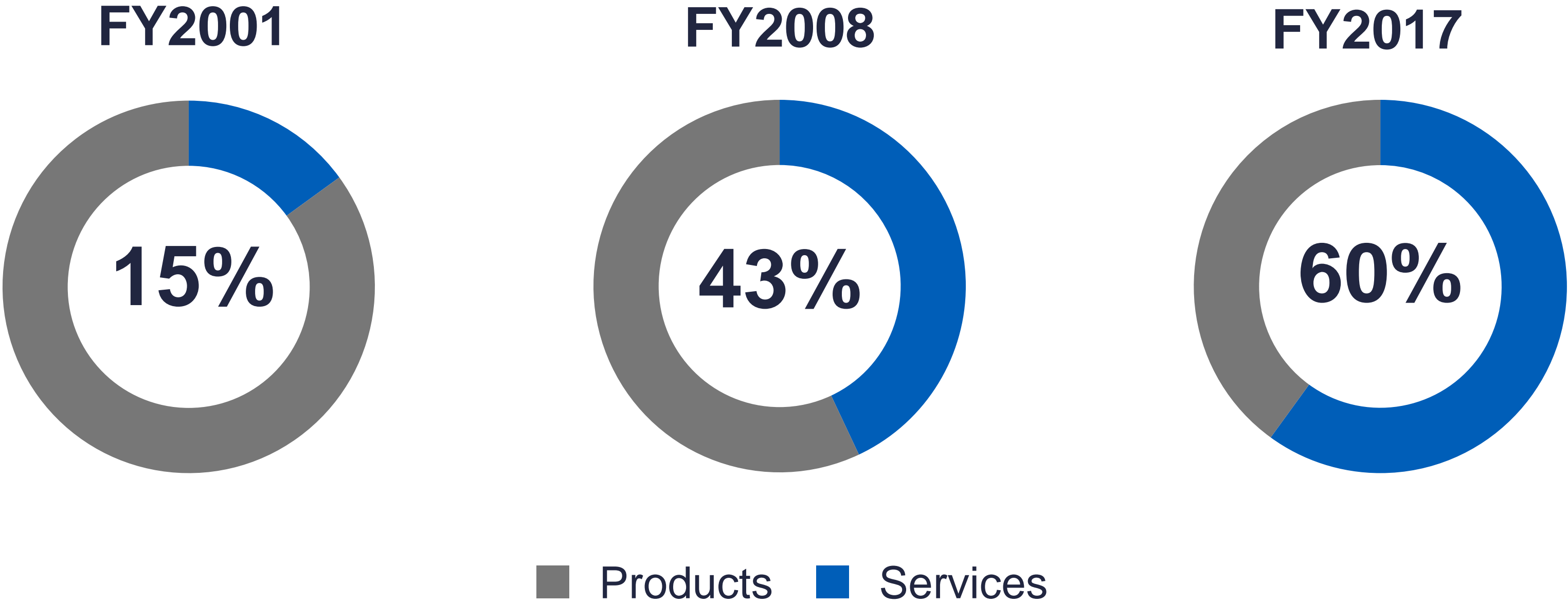


CAE prioritizes a balance between long-term capital appreciation and cash returns to shareholders



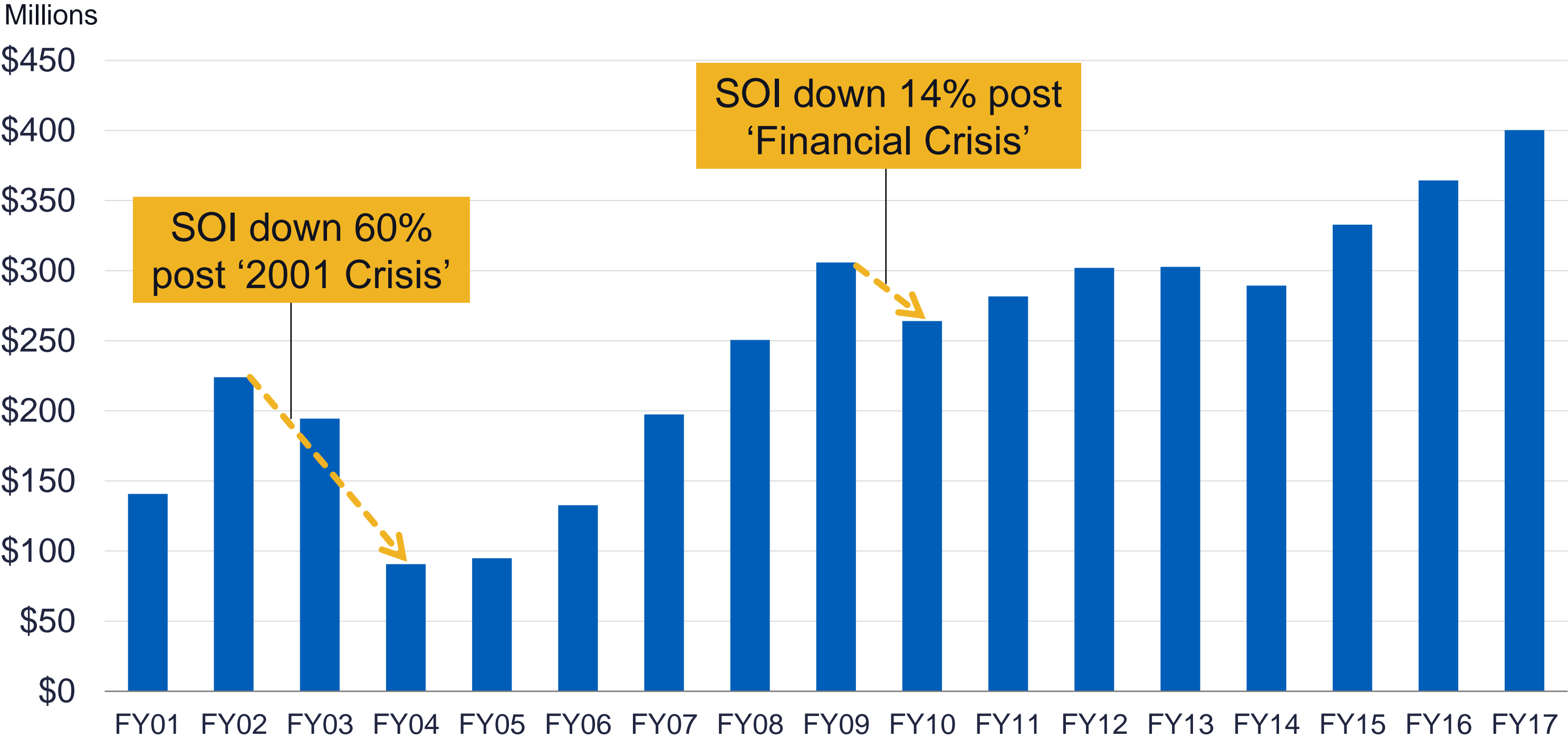
**CAE’s strong financial position provides stability and flexibility to pursue accretive growth investments in our core**

# INCREASED PROPORTION OF RECURRING REVENUE (SERVICES)



# A RESILIENT BUSINESS MODEL

## CAE Consolidated Segment Operating Income (SOI)

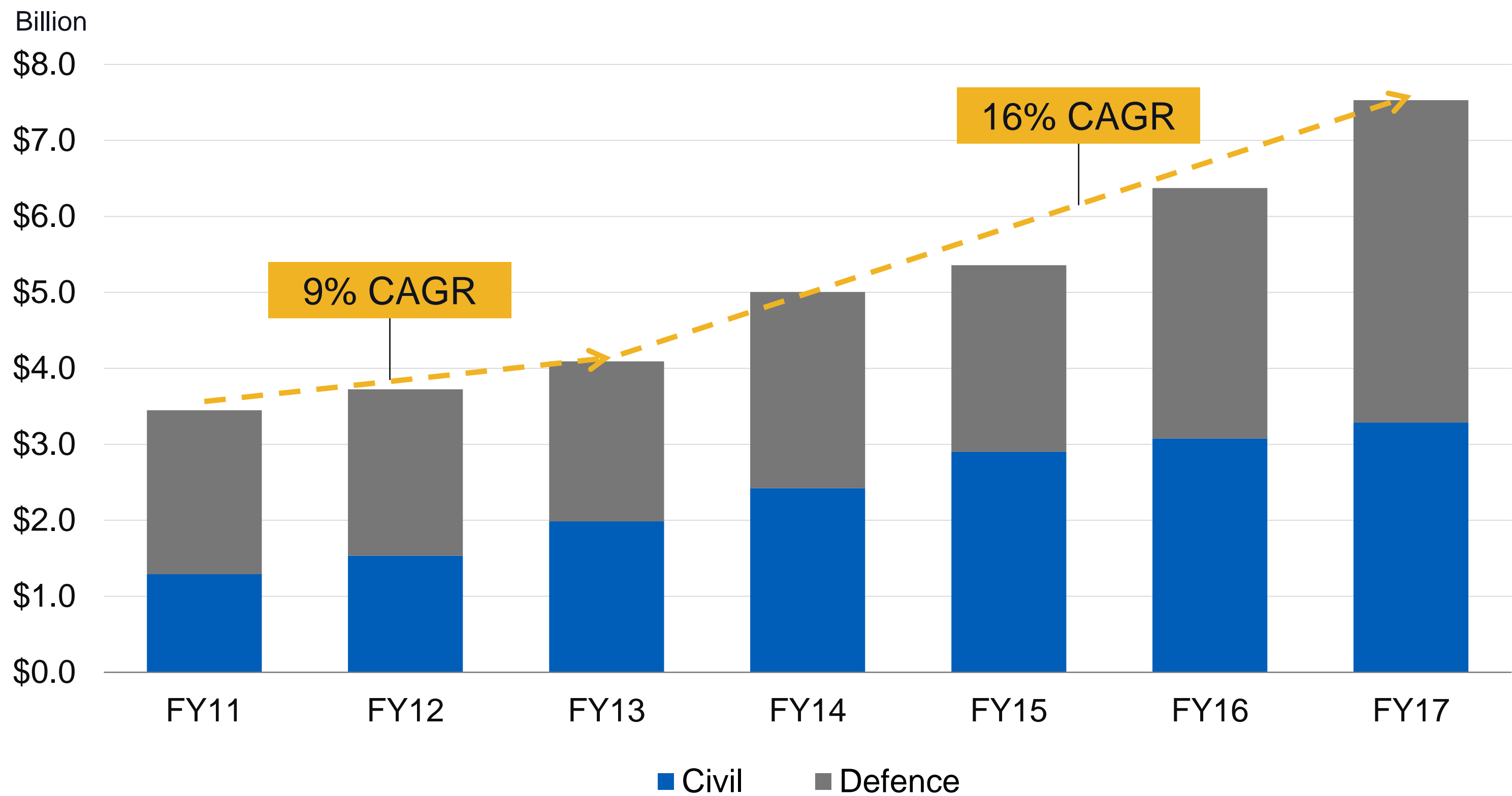


*FY01-FY10 Canadian GAAP; FY11-FY17 IFRS*



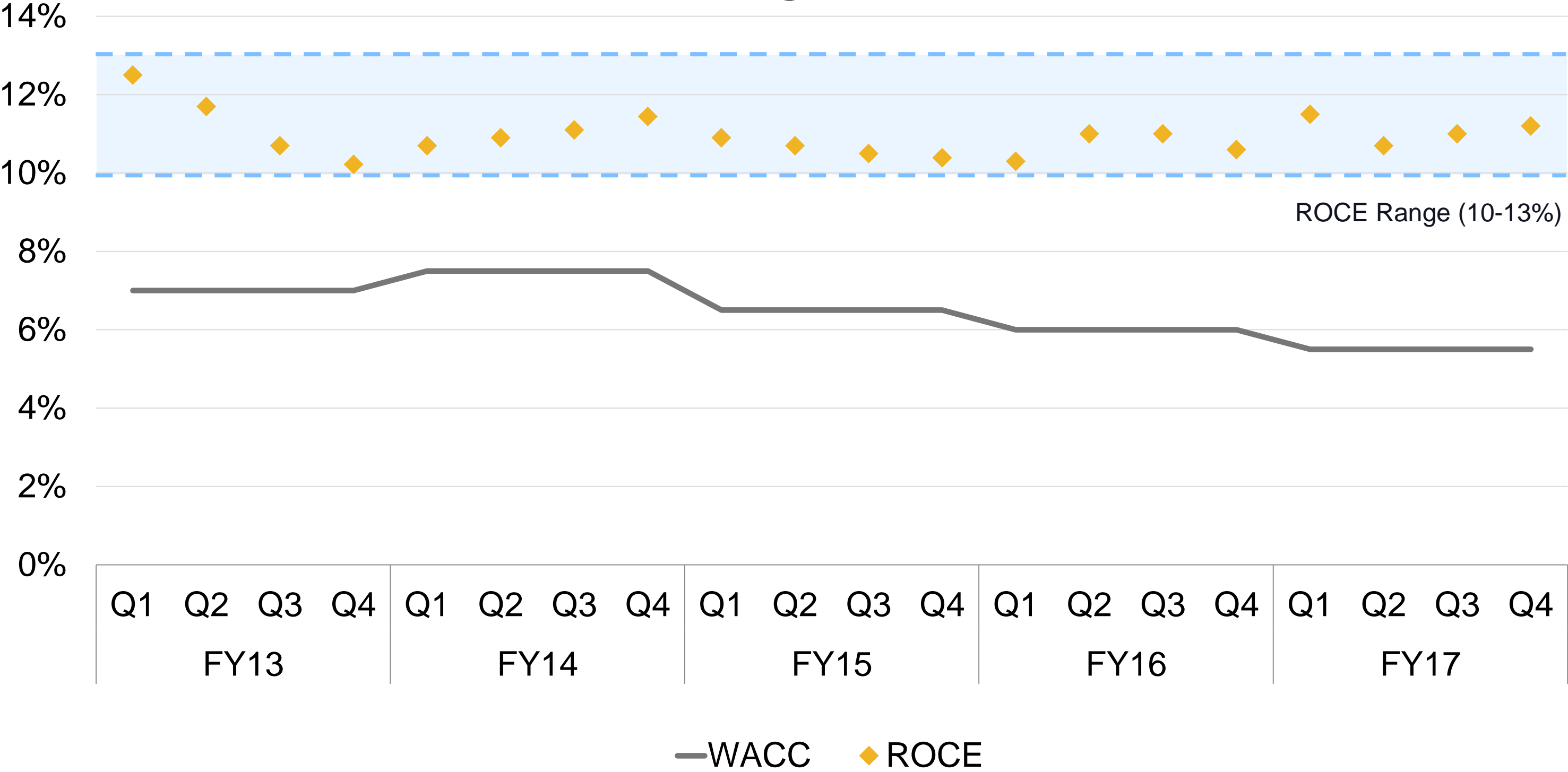
# STRONG BACKLOG FOR ENHANCED VISIBILITY

## Total Backlog



# IMPROVING CAPITAL RETURNS WITH LOWER COST OF CAPITAL

CAE historical ROCE and WACC from an increasingly more recurring business mix



# COMPELLING LONG TERM INVESTMENT THESIS

 <p><b>High Degree of Recurring Business</b></p>	<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>	 <p><b>Strong Competitive Moat</b></p>	<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>	 <p><b>Headroom in Large Markets</b></p>	<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>
 <p><b>Underlying Secular Tailwinds</b></p>	<ul style="list-style-type: none"> <li>• Long-term passenger traffic growth in Civil aviation</li> <li>• Renewed defence spending and rise in simulation-based training</li> <li>• Rising adoption of simulation in Healthcare and potential for regulation</li> </ul>	 <p><b>Potential for Superior Returns</b></p>	<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>	 <p><b>Culture of Innovation</b></p>	<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 FY18

## CIVIL

- Generate low-double digit percentage segment operating income growth
- More progress to penetrate training market with innovative solutions
- Maintain leadership position in FFS sales

## DEFENCE AND SECURITY

- Mid to high single-digit percentage growth
- Ramp up recently won programs
- Continue to win fair share of opportunities in a stronger defence market

## HEALTHCARE

- Resume growth in FY18
- Increased sales coming from opportunities pipeline and launch of new products, which it expects to put it on course for long-term, double-digit growth

**Continued good growth expected in FY18**

# Appendix



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## FY18 YTD BUSINESS HIGHLIGHTS

	FY18 Q2	FY18 YTD
<b>EPS</b> from continuing operations	\$0.24 vs. \$0.18 (\$0.21 before specific items) in prior year	\$0.48 vs. \$0.43 (\$0.47 before specific items) in prior year
<b>Revenue</b>	\$646.0 M (+2% YoY)	\$1,344.9 M (+4% YoY)
<b>Operating profit</b>	\$109.3 M (+43% YoY)	\$207.1 M (+25% YoY)
<b>Free cash flow</b> from continuing operations	\$63.5M (compared to \$27.3M in prior year)	\$25.6M (compared to \$42.8M in prior year)
<b>Book-to-sales</b>	1.44x	1.22x (LTM)
<b>Total backlog</b>	\$6.7B	

**Results and book-to-sales supportive of our outlook**

# CONSOLIDATED FINANCIAL RESULTS

Summary of Consolidated Results (amounts in millions, except per share amounts)	Three months ended September 30	
	2017	2016
Revenue	\$ 646.0	\$ 635.5
Gross profit	188.0	186.9
Operating profit	109.3	76.2
<i>As % of revenue</i>	<i>16.9%</i>	<i>12.0%</i>
Earnings from continuing operations	67.0	48.8
Net income attributable to equity holders of the Company	65.2	48.4
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company	0.24	0.18
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company – before specific items	0.24	0.21

# CONSOLIDATED FINANCIAL RESULTS

Summary of Consolidated Results (amounts in millions, except per share amounts)	Six months ended September 30	
	2017	2016
Revenue	\$ 1,344.9	\$ 1,287.1
Gross profit	400.7	376.9
Operating profit	207.1	165.2
<i>As % of revenue</i>	<i>15.4%</i>	<i>12.8%</i>
Earnings from continuing operations	132.4	118.2
Net income attributable to equity holders of the Company	129.0	117.0
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company	0.48	0.43
Basic and Diluted EPS from continuing operations attributable to equity holders of the Company – before specific items	0.48	0.47

# CASH MOVEMENTS

Consolidated Cash Movements (amounts in millions)	Three months ended September 30	
	2017	2016
Cash provided by continuing operating activities (before changes in non-cash W/C)	\$ 107.2	\$ 87.1
Changes in non-cash working capital	(10.1)	(30.6)
Maintenance capex and others assets	(17.2)	(8.8)
Proceeds from the disposal of property, plant and equipment	10.8	1.2
Net proceeds from (payments to) equity accounted investees	(4.0)	(2.7)
Dividends received from equity accounted investees	-	1.4
Dividends paid	(23.2)	(20.3)
Free cash flow from continuing operations	63.5	27.3

# CASH MOVEMENTS

Consolidated Cash Movements (amounts in millions)	Six months ended September 30	
	2017	2016
Cash provided by continuing operating activities (before changes in non-cash W/C)	\$ 198.2	\$ 193.9
Changes in non-cash working capital	(120.3)	(83.2)
Maintenance capex and others assets	(37.1)	(24.9)
Proceeds from the disposal of property, plant and equipment	15.9	2.3
Net proceeds from (payments to) equity accounted investees	(4.0)	(8.8)
Dividends received from equity accounted investees	17.1	2.8
Dividends paid	(44.2)	(39.3)
Free cash flow from continuing operations	25.6	42.8