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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the CAE Fourth Quarter Conference Call. Please be advised that this call is being recorded. I would now like to turn the meeting over to Mr. Andrew Arnovitz. You may now proceed, Mr. Arnovitz.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

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 for fiscal year 2018 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, May 31, 2017, and accordingly, are subject to change. Such statements are based on assumptions that may not materialize or 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 risk factors and assumptions that may affect future results is contained in CAE's annual MD&A available on our corporate website and our filings with the Canadian Securities Administrators on SEDAR and on the U.S. Securities and Exchange Commission website.

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 will take questions from financial analysts and institutional investors. Following the conclusion of that Q&A period, we will open the lines to questions to members of the media.

Let me now turn the call over to Marc.

Marc Parent, President & Chief Executive Officer

Thank you, Andrew, and good afternoon to everyone joining us on the call. I'll first discuss some highlights of the quarter and the year and then Sonya will review the detailed financials. I'll come back at the end of the presentation to comment on our outlook.

We had strong results overall in the fourth quarter and for the fiscal year as a whole and I am very pleased with the progress we continued to make with our training strategy. Our customers responded positively to our innovative solutions, leading to higher utilization in our training centre network and a $3.2 billion order intake for the year. This gave us a record $7.5 billion backlog, which enhances visibility and augments the recurring nature of CAE's business. Also for the year we grew net income by 21 percent and we generated 32 percent higher free cash flow; all in all, a very good performance.

Looking specifically at Civil, we booked $481 million of orders during the quarter for training solutions and 17 full-flight simulators for customers including Shanghai Eastern Flight Training, Donghai Airlines, Korean Air, Ethiopian Airlines, and Airbus. For the year, Civil had a record $1.7 billion in orders, which is testament to CAE's position as the training partner of choice. Orders included a total of 50 full-flight simulators and a range of comprehensive long-term training agreements with airlines including Vietnam Airlines and Jet Airways. In business aviation, Civil won long-term training contracts with a diverse range of customers, including two large aircraft services and charter companies based in Europe.

Overall for the year, Civil grew segment operating income by 15 percent and filled its training centres to 76 percent utilization.

Turning to Defence, during the quarter we booked orders for $239 million and received another $233 million in contract options. Notable wins include a training systems integration contract for a comprehensive C295 training solution for Canada's Fixed-Wing Search and Rescue program. This program has an expected value, including options, of more than $300 million over the life of the program. This win is indicative of the increasingly recurring revenue profile of our defence business. Also during the quarter Defence was awarded a contract to provide comprehensive aircrew training on the NATO E-3A Airborne Warning and Control System. And we also received an order involving training services for the U.S. Air Force's C-130J Maintenance and Aircrew Training Systems program. For the year, Defence growth was modest, as expected, and we made good progress converting our bid pipeline into orders. In all, Defence booked a record $1.4 billion in orders in fiscal 2017 and received another $939 million in contract options. This saw our Defence backlog increase by 29 percent to a record $4.2 billion. This achievement underscores the strength of our position as a global training systems integrator, or TSI. In addition to the Canadian Fixed-Wing Search and Rescue program, other notable TSI wins during the year included the extension and upgrade of the NATO Flying Training in Canada program and a comprehensive naval training centre for the UAE Navy.

And finally, in Healthcare, financial performance came in below our outlook, mainly because orders took longer to materialize from our sales pipeline than we would have expected. And while we are certainly not satisfied with this result, we have made good progress positioning the business for long-term growth. We further distinguished CAE's Healthcare brand through innovation, leadership, and simulation-based Healthcare education and training. Most notably, CAE Healthcare became the first company to bring a commercial Microsoft HoloLens mixed reality application to the medical simulation market. The CAE VimedixAR ultrasound simulator represents the kind of technological breakthrough one would expect from CAE. We succeeded to integrate real-time interactive holograms of the human anatomy with our ultrasound simulator. It's still early days, but we've seen strong interest in this new capability.

With that, I'll now turn the call over to Sonya, who will provide a detailed look at our financial performance, and I'll return at the end of the call to comment on our outlook. Sonya?

Sonya Branco, Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the fourth quarter was up 2 percent to $734.7 million and quarterly net income before specific items of $15 million was $82.4 million or $0.31 per share, representing an EPS increase of 15 percent over the same period last year. Specific items included the remaining restructuring integration and acquisition costs related to the purchase of the Lockheed Martin commercial flight training. For the year, consolidated revenue was up 8 percent to $2.7 billion and annual net income before specific items was $278.4 million or $1.03 per share. Year over year, CAE grew earnings per share by 20 percent. There were some timing differences in the quarter with respect to the recognition of revenue on our standardized commercial simulators. This resulted in deferral of approximately $0.01 of earnings per share in the fourth quarter and for the full year this amounted to approximately $0.03 of EPS. A reconciliation of these timing differences can be found under additional financial highlights in this morning's press release.

We had a very good free cash flow performance in the quarter at $160.4 million and for the year overall free cash flow was up 32 percent to $327.9 million. This represents a cash conversion rate of 118 percent. We had a lower investment in non-cash working capital in Q4, as we normally expect in CAE's second half, and we had an increase in cash provided by continuing operating activities. Uses of cash involved funding capital expenditures for $73.6 million in the fourth quarter and $222.9 million for the year, mainly in the support of growth. This includes a higher than usual investment in Defence this year, specifically for the U.S. Army Fixed-Wing training program. We expect lower capital intensity in fiscal 2018 with total capital expenditures in the range of $150 million, commensurate with market-led opportunities for accretive investment returns. Other uses of cash included the distribution of $20.5 million in dividends during the quarter and $80.6 million for the year. In addition, we repurchased and cancelled approximately 159,000 common shares under the NCIB program during the quarter for another $3 million. And for the year we repurchased 2.5 million shares for a total of $41.7 million. In all, between dividends and share buybacks, CAE returned $122.3 million to shareholders during fiscal 2017.

Looking at capital returns, I am pleased that despite the higher investment in defence we improved return on capital employed to 11.2 percent from 10.6 percent last year. As well, CAE's financial position became even stronger with net debt of $750.7 million at the end of

March for a net debt to total capital ratio of 26.5 percent. This is down from $787.3 million or 28.9 percent of total capital at the end of last year.

Income taxes were $14.8 million this quarter for an effective tax rate of 17 percent. This is up from 14 percent last quarter and down from 24 percent for the fourth quarter last year. The decrease from last year was due to an audit settlement in Canada and a change in the mix of income from various jurisdictions. Excluding the effect of this settlement on the income tax rate, this quarter would have been 22 percent.

I'll conclude with a few brief comments on our segmented performance. As expected, Civil was the main growth engine in fiscal 2017. Fourth quarter revenue was up 6 percent year over year to $417.8 million and operating income was up 12 percent to $83.8 million for a margin of 20.1 percent. For the year, Civil revenue was up 9 percent to $1.56 billion and operating income was up 15 percent to $273.2 million for an annual margin of 17.5 percent. On the order front, the Civil book-to-sales ratio for the quarter was 1.15 times and for the trailing 12-month period it was 1.09 times. Civil's backlog at the end of the quarter was $3.3 billion, which is up 7 percent from last year.

In Defence, fourth quarter revenue was 4 percent lower than Q4 last year to $282.7 million and operating income was down 13 percent to $33 million for an operating margin of 11.7 percent. For the year, Defence revenue was up 7 percent to $1.04 billion and operating income was up 1 percent to $120.4 million, representing a margin of 11.6 percent. Last year, Defence benefitted from non-recurring items reported in our fiscal 2016 Q4 report. Before these items, Defence operating income growth would have been approximately 4.5 percent. The Defence book-to-sales ratio was 0.84 times for the quarter and 1.33 times for the last 12 months. Defence backlog at the end of the year reached a record $4.2 billion, which is up 29 percent year over year.

And in Healthcare, fourth quarter revenue was $34.2 million compared to $35.8 million in Q4 last year. Healthcare segment operating income was $4.1 million or 12 percent of revenue in the quarter compared to $3.5 million or 9.8 percent of revenue in Q4 last year. For the year, Healthcare revenue was $110.7 million compared with $113.4 million and segment operating income was $6.6 million versus $7.2 million last year.

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

Marc Parent, President & Chief Executive Officer

Thanks, Sonya.

This year, CAE is celebrating its 70th anniversary and over the last seven decades the CAE brand has evolved to become synonymous with training and with innovation. As we look to the year ahead, we expect to see continued good growth as we pursue our vision to be the recognized global training partner of choice.

In Civil, pilot training demand is fundamentally driven by the regulations governing the flight crews who operate the global in-service fleet of commercial and business aircraft. So far in 2017 we've seen continued high rates of commercial passenger traffic, which serves as a catalyst to expand the in-service fleet. In business aviation, the market is stable and we are continuing to find growth in support of the existing in-service fleet. Commercial aircraft deliveries are a driver for full-flight simulator sales and there too we see positive signs with commercial aircraft OEMs still delivering aircraft at high rates. Over the last couple of decades, CAE has established itself as a thought leader in aviation training in that we're now bringing to market some of the most innovative and comprehensive solutions that we believe will enable us to unlock a greater portion of the overall $3.5 billion civil aviation training market. For the year ahead, we expect Civil to generate low double-digit percentage operating income growth as we continue to earn a greater share of wallet in training and we maintain our leadership in simulator sales.

In Defence, governments around the world are placing a high priority on mission readiness and the intrinsic benefits of simulation-based training. These factors are driving a greater need for training and we believe that CAE is very well positioned to grow its share as a training systems integrator. Last year we saw a steady progression with CAE converting a large bid pipeline into orders and we expect this to translate to mid- to high single-digit top and bottom line growth in fiscal 2018 as we ramp up new programs from a record backlog and win our fair share of new opportunities. We have a robust bid and proposal pipeline and with defence budget increases anticipated in the United States and other NATO and Allied nations, we continue to be bullish about CAE's long-term prospects in this market.

And finally in Healthcare, we expect to resume growth this year on higher sales from our pipeline and the launch of new products, which will put us on course for long-term double-digit growth. CAE is bringing real value to the Healthcare education market and at the product line level gross margins reflect the market's appetite for innovation.

The key to our success is higher volume and the new products we're launching this year will give us more access to some of the largest segments of the market. We have a positive view of CAE Healthcare's long-term potential as the use of simulation expands for education and training and we remain confident that Healthcare will become a more significant part of CAE's overall business.

In summary, CAE made good progress in fiscal 2017 in terms of overall financial performance and in terms of enhancing our position for growth in our three core markets of civil, defence, and healthcare. CAE's strategy and investment thesis are based on six interrelated pillars of strength. We benefit from a high degree of recurring business, we have a strong competitive moat, and we have significant headroom in large markets that are being driven by secular tailwinds. These factors, combined with CAE's culture of innovation, give us the potential to generate superior returns and as we look to the period ahead we take confidence in the strength of our position and the supportive fundamentals in our end markets.

With that, thank you for your attention and we're now ready to answer questions.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Thank you, Marc. Operator, we'll now take questions from financial analysts and institutional investors.

QUESTION AND ANSWER SESSION

Operator

Thank you. Ladies and gentlemen, if you would like to register a question, for the financial analysts, please press the one followed by the four on your telephone. You will hear a three-tone prompt acknowledging your request. If your question has been answered and you would like to withdraw your registration, press the one followed by the three. If you are using a speakerphone, please lift the handset before entering your request. One moment please for our first question. And we will get to our first question on the line from Benoit Poirier with Desjardins Capital Markets. Please go right ahead.

Benoit Poirier, Desjardins Capital Markets

Hey. Good afternoon, gentlemen.

Marc Parent, President & Chief Executive Officer

Hi.

Benoit Poirier, Desjardins Capital Markets

I was wondering if you could provide more details about the upcoming cash deployment opportunities and kind of the free cash flow conversion you would expect to achieve in fiscal 2018? Obviously a very strong performance toward the end of the year.

Marc Parent, President & Chief Executive Officer

Thank you. Maybe I'll let Sonya comment on the latter part but our capital allocation priorities haven't changed and we don't expect them to change. I mean our priority, we have three, and the first one remains, the number one priority is growth, and we see opportunities and, yeah, we've generated good cash and we would expect that performance to continue. But we see, you know, I would say, as we've said in the past, we kind of keep our powder dry to seize opportunities when we see them and for us it's about growing. We're deploying CapEx, as we've talked about it in our outlook, and those investments are generating increasingly very nice accretive returns. And, as well, we look for opportunities where we can continue to grow our installed base by converting airlines to where they can outsource training to us. So those are the kind of opportunities we look for. And in business aircraft as well we see opportunities to deploy more simulators where we have some accretive opportunities in our network. So the number one priority remains growth. Second I think we'll, you know, use it to continue to maintain our good financial position, I think which we have achieved. And thirdly, we're going to continue our pattern of returning cash to shareholders and I think we've demonstrated quite a bit this year. And I'll turn it over to you, Sonya.

Sonya Branco, Chief Financial Officer

Thank you. Benoit, on your question on free cash flow, I agree, good performance for the year, over $320 million of free cash flow, and that's driven largely on good cash generations from earnings and also reversal on non-cash working cap for the year, and that was driven by good advancement on collection of advanced deposits on contracts and continued focus on collections and speed of collecting AR. And that turned into a reversal of non-cash working cap for the year. Going forward, I don't necessarily see that non-cash working capital will continue to reverse, because as we grow the company, as we grow the business, that growth will come mainly from the services side, or largely from the services side, and that model is essentially earning the service and then billing afterwards. So that requires a bit of a non-cash working capital investment. So for free cash flow overall we typically target a conversion of about 100 percent of earnings, but it can fluctuate a little lower or higher, as we saw this year, but we'll target typically that range.

Benoit Poirier, Desjardins Capital Markets

Okay. That is very good colour, Sonya. And with respect to your kind of target for fiscal 2018, I was wondering if you assume any gains on disposal, a kind of reversal of royalty obligation, and maybe any colour about other restructuring charges to be taken in fiscal 2018.

Sonya Branco, Chief Financial Officer

So, we'll start with the restructuring charges. The program, both for the acquisition and our process improvement plan, were completed and are complete, so there is no further restructuring going forward. In terms of gains, there was, in the year or in the quarter, a gain on disposal of some assets that we saw in our results. And the way that we see this is typically really we are in the business of selling simulators and sometimes we sell it from our network, and that could be for various reasons, speed, competition, et cetera, and for accounting purposes this will show up as a disposal rather than sale of inventory. So we really consider that normal course operations. Regardless, there were some one-time costs that were absorbed in the quarter such as some reorganization costs and expenses in our flight training organization as we changed around some locations and certain non-recurring administrative costs that were related to that. So if we net these elements out, the gain and the cost, it comes to a little less than $1 million. So really kind of nets out completely. On the royalties, your third element, this is a one-time benefit that we recorded or a gain that we recorded last year, and that was one of the elements that was included in Defence and that we normalized out last year, and this is really non-recurring in nature and we don't see that, ah, not this year or going forward.

Benoit Poirier, Desjardins Capital Markets

Okay. And maybe last one for me, if we look on the civil side, any colour on how many simulators would you expect in terms of booking for fiscal 2018? And also if you could comment about the growth of utilization rate for your training network. We noted that it was up 1 percent year over year while the growth expected in the first three quarters was more around kind of 4 percent, 5 percent, so just wondering if the growth in utilization rate has slowed down a bit?

Marc Parent, President & Chief Executive Officer

Okay, Benoit. I'll answer your fifth and sixth questions.

Benoit Poirier, Desjardins Capital Markets

Sorry.

Marc Parent, President & Chief Executive Officer

No worries, as long as the other people don't mind. No, look, a good question. So look, I think in terms of simulators, look, the market hasn't really changed. I mean the production rates are what they are. And so I would give the same answer I gave at the beginning of last year with our horizon that we have, you know, we're going to maintain our leadership of the market, so I'd tell you that we'll be in the more than 40 range as we were at the beginning of last year. We'll update that as we go along but I think that's a good number to start. I mean last year even we had a good year. I think second best in our history. There was a couple of volume orders in there where people buying multiyear, so that always helps. It's not to say there might not be again this year but at the moment I'll stick with about the 40.

And with regards to utilization, I think, look, there's room to grow. We have very good utilization in our network. There is room to grow within that. And I think it's not just the only metric, as you know. Really what you've got to look at as well is think about, you know, our strategy is to convert more and more of our utilization to wet by doing the training ourselves and business aircraft well, that's all wet, because all the training is done by us, but in commercial the large majority of the training that we do is still dry. So I think there's, within even the existing utilization numbers, there's room to grow revenue across the same assets.

Benoit Poirier, Desjardins Capital Markets

I see. Okay, thank you very much for the time.

Marc Parent, President & Chief Executive Officer

Thank you.

Operator

And we will get to our next question on the line from Steve Arthur with RBC. Please go ahead.

Steve Arthur, RBC Capital Markets

Great. Thank you. Just to follow-up on the defence business, good discussion about the defence pipeline and order flow, I just want to ask quickly about the margins in that business. The pattern in the past few years turning a little bit lower. Based on your current backlog and the recent awards, how would you expect those margins to be trending in the coming years? A little lower still or maybe higher given the capital that you've been deploying there?

Marc Parent, President & Chief Executive Officer

No, I think, look, we're still, you know, you can see we are in the 12 range. We talk about 12, 13. It's been trending a little bit lower, I'd say more in the 12 range, mainly because we're getting more service kind of work, but it's a good thing because those tend to be very large orders that are recurring and go on for many years, which gives us excellent visibility. So, that's one of the reasons you see that, Steve. But I think... I don't expect that margin profile to change much, but I mean that's reflected in the outlook that we have for growth in the top and bottom line into mid to high single digits in terms of growth on defence.

Steve Arthur, RBC Capital Markets

Thank you.

Operator

Thank you. Mr. Arthur, do you have another question?

We will proceed to our next question then on the line, it's from the line of Tim James from TD Securities. Please go right ahead.

Tim James, TD Securities

Thank you. Good afternoon. Just wondering if you could discuss the modified NFTC contract terms and revenue. In the $300 million contract amount that was disclosed, just wondering if that represents incremental annual revenue to the existing contract. Is there a component of the revenue stream that is training related which just kind of continues relative to kind of historical precedent and then an uptick related to equipment delivery and over what sort of time period?

Marc Parent, President & Chief Executive Officer

I'll let maybe Sonya go into that, I don't know all the details, but I can tell you that it is incremental revenue because, ah, and I think it dovetails with the second half of your question, there was additional new simulators in there in that contract. So it's not just the extension of the program. Sonya, do you want to comment more on it?

Sonya Branco, Chief Financial Officer

So, yeah, additional simulators and also the addition of several years to the contract. I don't have the ending year here yet but we can get back to you on that.

Marc Parent, President & Chief Executive Officer

I think we commented on that. We had a press release that described what it was at the time.

Sonya Branco, Chief Financial Officer

Yes.

Tim James, TD Securities

Yeah, I'm just trying to understand if the training component of that contract is consistent from the old contract to the modified contract and if kind of the dollar amounts that were disclosed, just how much of that relates to equipment, which is incremental revenue for CAE, and how much of it relates to training, which would just be, as I say, continuation of the existing revenue stream.

Marc Parent, President & Chief Executive Officer

There definitely is incremental but my recollection mainly on the product side, because we're selling new simulators as part of that.

Tim James, TD Securities

Then just more of a quick sort of housekeeping question, Sonya. The amortization expense for the Civil segment dropped fairly significantly in the third, sorry, in the fourth quarter relative to the third quarter of fiscal 2017. Just wondering if you could explain why that change occurred.

Sonya Branco, Chief Financial Officer

I think that was the natural evolution of certain intangibles and long-term assets that came to full amortization. So there was a bit of a drop off in the last quarter, yes.

Tim James, TD Securities

And so the fourth quarter is a better run rate to think about on a go-forward basis?

Sonya Branco, Chief Financial Officer

Well, we continue to add to our network and build on our R&D and development costs, so that will add to the base, and so you'll have some drop offs and some increases. So I would say maybe not at that level. A little bit higher.

Tim James, TD Securities

Right. Sorry, I should clarify, when I say at this run rate I mean this run rate relative to the assets that are being amortized, I guess. Obviously, as the asset base grows that will grow in line with the assets more or less.

Sonya Branco, Chief Financial Officer

Yes.

Tim James, TD Securities

Okay. Okay, thank you very much.

Marc Parent, President & Chief Executive Officer

Thank you.

Operator

And we'll get to our next question on the line from Cameron Doerksen from National Bank Financial. Please go right ahead.

Cameron Doerksen, National Bank Financial

Thanks. Good afternoon. Just a question on the civil simulator network. I guess what I'm just sort of trying to understand is where the incremental upside here might be on utilization and I guess just overall profitability. Can you maybe discuss where maybe you're still seeing some underperformance in your civil training network where eventually that may start to pick up? And I guess sort of related to that, are you seeing any incremental improvement in demand for business aircraft training?

Marc Parent, President & Chief Executive Officer

I don't think, well maybe, I think in terms of business aircraft training, I think the market, you know, as we said, it's relatively flat. I mean there's pockets of, you know, I would say up and down throughout the world, but we're doing pretty good in that market, and mainly it's a question of us really harvesting the existing market and gaining share in the market we have and we've done pretty well. And we've been improving our offer to, as testimony by a couple of pretty significant orders that we have had this year with some sizable aircraft, you know, big fleet operators in Europe specifically, and business aircraft operators have a lot of aircraft like that, like, as I mentioned, big fleet operators. You know, the fact that we train airlines and we're so good at that and experienced at that gives us a leg up. So I think that's a market I think we could still see some upside on in business aircraft. I don't call it underperforming, I just consider that we can continue to do well in this market.

Across the world, I think, look, it's what, in terms of the commercial aircraft, it's really for us to continue to support our customers that are growing. And there's high, very high utilization of aircraft because of revenue passenger kilometres are high, they continue to be high. So there is room for us to continue to fill the existing simulator and simulator centres that we have. So, as I mentioned, we don't think we've reached, ah, we're certainly not at full capacity everywhere, even though the utilization is high so, as I said, there is room to grow within the existing network and there is room to add more revenue even at the same levels of utilization by converting some of that dry training where we just lease the simulator to not only getting the revenue from the lease but actually conducting the training ourselves. And, as I mentioned, there's a very large portion of the market that is currently, that we're addressing in commercial aviation, that's still dry, so there's a lot of opportunity there.

So, for us, continue to hone our skills and our capabilities in training, which are world renowned, as testimony by the outsourcing success we had, you know, think AirAsia, think Japan Airlines a couple of years ago which outsourced all of their training to us, and continue to look at those opportunities, and that's what we are doing.

Cameron Doerksen, National Bank Financial

Okay. Safe to say, I know it's relatively small for you within the overall network but safe to say that the helicopter market is still pretty soft?

Marc Parent, President & Chief Executive Officer

Yeah, it is soft. I mean we, you know, the market hasn't changed really. But we make money with the centres that we have because we've adapted to the market, and obviously we're not investing in the market at the levels they are today, because deliveries are very weak right now and the utilization of the helicopters is certainly low.

Cameron Doerksen, National Bank Financial

Okay. Thanks very much.

Operator

Thank you. We will get to our next question on the line from the line of Turan Quettawala with Scotiabank. Please go right ahead.

Turan Quettawala, Scotiabank

Yes, thank you. Good afternoon. I guess for my first question, I was wondering if you could comment a little bit on what potential risks you see, either on the upside or the downside I guess, that could either hamper your efforts to make your guidance or help you to beat in 2018?

Marc Parent, President & Chief Executive Officer

Some of it is execution. I think we've won a lot of what I would just qualify as risk, risk, and more risk within the range that we've provided. If you look, I think we've got not a wide range but I think some range, what we've talked about in defence for example, from mid to the high single-digit growth, and really the issue there is as a result of the speed at which we're able to ramp up these programs. We've won, as you've seen, quite a number of pretty large contracts in the past few months. So for us, we've been hiring significantly, and it's really us being able to achieve, certainly the higher ends of our outlook is us being successful at being able to ramp those up.

And as well at the same time is we have a large bid pipeline out there. In fact, actually the good news is that even with the large amount of orders that we've had the last six month, we still have over $4 billion in proposals in the hands of our global customers. So part of the risk is although that's very high, you know, as we've demonstrated many times in the past, we don't have a say in when they actually award those contracts, but we feel good about winning them. So some of them have to be won in the year ahead for us to achieve, you know, our outlook. I mean we feel pretty good about that because the customer needs the product or the service. But it's as usual, you know? You've got to continue to win orders. But we feel good about it. The good news again, both civil and the defence, is we have a very good backlog. I mean the record backlog gives us a ton of visibility to anchor the outlook that we have.

Turan Quettawala, Scotiabank

That's great colour. Thank you very much, Marc. And I guess for the next question I was wondering if you'd comment a little bit on the healthcare business. If I look at the SOI from that business, it's basically been flat since 2014, and I know you've had some issues here I guess in terms of the revenue for the last year or so, but could you comment on whether there's a point here where you would want to call it quits on that business?

Marc Parent, President & Chief Executive Officer

Well, look, I think we'd call it quits, I mean you'd be the first to know if we don't, but I'm very confident about healthcare. We're fully committed to it. And, you know, as we said on the call, I think it's, look, I think we haven't achieved the outlook and, as I said, we're not happy with that, I'm not happy with that, but the reality is as much as we like to control everything, we don't, and some of the bids that we were very sure about, well, guess what? They moved out of the year. They came in just at the beginning of this year, which would have made the difference. If we'd have had those, we would have made our outlook.

But the bottom line is I feel very comfortable because of some of the colour I was giving in our outlook. We've taken a very, very deep look at this market this year, you know, because we've been at it for a number of years here, so we question the assumptions that we had, and the results of our work gives us very strong confidence that there is a market out there, there's a market that we can, an existing market that we can serve, and we've launched, we're actually launching new products. If you were to go to our website right now you'd see new products that we're launching right now that go after where the highest pool of value is in the existing market. And at the same time, products that we're coming out with such as these mixed reality simulators we're coming out with that we did with Microsoft HoloLens, I mean that's attracting a huge amount of interest from medical device OEMs, for example, and so I have high hopes for this business. And for us it's full steam ahead.

Turan Quettawala, Scotiabank

Thank you.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Operator, we'll now open the lines to members of the media.

Operator

Thank you very much. And now we will proceed with the Q&A for the press and media. And, as a reminder, to register any question or comments you may have you can do so by pressing the one followed by the four on your telephone keypad.

And we'll get our first question from the media from Ross Marowits from The Canadian Press. Please go right ahead.

Ross Marowits, The Canadian Press

Hi. First I wanted to ask you with this trade battle between Boeing and Bombardier do you see any risk to any opportunities in the U.S. from Delta or other potential buyers and also because the Canadian government has sort of questioned whether it will take Super Hornets?

Marc Parent, President & Chief Executive Officer

Well, frankly, I think it's not really an issue for us. It's an issue for the government. But I mean to me it's a commercial issue between Boeing and the Canadian government, which really I couldn't comment on. Both are very good customers and so I really can't comment on that. You probably know as much as I do on that.

Ross Marowits, The Canadian Press

You have no exposure to the Delta order or to Super Hornets?

Marc Parent, President & Chief Executive Officer

I mean we do on the... Well, look, I think with regards to fighters, I think CAE can perform on any platform that's chosen by the government and work with any OEM. We work with all OEMs and we have good relationships with all of them. So it's really up to the Canadian government to make up their decision. And on the C Series aircraft, it's a great aircraft. We're the partners on training and I think, you know, we're partners, we believe in the aircraft, and think it will succeed. I think—

Ross Marowits, The Canadian Press

But if there is—

Marc Parent, President & Chief Executive Officer

No, go ahead.

Ross Marowits, The Canadian Press

But if there is some delay or problem with the delivery of planes to Delta, would that pose a problem for you?

Marc Parent, President & Chief Executive Officer

No. In the sense that I can't comment with regards to what will happen with or without Delta and, frankly, we haven't announced anything with Delta one way or another so far. So the answer is there is no impact to us with regards to that specific question.

Ross Marowits, The Canadian Press

Okay. And the second thing is I'm wondering with the pressure from the U.S. by NATO members to increase their defence spending, what impact or opportunities do you see with that going forward?

Marc Parent, President & Chief Executive Officer

I think we've commented on that before in the outlook. I mean the fact that defence budgets are increasing or set to increase, both in the United States and in allied countries, because it's not only the pressure is to reach 2 percent but just because of the threats that are there around the world, I think increasing budgets are good news overall for us, because it necessitates new aircraft, new helicopters, upgrades to existing ones, and overall what it means is more training, so more training and we obviously are very well positioned to capture our fair share in training that arises as a result of these increasing budgets.

Ross Marowits, The Canadian Press

Are you more optimistic on that given the recent comments by the president?

Marc Parent, President & Chief Executive Officer

Not any more than I was before. I think that this has been, that has been the, you know, ever since we've have talked about this in the last couple of calls. I think news I think recently is the Canadian government has announced that they are going to be increasing over time their expenditures as a percentage of GDP and that's obviously good news as a Canadian supplier in this business.

Ross Marowits, The Canadian Press

Thank you.

Operator

Thank you very much. Mr. Arnovitz, we have no further questions from the press and media. I'll turn it back to you.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

All right. Thank you very much. I want to thank all participants, members of the investment and financial analyst community as well as members of the media, for joining us on the call today and I would remind you the transcript of today's call can be found on CAE's website at cae.com. Thank you.

Operator

Thank you, everyone, and, ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you disconnect your line.
