



**REMARKS FOR CAE'S FIRST-QUARTER FISCAL YEAR 2017**

**August 10, 2016**

**Time: 1:30 p.m.**

**Speakers:**

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

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

**Mr. Andrew Arnovitz, Vice President, Strategy and Investor Relations**



**Andrew Arnovitz, Vice President, Strategy and 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 FY17 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, August 10, 2016, and accordingly are subject to change. Such statements are based on assumptions that may not materialize and are subject to risks and uncertainties. Actual results may differ materially and listeners are cautioned not to place undue reliance on these forward-looking statements. A description of the risks, factors and assumptions that may affect future results is contained in CAE's Annual MD&A available on our corporate website and in our filings with the Canadian Securities Administrators on SEDAR at [www.sedar.com](http://www.sedar.com) and the U.S. Securities and Exchange commission on EDGAR at [www.sec.gov](http://www.sec.gov).

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Sonya Branco, our Chief Financial Officer.

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

Let me now turn the call over to Marc...

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

Thank you, Andrew, and good afternoon to everyone joining us on the call.

We had a good performance in the first quarter and we continued to make progress with our long term growth strategy to be the training partner of choice for our customers.

We had double-digit top- and bottom-line growth this quarter in both Civil and Defence segments. For CAE overall, revenue increased by 17%, or \$95 million, compared to the first quarter last year, and operating profit grew by 21%, or \$15.5 million. We booked \$703 million in orders, which, even on significantly higher revenue, translated to a book-to-sales ratio of 1.08 times. Orders this quarter also contributed to our reaching a new record \$6.5 billion backlog, which gives us enhanced visibility.

Looking specifically at each of our business segments... during the quarter, **Civil** generated low double-digit operating income growth on higher training centre utilization, supporting our outlook for the year. Demand for commercial full-flight simulators was also in line, with nine orders announced during the quarter, and training services activity continued to be strong. We renewed a long-term services contract with Asiana Airlines and we entered new long-term agreements with Vietnam Airlines and Jet Airways for pilot training services. We also extended an existing cadet training program with Shenzhen Airlines for the creation of more pilots than originally scoped when the relationship began.

Total **Civil** training solutions orders for the quarter were \$397 million, for a book-to-sales ratio of 1.07 times. The ratio for the last 12 months was 1.22 times, and at the end of June our Civil backlog was \$3.2 billion.

In **Defence**, we also had double-digit revenue and segment operating income growth during the quarter. Orders of \$283 million maintained the Defence backlog at a healthy \$3.3 billion and yielded a book to sales ratio of 1.1 times. We won training solutions contracts including a Training Systems Integration program to provide a comprehensive Naval Training Centre for the UAE Navy, and another to provide the UAE Joint Aviation Command with a suite of helicopter simulators and training devices. The diversity of these programs underscore our ability to lead comprehensive TSI programs in both the Naval and Air domains.



Also during the quarter, we began construction of a new training centre in Dothan, Alabama for the U.S. Army Fixed-Wing Training Program, which we expect to become operational by the end of the fiscal year. In the United Kingdom, we were awarded a contract to provide rotary wing, ground-based training systems for the UK Military Flying Training System. This combined with our ongoing effort on the fixed-wing portion of this comprehensive program means the majority of the U.K.'s next generation aviators will train with the benefit of CAE's technology.

And in **Healthcare**, financial performance was lower in the first quarter. We attribute this to the timing of orders we expect to materialize this fiscal year from our pipeline. During the quarter, we sold a range of our patient, ultrasound, and interventional simulators, and we expanded our market reach with an agreement with Simulaids to distribute our Blue Phantom ultrasound products in the United States. And drawing on CAE's engineering expertise, we won an order for a customized simulator solution to enable an OEM to train practitioners in the use of a new medical device.

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



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

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the first quarter was \$651.6 million, and quarterly net income, before specific items of \$2.2 million, was \$70.9 million, or 26 cents per share. Specific items this quarter involved mainly the restructuring, integration and acquisition costs of Lockheed Martin Commercial Flight Training, or LMCFT, which we purchased this past May.

We benefited this quarter from an **income tax recovery** of \$100 thousand, representing an effective tax rate of nil, compared to 18% for the first quarter last year. The lower tax rate was mainly due to the recognition of deferred tax assets in Brazil, which were generated as a result of timing differences from the fluctuation in the Real. The second main driver for the lower tax rate was a change in the mix of income from our various jurisdictions. If not for the deferred tax assets, the income tax rate this quarter would have been 14%.

While we typically see a higher investment in working capital accounts at the outset of the fiscal year, we improved efficiency this quarter with lower investments in non-cash working capital accounts compared to last year. More specifically, we had higher deposits on contracts and improved collections. In addition to greater working capital efficiency, we saw an increase in cash provided by continuing operating activities, which also contributed to the \$76.7 million improvement in free cash flow over first quarter last year.

Uses of cash during the quarter included funding growth and maintenance **capital expenditures** for \$54.7 million, which is in line with our outlook and includes our investment in the US Army Fixed-Wing program. In terms of the balance sheet, we used cash to repay \$74 million of debt which came due in June. And in support of current shareholder returns, we distributed \$19 million in dividends and repurchased and cancelled 1.2 million common shares under the NCIB program, for another \$18.5 million.

On the investment front, our integration of LMCFT is proceeding well. It gives us useful assets, facilities, an expanded installed base, and a talented workforce. We concluded the transaction this quarter for total consideration, net of cash remaining in the business, of \$10.9 million. We've factored into our investment another \$15 to \$20 million, after tax, for acquisition, restructuring and integration costs, so all told, this bolt-on acquisition will amount to an investment of approximately \$25-30 million.

Our financial position continued to be strong in the quarter. **Net debt** was \$880.3 million at the end of June for a net debt-to-total capital ratio of 31.6%. And **Return on capital employed** was 11.5% in the quarter, up from 10.2% last year.

We discussed last quarter that we would begin recognizing revenue upon completion for certain standardized simulators commencing this fiscal year. To the extent this impacts reported performance and to facilitate comparability, we said we would provide a reference on a quarterly basis to illustrate how much profit would have otherwise been recognized if not for this change. Given this is only our first quarter the impact was minimal, as expected. This will become more meaningful as we make progress building these simulators throughout the year, with impact averaging between nil and up to two cents EPS per quarter.

Now turning briefly to our segmented performance highlights, **Civil** revenue increased 11% over Q1 last year to reach \$372 million and Civil operating income increased 12% to \$63.8 million, for a margin of 17.2%. The double-digit top- and bottom-line growth was driven mainly by higher utilization of our training centres, which reached 79% for the quarter.

In **Defence**, revenue grew by 31% over Q1 last year to \$257 million, while operating income grew by 20% to \$28.4 million, for an operating margin of 11%.

And finally in **Healthcare**, first quarter revenue was \$22.7 million compared to \$23.9 million in Q1 last year, while segment operating loss was \$100 thousand compared to segment operating income of \$600 thousand in Q1 of last year.

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



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

Thanks, Sonya;

Before I comment on the way forward, I would like to reiterate my comments from this morning about CAE's dividend. This marks the sixth consecutive year that CAE has increased its dividend, which will become \$0.08 per quarter, effective September 30, 2016. The decision to increase the dividend underscores the Board's and management's confidence in CAE's outlook for long term sustainable growth, and it also demonstrates our commitment to enhancing shareholder returns—one of our three capital allocation priorities. Taken together, CAE's dividend and NCIB will see more than \$100 million of cash returns to shareholders this fiscal year.

As for the near term, our outlook for the balance of the year ahead remains unchanged, and we continue to expect growth in all business segments, primarily led by Civil.

In **Civil**, we're continuing to capture share in the overall \$3.3 billion annual Civil training market with our innovative solutions. We offer the most comprehensive training solutions, ranging from cadet to captain, which provides not only better value for training but also the possibility of *better* training. Our Next Generation Training System is currently being validated with longstanding customer, AirAsia and is one of the many ways we're continuing to innovate to enhance our offering and to give our training partners reason to do more of their training with CAE.

Our Civil business is driven primarily by the global active commercial fleet and passenger traffic growth, and despite some moderation in air travel in recent months, it continues to track the global average historical rate of about 5%. In business aviation, lower aircraft deliveries are a factor to watch, but what's most important for us is the level of activity of the existing business aircraft fleet, which, overall, has remained relatively stable. This dictates how many active pilots will need training on an ongoing basis. Taken together, we continue to expect higher demand for training this year to translate into higher annual utilization of our Civil training network, and as a result, we continue to expect Civil operating income to grow at a low double-digit rate for the year as a whole.



In **Defence**, we're demonstrating our ability to pursue and win large-scale, comprehensive programs involving complex training systems integration. Bid activity remains strong with more than \$3.5 billion of bids and proposals currently submitted and pending with customers. Our Defence customers are increasingly demanding highly sophisticated systems that combine the use of simulation-based training with live training, and CAE is in a prime position to compete for and win this kind of business. We continue to expect modest growth this fiscal year in the Defence segment.

And finally, in **Healthcare**, we got off to a slow start in Q1 but our pipeline supports our confidence in our outlook for double-digit growth this fiscal year. We're continuing our drive for a much larger business over the long term.

With that, I thank you for your attention. We are now ready to answer your questions.



**Andrew Arnovitz, Vice President, Investor Relations and Strategy**

Operator, we would now be pleased to take questions from analysts and institutional investors.

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