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**Benoit Poirier**

*Desjardins Capital Markets*

**Kristine Liwag**

*Bank of America Merrill Lynch*

**Kevin Cheng**

*CIBC*

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**QUESTION AND ANSWER SESSION**

**Operator**

Our first question comes from the line of Chris Murray, with AltaCorp Capital, please proceed.

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**Chris Murray, AltaCorp Capital**

Good morning, a couple of quick questions for you, the simulators that you are acquiring, is it fair to think that all of those are actually CAE built or will they be from the equipment that you are acquiring?

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**Marc Parent, President & CEO**

They are all CAE except for one, which was built many years ago, we were still at Bombardier at the time, which was built by NLX a company that no longer exists, a separate entity.

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**Chris Murray, AltaCorp Capital**

Okay, so no problem with the equipment then, and then the other question for you on...

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**Sonya Branco, Vice-President**

I could just add you know so most of these as Mark just said are CAE manufactured similarly it is very complementary to our existing network and they are very modern young simulators that are quite cutting edge and don't expect a lot of maintenance CapEx going forward. But what I would direct is in addition to these simulators really what we are buying is the business. A stream, an incremental revenue and EBITDA cash flows and existing portfolio contracts and customers. That is growing at a double-digit base, they happen to be served by 12 simulators, but really providing an ongoing business.

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**Chris Murray, AltaCorp Capital**

I appreciate that, assuming that all the staff will transfer with it as well.

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**Marc Parent, President & CEO**

Yes.

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**Chris Murray, AltaCorp Capital**

Okay perfect, if you could, can you give us any indication, you talked about getting back to a 13% AROs royalty, any thoughts around or guidance around what the discount rate look like to justify taking the royalty stream and turning it into a lump sum payment? Is there something actually helps you hit that target that comes from that precision?

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I think this was a very attractive transaction for us because it allows us to extend our ATP agreement, until 2038, and these were existing contractual cash flows and not incremental cash flows so the prepayment allowed us to discount that at a discount that is higher than the capital, so attractive value for CAE, so this in addition to the business, which, provides a strong free cash flow, accretive earnings, will contribute to ramp up the to our target capital return-on-capital at 13%.

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**Operator**

La prochaine question provient de la ligne de Benoit Poirier, de Desjardins Capital Markets, la parole est à vous, please go ahead sir.

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**Benoit Poirier, Desjardins**

Good morning CAE and congratulations for the announcement this morning, could you talk a little bit about businessJet in terms of market shares that you will have in terms of numbers of simulators versus your number one competitor in the space, and also talk about the synergies, quantify the number of synergies that could exist with your current training footprint in Dallas and Montreal. Thank you.

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**Sonya Branco, Vice-President**

So, on the synergies, we have specified that we expect to have about \$six million in annual synergies, this comes from the fact that both operations are highly

complementary and we are buying this business to support our growth, so we expect good integration, due to the fact that operations are collocated, we're also very close on the operations. Now there will be some synergies, mostly coming from cost deficiencies, in infrastructure and back-office cost, like IT cost, there are some redundancies in these positions, but we are a growing company, and have many open positions so we are confident that there are plenty of opportunities across the organization for any of the impacted people positions.

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**Marc Parent, President & CEO**

With regards to the market share Nick maybe....

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**Nick Leontidis, President, Civil**

Yes, today we have 18 Bombardier model simulators, in the network and we are going to add 11 so it would bring us up to 29. And then there is one to follow so that takes us to 30, and that is our Fleet of about 80 simulators. So a pretty significant amount of our sims already have been Bombardier so a little bit more.

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**Benoit Poirier, Desjardins**

Okay, what about the average Fleet of Bombardier training simulators, what is relatively the average age?

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**Marc Parent, President & CEO**

The operate age of the simulators?

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**Benoit Poirier, Desjardins**

Yes those are kind of pretty new, Marc?

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**Sonya Branco, Vice-President**

It is a fairly new fleet, the average age is about 7 years, so very new modern Fleet.

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**Operator**

Our next question comes from the line of Kristine Liwag, from Bank of America Merrill Linch, please go ahead.

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**Kristine Liwag, Bank of America**

Good morning Sonya I think on your prepared remarks you mention the deal is margin accretive to the civil segment, so I just wanted to confirm what you said, and second can you give us an understanding of why this business will be accretive to what you already have, is there a difference in mix, and let us know kind of what is kind of driving the difference there.

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**Sonya Branco, Vice-President**

To your first question what we see is strong growth, double digit EBITDA growth, from demands on large installed bases businessJet operated and the ramp up of newly deployed and soon to be deployed, as well as leveraging and expanding this training platforms across our global network. So what we see on the Civil side is an expansion of margin of a 100 to 150 basis points. Really what that reflexes is a higher preponderance of that on the civil portfolio, and business aviation training is generally a multiple in revenue and margin, giving that it's all instructor-led training, for a higher yield.

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**Kristine Liwag, Bank of America**

Is there a customer overlap between your customers today and the business you are buying?

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**Nick Leontidis, President, Civil**

This is Nick, there is definitely a lot of overlap between the customers this business serves and ours, I suggest to your previous question the business, acquiring this business expands the addressability that we have. It is all about being able to serve all the different platforms that Bombardier has either in production today or had in productions in years gone by. So typically a customer would come to one provider for all of these. So when we bought this business we expand what we have, and we call that Halo, it's really our halo but very many in common customers.

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**Kristine Liwag, Bank of America**

And last question for me, can you guys provide some colour and how the deal came about? Is it something that you approached Bombardier to acquire, or is it something they approach you themselves?

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**Nick Leontidis, President, Civil**

No, we approached bombardier and it is a natural extension of the ongoing relationship that we've had with other providers all their businesses and it is an extension of relationship. We proposed it and due to the market overall we just recently acquired the remaining 50% of the joint venture of AirAsia training centre on the commercial side so it is something that we have been doing and again we are on our way of fulfilling the training partner of choice, on a much expanded scale, which is the sweet spot of our business especially on large cabin business.

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**Operator**

Our next question is from the line of Kevin Cheng, from CIBC. Please proceed with your question.

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**Kevin Cheng, CIBC**

Good morning and thanks for taking my questions, just in terms of the assets you acquired, I am wondering about the two sites that you are folding in, what is the utilization of those sites today, if I look at the trailing multiple you are calling about 10 times EBITDA so that is about US\$65 Millions, just wondering what that infers from the utilization perspective for those two sites.

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**Marc Parent, President & Ceo**

We don't have the numbers suffice to say the utilization simulated is pretty high.

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**Nick Leontidis, President, Civil**

Except I can just add that we have nine simulators in the network today that are I think running a pretty good utilization rate, 1 was just installed recently on the 2500 and another 7500 goes in this coming December. And then there is 12 simulators in our fiscal '21. A lot of headroom on those high value of large cabinet models coming into the mix.

I think what we would say is pretty comfortable what we have in the numbers that you see in our utilization.

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**Kevin Cheng, CIBC**

Okay, that is helpful, just a housekeeping one here, I think your normalized CapEx has been around 125 to 150 maintenance CapEx does that change dramatically with this acquisition?

**Sonya Branco, Vice-President**

No he doesn't as we mentioned it is a pretty young fleet, this will not have a significant impact.

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**Kevin Cheng, CIBC**

I know you maintained your 13% of Capital input of employed by fiscal year 2022 there, but I was to think of the fact that you are folding a more profitable business, doesn't seem that it is adding to the capital intensity, you look at that target the opportunity to reach that target earlier or have that target pierce above the 13%, over the next three to four years, given the attributes of the assets you are acquiring today.

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**Sonya Branco, Vice-President**

We take it in consideration in the guidance that we have provided, we see a significant progress climbing up to 12.6% last quarter by deploying markets to our network. That becomes accretive in short order. Of course in a very short-term there will be a bit of headwind, given acquisition simulators, intangibles to digest as you said the strong accretion in this business, in the cash flow it brings, will allow us to ramp up on the market by '22. And if I may add the free cash flow will also help us to delever, back to lower end of the target range. In 24 to 36 months.

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**Operator**

We are now going to proceed to question and answer questions for the media.

La première question provient de monsieur Allard, des Ailes du Québec.

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**M. Allard, Les ailes du Québec**

Bonjour monsieur parent félicitations pour l'annonce de ce matin, cette semaine ça vous fait près de 900 million dollars d'annonces, c'est une belle petite semaine, avez-vous d'autres surprises d'ici demain 5 h?

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**Marc Parent, President & CEO**

Vous allez être le premier à le savoir. La Business va bien. Merci.

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**M,Allard**

Vous savez il y a bien des chefs d'entreprise qui disent que leur compagnie est un leader dans son domaine, dans le cas de CAE, c'est le seul leader dans son domaine, pouvez-vous nous expliquer un petit peu dans les années à venir si vous êtes toujours ouvert à d'autres acquisitions de la part de OIM, ou de compagnies, de racheter les centres de formation, qui sont un peu partout à travers le monde? Ça fait toujours partie de la stratégie de CAE?

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**Marc Parent, President & Ceo**

Oui évidemment, notre vision est d'être le partenaire de choix pour des clients dans l'aviation, que ce soit dans le secteur de l'aviation commerciale, hélicoptères, aviations d'affaire, dans la section de la défense évidemment il faut que ça se situe dans nos paramètres pour que ce soit un bon deal comme on dirait, Si c'est complémentaire, si ça supporte notre stratégie de croissance, c'est certain qu'on va le considérer. Ce matin c'est vraiment un deal qui est gagnant gagnant entre nous et bombardier qui permet à chaque compagnie respective de vraiment se concentrer sur nos visions et nos compétences clés respectives. C'est vraiment gagnant gagnant.

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**M.Allard, Les ailes du Québec**

Puis financièrement c'est vraiment vous avez encore la marge de manoeuvre nécessaire à d'autres acquisitions du genre dans les années à venir?

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**Marc Parent, President & CEO**

Oui comme vous l'avez entendu de Sonya qui est la chef de la direction financière je vais la laisser parler vas-y Sonia.

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**Sonya Branco, Vice-President**

Oui on est dans de très bonnes conditions financières, un bilan solide et puis c'est une grosse acquisition et on a encore une belle flexibilité financière pour continuer notre croissance.

**Marc Parent, President & CEO**

Et juste le fait qu'on, comme Sonya a dit en Anglais, avec les flux trésoriers que ça va générer, le CAF que ça va générer la business, on voit que dans maximum trois ans on va pouvoir revenir à un niveau d'endettement qui est ce que nous on considère comme optimum.

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**M. Allard, Les ailes du Québec**

Merci beaucoup, et encore félicitations.

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**Marc Parent, President & CEO**

Operator if there are no other questions I want to end this call, thank you everyone for joining us especially so early, and remind you that a transcript of today called can be found on our website as well as a supplemental investor presentation from this morning press release thank you very much.

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**Operator**

Ladies and gentlemen, that does conclude the conference for today. We thank you for your participation, and ask that you please disconnect your lines.

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