REMARKS FOR CAE'S SECOND QUARTER FISCAL YEAR 2019

November 13, 2018

Time: 1:00 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

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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 FY19 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, November 13, 2018, 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 and the U.S. Securities and Exchange commission on EDGAR at 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. I'll first discuss some highlights of the quarter, and then Sonya will review the detailed financials. I'll come back at the end to talk about our outlook.

CAE had a good performance in the second quarter with 20 percent revenue growth, 15 percent earnings growth, and strong free cash flow. I'm especially pleased with the continued progress we've been making with our training strategy as demonstrated by $986 million in orders in the quarter, giving us a record $8.7 billion backlog. Overall, our performance in the quarter, and year-to-date, supports our full-year outlook.

Looking at **Civil**, we generated double-digit growth during the quarter and we booked orders for $575 million, for a record $4.3 billion backlog. These include a new 5-year Multi-Crew Pilot License cadet training program with Air Asia, exclusive pilot training contracts with CityJet, OceanAir, LOT Polish Airlines and Air Busan, and a new long-term training contract with Starspeed.

In products, we sold 16 full-flight simulators in the quarter, which brings us to 34 FFS sales for the first half of the fiscal year—tracking above our initial outlook. Training centre utilization was 72%, which is up 2 percentage points from last year.

In **Defence**, we generated high single-digit growth during the quarter and we booked orders for $380 million, giving us a record $4.4 billion defence backlog. Orders include CAE’s new 700MR Series simulator for the Royal New Zealand Air Force’s NH90 helicopter. We also won the U.S. Air Force C-130H aircrew training services contract, adding to our training systems integration programs, and we received orders from the Air Force for additional C-130J simulators. Also involving aircrew training services, we renewed a contract for the U.S. Air Force’s KC-135 aerial tanker training devices, which includes upgrades to the simulators. The integration of AOCE, which we acquired in the quarter, is progressing well and we’re beginning to see benefits from our expanded access to higher-level security programs in the US.

And finally, in **Healthcare**, we launched a redesigned, fully portable, CAE CathLabVR interventional simulator, and together with the American Society of Anesthesiologists, we launched the Anesthesia SimSTAT - Robotic Surgery module, the latest in a series of interactive screen-based courses approved for Maintenance of Certification credits.

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?

Sonya Branco, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated **revenue** for the second quarter was $743.8 million, and quarterly **net income** was $60.7 million, or 23 cents per share. This compares to 20 cents in the second quarter last year, excluding the gain of approximately 2 cents per share from the divestiture of the Zhuhai Flight Training Centre.

Income taxes this quarter were $15.2 million, representing an effective tax rate of 19%, compared to 23% in Q2 last year, before the gain on ZFTC.

Free cash flow improved in the second quarter, reaching $137.7 million compared to $63.5 million last year. We had a lower investment in non-cash working capital and higher cash from operating activities. As in previous years, we expect a portion of the non-cash working capital investment to reverse in the second half.

Uses of cash in Q2 included funding **capital expenditures** for $40.9 million, mainly for growth, and we distributed $25.7 million in cash **dividends**. We used another $37.2 million to repurchase stock under the **NCIB** program.

Our financial position continued to be strong with **net debt** of $795.1 million at the end of the quarter for a net debt-to-total capital ratio of 25.8%. Also, **return on capital employed** increased to 12.8% this quarter compared to 12.6% last quarter, excluding the impacts of fiscal 2018 income tax recovery related to the U.S. tax reform and net gains on strategic transactions relating to our Asian joint-ventures.

Now looking at our segmented performance...

In Civil, second quarter revenue was up 24% year over year to $393.1 million and operating income was up 19% to $63.3 million, for a margin of 16.1%, excluding the gain on divestiture of ZFTC last year. On the order front, the Civil book-to-sales ratio for the quarter was 1.46x and for the trailing 12-month period was 1.49x.

In **Defence**, second quarter revenue of $320.3 million was up 18% over Q2 last year, while operating income was up 2% to $34.1 million, for an operating margin of 10.6%. Excluding the impact of reorganizational and integration costs related to the purchase of AOCE, Defence segment operating income would have been $36.1 million, or 11.3% of revenue, which is up 8% compared to the second quarter last year. The Defence book-to-sales ratio was 1.19x for the quarter and 1.03x for the last 12 months.

And, in **Healthcare**, second quarter revenue was $30.4 million, up from $28.3 million in Q2 last year. Healthcare segment operating income was $1.3 million in the quarter, down from $2.2 million in Q2 of last year as a result of a higher investment in selling, general and administrative expenses and higher research and development expenses to support recent product launches.

To sum up, we had a good performance overall this quarter, with solid year-over-year growth in Civil and Defence, which would have been even stronger if not for the impact of the five-week work disruption in our Canadian manufacturing operations this summer.

The interruption reduced the number of product deliveries we could achieve in the quarter and also affected our ability to reach milestones on a number of programs. We had already expected revenue recognition to be more back-end loaded this year as a result of IFRS 15 implementation. The interruption makes it even more so.

We implemented a recovery plan in the second and current third quarter, with several measures designed to accelerate production capacity, including establishing a second assembly line for high-volume full-flight simulators. The net result is that with this extra capacity running in parallel, we will reach a substantially higher level of delivery milestones in the fourth quarter compared to the current third quarter. Accordingly, deliveries in Q3 are anticipated to more closely resemble the levels we saw in the first two quarters of the year. The overarching positive is that our recovery plan is on target, and with these measures, our full-year outlook for growth is intact.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya;

We continue to see good momentum with our training strategy, as evidenced by the important developments announced last week, which further strengthen our long-term growth investment thesis.

We continue to be highly positive about our prospects in Civil…

In business aviation training, we're well positioned to provide an excellent customer experience with our global reach and industry-leading solutions. The announcement that we've agreed to acquire Bombardier Business Aircraft Training, further solidifies our position. The acquisition will expand our ability to address the business aviation training market and give us greater leverage across our training network. It fits right in our core and aligns very well our strategic objective to grow recurring revenues. It also gives us the ability to leverage our expanded position on Bombardier business jet platforms across the entire CAE global network.

The acquisition gives us a bigger position in the largest and fastest growing segment of the business aviation training market, which involves medium- and large-cabin business jets. It gives us a broad portfolio of customers, an established recurring training business, highly talented people, and a modern fleet of business jet full-flight simulators. We also signed an agreement to extend CAE’s Authorized Training Provider status for flight and technician training to 2038. Taken together, this is a major step forward in the progression of our growth strategy in aviation training, and it will have a positive impact on our performance. In its first full year following the closing of the transaction, which is expected by H2 of calendar 2019, the acquisition is expected to provide CAE high single-digit percentage earnings accretion and is also expected to be accretive to free cash flow.

We also expect to continue making good progress in commercial aviation training. The announcement last week at the European Airline Training Symposium of a long-term training outsourcing agreement with easyJet is an example of the kinds of opportunities in our pipeline to increase our share of the airline training market, and to form new enduring customer partnerships.

Under the $170 million, 10-year agreement, all of easyJet's pilots will soon be training at CAE in three European pilot training locations, including a new state-of-the-art training centre in London-Gatwick with a dedicated wing for easyJet.

In Civil products, based on our level of success in the first six months, we're on track for our best year ever.

In Defence, we expect to continue winning our fair share of programs, building on our successes as a Training Systems Integrator. We have good momentum with our recent wins of the US Air Force C130H Aircrew Training System and the New Zealand NH90 Programs. Our acquisition of AOCE positions CAE as a training partner to the US Air Force's Special Operations Command, training aircrews on variants of the C130J and HH60 Pave Hawk as well as a platform that is new to CAE - the CV22 tilt-rotor aircraft. The AOCE acquisition has us also working with other platforms new to CAE, providing training for the US Air Force's aircrews on the F15, F16 and F22 fighters.

We recently signed a Strategic Agreement with the Government of a New Zealand to work together to address its long-term Defence training needs. And, CAE is excited to part of the team selected as the preferred bidder for the new Royal Canadian Navy's Canadian Surface Combatant Program. While too soon to quantify, both avenues present potentially sizable opportunities for CAE over the long term.

Overall, we're continuing to pursue a large defense market, with over $4.9B of proposals in the hands of customers pending decisions.

And finally, in **Healthcare**, our new products like CAE Juno and Ares are being well received by customers, giving us greater access to some of the larger value pools in the market. We expect to see the Healthcare business ramp up to a more meaningful scale, and I continue to be optimistic about its potential as CAE's innovative training solutions become more broadly adopted.

In summary, we have good momentum in all our markets and we are on track to deliver on our growth outlook.

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

Andrew Arnovitz, Vice President, Strategy and Investor Relations

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.