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Kevin Chiang  
*CIBC World Markets*

Cameron Doerkse  
*National Bank Financial*

Konark Gupta  
*Scotiabank*

Benoit Poirier  
*Desjardins Capital Markets*

QUESTION AND ANSWER SESSION

Operator

Our first question is from Kevin Chiang with CIBC. Please go ahead.

Kevin Chiang, CIBC World Markets

Hi. Good afternoon and thanks for taking my question here. Maybe just turning to civil, I was wondering, if we were to back out the Bombardier training acquisition, what have organic revenue growth, both on the operating income line and the revenue line, look like? Or, maybe conversely, what did BAT contribute to both those line items, both civil revenue and civil operating income, if you could share that?

Marc Parent, President & Chief Executive Officer

I think if you're trying to maybe back out, which I assume is to back out the benefits of the Bombardier Business Aircraft Training business, I'll start by saying that that business is going very well and the integration, if anything, is going ahead of plan. I was quite happy with that. And I think when you look at the numbers, what we could tell you is that business is performing very well organically. The training business itself is growing, as we expected, by double digits, top and bottom line.

When you look at the results, I would ask you to bear in mind that in the quarter we delivered a lot less simulators in the quarter, mainly just because of timing of the deliveries of customers. We delivered five in the quarter relative to 12 last year. And, as you know, with the way we account for those, we only account for them at delivery. So I think, going back to the question, organically, the business is performing very well.

Kevin Chiang, CIBC World Markets

Okay. That's helpful. Actually, do you have a sense—is the idea to basically deliver a similar number of simulators for the full year 2020 as fiscal 2019?

Marc Parent, President & Chief Executive Officer

Yes.

Kevin Chiang, CIBC World Markets

Yes. Okay. And then a bit of a nitpicky question, but utilization was down about four points year over year. Just wondering what drove that. Was it a mix issue because you had folded in the Bombardier assets? Or is there something else that played there to drive that four-point decline?

Marc Parent, President & Chief Executive Officer

I think that the main issue that drives that is, first of all, I'd say that utilization is quite high. What you're not seeing there, to your question, is because we deployed about, from about 260 to 294 in the past year with several of those deployed in the last two quarters. So, what you're just basically seeing is just the ramp-up of sims that have just been put in. They're operating low but the network itself is operating at very, very high utilization.

Kevin Chiang, CIBC World Markets

Okay. That's great colour. And maybe just more of a clarification point. I did not see it in your MD&A, so I apologize if it's there. Did you provide or did the impact of IFRS 16 have any material impact on the reported EBIT relative to the year-over-year comp? I don't think I saw anything in the MD&A.
Sonya Branco, Chief Financial Officer

So, Kevin, I don't think, on the whole, it did not have a material impact on the SOI or EPS. It's a little bit of a (inaudible). But for the year, what we had said last quarter is that we'd have a bit of a headwind of that $0.01 to EPS for the year.

Now in the comparison year to year, I think on the balance sheet is where you see the most impact with the increase on the right-of-use assets and the debt, but we've given you the metrics adjusted for the IFRS 16 element on the balance sheet.

Kevin Chiang, CIBC World Markets

Perfect. That's it for me. Thank you for taking my questions.

Sonya Branco, Chief Financial Officer

Kevin, I'm not sure, I don't think it did not have a material impact on the SOI or EPS. It's a little bit (inaudible). But for the year, what we had said last quarter is that we'd have a bit of a headwind of that $0.01 to EPS for the year.

Now in the comparison year to year, I think on the balance sheet is where you see the most impact with the increase on the right-of-use assets and the debt, but we've given you the metrics adjusted for the IFRS 16 element on the balance sheet.

Cameron Doerksen, National Bank Financial

Okay, perfect. That's all for me. Thanks.

Sonya Branco, Chief Financial Officer

I think, yes, it's quite indicative. Ultimately, you have two factors in there. You have the impact of IFRS 16 and the added depreciation because the assets are now on balance sheet, and of course the impact of the intangibles from the acquisitions from last year, mainly the Bombardier business jet training acquisition. So I think you can use that as a good run rate.

Cameron Doerksen, National Bank Financial

Okay. That's great. And just sort of secondly, just really like a modelling question, just maybe talk about the depreciation run rate. With the number that we saw in Q1, is that actually a good run rate to use kind of on a quarterly basis for the full year?

Marc Parent, President & Chief Executive Officer

Well, I think what you're seeing, again, in the Q1 in terms of the margin is the proportion that's coming from training, which is higher margin and products. You'll
remember I was saying, when answering Kevin’s question, that we only delivered five simulators in the quarter versus 12 last year, so although it’s good margins and products, it’s not as good as service and training. So I think you’re seeing a bit of that. And I think, for the full year I think we continue to just guide to absolute operating income goals rather than margins. Notwithstanding, I think margin will be good.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

The only thing I would add to that is, as we said when we introduced the Bombardier business jet training business is that that would have the effect of about 100 to 150 basis points of margin accretion.

Konark Gupta, Scotiabank

Okay, that’s good. And I just want to clarify, was there any impact of Boeing’s 737 MAX in the civil segment? Because, obviously, they are still grounded and airlines are not taking deliveries right now. So is there any reduction in training in MAX and there’s an offset in training other aircraft types?

Marc Parent, President & Chief Executive Officer

Not really. It’s not much of an impact for us, positive or negative, I think, in the quarter of materiality. I think we continue to deliver MAX sims. I think we’ll deliver, this quarter, eight or...? How much do we think we’ll deliver? Yeah, we expect to deliver eight 737s in the next quarter, so we already delivered a bunch, so that’s not slowing down.

You saw we sold four MAX simulators in Q1, which is about what you would expect when you’re considering the number of aircraft that have been sold on orders. The bottom line is it’s not really materially affecting our results one way or another right now.

Konark Gupta, Scotiabank

Okay. That’s great colour. And then lastly on defence, so I think there was a note in the MD&A that you had some dilutive impact of fair value revaluation of share-based payments. Can you clarify what is that? And is that non-recurring in nature or can we expect something in the next quarter as well?

Sonya Branco, Chief Financial Officer

Well, it’s not indicative of a continued run rate. There was a bit of a timing spike in the quarter because of the appreciation or the steep appreciation in the long-term incentive plans. So it gets marked to market with the share price. So there was a bit of a steeper timing on those costs for the quarter.

Konark Gupta, Scotiabank

Okay. That’s great. And the European services programs continue to show weakness, I think, in the defence side. Any thoughts there, Marc, why Europe is weak here? Is it particular programs you see or is it general market weakness?

Marc Parent, President & Chief Executive Officer

Where do you see European markets?

Sonya Branco, Chief Financial Officer

In the MD&A.

Marc Parent, President & Chief Executive Officer

Oh, in the MD&A. Okay. Well, I think maybe we’ll talk about timing on the orders. I think the whole situation that you see with regards and why we backed up, you know, what we said, we said that the year would be back-end loaded and we’re seeing it. When you look what we’ve done this quarter on defence, you have about two thirds of our revenue in the quarter coming in from services, which is lower margins, and the programs going through were still in the early stages of the profitability ramp-up. And we just haven’t been able to make the progress in the quarter on certain programs, either because we weren’t able to achieve the milestones that we needed to be able to book a good proportion of revenue. For a variety of reasons. I’ll give you one. The aircraft program has not yet reached their milestone, so we can’t reach ours, so we don’t have, A, the information we need, whatever, and a lot of times all you need to do is to miss the end of the quarter and that’s it, it moves to the next quarter. And some orders that we expected to get were delayed and we’re getting them later. So I think in terms of Europe itself, it’s not a European phenomenon, it’s timing.
Konark Gupta, Scotiabank

Okay. Thanks for the colour. Thank you.

Marc Parent, President & Chief Executive Officer

The only other thing I'll tell you is that, in terms of backing up our optimism on why it’s back end-loaded is that, of course, we know what the backlog is and we have a pretty good idea of when we’ll be able to achieve the milestones on which we book revenue and earnings. And also, we need to, we always need to win, continue to win orders in a year, particularly on products, because a portion will materialize in a year, but we’re pretty confident of that, about that, because the great majority, over 90%, are what we need to generate from orders that we don’t have in our hands right now, we’ve already been selected. So it’s not a question of whether we’ll win or not, it’s just the uncertainty of when exactly is the contract that we sign. So we don’t actually control all of that, but we've made some pretty fair assumptions that we feel confident about, which gives us, you know, those two factors give us the confidence, having done an exhaustive detailed analysis, of course, of why we feel comfortable with the outlook that we’ve maintained.

Konark Gupta, Scotiabank

Appreciate it. Thank you.

Operator

And our next question is from Benoit Poirier with Desjardins Capital Markets. Please go ahead.

Benoit Poirier, Desjardins Capital Markets

Good afternoon. Just to come back on defence margins, you seem quite confident that the revenue mix will be more favourable going through the second half. Could you maybe provide some colour with respect to how much of the product revenues are already booked in the backlog right now or whether you need still to gain a lot of business to achieve this milestone?

Marc Parent, President & Chief Executive Officer

I’ll turn it over to—I don’t think we can give the amount of, ah, in absolute terms, but the confidence comes from, as I was just staying there to Konark, is that the amount of, the uncertainty we would have with regard to the products ordered that we need to get this year is, the confidence we get is because we’re selected. We’re already selected on over 90% of those orders. So, you know, we’re going to get that business. So the only uncertainty that remains is when you’re actually going to sign the contract. So I mean we’re not totally, obviously, in control of that, right? The customers, that’s in the hands of the customer as well as ourselves. But the assumptions we’ve made are based on very good intel and what we know, because these things are near term.

The other thing as well is that doesn’t include the fact that there are orders that we haven’t been selected on but we have a very strong backlog of pipeline, as you’d say. I mean we’ve got $4.2 billion of proposals that are out there that are awaiting decision. So, some orders that potentially that we’ll win that will just add to the confidence that we have of meeting the outlook that we have.

So, those are reasons where we’re confident. And I’ll tell you, Benoit, we saw this last year and we saw this the year before as well and I think we’re kind of at the same place except that I would say that we’re, ah, if I just look compared to last year, we’re picking this up earlier in the year, so I think it gives us even more time to materialize the outlook that we have.

Benoit Poirier, Desjardins Capital Markets

Yeah. Okay.

Sonya Branco, Chief Financial Officer

Just to add to your question on how we make it up, this order intake, but we have a very detailed plan to make up the advancement on the product programs during the course of the year with more weight on the second half. And, given the higher margins of these programs, the contribution is disproportionate and will make up on the operating income and the margin.

Benoit Poirier, Desjardins Capital Markets

Okay. That’s great colour. And related to the Boeing 737 MAX there, there’s a lot of discussion on whether there will be a requirement for additional training, so I was wondering if you could maybe provide some colour about what would you expect in the next 12 to 24 months and how much 737 MAX simulators do you have in your backlog right now?
Marc Parent, President & Chief Executive Officer
Well, I think that, look, we'll have to wait and see what the regulators say when the airplane start coming back, when they're cleared to fly in the various jurisdictions. We sold the great majority of the simulators that are out there. We certainly expect to continue to be successful like we have on the rest of our platforms. So I think it's wait and see. And clearly, there's going to be a lot of training to be done when the simulators, when the aircraft are cleared, so I would see pent-up demand there when airlines start to fly. That I would expect. But I have no colour more than anybody else does on what the authorities will ultimately decide on what training is done on what simulator.

Benoit Poirier, Desjardins Capital Markets
Okay. That's perfect. And on the civil aviation side, Marc, you mentioned that you expect more outsourcing opportunities with the airlines, so are there any particular regions where you expect to see to be more active? And in terms of simulators ordered, do you still feel confident that you can achieve 60-plus this year in terms of booking?

Andrew Arnovitz, Vice President, Strategy & Investor Relations
Benoit, it's Andrew. Actually, what we've said, as we've said in precious years, is that we'll maintain a leading share. I think what I would look to is aircraft deliveries, which are still at a relatively high rate ex the temporary setback in MAX deliveries. And that it stimulates a certain level, a sustained high level of demand for full-flight simulators. So, what that will precisely be, I guess, will become clear as the year progresses, but we see a pretty good run rate.

Benoit Poirier, Desjardins Capital Markets
Okay. That's great. And on the healthcare, we saw a nice pickup in revenues. Margin, negative, but I assume it's typical seasonality. So, do you still feel confident that the double-digit growth can also be achieved on the operating income side?

Marc Parent, President & Chief Executive Officer
Yes, absolutely. We're quite encouraged with the progress that our new leader, Rekha Ranganathan, is making with her team and the experience that she brings from her senior leadership, or senior levels in Philips and other companies. So, definitely we're seeing the momentum there and I would expect that to continue.

Benoit Poirier, Desjardins Capital Markets
Okay. Thank you very much for the time.

Operator
And, ladies and gentlemen, we welcome your questions. Please press the one followed by the four on your telephone keypad. One four for questions. One moment please.

Andrew Arnovitz, Vice President, Strategy & Investor Relations
Operator, if there are no more questions from members of the financial community, we'll conclude this part of the session and open the lines for questions from members of the media.

Operator
There are no other questions on the phone lines from participants, sir.

Andrew Arnovitz, Vice President, Strategy & Investor Relations
Okay then. Well, I'll thank all participants for joining us this afternoon and remind you that a transcript of today's call will be made available on CAE's website at cae.com. Thank you.

Operator
Ladies and gentlemen, that concludes the call for today. We thank you for your participation, everyone. Have a great rest of your day. You may disconnect your line.