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QUESTION AND ANSWER SESSION

Operator

Our first question comes from the line of Fadi Chamoun with BMO. You may proceed with your question.

Fadi Chamoun, BMO Capital Markets

Okay. Thank you and good afternoon, everyone.

Sonya Branco, Chief Financial Officer

Good afternoon.

Fadi Chamoun, BMO Capital Markets

I'm looking at your civil aviation segment. You've improved the operating margin quite substantially this year versus the prior year, although utilization went from 76% to 70%, which is, I guess, good news. I'm just trying to understand kind of the path forward for this utilization rate. You're probably going through the bottom in that utilization rate right now. If you can share with us where are you bottoming out, if you can share with us what is kind of a breakeven level for utilization rate for this business as we kind of move into the next 6 months to 12 months?

Marc Parent, President & Chief Executive Officer

Well, I think maybe I could start that and maybe shift it over to Sonya, Fadi, but look, I think you're right, in terms of seeing a bottom, I think we've seen it. I'm pretty confident of that. And that bottom is pretty bottom, right? We hit about, just in the month of April we hit about 20% utilization. And when you think about it, that's pretty understandable, because not only was 90% of the fleet of commercial airliners grounded across the world, you also have the fact that even if people wanted to train, in lot of cases it couldn't get to training centres because either the training centre was closed because you had to because of local quarantine rules or, if you take the example of the travel restrictions internationally, even in some cases across states, across certainly north, south here in Canada. So I think we've seen that bottom and, yes, it is. But the good news is that, as we fully expect, we don't get to zero, because we're a regulated business in any kind of circumstance.

If you look in basically business aircraft with the same kind of situation, the reality, even though you would have seen a demand from business aircraft, but in reality you just couldn't get anywhere, because you literally couldn't flight plan, in some cases across states. So look, I think we've seen that bottom. We have been starting to see the recovery. And I say it's a tepid recovery at best, because the airlines aren't flying that much more yet. We see, as people are able to get into training, we're seeing more training activity. I would tell you at the moment we're hovering anywhere between 25% and 30% right now. It has been a slow steady curve up in last three, four weeks, that's what we've seen.

At the same time, I fully expect that that's going to continue, because, as I said in my brief, in my remarks, we still have a number of our training centres that are closed and a lot of them are still operating on limited utilization. And you also have the situation that, as I mentioned in my notes as well, that for the same reason that, you know, because of the travel restrictions, pilots that would have otherwise needed to conduct recurrent training because they are running into their six to nine months expiry of their certifications, just physically couldn't get to the training centre, so you saw FAA, you saw EASA providing a delay and that, if you like, a dispensation of that. But it's obviously you're not replacing it. You still have to do it. But it extended by three months. But that's coming to an end and so we're seeing a pickup and we expect a further pickup of that activity.

So look, I think, going forward, we've based, when we look at utilization going forward, we base it, first of all, on the fact that, look, long answer to your question here, but I think it's maybe setting the tone that, look, air travel is going to come back. The principles of air travel remain unchanged. Humans have the desire and the ability to travel and the fact that it's been temporarily suspended, I think the keyword there is temporary. Air travel is still the closest thing to a time machine that's been invented and humans will insist on their right to fly. We already start seeing that in pockets around the world.

The recovery will happen. So for us, it's just a question of time. And we certainly think we've seen the worst. We're using IATA's forecast for long-term planning purposes. That's how we've set our expectations for the year, when we talk about a tale of two halves. We fully expect that this recovery is probably, you know, people say V shape, it's not going to be V shape, we're pretty sure of that. We're basically assuming like probably a saw-toothed U recovery, because I think it's realistic to expect, based on all the expertise you see out there, that you may see a resurgence in the fall and you might see some hot spots in the world. There's, I guess, some debate what or not this is seasonal and whether or not, if that's the case, that affects us maybe in the fall or the winter. But south of the equator they're going to be turning to winter months in the coming months, so maybe there's restriction there. So we're fully expecting and banking that in to our forecast.

So for us, I think that we will see an increased utilization as good going forward. Now, we don't fully, we don't need all of that utilization to come back to do well. I think, ah, you started to saying in your comment there that we achieved pretty good margins, like about 25% are civil network based on lower overall utilization. Now some of that is mixed. The revenue comes from different sources. But in a large part it's training. So the fact that we were able to do that at much lower levels of utilization tells you a couple of things. One is the impact of, for example, business aviation, the acquisition that we did that last year, largest in our history of Bombardier's business aircraft training network, which basically gives us nearly 6,000 airplanes out there to fill, but also the fact that we've been working on our effectiveness and our cost structure. So you can well imagine that we don't necessarily have to have all that utilization come back, because our breakeven points, we've been working on that, and are better than they were. And that was to your question.

And of course from a cash point of view, they're much lower than those numbers, because the bulk of our cost, the largest part of the costs are not in the training network are mainly depreciation on the assets themselves is of course is non-cash.

Maybe I'll just leave it over to you at this point, Sonya.

Sonya Branco, Chief Financial Officer

Yes. Well, I'll just, I guess, maybe tag on to the breakeven part of Fadi's question. So, as you know, the training business is a higher fixed-cost business, so two of the biggest costs is the instructor base, which is scalable up or down, because we have a base of contingent instructors, so that helps on the cost structure. And of course, like Marc just mentioned, non-cash depreciation is one of the larger expenses. So, we've taken measures to size cost to the new volume and we continue to review cost management on that front. The last black swan event that we saw in the financial crisis, utilization went down to the low 60s and we still generated double-digit margins and cash generation.

Now, this pandemic is much worse, but what's key to highlight is, like Marc said, we don't have to necessarily go back to the same levels to be back to very healthy levels, and even most importantly, that the utilization can be a quite low levels for this business model to be cash positive. And on the product side of the business, it is a bit more balanced between fixed and variable costs, and we have the ability to adjust demand and production levels with the variations in our backlog.

Marc Parent, President & Chief Executive Officer

Last thing I'll say maybe, I think what will probably drive things, Fadi, is I'm pretty sure that there will be a lot of pent-up demand and that pent-up demand will probably, initially, towards narrow-body aircraft, because that's the way the I think industry will probably move, at least in the short to medium term following the pandemic. And you'll know that the majority, a great majority of the assets in our training network are geared towards narrow-body. So I think that could be disproportionately better for us as the recovery occurs.

Fadi Chamoun, BMO Capital Markets

Okay. Just one clarification. I realize that a lot of the costs are non-cash costs in the training centres, I guess, so at this 25% to 30%, is the business cash flow neutral? Like on a cash flow basis, cash flow neutral or cash flow positive? Can it operate at a cash flow neutral or positive at this 25% to 30%?

Sonya Branco, Chief Financial Officer

So what I'll say is, like I mentioned, we can be cash flow neutral and positive at very low levels of utilization. We won't necessarily share the ranges, but at relatively low levels. So if you could imagine at 60% we were still in double-digit SOI territory and definitely cash positive, then I think you can infer that at much lower levels we could be cash neutral.

Marc Parent, President & Chief Executive Officer

The other thing I'll say, Fadi, is that if we thought that we'd stay at that level, we obviously would adjust, because our training centres and our training footprint is made at the assumption of much higher training demand, which we, as I mentioned, we fully expect to come back. And so even today, when we look at 25% to 30%, I mean some training centres are operating at much higher than that. It depends where you are. I mean some training centres are closed. And that factors, when I talk about 25% to 30%, I'm factoring in here that summer is zero. So, basically we factored all of that. Those training centres come back online and our expectation is, in large part, those training centres should be back online in June. And the ability, you know, once that opens up, obviously, we're going to materially move up. So, I think although it would be hard to make money at this level, 25% to 30%, we're not going to stay there.

Fadi Chamoun, BMO Capital Markets

Okay. And one clarification, Sonya, I think in your comment talking about the free cash flow in the first half of the year being negative and then you mentioned that working capital is seasonally negative. Are you saying free cash flow negative before working capital in the first half and ultimately you have the seasonal working capital issue that you have to deal with as well?

Sonya Branco, Chief Financial Officer

So, in the free cash flow guidance that we're giving you, I include the impact of non-cash working capital. So what we're seeing is, as Marc just described, the impact on the operations and disruptions, so that will drive negative free cash flow, but that's including what we see as some slower collections and some pressure on the non-cash working capital, on the civil side. Solid collections continue on the defence side. In fact, many governments are actually accelerating collections as support measures. And of course we've put an extensive measures to monitor and manage the working capital closely and measures on inventory and suppliers and such.

So, as we work through this period, we've obviously implemented the cost reductions and cash preservation actions sized to the lower volume and reduced the level of expenditures. So, the guidance that we've given on CapEx, which includes growth and maintenance, that we expect to spend about, guiding to about $50 million for the first half of this year. That's a third of what we spent last year. As well as reducing the R&D and suspending the dividends and the NCIB. And so ultimately it's the combination of all that within our regular free cash flow definition and we expect that to inflect positively as the markets reopen and so on in the second half of the year.

Fadi Chamoun, BMO Capital Markets

Okay. I promise this is my last question, but I want to go back to the comments you made, Marc, about kind of you don't need to go back to kind of pre-COVID-19 to get the profitability to improve again. But if I look at your aviation side, like you had $2.2 billion of revenue there, $480 million of operating income for the last 12 months. Like do we need to see traffic, passenger traffic return to 2019 level to kind of see the scope of the business to go back to that last 12 months kind of levels as we move forward or are there levers that you think could make you get to that profit level even with airlines that are 75% the size of what they used to be?

Marc Parent, President & Chief Executive Officer

I think I'll start the comments, because I don't want to give into providing guidance when I said I wouldn't, but I think what I would tell you, I fully expect that travel will come back and, going back to what I said in the beginning, people want to travel. That's not going to change. We're talking about timing now. We talk about that. You pick your time. My own guess is about two years, okay, before it gets back to levels we've seen before. But, be that whatever it is, you pick whatever, if you think it's going to be later than that, it will get back to those levels and I think we will do well, as demonstrated.

But I think that if you look at things coming out of this crisis, you learn from every one, right? Like first and foremost, go back to training is regulated, and that basically ensures, if you like, perennity of the business model itself. Our customers out there, we made a whole, you know, the growth that we've had in large part of the past few years has been to convince customers to outsource in whole or in part their training operations to us. You can well imagine that we think, because of our capability, because of the service that we provide, because of the unique insights that we can derive for our customers, and the cost and cost benefits that we can provide to our customers, you can well imagine that we will have, we are already having conversations with people to be able to gather more market share in the training itself, in both civil and business aircraft. So I think that will help.

The other thing that will help is that, again, you learn lessons that you out of this and you can see we are already operating, we've been forced to operate in a different environment, so you see. You see what, well, how can we maintain some of the cost savings that we see, now that they're forced upon us, obviously, but we are being forced to innovate in how we deliver services to our customers. So you can expect that we have a very strong initiative under way to make a lot of those cost saving measures structural so we can benefit from them so we don't have to have all of that revenue come back to be able to derive profits. And of course, if we do rise back to, and we eventually will, back to the airline traffic levels that we've seen in the past, well, we'll disproportionately benefit from that.

Last thing I would tell you is business aircraft, you know, half of our business is business aircraft. And to that end to that I'm bullish, personally. We do see opposite forces at play, because business aviation is historically correlated to GDP, the US corporate profits, but obviously that's probably going to be trending down. But to me, business jet travel may, to me, may become preferred for business continuity, health and safety reasons, less frequency of airline of traffic into airports other than the hubs. Of course, a bit early to tell, but we're watching this carefully.

Fadi Chamoun, BMO Capital Markets

Great. I appreciate it. Thank you.

Marc Parent, President & Chief Executive Officer

Thank you.

Operator

Our next question comes from the line of Konark Gupta with Scotiabank. You may proceed with your question.

Konark Gupta, Scotiabank

Thanks and good afternoon, everyone. Just wanted to clarify to the last question on utilization. You mentioned 20% for April, 25% to 30% today. Are those utilization numbers based on the centres that are open or they include the ones that are closed as well?

Marc Parent, President & Chief Executive Officer

They include them all, everything.

Konark Gupta, Scotiabank

Okay. So it's 0% for obviously the closed ones and then there is some lower utilization for the ones that opened.

Marc Parent, President & Chief Executive Officer

Yes.

Konark Gupta, Scotiabank

Okay. That makes sense. Thanks. My first question is on the recovery. So, like if you look at what Airbus, Boeing, and some of the bigger airlines have suggested they are anticipating a recovery in the market or their travel demand from anywhere from three years to five years.

Now if you don't need, let's say, as much or as many training centres and manufacturing capacity over the next three years or five years, wherever this recovery shape takes place, would you anticipate removing or suspending some of the capacity for longer or permanently?

Marc Parent, President & Chief Executive Officer

Well, I think it's too early to tell but, as I was saying at the outset, if we saw structural changes that are going to last for a long time, then we would adapt. We've proven in the past that we've adapted. Don't forget, we are very adept at being able to move assets around in our training network, so that helps us out, you know, for the obvious reasons that we just mentioned. So look, if that happened, we would adapt our structure. I think inherently a lot of our costs in our training centre network are variable already, so that will help us out going forward as well. But as I said before, I personally believe that the air traffic will recover. Again, it's a question of time.

Konark Gupta, Scotiabank

Right. That makes sense. And then on the free cash flow, I think maybe it's for Sonya probably more. So I understand, like the free cash flow you guys define as it's after maintenance CapEx but before growth CapEx. So just wanted to make sure, when you say free cash positive in second half, do you anticipate any significant growth CapEx number there and then would you expect the free cash to be positive even after netting out that growth CapEx?

Sonya Branco, Chief Financial Officer

Well, I think right now what we will guide to is that we expect it to inflect positive as the market opens up. Now we provided $50 million guidance on the CapEx for the first half and really the second half will be a measure of the level of recovery and free cash flow performance that we see. Growth CapEx is inherently discretionary and ultimately is deployed if there are growth opportunities, right? So, as the market conditions evolve and develop, we'll take a look at it as it is. If growth opportunities are not there, we won't deploy a lot more CapEx; if there are, we'll adapt accordingly, right? So ultimately right now $50 million for the first half of the year and then we'll really re-baseline as we see how the first half of the year goes in terms of cash flow and capacity requirements.

Konark Gupta, Scotiabank

It's kind of fair to assume that there is going to be minimal or no growth CapEx in the first half, right? You already have a lot of capacity?

Sonya Branco, Chief Financial Officer

That's right. There's still will be some, it's a balance, there'll be some maintenance and there is some CapEx that we've got to our own opportunities, but it will be pretty low, yes, you're right.

Marc Parent, President & Chief Executive Officer

It's safe to say that if there growth CapEx, it will be because we see very, very strong customer demand for that, any asset that we put, obviously.

Konark Gupta, Scotiabank

Right. Right. No, that makes sense. And very last one for me, if I can squeeze in. Obviously, you're not giving guidance, I understand, but just to kind of have the expectations right in the marketplace, can you at least suggest what kind of revenue trends or segment operating income trends have you seen so far in this quarter based on the utilization numbers that you gave us? Because we don't obviously see how many simulators that you deliver and what kind of demand environment you're seeing at this point, so if you can suggest what kind of decline rates are you seeing, at least directionally, that will be great.

Marc Parent, President & Chief Executive Officer

Well, we won't go into that, for the reasons I talked about. Things are just, there's too much in flux right now to be able to answer that question in any degree of certainty in one way or another, just too many moving parts. And the way forward, I think it will define itself a lot better in the upcoming weeks and months.

Konark Gupta, Scotiabank

Okay. That's great. Thank you so much.

Marc Parent, President & Chief Executive Officer

Thank you.

Operator

Our next question comes from the line of Steve Arthur from RBC Capital Markets. You may proceed.

Steve Arthur, RBC Capital Markets

Thank you. Just a couple of longer-term items, first following up on civil margins. They were very high in the quarter. I don't think I've ever seen them near 25%. Just wondering if there's any more colour you can offer on what drove that step function higher and, in particular, where there any one-time items in there. Or as we look at two, three, four years of a longer term, were some of the factors that drove the Q4 levels persistent and things that should indicate longer-term capabilities for that segment?

Sonya Branco, Chief Financial Officer

Well, I can start Marc, if you want to jump in also. Really for this quarter, the 25% is a result of the mix. We had a higher proportion of business jet, which is at the higher level of our civil margins. And also on the product side. The revenue was a little lower than Q4 because we had less deliveries than in Q4. You'll remember there was a big ramp up last year at this time. But improved program mix drove higher SOI contribution on that front, so really the mix on the programs on the product side and also a higher proportion of the business jet, which has higher margins. And for the year what that gave us is a 22% margin overall. I think a great margin and really the results show what's achievable at steady state in a healthy environment and, frankly, that in itself had impacts from COVID pandemic in March. So would have been quite a bit better had there not been this pandemic and crisis.

Steve Arthur, RBC Capital Markets

I guess just following up on that, you commented earlier about, in the press release and in the discussion, further opportunities for outsourcing with the airlines. Realize, obviously, you can't get into specific discussions, but if you could characterize your discussions there in relative to, say, six months ago, the number of those conversations that are going on, the nature of them, the urgency of the customers looking for solutions here.

Marc Parent, President & Chief Executive Officer

Well, I won't comment on the urgency, because I don't like to comment about our customers, but definitely there are more conversations going on. Materially more.

Steve Arthur, RBC Capital Markets

Okay. And I guess just final one. With the healthcare situation, in particular the opportunities there with the ventilators, some amazing work to do, which your team has done already. Is this something that in the short term was the right thing to do and you've dealt with it to support the emergency situation or is this a longer-term opportunity for CAE Healthcare?

Marc Parent, President & Chief Executive Officer

Well, you know, I think, we started it off from doing the right thing, humanitarian effort, for sure, and we thought that, you know, the notion was that with the expertise that we have in CAE Healthcare specifically and the fact that we are in the business of training people on intubation, that kind of thing, using those machines, so we have a pretty good knowledge of those particular devices. And then you dovetailed with the great systems engineering and innovation capability at CAE and all the skills that we have in electronics and software and manufacturing, it was just an interesting combination of all those things together to say, hey, we can pull this off.

And I've been very, very impressed of what we've been able to do. I'm not surprised, because I knew we could do it, but the speed at which we do it. And I think what I would emphasize on this ventilator, we're not, we haven't undertaken a design from someone else that we've built, we build-to-print that kind of thing. We designed from scratch a new device, a new device that's going to be used in ICUs on the most critically ill COVID patients or anybody else that would need a ventilator. So, like I said, I've been very impressed and so I have the people that are healthcare professionals looking at our device. So from that point of view, I mean we haven't built it, if you like, as a device with a cost structure to be competitive in the market, because, for obvious reasons, speed is of the essence here. And the Government of Canada gave us a contract for 10,000 said, full speed ahead, get that done. So that's how we're operating.

But what I would tell you is, look, I mean nothing is off the table. Nothing is off the table. We'd take a good look at this as we're executing this contract and if this is an area that we could further develop to be able to provide self-sufficiency to Canada, to Quebec, or any reason like that or could we build it in as a solution that we have as part of emergency responsive that we provide around the world, then we might do that. So nothing is off the table, I would tell you. We always look at new ideas and, who knows, this could be one. At the moment we're building it to deliver these 10,000 units.

Steve Arthur, RBC Capital Markets

Great. Thank you.

Operator

Our next question comes from the line of Kevin Chiang with CIBC. You may proceed with your question.

Kevin Chiang, CIBC Capital Markets

Hi. Good afternoon, everybody. Maybe I'll start off with an earlier remark you made, Marc, about seeing opportunities and you've brought in a new member of the executive team there, Heidi Wood. I'd be interested in knowing what you think about, how you see the competitive environment may be changing over the next few years here.

If memory serves me correct, I think you had a number of aerospace OEMs look to enter into the field last time when there was some disruption around defence spending, such as Lockheed Martin looking to get into of the space. Did you see increasing competitive pressure potentially from some of your more nascent competitors who might see their core business shrinking and may be looking at training or manufacturing full-flight simulators as maybe a way to offset some of the other pressure?

Marc Parent, President & Chief Executive Officer

Look, we'll see. I don't typically spend a lot of time looking in the rear-view mirror, if you like, at competitors, not to be too self-righteous on that, but we focus on our customers. We are focused on delighting our customers and staying very, very close to their needs and where they're going in to stay in lockstep with them in providing product service we do.

As you know, we're a pure-play, and because of that we've been able to establish a commanding market share in every one of our segments and we do a lot to make sure we maintain that right. I talked about delighting customers, I talked about the substantial amount of R&D that we do, moving into using digital and AI to differentiate our solutions, so look, I won't comment what the competitors are doing. I don't expect a higher level, a higher competitive environment, more stringent than it was. If anything, I think in this kind of the crisis I dare say that customers will remember those that were there when they needed us most, and CAE is there. Throughout this pandemic, we've been there to service our customers in pretty tough situations where our personnel were on site delivering, because we're an essential service.

And as I said before, this is a regulated market, so the industry needs us to be around and servicing them, either for simulators or providing training, I'm talking about civil now, but simulators or training in order to be able to maintain their flying operations and we're critical to that. So I think that's what customers will look at more. And we provide them a service that is, by design, cost effective in the market. So I think we will continue to play our game and I think we will continue to win.

Kevin Chiang, CIBC Capital Markets

That's great colour. Maybe just one more from me here, maybe this is for Sonya, for this fiscal year 2021, when I look at your contractual obligations that you've laid out in your MD&A, about half of that is for purchase commitments, just over $200 million. I'm just wondering how much flexibility you have there in the event that some of your product revenue maybe gets deferred, as you mentioned, you are seeing some deferrals or cancellations. Do you have flexibility to adjust that purchase commitment for materials also lower to reflect kind of the fluidity in that revenue line or is that $200 million pretty much a fixed cost for this year?

Sonya Branco, Chief Financial Officer

No, so that's purchase commitments and another commitments that we've made with suppliers and other stakeholders. And these are key suppliers in our supply chain, so these commitments have a wider term. Obviously, we take our best view in terms of the time commitment, and that's what's shown in the note, but there is some flexibility. Should there be deferrals or elements on the timing of our execution of our backlog, then there is flexibility in partnership with our supply chain.

Kevin Chiang, CIBC Capital Markets

Perfect. That's it for me. Thank you very much.

Sonya Branco, Chief Financial Officer

Thanks.

Operator

As a reminder, to register for an audio question, please press the one followed by the four on your telephone keypad.

Our next question comes from the line of Benoit Poirier with Desjardins Capital Markets. You may proceed with your question.

Benoit Poirier, Desjardins Capital Markets

Good afternoon, everyone. Marc, just if we look in the longer term, pilot shortage has been a strong rationale for training requirement. We've been talking about the population of 360,000 pilots, demand for over 300,000 pilots over the next 10 years, so in light of the massive layoffs we see from some airlines, how would you reconcile the pilot shortage? And especially that IATA forecast to revisit the pre-crisis level somewhere in 2023. Thanks.

Marc Parent, President & Chief Executive Officer

Well, I think the first thing I would say, Benoit, is that pilot shortage, it's never been a strong factor in the revenue numbers and the growth of CAE itself. What drives our training business is the active, the flying by airlines themselves and the active fleet the pilots that they have. Where we have an exposure to pilot training, i.e., making pilots, going from somebody that doesn't have a license to becoming an airline pilot, is obviously in our flight training organization, our FTO network. We have a network of schools, the largest one in Phoenix, for example. I would tell you that those are operating. Those haven't missed a beat since the beginning of, actually this pandemic. We've continued flying. We've had to shut down and do virtual class training, but in terms of the flying activity, that hasn't stopped.

Now looking at future demand for new pilots to be trained, obviously, we're going to look at that very closely because of the factors that you just mentioned, but I think it's important to note that CAE, by design, has never been after having a very strong portion of the market in the FTO network. We never sized our operation to be anywhere near to be able to meet the capacity needs and the pilot shortage. And the contracts that we have are directly with airlines. And so far what we've seen is that the airlines that we partnered with, if anything, have reaffirmed the contracts they have with us. So, you know, it takes about a couple of years to form a new pilot. So I think, look, we're going to have to look at this in detail, but I think the biggest thing I would say is it's not a primary driver for revenues in the civil business or earnings.

Benoit Poirier, Desjardins Capital Markets

Okay. That's very good colour. And when we look at civil margin, obviously you don't want to provide any guidance here, but when we look back at fiscal 2004, fiscal 2005, fiscal 2008, fiscal 2009, how should we be looking at the current situation and your ability to probably get margin similar to the previous levels? Would it be fair to say that this pandemic is different than the last few downturns we got, even if your mix is more geared toward services?

Marc Parent, President & Chief Executive Officer

Well, I think, look, nothing compares with this pandemic. I mean this is the worst that anyone's ever seen. I think you could derive some lessons from those. But I think the steps that we've taken to control, first of all, control our cost, control our liquidity are the right ones to gives us ample liquidity under, to me, any kind of scenario, you might want to look at that. And in our planning in the cuts we've made, we've assumed something actually worse than actually we're seeing right now in terms of, for example, days sales outstanding on payments, as just an example.

So look, as I said before, we don't need all that revenue to come back to do very well and I think the bundled solutions that we have, both simulators and training, I fully expect simulator sales themselves to be much lower because there is going to be much lower deliveries of aircraft. Training, however, I think we'll have to see. I think there's going, as I said, I think business aviation could be a tail of, ah, it'll be a tossup, we'll see. We'll see whether it be higher or lower depending on which wins. Is it corporate profits or the fact that people need to move around and the perceived way of moving around safely and effectively because of limited opportunities on the commercial aircraft to get there and back in a reasonable amount of time is business aviation. I think that will be a factor.

And again, we're going to be adapting our costs to continue to be efficient and be able to get some structural cost savings out of this, which means that we don't have to get all the revenue back in order to get earnings back to a reasonable level.

Benoit Poirier, Desjardins Capital Markets

Okay. That's great. And maybe one question for Sonya. From the liquidity standpoint, you've been able to bolster your balance sheet with about $2 billion of liquidity. When we look at your net debt to EBITDA, where would you expect the ratio to peak at going through the next few quarters? And also could you talk a little bit about the free cash flow expectation for the first half? How much is coming from working capital versus margin? What is driving most of the decline? Thank you.

Sonya Branco, Chief Financial Officer

So, the level of net debt we expect will probably increase over the year, as there's cash usage or revolver usage in the near term, and it will follow what we expect with the negative free cash flow in the first half and then inflect positively. So, as net debt increased as a bit and, as we've discussed, there will be some operational impact, a negative financial impact, so we expect EBITDA to be lower in the first half as well. So you'll see those ratios increase, but we're still, I think, in very healthy territories and well below any covenants that we have.

In terms of the free cash flow, we'll speak to it directionally. I think it will be a combination of both. There will be impact from lower cash from ops because of the disturbances on operations and we see a higher investment on the non-cash working cap. Now, we usually have one in the first half. I do expect it to be higher than usual. Now, that will come mostly from AR, so on that front, our DSOs, days sales outstanding, had been decreasing nicely quarter over quarter and we saw an uptick and we do expect that to slow a little bit.

In terms of the AR and collections, you've got to look at it by segments and products and services. So, on the segment side, customers are mostly governments, so of course no risk and, frankly, as I mentioned, governments are accelerating payments. On the civil side, the simulator orders are funded throughout production with progress payments, so that gives us a measure of security in the orders and the receivables. And on the training side, terms are generally 30 days to 60 days, so we don't have significant concentrate exposure to AR balance of any one airline, but customers are asking for some extended terms and we are looking at each situation case by case and incorporating this as part of our working capital assumptions and scenarios. Like we have deep relationships with all of these customers and work very closely with them through some past black swan events, as we do today. So we provide a critical service to the airlines, which obviously can impact continuity of their operations, so this means that training is usually prioritized.

So, realistically, I think we'll see a bit of a higher balance on the AR side. Now, obviously, we are working on the inventory side, being very, I think, judicious on any inventory efficiencies and much stricter management of inventory and obviously working with suppliers. And you saw in liquidity elements, we also have shored up our AR factoring program where we can sell some of our AR and that just increased from US$300 to US$400 million also. So I think a combination of factors will keep non-cash working capital as strictly and monitoring it very tightly, but realistically we do expect to start to grow a little bit.

Benoit Poirier, Desjardins Capital Markets

That's great colour. Thanks very much for the time.

Sonya Branco, Chief Financial Officer

Thank you.

Operator

Our next question comes from the line of Cameron Doerksen with National Bank Financial. You may proceed.

Cameron Doerksen, National Bank Financial

Thanks. Good afternoon. Just a question on the full-flight simulator business: I'm just wondering, if we think about Q1 with all the travel restrictions, what is your ability to actually, I guess, deliver a simulator or have customers even travel to accept or for your own staff to go and install the simulator? Is that something that we actually need to see travel restrictions removed before your even able to do that or is there some special ability for them to do that or they have approval to do that?

Marc Parent, President & Chief Executive Officer

It depends. It depends, mostly, you know, we operate as an essential service around the globe, so that provides us the ability to, in most places, to be able to conduct the work. And we obviously look at things on the safety of our employees. That's our first priority. So if we can satisfy ourselves that it's a safe situation and they can operate in a safe manner for themselves and their customers, then, by and large, we can get it done.

Cameron Doerksen, National Bank Financial

Okay. And maybe just one second one for me, just as we think about, I mean the next couple of quarters have seen, obviously, a lot of airlines furloughing pilots and taking entire fleet types out, and usually when that happens you see a lot of, I guess pilots having to change the type of aircraft that they fly, which presumably would lead to a much larger training event for them. Do you see this as somewhat of an offset, even if the pilot population is much lower, there could potentially be some much larger training events for some of these pilots that will act as an offset. Is that your view?

Marc Parent, President & Chief Executive Officer

Yes. Absolutely. That coupled with the pent-up demand that, you know, we have 60% of the world's fleet on the ground. That's not going to be something that's going to be sustained, obviously. I think a proportion of the world's fleet will stay grounded for quite a while, but certainly not 60%. So, as those airplanes start being brought up, there's going to be pilots needed to fly them. So the pent-up demand of training, number one, and the fact that, as you just talked about, we've talked about that many times in the past, we refer to as churn in the pilot population. You could expect, I sort of would expect that you will see retirements out of that. When people see the opportunity, I think airlines in some case are encouraging people to retire, so that, because of seniority rules that kind of tends people bumping different types of aircraft. So certainly the amount of training demand will not be one to one with traffic patterns or delivery pattern at the airlines, for sure, for a while.

Cameron Doerksen, National Bank Financial

Okay, that's great. Thanks very much.

Operator

Our next question comes from the line of Tim James with TD Securities. You may proceed with your question.

Tim James, TD Securities

Thank you. Just very quickly, first of all, Marc, is it correct to assume that the 25% to 30% current utilization of the simulator network that that's all sort of recurrent training?

Marc Parent, President & Chief Executive Officer

No. No. There's initials going on as well. But primarily I would say recurrent right now. But if you think about business aircraft, we're doing a lot of initials right now.

Tim James, TD Securities

Oh, okay. Okay, great. And then I guess just kind of along that line of thought, are you getting a sense at this point from what your big commercial customers are telling you in terms of how they're planning out their recurrent training, I mean do you get the sense they're looking out to the end of this year, maybe it's early 2021 and they're starting to try and estimate what capacity they will have and then determine their pilot requirements on that basis? So they're kind of looking past this trough and making sure that they've got enough pilots that are staying current with their training even if those pilots are not be utilized for say the next two months or three months? Are you getting a sense at all for about that from your customers?

Marc Parent, President & Chief Executive Officer

Well, again, I don't want to get in too much about what our customers are saying, because you can read what they're saying and they report it themselves. I can just talk about our own operations. And yes, we have dialogue, just by the very nature that we have relationships one way or another with the majority of the world's airlines. So we expect our, you know, what we say about way forward is informed by those discussions, as well as other measures, like when I talked about the IATA forecast itself and other means of input that we get with regards to the business aviation (inaudible) and doing that kind of thing.

I think you could well imagine, because of, you know, when I gave the answer, the previous answer with regards to the amount of training that has to occur to maintain a pilot current to be able to operate in aircraft, a commercial aircraft, and the fact that there's going to be a lot of, you know, if they retire fleets or they move into different fleets, they retire pilots, that there is going to be a lot of training events being caused by those moves, you can imagine that the airlines are spending a lot of time looking at that. Are they looking at next year? I think, yeah, next year is, in a lot of cases, you know, they did have as little visibility as we have in being able to provide that, so I wouldn't go as far as to give you an opinion later than a few months going forward.

Tim James, TD Securities

Okay. Those are the only questions I had. Thank you.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Operator, I think we've gone over the allotted time, but I want to thank everyone for participating on the call today and remind you that a transcript of the call can be found on our website. Before we conclude, we'll open the lines to see if there are any questions from members of the media.

Operator

Once again, ladies and gentlemen, as a reminder, to register for an audio question, please press the one followed by the four on your telephone.

Our first question from the media is from Julien Arsenault with La Presse. You may proceed.

Julien Arsenault, La Presse

(French)

Marc Parent, President & Chief Executive Officer

(French)

Julien Arsenault, La Presse

(French)

Marc Parent, President & Chief Executive Officer

(French)

Julien Arsenault, La Presse

(French)

Marc Parent, President & Chief Executive Officer

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Julien Arsenault, La Presse

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Marc Parent, President & Chief Executive Officer

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Julien Arsenault, La Presse

(French)

Marc Parent, President & Chief Executive Officer

(French)

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Okay, operator, I think we'll conclude the call now. Again, thanks to everyone from the investment community and media for joining us and remind you that a transcript of the call can be found on CAE's website. Thank you.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.
