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QUESTION AND ANSWER SESSION

Operator

We'll get to the first question on the line from Fadi Chamoun with BMO Capital Markets. Go right ahead.

Fadi Chamoun, BMO Capital Markets

Okay. Thank you. Good afternoon. Just a couple of questions on the cash flow maybe, Sonya. So, if I look at your cash flow from operations before working capital, you've kind of more than covered your CapEx and development cost this quarter. Can we infer from that that the civil aviation segment was also positive before working capital this quarter?

Sonya Branco, Chief Financial Officer

Thanks, Fadi. So, I think, ah, I'm glad that you highlight this. So, despite the fact that more than half our training facilities were closed or reduced capacity and our civil manufacturing was closed for more than half the quarter, overall, free cash flow was improved. And as you point out, cash from ops, although much less, or cash from ops before working capital, although much lower than last year, was still positive. So the business overall, despite the challenges, was cash positive before working capital. And this applies to each of the segments, including our civil overall and our training network. So, despite living through one of the most challenging quarters in our history, I think it's a great demonstration of the resiliency and the cash generative model of CAE that our cash from ops was positive in this quarter.

Now of course we invested in non-cash working cap. Some of that is a bit of slowdown in some payments that we're managing through with some of our airline customers. But a lot of it was still the impact of the usual seasonality that we see. So, if you take a look at the working capital accounts, a lot of the investment was on accounts payable side, and that's really a reflection that we see every year of the higher production levels and activities in Q4, which then flows through in the first quarter but at lesser revenue, and obviously completely very much exacerbated in this quarter with the fall on the revenue side. So, yes, to your point, overall CAE cash from operations before working cap positive, and that's in all segments, including our training business.

Fadi Chamoun, BMO Capital Markets

Okay. No, it's impressive that you can be cash flow positive before working capital, I guess, in a quarter where utilization rates are in the low 30%. But do you expect working capital to become a neutral reverse back in the nine months coming? Like how do you kind of think about that for the balance of the year?

Sonya Branco, Chief Financial Officer

Yeah, and to your point, Fadi, I think it's impressive, there's resiliency, but also it reflects a lot of the measures we've put in place on cost containment and leverage to preserve cash and so that all contributed to the positive cash position.

In terms of working capital, so the first half usually is, seasonality will drive some investment and then some reversal in the second half, and especially, I think, that will be reinforced with kind of the second half inflection positive on free cash flow. So I expect, on the free cash flow side, continue to be negative in the first half, positive in the second half, and some of that will also, I expect, come from working capital as well.

Fadi Chamoun, BMO Capital Markets

Just one clarification: The cash flow guidance, free cash flow guidance does not include the cash impact of the restructuring plan that you announced. Or is that included?

Sonya Branco, Chief Financial Officer

It does.

Fadi Chamoun, BMO Capital Markets

It does include that?

Sonya Branco, Chief Financial Officer

Yes it does. So, we've incorporated the cash impact of the restructuring. And, as I mentioned in my remarks, we will execute this all throughout the next year and so the cash profiling will follow some of that execution, and so it will, but it is incorporated in the free cash flow.

Fadi Chamoun, BMO Capital Markets

Okay. And based on all of this as you just told me and given expectations that things should get better in the next six to nine months as the business aviation market kind of recovers and the aviation market will recover, I'm thinking H1 plus H2 cash flow, you're saying positive and then, I mean it'll be negative then positive, which should arrive at outcome that is generally neutral to positive for the balance, like for the year as a whole.

Sonya Branco, Chief Financial Officer

Well, we had both halves, we will come to an outcome. We haven't provided guidance for the full year. A lot of variables still. But the fact that we haven't guided strongly either way, negative or positive, kind of infers what you're thinking, yes.

Fadi Chamoun, BMO Capital Markets

Okay. One other question quickly. I mean you talked a lot about the digitization of the model and the opportunities that probably come out of crises like this. Is there a way for us to think about how much of the training that is conducted does not necessarily need to be conducted at the centre, at the training centre itself, like you don't need a simulator to do it, it's a classroom kind of training? How much of that kind of training happens to be in a classroom that could potentially move into an online model in a permanent way going forward and maybe optimize this whole training solution further as we go in the next few years?

Marc Parent, President & Chief Executive Officer

I'll take that, Fadi. We don't have a number for it, but if you take an initial course, for example, to fly an aircraft, typically you might spend, if you look at your business aircraft, you take, say, three, four weeks at the training centre, and you're doing probably the equivalent of two and a half weeks of that sitting in classroom—that's just ballpark, okay, it depends by aircraft—the rest you're doing seven, eight rides in a simulator. I mean that can give you some idea.

But when we when we talk about the restructuring savings that we have and achieving permanent cost reductions going forward, the $50 million we talk about, some of that is basically take advantage of some of what you just talked about. We've learned to do a few things virtually during the pandemic and, at the same time, we've been investing quite substantially in digital over the last couple years. We announced our Project Digital Intelligence, if you remember, of $1.5 billion invest in R&D a couple years ago that we launched in Montreal. That, by the way, is why, that investment is why we could turn ourselves around and go virtual really overnight, because of the ability to do that.

But now, post COVID, everything's going virtual. Okay. I shouldn't say that, but the world is obviously going virtual, but definitely it's digitization, if I multiply it, maybe just exaggerating for effect, it increased tenfold. So, the investments that we make here, the processes, leverage and digital is going to have substantial impact on how we deploy training in the classroom specifically. How we deliver simulators as well. So, all these things that we're going after getting permanent savings, that's where you're going to see it.

Fadi Chamoun, BMO Capital Markets

Thank you.

Operator

Thank you very much. We'll go to our next question on the line from the line of Doug Taylor with Canaccord Genuity. Go right ahead.

Doug Taylor, Canaccord Genuity

Thanks. Good afternoon. One more question on the cash flow guidance. I'd just like to understand whether your guidance is contingent on utilization rates for the civil aviation business moving materially higher than the 40% that you mentioned they're at presently or if you can achieve that same positive free cash flow with 40% throughout the balance of the year, for example?

Sonya Branco, Chief Financial Officer

I think it's a bit too early to give predictions on the level of utilizations, but we do expect the ramp up to be slower than we saw and so we factored that into our free cash flow predictions. That said, we do expect some sort of inflection in the second half to drive a better performance in the second half and that will be the driver of free cash flow improvement.

Doug Taylor, Canaccord Genuity

Okay. The utilization, I mean during the summer months, usually is a bit slower given the demand for pilots. I'm just wondering if that is at all a factor this year or if that whole seasonality thing can be completely thrown in the trash for this year when we look at utilization in July/August versus the fall and winter?

Marc Parent, President & Chief Executive Officer

Sorry, we missed the first part of your question.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

I got it. So, Doug, there is normally some seasonality to training demand. The way to think about it is when pilots in various regions are very busy flying they're less busy on the ground in the training centres training. So, in Europe, for example, the summer months are usually quieter in terms of training demand. And they'll plan out their annual recurring training according to the demands of the flying schedules.

But to your second point, everything is out of whack in this environment. I mean having had the kind of operational disruptions that we saw through the first quarter and the demand shock, you know, we got down to utilization level on average in the network in the 20% range. That's unheard of.

Sonya Branco, Chief Financial Officer

Just to add a bit more colour on kind of some of the assumptions kind of underpinning the second half, we do expect some recovery, but also a higher level of deliveries. As you saw, only two deliveries this quarter and so we do expect the deliveries to be very second half weighted as well. So that will drive from the cash flow performance as well.

Doug Taylor, Canaccord Genuity

And one more question on the civil side. I wonder if you could provide an update on what some of the regulatory bodies are doing with respect to relaxing the training requirements, which I mean certainly was a factor early in this COVID pandemic. I mean would you say that's back to normal across your geographies? Or is that, ah, how do you expect that to continue to evolve over time?

Marc Parent, President & Chief Executive Officer

I haven't heard much about it at all in the past literally three months, so I think... That was a one off that was literally to cater for the fact that people literally couldn't get to the training centres because of boarder restrictions, things like that. So I think that one-off situation is behind us.

Doug Taylor, Canaccord Genuity

That's helpful. I'll leave it there. Thank you for taking my questions.

Operator

Thank you very much. We'll get to our next question on the line from the line of Kevin Chiang with CIBC. Go right ahead.

Kevin Chiang, CIBC World Markets

Hi. Thanks for taking my question here. If I could just dig into the utilization rate, where we sit here today, the 40%, is there a way to think about what that looks like across your key regions Asia, North America, and Europe? And then if I had to split that between business and commercial training, is there a way to think of the difference in utilization between the two or is it all pretty static around 40%?

Marc Parent, President & Chief Executive Officer

I think you'll find business aircrafts a little bit more than commercial as an overall number. I wouldn't really get big differences across the world. Let me just go to look at my notes here but, in the end—do you have more details on it yourself, Sonya, with regards to the data?

Sonya Branco, Chief Financial Officer

So, what we're seeing is that (inaudible) is trending better than commercial comparing quarter over quarter. And in terms of regions, I think what we're seeing, ah, the hardest hit is really in, the hardest hit is Europe, and that's what we're seeing. Asia is still impacted, but doing, ah, pretty resilient, but really Europe is where there's the hardest impact.

Marc Parent, President & Chief Executive Officer

And North America really, there's good training in North America. It continues to lead the way from that point of view. We've seen less impact there. Borders, really, as you saw the ramp up in utilization, it was really, what really affected it a lot is the opening of borders. So, for example, Dubai open up recently, so business aviation activity will pick up quite substantially there because, for example, customers that are far east can't get to North America because there's restrictions and we can serve their training demand on business aircraft in Dubai. As just one example.

Kevin Chiang, CIBC World Markets

Okay. That's very helpful colour. And then secondly for me, just on the restructuring, just wondering what the impact, if any, that has on the simulators deployed in your own network. Does this restructuring result in a shrinking of that network as maybe you get rid of simulators that might be tied to aircraft that have seen a significant decline in demand as airlines adjust their own fleet? Just wondering how that number trends as you go through this restructuring.

Sonya Branco, Chief Financial Officer

I think one of the main impacts is the consolidation of some facilities where we have overlap. Now, by no means are we exiting any market, but really consolidating to create larger centre, drive more efficiencies.

Another part of that restructuring includes relocation of assets, so between training centres, and then matching them up across our geographies to better align to where the demand is and optimizing utilization. As part of that, there will be some assets with excess capacity that will be sidelined and ultimately sidelined until volume comes back. So we expect about 20 units of assets that will be relocated across the network in total and/or around 20 ultimately, and less than that that would be, much less than that that would be reduced.

Kevin Chiang, CIBC World Markets

Okay. That's helpful. And maybe just last one from me, just maybe following on some of the previous questions around the increase in virtual training. And I appreciate, you know, I guess some of the cost savings there. But do you see that impacting maybe the relative capital intensity of civil moving forward in the sense that it might reduce the footprint you might need when you think of what a training centre has to be in terms of size to flow a number of pilots? Like is there a capital savings associated with the increase in virtual training or does that not impact that line item?

Marc Parent, President & Chief Executive Officer

Well, I think it would impact it for sure. I think that the, ah, there's benefits from us, there's benefits from customers as well, right? If they have to spend less time at the training centres it's a very big cost savings for them, because they don't have to travel as much, be out of the line as long. So there's benefits on both sides. But, yeah, there will be some capital savings as well. I wouldn't call it a first order effect, but it definitely will affect things.

Kevin Chiang, CIBC World Markets

Okay. That's it for me. Thank you for taking my questions and best of luck for the remainder of the year.

Operator

And we'll proceed to our question on the line from Cameron Doerksen with National Bank Financial. Go right ahead.

Cameron Doerksen, National Bank Financial

Thanks. Good afternoon. Question on the, I guess, the defence segment. So, you've got new leadership coming in there. Marc, I'm wondering if you can maybe talk a bit about what his priorities are going to be or I guess maybe what his marching orders are for the defense segment, if there's anything different that you want to do there or any key priorities.

Marc Parent, President & Chief Executive Officer

Well I think, look, first of all, very happy to have Dan on board. As I mentioned, he has very, very strong credentials and track record in the defense industry in the jobs that he's done, as well as in the US military and intelligence community. So, I think, look, he's picking the baton from Heidi Wood, who's done a great job over the last few months at stabilizing our defense business and laying a path for growth. And for me, it's all about executing growth.

Look, you've heard me talk a lot about, but that, you know, I think this year, 2021, it's a transition year for defense. There's lot going on. As we, we won't go back at everything we said, but to just to give you one data point right now, because of the impact of the resurgence of COVID in United States, our activity at our training centre in Florida on C-130Js, where we train primarily foreign customers, is harder hit now than it was back in March and April. So, that gives you one idea.

But to me, the priority is growth. There's growth market. We see a very, very sizable market. We've talked about that many times and really (inaudible). And his makeup is a growth-oriented individual. He has solid track record. Used to working, by the way, in a kind of construct that we are in having special security agreements and selling into, for example, US market. So I think that, for me, it's all about growth, growth beyond this year, because this year is about stabilizing what we have, because it's a tough year, but stabilizing and growing.

Cameron Doerksen, National Bank Financial

Okay. That's great. And maybe second question for me, just on your shifting over to civil. You mentioned that you're in some, perhaps, advanced discussions with some airlines about potential outsourcing opportunities. Is that something you think you can execute on this fiscal year? And what's your willingness to deploy capital into any of those opportunities?

Marc Parent, President & Chief Executive Officer

Yeah, I think we definitely can secure some of those opportunities this year. I don't want to hold the customer's pen on signing the contracts, but clearly I think we have a very compelling solution to bring to bear, especially in these times, so I do think we'll see opportunities and we're in advanced discussions with a number of customers, as I talked about. And yeah, we'll deploy capital, because, as we've demonstrated over the past few years, when we deploy capital in our training network, it's very accretive and relatively fast. So we're quite happy about that business. Of course, it's our core business. We know it well. So, yeah, absolutely, we'll seize upon those opportunities and I think we can secure some.

Cameron Doerksen, National Bank Financial

Great. That's all for me. Thanks very much.

Operator

Thank you. We'll get to our next question on the line is from Konark Gupta with Scotiabank. Go right ahead with your question.

Konark Gupta, Scotiabank

Thanks and good afternoon. Sorry to beat the dead horse here, just on the utilization, if I go back to your comments back in May I think you were suggesting that 20% in April at the low point and then 25% to 30% in May. So, if I do the math, perhaps you might have been in the mid-40% range in June to get to the 33% of the full quarter. So, first, is that math correct? And have you seen that mid-40% sustain in the first 40 days of this current quarter?

Marc Parent, President & Chief Executive Officer

Well, I think we averaged about 33%, as we said in the quarter, and we're in the 40s. Look, it's pretty much in line with the growth of the fleet. I mean the correlation between the (inaudible), you take a fleet of aircraft flying around in a world today and look at the increase, I think you'll find a very high degree of correlation between that fleet activity and the level of utilization in our training centres. Which you might expect, because, of course, it's a regulated market. So, that's about what I would say on it, Konark.

Konark Gupta, Scotiabank

Okay. Thanks, Marc, for that. And then just trying to reconcile some numbers here, so if I look at the training centre utilization as well as simulator deliveries in Q1, they were both down more than 50% versus last year, but the revenue was down only 48%, so just trying to understand the mix. It seems like it's coming from business aviation, as you said, the utilization was better and which we probably do not see in the utilization numbers. Is there anything to the mix in revenue that should have driven revenue better than utilization and deliveries?

Sonya Branco, Chief Financial Officer

Not really. I think there's so many different elements to the civil portfolio, I think 48% down on revenue and about half, more than half on the utilization. So it's pretty much aligned and we kind of see a similar level of reductions across the board on the portfolio items.

Konark Gupta, Scotiabank

Okay. That's great, Sonya. And on the backlog side, obviously the order activity was reasonably okay, I guess, compared to where the revenue was, but there was some adjustments in the backlog that kind of led to, I think, a decent decline in the backlog. Can you help us understand the nature of those backlog adjustments in terms of the amount or nature of maybe cancellations or adjustments? Thanks.

Sonya Branco, Chief Financial Officer

No cancellations on any front. So, no cancellations included in that adjustment number. It is larger than usual and one of the items was there was a meaningful negative FX element, more than $100 million. The Canadian dollar appreciated quite a bit since March and we always revalue the backlog to the current FX, so quite a large impact on FX. And the remaining really reflects the impact of the training requirements and demand that we see from customers who've gone through their planning and their process of realigning operations in their fleet and working with us, so that captures some of that revised training demand in the near future.

Konark Gupta, Scotiabank

Great. And last one for me. On the working capital side, so the inventory seems to have gone up sequentially. Are you building any white tails in anticipation of any last-minute orders or that inventory balance is entirely for the contractual revenue in the second half?

Sonya Branco, Chief Financial Officer

Yes. So, no, there are no investments in white tails. We're actually being quite rigorous and frugal on inventory management as part of our cash preservation, non-cash working cap management measures. What you see there is really a reflection of the fact that we only delivered two simulators in the quarter and so you're building up your working process in anticipation of deliveries for the rest of the year.

Konark Gupta, Scotiabank

Great. That's it for me. Thank you.

Operator

Thank you very much. We'll go to our next question on the line from Derrick Gut with GFL. Go right ahead with your question.

Derrick Gut, Jarislowsky, Fraser Limited

Hey, Marc. Thanks for taking the question. On the topic of virtual training, do you think longer term that you get FAA approvals and approvals around not having to come into your centres? Do you think that lowers the bar for competition and brings the moat down thinking longer term and the ability on you to increase pricing power in this vein?

Marc Parent, President & Chief Executive Officer

No, I don't see it. I really don't. I think it makes us stronger, to be very frank with you. I mean people still have to come to the training centres to do the full-flight simulator training and to the extent that, you know, with the tools that we could provide to be able to do it virtually and using all of our simulation suite that we can make it seamless for them, I think it makes us even stronger. So I would have the reverse the conclusion.

Derrick Gut, Jarislowsky, Fraser Limited

Okay. Thanks.

Operator

Thank you very much. We'll get to our next question on the line. It's from the line of Benoit Poirier with Desjardins Capital Markets. Go right ahead.

Benoit Poirier, Desjardins Capital Markets

Good afternoon, everyone. Looking at simulator delivery, I understand that Q1 was pretty abnormal with only two, but when we look at the last two years you delivered 58 and 66 deliveries. So how should we be thinking in fiscal 2021 and fiscal 2022 given the current market conditions?

Marc Parent, President & Chief Executive Officer

Well, I won't go into fiscal 2022. I think I would tell you that our assumption is we'll deliver about 35 to 40 this year, very much geared towards the back half because, for obvious reasons, we're delivering all over the world and some places that we're delivering to still have restrictions on how we can get there. So, as I said, 35 to 40 for this year, really much in the back half, and I'm not getting into the next year. We'll update that as we go forward.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Benoit, the only thing maybe I'd add to that, we did say in our earlier remarks that we have a large backlog there that's funded by customers that we expect to substantially deliver over the next couple of years. It is just that, it is a large backlog, and while we can't, at this point, precise what those delivery numbers would look like into the next fiscal year, I think you could infer that there is a large backlog there and as things ease up we will substantially deliver it. So, if you're sensing of whether there's a sort of cliff impending, I wouldn't think that.

Marc Parent, President & Chief Executive Officer

No, that's (inaudible) that we have is the large backlog that provides a level of support for our business for quite a while.

Benoit Poirier, Desjardins Capital Markets

Okay. And if we stay in civil, what are you seeing in terms of demand for training services in second half in the context of the training bubble that you talked about in Q1?

Marc Parent, President & Chief Executive Officer

Well I think, look, we made certain assumptions. I would tell you that it's very, very fluid. Airlines, in large cases, are predicting their training demand month by month, literally. So, we're staying close to our customers. We have made certain assumptions when we talk about predictions for cash for this year. I don't think we've made outlandish assumptions with regard to what that bubble will be. I think we sized ourselves to be able to seize the opportunity, but the situation is very fluid, as I said, so it's hard to predict how and when that will happen.

Benoit Poirier, Desjardins Capital Markets

Okay. And if we go on defense, the active bid proposal increased substantially from $3.6 billion in Q4 to about $5 billion, so could you talk about the reasons behind the increase and also, from a margin standpoint, what we should see in fiscal 2021 given the mix between services and equipment?

Marc Parent, President & Chief Executive Officer

I think that what I'd tell you, I think the size of backlog or, sorry, the amount of bids and proposals going up. We haven't stopped on that front. We're still writing proposals and that's the key to this business. Now what you see is a couple of things, right? First of all, we're bidding on larger contracts. We have the ability to be able to do that. At the same time, the awards haven't been as fast, so that, you know, the ones that we would have liked to already have the order in hand is still in the bids and proposal. So that's more on the negative part.

Look, in terms of margin, I think we'll just say, I'll maybe let Sonya comment on that, but no big guidance on that one. Do you want to…?

Sonya Branco, Chief Financial Officer

As Marc mentioned, I think we will continue to see short term, well, disruptions throughout the year on execution of contracts and advancements as these travel restrictions and lockdowns continue.

So we're kind of seeing this as a transition year, you know, growth beyond, but a bit of a transition year. And the margin will be impacted by the level of advancement on these programs because, as you know, they're mostly product program, so they're highly contributive to the SOI margin, disproportionately so, and also on order intakes, right?

So we've seen delays, Q4, Q1 on order intake, especially on the product side, and so that's contributing as well. So, as that continues to impact us, I think we'll continue to see a bit of impacts on defense throughout the year.

Benoit Poirier, Desjardins Capital Markets

Okay. And what would be the mix between equipment and services in Q1 specifically for defense? And are you expecting a big shift toward the Q2 in the second half, Sonya?

Sonya Branco, Chief Financial Officer

Not necessarily. In the second half we do see some shift in order to support kind of like a stronger second half. In this quarter it was in the 30s, which is much lower than usual.

Benoit Poirier, Desjardins Capital Markets

Okay. That's great. Okay. And last question for me, with respect to government subsidies: What should we expect in terms of subsidies in Q2 and maybe the second half?

Sonya Branco, Chief Financial Officer

It's hard to say, because some of these programs, the criteria keeps or gets updated. We're operating in three different countries and these measures are really shifting in every country. The most important one is here in Canada, of course. For the most part, certain locations, like Europe, et cetera, these subsidies are straight flow-throughs to employees that have been furloughed or impacted and so on. On the Canadian side, it really will depend on CAE's eligibility criteria. So, we were eligible in this quarter and so we continue to monitor on whether we will continue to be eligible in the coming months.

Benoit Poirier, Desjardins Capital Markets

Okay. Perfect. Thank you very much for the time

Operator

Thank you very much. And once again, as a reminder, to ask any questions or comments, it is the one four on your telephone keypad.

And we'll get to our next question on the line from Tim James with TD Securities. Go right ahead.

Tim James, TD Securities

Thanks. Good afternoon. Maybe a question here for Marc. The press release sates that CAE is applying digitally immersive technologies to further differentiate solutions and address a wider range of customer needs. I'm just wondering if you could please expand on sort of what that wider range of needs could include.

Marc Parent, President & Chief Executive Officer

I guess I won't get into too much right now, Tim, but you might think about, look, at the end of the day, CAE is a technological powerhouse and we demonstrated, and I talked about that in my notes that we've demonstrated in spades how we can bring that to bear in an extremely short amount of time in the development and certification of a simulator. This was not on, ah, sorry, a ventilator. And I keep coming back to that, because it's a quintessential example of what can be done. This is not a simple device. It's a life-saving device certified the highest levels of Health Canada, not a watered down pandemic requirement, a real requirement for the use on most critically ill patients in an ICU setting using pure oxygen. So, the fact that we're able to do that, again, not a built to (inaudible), a new design, and completely build it and now we're producing 10,000 units for the Government of Canada is testimony to the technological capabilities of this company and the culture of which we do it.

So, you think about how that can be translated (inaudible), and, by the way, we've demonstrated that in the ventilator, but if you think about who we are, we've always been a technology-based company. Our focus has been on a world of training in our core market, and that, we will continue to excel at that, but if you think about a ventilator, a ventilator is not a training device. Now, it is, we combined it with a full training suite. In fact, we could basically, you know, the expertise that we have to be able to, the subject matter expertise that we need to be able to develop came from the fact that we're training experts. So, there is a lot more we could do with that technological capability.

In Canada, for example, just as a for instance, I think Canada walked into this crisis with no indigenous capability to be able to do ventilators in Canada. That's why Prime Minister Trudeau announced three Canadian companies to be able to do so. Now I don't think Canada ever wants to get flatfooted again in that kind of situation, so there's a talk about self sufficiency, just the fact that Canada, Canada makes its own ammunition for weapons. Not because it couldn't source it anywhere else in the world, but because if ever there was an emergency wartime-like situation, they don't want to have to rely on somebody else for bullets. Well, now that kind of thinking is being turned to medical equipment. Obviously, we hear a lot about it, personal protective equipment, that kind of thing.

So, if we have this competitive advantage, and we do believe it's competitive by the way, right out of the box, right out of the box, you might think that, and we are seriously looking at that, can we continue providing that type of equipment, not only in Canada. And that's just one example. But I can think of a whole source of examples. I brought in Heidi Wood as our head, ah, at my level, Executive VP of Business Development and New Growth Opportunities. And I think what's important there is I brought her in before this pandemic ever seen the light of day, because we have been thinking for a while that there's a lot of areas that we can leverage our technological capability.

But now of course, post-COVID in the civil aviation market, that we're not going to be Pollyanna and think that's going to come back anytime soon, but we think there are a lot of things that we can do that will be able to grow within, well, obviously we do things like capture more outsourcing opportunities, grow defense, grow civil, but take the technological capabilities that we have, including very large capabilities in digital, and leverage that into other areas. Not necessarily new markets, markets we're in, but deepening our share of wallet for our customers. And that's right in line what would we do, because we always, you know, right embedded in our vision of the company is partner of choice. And that's what we do. We get into with our customers. We like, yeah, we'll try to sell you a simulator or try to sell you training or will supply you (inaudible) but, more importantly, we get into a relationship and we stay connected because of our focus on delighting the customer and providing technological-based solutions that enable them to answer some of those critical needs that they have. So that's what we're talking about.

So, I think you have to watch out over the next few quarters and watch the stuff we'll do, but certainly we're going to put some bets down. We're going to put the bets down and I think we should do that. And I think that we're very good at agile and if you've heard the term I like and that's well used in Silicon Valley and places like that, is about fail fast. Try things, use agile methodologies, and fail fast. Test them on your customers, get some customer feedback and see if they work, see if you get traction. That's the kind of things we do. Long answer, not a lot of specifics, but that's what I'd give you right now, Tim.

Tim James, TD Securities

Okay. Thanks, Marc. My next question, I'm wondering if you could talk about that portion of civil equipment revenue that isn't just the big ticket full-flight simulators. Approximately how significant is that portion of civil equipment revenue relative to full-flight simulator sales and is it more or less stable under current conditions or conditions of weakness because it's easier to meet milestones, deliver the product, if not impeded by travel restrictions, et cetera?

Marc Parent, President & Chief Executive Officer

I think what we would call the aftermarket PDS-type services. I don't think we've ever supplied the breakdown.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Yeah, Tim, we don't actually break that out, but I would say that it's a fairly significant part of the business we do in civil. It's mainly driven by regulation. So that is to say, you know, whenever an aircraft is updated, usually every couple of years, the aircraft systems, the simulators need to be updated, and then there are regular maintenance items as well.

I mean a simulator will run day in and day out for 25 years or more, so you can imagine that there are things that have to be updated just by virtue of where and others that need to be updated by virtue of regulations. So, typically on a simulator that we'll sell, we'll generate about a $1.5 million to $2 million of PDS revenue or updates and upgrades over its lifespan on it in the installed base.

Tim James, TD Securities

And is it fair to say that that aftermarket revenue source is more stable during times like this than just the right sale and delivery of full-flight simulators, I assume?

Marc Parent, President & Chief Executive Officer

I think I think it's affected as well. Everything at the airlines that has been affected by this crisis and that has been affected as well.

Sonya Branco, Chief Financial Officer

And travel restrictions.

Marc Parent, President & Chief Executive Officer

Yeah, travel restrictions. In a lot of cases, to be able, for us to deploy those solutions, we have to travel, and with the restrictions that we have we haven't been able to travel as well. So I wouldn't make the assumption that that is, I mean maybe a little bit more stable, but I wouldn't say materially.

Tim James, TD Securities

Okay. Thank you. My last question, just want to turn to the 737 MAX, I mean over the next couple years it's going to be sort of moving a little differently, I think, relative to a lot of the commercial aircraft platforms given the challenges that it's had in the past. Do you have any sense for the timing of kind of deliveries at this point and training demand outlook for that platform and when you expect that that could begin to positively impact financial results? Is it as simple as kind of thinking about when the grounding is lifted and deliveries of the aircraft resume that, coincidentally, sort of your revenue will ramp up?

Marc Parent, President & Chief Executive Officer

Well certainly, and even before, because they obviously have to train their crews ahead of time. We work very, very closely with Boeing specifically in assisting them with the certification efforts, in a supportive activity as it relates to training, and of course you would expect to be doing that, because we have the lion's share of all the simulators that have been sold on the 737 MAX.

So we're very close to that story and we think that Boeing is making great headway with the certification authorities. I think we saw recently FAA issued their notice of proposed rulemaking with a comment date that's very soon, so that, to me, is a signal that things are close. And they have to get it certified for, that certification of the aircraft and certified for operations. I think that should follow pretty quick, I would think. You'll have to ask Boeing for that.

But I think, suffice to say, as soon as that is lifted then the airlines will, I'm sure, will be taking airplanes, that's an airline-to-airline situation. But you saw Michael O'Leary at Ryanair saying he's definitely going to take all his aircraft. That's what he said. And they're a good customer. So, I'm sure that they're maintaining their training on the 737 MAXs. So I think we'll be in lockstep with delivery and the return to service on the various fleets of aircraft.

Tim James, TD Securities

Great. Thank you very much.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Operator, I see we've gone over the allotted time a bit here, so I think we'll conclude the Q&A session for analysts and investors now and we'll open up the lines to members of the media.

Operator

Certainly. Once again, as a reminder for the media on the phones, if you'd like to ask a question, feel free to press the one followed by the four on your telephone keypad. You will hear a three-tone prompt to acknowledge your request. Once again for the media press the one followed by the four for any questions or comments. One moment please for our first question. And we'll get to our first question on the line from the media from Allison Lampert with Reuters. Go right ahead.

Allison Lampert, Reuters

Thanks. Are you seeing any increase in pilot training on wide-body models like the Boeing 757 due to the industry's demand for cargo flights?

Marc Parent, President & Chief Executive Officer

Well, we definitely see cargo going up for sure. I think cargo carriers are having a high level of activity because of almost everything is online shopping, which certainly is a big thing at my house. So I think that, yeah, we are seeing more opportunities for cargo carriers. Absolutely.

Allison Lampert, Reuters

Can you specify it all in terms of training on the wide bodies in your centres?

Marc Parent, President & Chief Executive Officer

I can't really know. Look, I would tell you we don't have a huge amount of wide bodies in our training centres. We have some, but it's more a narrow body fleet. Now what you see though is more airlines actually using even narrow bodies to carry increased levels of cargo, because the lion's share of, even though there's dedicated cargo carries, a lion's share of the cargo is carried in the belly of aircraft so, yeah, there may be less passengers, but there's more cargo in a lot of cases. So, I can't really be more specific than that to be honest, Allison.

Allison Lampert, Reuters

And just one last follow up: How much demand do you see for pilot training in the United States or opportunity given the retirements we've just seen and potential furloughs in October?

Marc Parent, President & Chief Executive Officer

I think the level of activity for training right now in North America is pretty good. It's pretty high. One thing I would point to is not simulator-based training, what I'd point you is on the training of pilots. It's interesting, you might think that, you know, you talked about furloughs of pilots, that there will be no demand for pilots, but when we look at the industry overall, dynamics over next two, three years, there will be a need for pilots, new pilots, because of the ones that are being furloughed. I think we announced just one contract just that we received that we announced in my notes from Boeing where they put us under contract for pilots. So, therefore, you see they are being bullish on the fact that there will be pilots needed for the future, new pilots.

And I would add to that that we're the largest company in the world in terms of training pilots to become pilots, so not using simulators but using our training aircraft in our various training operations, and what I could tell you is none of the airlines, and we train a lot of cadets for airlines, none of them have reduced their level of activity. Which, again, is testimony to the fact that, yes, there's a tough time right now and there's aircraft being parked, so there's furloughs, there's early retirements, but, if you like, if you thought about what we were talking about literally in February is where we going to get all these pilots? Now we have a situation of furloughs.

But things will come back and it takes, depending on where you are in the world, it takes two to three years to train a new pilot. So we see renewed demand. I think if a youngster wants to be a pilot, it's still a good time, as far as I'm concerned.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Okay, operator, I see there are no more questions queued up and so I want to thank everybody for joining us this afternoon, for listening to our remarks. If you'd like to get a transcript of today's remarks, they will be made available on CAE's website at cae.com. And again, thanks for joining us.
