REMARKS FOR CAE'S FIRST QUARTER FISCAL YEAR 2021

August 12, 2020

Time: 1:30 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

Mr. Andrew Arnovitz, Vice President, Strategy and Investor Relations

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Good afternoon, everyone, and thank you for joining us today.

Before we begin, I'd like to remind you that today's remarks, including management's outlook for FY21 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, August 12, 2020 and accordingly are subject to change. Such statements are based on assumptions that may not materialize and are subject to risks and uncertainties. Actual results may differ materially, and listeners are cautioned not to place undue reliance on these forward-looking statements. A description of the risks, factors and assumptions that may affect future results is contained in CAE's Annual MD&A available on our corporate website and in our filings with the Canadian Securities Administrators on SEDAR at www.sedar.com and the U.S. Securities and Exchange commission on EDGAR at www.sec.gov.

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Sonya Branco, our Chief Financial Officer.

After remarks from Marc and Sonya, we will take questions from financial analysts and institutional investors. Following the conclusion of that Q&A period we will open the call to questions from members of the media.

Let me now turn the call over to Marc…

Marc Parent, President and Chief Executive Officer

Thank you, Andrew, and good afternoon to everyone joining us on the call. I'll first discuss some of the highlights of the quarter, and then Sonya will review the detailed financials. I'll come back at the end to talk about our outlook.

Much has been said over the last five months about the COVID-19 pandemic and the profound ways it has changed our daily lives—both personally and professionally—and the word, 'unprecedented' has since become synonymous with the crisis. No doubt, the rapid onset and pervasiveness of the economic and social impacts of the pandemic are like nothing we've ever seen before. The impact on our employees and customers has certainly presented us with some very significant challenges. It is in the toughest moments; however, that we are truly put to the test. Through all of this, I've continued to be very proud of the responsiveness of CAE and its employees, who have been adapting rapidly to this new reality by embracing new challenges, mitigating risks, and innovating new ways to best serve our customers as their partner of choice.

As we came to expect in early March this year, the full brunt of the pandemic would indeed hit us hard during our first quarter, manifested by sharply lower demand and major disruptions to our global operations. Right at the start, we acted quickly to ensure the health and safety of our employees and customers by taking extensive measures, and we safeguarded the Company's financial position and liquidity. CAE has shown considerable agility and resiliency amid the most challenging conditions our company has ever faced. In the first quarter, we managed to significantly mitigate our inevitable operating loss position to near break-even on a normalized basis, we also improved our free cash flow performance compared to last year, and critically, we maintained our resiliency with a solid financial base. Despite the challenging environment, we booked $417 million of orders in the quarter for a 0.76 times book-to-sales ratio and we ended the quarter with a solid $8.6 billion backlog.

Looking specifically at **Civil**, despite the major operational hurdles presented by mandatory temporary facility closures, including our training centres and main manufacturing site, and extensive travel restrictions, we managed to deliver two full-flight simulators to airline customers in the quarter, and we averaged 33 percent utilization of our training network. With more than half of our global training network either temporarily closed or at reduced operations, utilization reached a low point around the 20 percent range during the quarter. And since then, we've seen average training centre utilization rise to upwards of 40 percent, as our facilities reopened, and flight crews resumed some of their critical training activities.

We also continued to book orders, with Civil signing training solutions contracts valued at $194 million, including a contract for an Airbus A320 FFS for China Express, a four-year training agreement with Alitalia, a five-year training agreement with WAMOS Air, another five-year training agreement with long term business aviation partner, SC Aviation, and a two-year business aviation training agreement with Air Hamburg. On the OEM front, we also concluded a 5-year training agreement with Boeing to support Boeing's ab initio Pilot Development Program.

We've been adapting quickly to new realities by introducing new virtual service offerings to support our customers as a response to border restrictions, including offering remote support for the installation, acceptance and qualification of simulators. We also recently obtained FAA and other Civil Aviation Authority approvals for virtual training in certain of our flight training organizations, and we developed remote instructor operating station solutions for live instructor interactions during training sessions. As a product of our ongoing digital innovation initiatives, we launched instructor-led online courses for aviation maintenance training, and CAE Airside, a new digital community platform that provides training and career resources to pilots, which I would encourage you to visit at ‘airside.aero.’

In **Defence** and **Healthcare**, the pandemic has also caused significant disruptions, which have hampered customer demand and our ability to deliver our products and services.

Notwithstanding the challenging environment, **Defence**, booked orders for $201 million, including contracts to provide the U.S. Air Force with upgrades and enhancements to both the KC-135 and C-130H aircrew training system programs and to continue providing a range of in-service support solutions for the Royal Canadian Air Force's CF-18 aircraft. Other notable contracts include providing Airbus Defence and Space support for the development of new and upgraded training capabilities for Germany’s Eurofighter program. We also received an order to continue providing maintenance and support services for the Royal Navy Merlin helicopter training systems.

And in **Healthcare**, we put our full weight into designing, developing and bringing to market the CAE Air1 ventilator. We didn’t have any deliveries from this new product line in the quarter, but we did incur some start-up expenses, and we’ll really only see deliveries of the 10,000 units ordered by the Government of Canada begin to ramp up in the second half of the fiscal year.

In response to the urgent needs of our customers, we provided complimentary training seminars on how to prepare healthcare workers in the fight against COVID-19. We also launched simulation-based training solutions, both web- and hardware-based, to train personnel in the safe practice of ventilation and intubation, which is key to saving lives, and released a COVID-19 ultrasound training suite to provide hands-on foundational training for physicians. Additionally, as institutions begin to reopen and offer remote education, we provided new tools and training on how to implement distance learning with our solutions such as the *Distance Learning Suite for Nursing*.

With that, I will now turn the call over to Sonya who will provide a detailed look at our financial performance. I'll return at the end of the call to comment on our outlook. Sonya?

<u>Sonya Branco, Vice President, Finance, and Chief Financial Officer</u>

Thank you, Marc, and good afternoon everyone.

It was indeed an extremely challenging quarter, but with all the measures we put in place in early April to protect our financial position and to ensure liquidity by reducing costs and preserving cash, we helped narrow the pandemic's operational impacts, and we maintained our resiliency with a solid financial base. Our **Net debt** position at the end of the quarter was $2.4 billion, for a net debt-to-capital ratio of 50.7%. All things considered, I am pleased this remained stable with our net debt position of $2.4 billion or 47.8% of total capital at the end of last year. And on an adjusted net debt to EBITDA basis, we ended the quarter with a ratio of 3.04 times, which is up 40 basis points compared to the end of last fiscal year.

Bolstering our financial resources, during the quarter, we concluded a new two-year, $500 million senior unsecured revolving credit facility, and expanded our receivable purchase program by US$100 million. These transactions provided us with access to additional liquidity and further strengthened our financial position. All told, between cash and available credit we continue to have upwards of $2 billion of liquidity, which we believe, in addition to the cash we expect to generate from operations, is enough to manage through the period ahead.

The market situation has evolved rapidly, and reflecting the current impacts on our business and the time anticipated for recovery in our end markets, we recorded non-operational costs of $108.2 million during the first quarter of fiscal 2021 relating mainly to impairment charges on property, plant and equipment, intangible assets, and certain financial assets—all as a result of the continued negative impacts of the COVID-19 pandemic.

And since the end of the quarter, we announced that we are taking additional measures to best serve the market by optimizing our global asset base and footprint, adapting our global workforce and adjusting our business to correspond with the expected lower level of demand for certain of our products and services. These measures include the introduction and acceleration of new digitally enhanced processes such as remote installations and certifications, and work-from-home practices. As a result, we expect to record restructuring expenses of approximately $100 million over the next 12 months, consisting mainly of real estate costs, asset relocations and other direct costs related to the optimization of our footprint and employee termination benefits. Actions will include the consolidation of some facilities where overlap currently exists so that we gain the efficiencies of operating from larger centres, and we will also be relocating several training assets to optimize utilization. Real estate and asset optimization costs are expected to account for approximately 70 percent of the total restructuring expense. Taken together, these measures are expected to enable CAE to emerge from the current period from a position of strength and we expect to fully realize cost reductions of approximately $50 million annually starting in our fiscal year 2022.

Now turning to our operational performance and other highlights in the quarter, consolidated **revenue** was $550.5 million, down 33% compared to $825.6 million in the first quarter last year, and **segment operating loss before specific items** was $2.1 million, compared to a segment operating income of $113.3 million last year. Considering the extreme severity of the pandemic's impact on our ability to operate in the first quarter, a near break-even operating performance is a true testament to the resiliency of CAE's business model. Quarterly **net loss before specific items** was $30.3 million, or negative 11 cents per share, which compares to 24 cents that we reported in the first quarter last year.

Also of note, we received approximately $56 million in gross government wage subsidies, from several of our global jurisdictions during the quarter, of which approximately $44 million was credited to income. Substantially all this amount either flowed through directly to employees according to the way the subsidy programs were designed in certain countries, or the amounts were offset by the increased costs we incurred in bringing back some 2,500 employees who were previously placed on furlough or reduced work weeks. I would underscore that we brought back these employees at the same time as implementing our cost savings measures, and in essence, the wage subsidies were applied as intended, as a as a substitute for the initial cost savings measures taken and to alleviate some of the impact on affected employees. On July 17, 2020, the Government of Canada announced that the CEWS program would be redesigned and extended to December 2020 and we will continue to participate in the CEWS program, subject to meeting the eligibility requirements.

Now looking at **cash flow**, cash provided by operating activities before changes in non-cash working capital was positive $36.9 million for the quarter, compared to $137.8 million in the first quarter last year. **Free cash flow** was negative $92.7 million in the quarter, which is an improvement over the negative $102.1 million free cash flow result last year. The increase results mainly from a lower investment in non-cash working capital, lower dividends paid and lower maintenance capital expenditures, partially offset by a decrease in cash provided by operating activities. We continue to expect free cash flow to be negative for the first half of the fiscal year, resulting from the acute impacts of the pandemic on demand and operations, and a seasonally higher level of investment in non-cash working capital accounts. We also continue to expect to generate positive free cash flow in the second half of the fiscal year.

Return on capital employed, before specific items, was 8.0% this quarter, compared to 10.7% last quarter and 11.9% last year.

Income tax recovery this quarter was $35.4 million, representing an effective tax rate of 24%, compared to 17% for the first quarter last year. The tax rate was higher due to the impact of impairment charges on non-financial assets incurred in relation to the COVID-19 pandemic, partially offset by the change in the mix of income from various jurisdictions. Excluding the effect of the impairments, the income tax rate would have been 20% this quarter.

Now looking at our segmented performance...

In Civil, first quarter revenue was down 48% year over year to $248.0 million as a result of the significantly lower than usual training utilization and the suspension of manufacturing, installations and deliveries of simulator products to our customers worldwide due to government mandated travel bans, border restrictions, lockdown protocols and self-isolation measures. Civil's operating loss before specific items was $16.2 million. On the order front, the Civil book-to-sales ratio for the quarter was 0.78 times and for the trailing 12-month period it was 1.02 times.

In **Defence**, first quarter revenue of $280.2 million was down 13% over Q1 last year as the COVID-19 pandemic continued to contribute to delays in the execution of programs from backlog and in order intake, while operating income before specific items was up 15% to $17.3 million, for an operating margin of 6.2%. The Defence book-to-sales ratio was higher this quarter at 0.72 times and it was 0.94 times for the last 12 months.

Lastly, in **Healthcare,** first quarter revenue was $22.3 million, down 19% from $27.5 million in Q1 last year. Segment operating loss was $3.2 million compared to a loss of $2.8 million in Q1 last year. About half the operating loss is attributed to the start up costs for our new ventilator business line, which had not yet contributed to revenue in the quarter.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya;

At the outset of the pandemic, we faced two essential questions as it relates to our business: how long would the crisis last and how bad would it get? With the benefit of some perspective over the last five months, the positive new is that we believe the worst of the pandemic's impacts on CAE may now indeed be behind us. However, the pace of recovery is unlikely to be linear or quick, and it will most certainly be dictated by the progression of the pandemic and the rate at which travel restrictions and quarantines can safely be lifted and economic activity improves. Global air transportation and air passenger travel were especially hard hit, with IATA currently forecasting commercial passenger traffic to be down 50 to 60% this year, and a recovery that could take three years before getting back to pre-COVID levels.

We continue to view the current fiscal year as a tale of two halves, with the first half of the year marked by lower demand and disruptions, and the second half, to potentially begin to inflect more positively. The timing of market recovery remains unclear, but we are confident in the long-term fundamentals of the markets we serve, and we know this too shall pass. Looking ahead, we're planning CAE's future from a position of resilience and strength. We have global leading market positions, recurring revenue streams, attractive end markets in Civil, Defence, and Healthcare, as well as a solid financial position.

In **Civil**, as the global fleet eventually resumes service, we expect to continue building on our previously positive momentum, increasing market share and securing new customer partnerships with our innovative training and operational solutions. We are currently in advanced discussions with a number of airline customers to potentially do more for them. I believe the current context will lead to more airline training outsourcing opportunities as the industry looks for ways to gain greater agility and resiliency in the post-COVID-19 era.

In business aviation, which represents a substantial part of our Civil business, demand is driven largely from addressing the regulated training needs of the already active global business aircraft fleet and the delivery of large-cabin business jets. From this perspective, we continue to believe this segment of the market will fair better than commercial in the downturn and it will also likely recover faster. Demand for Civil full-flight simulators is closely linked to new aircraft deliveries, and while the total market for simulators is expected to be substantially smaller this fiscal year, we expect to maintain our leading share of the available FFS sales. We have the benefit of a large backlog of customer funded FFS orders. Several FFS deliveries from backlog should indeed be delayed, but the risk of cancellation remains low and we expect to substantially deliver this backlog over the next couple of years.

In Defence, we also benefit from a large backlog of contracts with government customers to provide training solutions and mission support services that are considered essential to national security. This week, we announced that Dan Gelston will become CAE’s new Group President, Defence and Security, transitioning from Heidi Wood, CAE’s EVP, Business Development & Growth Initiatives, who currently serves as Interim Group President. Dan brings a wealth of experience as a proven leader with more than 20 years of experience in the U.S. military, intelligence community and the global defence industry, and he will be joining us on August 24 and based out of our Washington, D.C. office.

In the current fiscal year, COVID-19-related issues are slowing Defence's progress toward program milestones on work in backlog, including for some of our more complex programs. The pandemic has also led to delays in contract awards globally, and the structural effects of low oil prices has further impacted the rate of expected contract awards in the Middle East. More recently, the acceleration of new COVID-19 cases in the U.S. has impacted our ability to deliver training services from certain of our sites. Although Defence continues to be hampered by COVID-19 in fiscal year 2021, the long-term outlook for Defence continues to be for growth, supported by a large addressable market for our innovative solutions and the realization of the benefits of new leadership. Despite the near-term headwinds, we're maintaining our leading position as a training and mission support partner thanks to our leading-edge capabilities in translating the physical world into the synthetic world. We are expanding beyond training to become a leader in digital immersion, and with our expertise in the integration of live, virtual and constructive training, we believe we'll make attractive inroads into that market in the years ahead.

And in Healthcare, our purpose, mission and passion is to make healthcare safer. We believe the significant changes brought by this pandemic will result in a bigger role for e-learning and healthcare simulation and training. Looking forward, the secular shifts ahead appear promising. We continue to believe CAE Healthcare is well positioned to capitalize on this change in the appreciation of the benefits of healthcare simulation and training to improve safety and to help save lives -not only during a healthcare crisis, but also during more normal times. With its innovative products and demonstrated agility, we expect Healthcare will become a more material part of the company over the long term.

We have a deeply rooted culture of innovation and a proven ability to adapt quickly to dynamic market conditions. The CAE Air1 ventilator we just developed in Healthcare is a testament to CAE's agility and innovation. We rapidly applied the full gamut of our technical capabilities in response to the crisis and are now fielding new opportunities globally in the design, manufacture and sale of life saving ventilators.

Tough times require new thinking and, across all of our markets, we've adapted our offerings by introducing new ways to leverage virtual reality and distance learning technologies to serve our customers critical needs.

CAE is a high technology company providing solutions at the leading edge of digital immersion. Our extended outlook remains highly compelling, with potential for compound growth and superior returns over the long term. CAE's employees, our most valuable assets, are imbued with a culture of innovation, empowerment, excellence and integrity, and we expect to emerge from the pandemic even better positioned. Our restructuring program is expected to yield approximately $50 million of annual recurring cost savings starting in fiscal year 2022, from initiatives including the introduction and acceleration of new digitally enhanced processes and the optimization of our global asset base and footprint.

At the same time, we're keeping up the pace of our investment and focus on technological innovation to reimagine the customer experience and broaden our aperture to revolutionize training and operational support solutions. As our core end markets recover, the "new normal" that emerges could present novel challenges for our customers. We believe certain trends will arise in greater force post-

COVID-19, such as e-learning, remote work, an even greater imperative on safety, and the accelerated digital transformation and virtualization of the physical world. CAE’s core capabilities align very well with these future needs and we fully intend to use the current period to further strengthen our technological expertise and expand the aperture of how and what we bring to market.

We are leaning forward to capture more organic growth by leveraging our leading edge understanding of man-to-complex-machine interfaces, and we continue to assert our leadership in attractive markets with long-term secular tailwinds. Already, we’re seeing excellent customer receptivity to our recent new technology developments in the areas of machine learning-enabled data analytics, remote delivery and virtual reality/augmented reality and we will be driving forward to excel on these fronts, now more than ever.

To conclude, we are effectively managing the things we can control within this unprecedented environment and we are decidedly focused on the future — and I expect we will ultimately be stronger for it.

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

Andrew Arnovitz, Vice President, Strategy and Investor Relations

Operator, we would now be pleased to take questions from analysts and institutional investors.