REMARKS FOR CAE's ANNOUNCEMENT OF ITS ACQUISITION OF BOMBARDIER'S BUSINESS AIRCRAFT TRAINING BUSINESS

November 8, 2018

Time: 7:15 a.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

<u>Andrew Arnovitz, Vice President, Strategy and Investor Relations</u>

Good morning, everyone, and thank you for joining us.

Before we begin I’d like to remind you that this morning’s remarks contain forward-looking statements including, without limitation, as it relates to our proposed acquisition of Bombardier’s Business Aviation Training business, as well as certain expectations with respect to the same. These forward-looking statements represent our expectations as of today, November 8, 2018, and accordingly are subject to change. Such statements are based on assumptions that may not materialize and are subject to risks and uncertainties. Actual results may differ materially, and listeners are cautioned not to place undue reliance on these forward-looking statements. Please refer to slide [2] of our Investor Presentation which can be downloaded on our Website for a detailed description of the cautions and risk factors pertaining to the proposed acquisition and related forward-looking statements.

On the call with me this morning are Marc Parent, CAE’s President and Chief Executive Officer, Sonya Branco, our Chief Financial Officer, and Nick Leontidis, CAE’s Group President, Civil.

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.

Please link to the investor presentation that we have prepared for your reference; you may wish to use it to help guide this morning’s discussion. It’s available in the investor section of CAE’s website or by clicking the link in this morning’s press release.

Let me now turn the call over to Marc…

Marc Parent, President and Chief Executive Officer

Thanks, Andrew, and thank you to everyone joining us on this early morning call.

It's an exciting day for CAE. This morning we announced that CAE will acquire Bombardier's Business Aircraft Training business to expand our position in the large and growing business jet training market. This marks another important step in realizing CAE's vision to be the recognized worldwide training partner of choice. I'll first say a few words about the strategic rationale behind our decision and describe how this will benefit CAE shareholders, and then Sonya will walk us through a summary of the transaction details.

This agreement between Bombardier and CAE is a win-win that enables both companies an even greater focus on our respective core businesses.

One of the main benefits for CAE in this transaction is that we'll have a significantly expanded ability to address the training market for the active global fleet of more than 4,800 Bombardier business jets, many of them in the higher-value, medium- and large-cabin segment. The acquisition gives us a well-established and growing business for the provision of all flight and maintenance training for business jet operators worldwide. Also as part of our agreement, we will extend our Authorized Training Provider status with Bombardier out to 2038.

The acquisition provides CAE with talented people, a portfolio of customers, and an established recurring training business which is highly complementary to CAE's network. The Bombardier BAT business includes a modern fleet of full-flight simulators and training devices covering the Learjet, Challenger and Global product lines, including the latest large cabin Global 5500, 6500 and 7500 business jets.

From a strategic standpoint, the transaction fits right in our core and aligns very well with CAE's larger training strategy. One of our main strategic objectives as a company is to grow recurring revenues, and in Civil specifically, to increase wet—or instructor-led—training revenues. The acquisition gives us exactly that: an expanded addressable market for business jet, which is 100% wet training; and the ability to leverage our expanded position on Bombardier business jet platforms across the entire CAE global network. The customer installed base will now have the benefit of accessing training in seven locations worldwide. Currently, the Bombardier BAT business operates from two locations; one in Dallas and the other in Montreal. The operations are already co-located within CAE's training centers, which makes for a smooth, plug and play integration.

In summary, we look forward to addressing a large and growing market of Bombardier business jet operators and to providing them with a world-class training experience. Market fundamentals in business aviation are strong, with increased aircraft utilization and higher expected deliveries of new aircraft, and the business we're acquiring is well-supported by a large installed base. We're expanding our position in the largest and fastest growing segment of business aviation training at an opportune time, and this is an attractive opportunity for CAE to acquire an established business with a high growth profile and attractive margins. The transaction will provide CAE with positive earnings and free cash flow accretion, beginning in the first full year following the closing of the acquisition.

With that, I will now turn the call over to Sonya to take us through the transaction summary.

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

Thank you, Marc, and good morning everyone.

This transaction aligns well with our capital allocation strategy, which prioritizes accretive growth investments in our core; cash returns for shareholders; and a strong financial position. With this transaction, our capital allocation strategy remains unchanged, and we maintain our visibility to 13 percent return on capital employed, within our guided timeframe, by fiscal year 2022.

There are two main components to the transaction; the first being the acquisition of Bombardier Business Aircraft Training, or BAT, for an enterprise value of US$645 million. Using forecasted one-year forward EBITDA, this represents a purchase multiple of about nine times. This takes into account about $6 million of annual cost synergies that we expect to reach within our first year. On a trailing 12-month basis, using an adjusted EBITDA, this equates to about a 10-times multiple. It's important to note that of the 12 full-flight simulators acquired as part of the BAT business, one of them, for the Global 7500, was just recently deployed, and another 7500 will be deployed in December. And one additional simulator, for the Global 6500, is scheduled to be deployed in our fiscal year 2021. We expect the business to generate double-digit growth, driven in large part by demand from the existing large installed base of Bombardier business jet operators worldwide, and the ramp-up of the recently deployed—or soon to be deployed—high-value training platforms.

The second part of the transaction involves the monetization of existing future royalties and the extension of our ATP agreement to 2038. We have agreed to pay US$155 million as the discounted sum of CAE's royalty obligations to the OEM for the next 20 years. The opportunity to extend the ATP and prepay these obligations at a discount provides good value for CAE and its shareholders.

We expect the transactions to be accretive to the Civil segment operating margin by about 100-150bps, and for CAE overall, for it to be high single-digit percentage accretive to earnings in the first year following closing. And, it will also be free cash flow accretive in the first year.

Financing for the transaction is fully committed and we are financing it with a combination of new, committed term loans of up to US$400 million as well as cash on hand and our existing credit facility. CAE's target leverage ratio is 35-45% net-debt-to-capital and with this acquisition it will remain within this range at approximately 42% proforma at closing. These assets generate a high level of free cash flow and our plan is to bring leverage back down to the lower end of our target range within 24-36 months post-closing. CAE is—and will remain—an investment grade profile, which enables us to maintain our financial flexibility and access to debt markets at attractive terms.

In terms of timing, the transaction is subject to customary regulatory approvals. We expect to close on the monetization transaction by the end of our fiscal year and to close on the BAT acquisition by the second half of calendar 2019.

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

Andrew Arnovitz, Vice President, Strategy and Investor Relations

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

Before we open the lines, let me first ask in the interest of fairness that you please limit yourselves to a single, one-part question. If you have additional questions after that, and if time permits, please feel free to re-enter the queue.