REMARKS FOR CAE’S SECOND QUARTER FISCAL YEAR 2021

November 10, 2020

Time: 1:00 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
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, November 10, 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…
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 provide additional details about our financial performance. I’ll come back at the end to talk about our outlook.

We began the fiscal year just as the brunt of the pandemic bore down, and while we’re managing through a still difficult environment eight months later, we’re starting to see the results of our cost and cash actions, and our initiatives to strengthen our market position. We drove solid sequential improvements in our second quarter, which is testimony to these efforts and to the resiliency of our business, which is largely recurring and driven by regulations.

We delivered $0.13 of earnings per share and we generated $45 million of free cash flow, which is a good reflection of the cash generative nature of CAE’s business. We also booked $668 million in new orders for a 0.95 times book-to-sales ratio.

We saw sequential improvements across all business segments in the quarter, most notably in Civil, where revenue increased 47% compared with the first quarter. This was driven by 49% average training centre utilization and the delivery of 10 full-flight simulators. Demand improved in both commercial and business aviation training, with the latter recovering more rapidly, driven by the relatively higher level of activity involving the global installed fleet of business aircraft. Civil enjoys a high degree of operating leverage in training, and the higher volume helped drive its operating margin back to the double digits, coming in at 14.2%. We also continued to book new orders, with Civil signing training solutions contracts valued at $353 million. These included three full-flight simulator sales, a five-year business aviation training agreement with a charter company in the U.S., a five-year exclusive training extension with Virgin Atlantic, a two-year business aviation training agreement with XOJET Aviation, and a two-year business aviation training extension with VistaJet.
In **Defence**, we also began to see a more positive picture than the first quarter, with some movement on programs impacted by COVID-related restrictions and the resumption of certain training operations.

Defence revenue grew 8% over the last quarter and operating margins improved to 8.0%. Notwithstanding a still challenging environment, Defence booked orders for $278 million, including contracts to continue providing fixed-wing flight training and support services to the U.S. Army at the CAE Dothan Training Centre, and to support Leonardo with AW139 and AW169 full-flight simulators. Other notable contracts include providing the U.S. Air Force with upgrades and enhancements to both the KC-135 and C-130H aircrew training system programs. Defence also received orders for maintenance and logistics support services for the German Air Force’s Eurofighter training devices, and to support the development of a Single Synthetic Environment for the U.K.’s Strategic Command. In addition, we were awarded a prototyping contract to support the U.S. Special Operations Command Global Situational Awareness program, which will leverage synthetic environments to fuse data into a common operational picture for improved planning and decision support.

And in **Healthcare**, revenue grew by 66% compared to last quarter and was 22% higher than last year. With the benefit of additional volume and the commencement of CAE Air1 ventilator deliveries, Healthcare’s margin reached 8.6%. I’m proud to say that we are continuing to support healthcare workers in the fight against Covid-19, with complementary webinars and learning modules for clinicians. We recently developed a Pathogens of High Consequence learning module to help prepare clinicians for infectious disease outbreaks. Not only is this the right thing to do—being there for our customers and front-line workers in this difficult time—I also believe it cements CAE as a leader in developing training content in the healthcare space.

With that, I’ll now turn the call over to Sonya who will provide additional details about our financial performance. I’ll return at the end of the call to comment on our outlook. Sonya?
Thank you, Marc, and good afternoon everyone.

**Consolidated revenue** of $704.7 million was up 28% compared to the first quarter and is 21% lower compared to the second quarter last year. **Segment operating income** was $79.3 million, compared to a loss of $2.1 million before specific items in Q1, and an income of $126.0 million before specific items last year. Quarterly **net income before specific items** was $34.2 million, or 13 cents per share, which on the same basis compares to negative 11 cents in Q1, and 28 cents in the second quarter last year.

**Free cash flow** was $44.9 million in the quarter, which is an improvement over the negative $7.1 million free cash flow result last year. The increase results mainly from a lower investment in non-cash working capital, the suspension of the dividend, and lower maintenance capital expenditures, partially offset by a decrease in cash provided by operating activities. We expect to be free cash flow positive for the year based on our expectation for continued positive operating cash flow and the expected timing of reversals in our non-cash working capital accounts.

**Return on capital employed**, before specific items, was 7.2% this quarter, compared to 8.0% last quarter and 11.5% last year.

**Growth and maintenance capital expenditures** totaled $15.2 million this quarter and for the first half of the fiscal year, totaled $33.2 million relative to our outlook of approximately $50 million. We expect total CAPEX of approximately $100 million for the year, commensurate with our opportunities to invest incremental capital with accretive returns and free cash flows.

**Income tax recovery** this quarter was $1.0 million, representing an effective tax rate of 14%, compared to 17% for the second quarter last year. The tax rate was lower due to the impact of restructuring costs, partially offset by the change in the mix of income and losses from various
jurisdictions. Excluding the effect of the restructuring, the income tax rate would have been 25% this quarter.

Our **Net debt** position at the end of the quarter was $2.4 billion, for a net debt-to-capital ratio of 50.1%. And net debt to EBITDA before specific items was 3.16 times at the end of the quarter. All told, between cash and available credit we continue to have approximately $2 billion of liquidity.

We are making good progress with our recently announced **restructuring program**, intended to enable CAE 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 level of demand and the enduring structural efficiencies that we will drive. These measures include the introduction and acceleration of new digitally enhanced processes such as remote installations and certifications, and work-from-home practices. We continue to expect to record restructuring expenses of approximately $100 million for the entire program, consisting mainly of real estate costs, asset relocations and other direct costs related to the optimization of our footprint and employee termination benefits, which will be carried out through fiscal 2021 and into fiscal 2022. Actions include the consolidation of some facilities so that we gain the efficiencies of operating from larger centres, and we will also be relocating several training assets to optimize utilization. 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 annual recurring cost savings of approximately $50 million starting in our fiscal year 2022. We began executing our restructuring program this quarter, and as of the end of September, we had incurred $51.1 million of restructuring expenses.

With that, I will ask Marc to discuss the way forward.
Marc Parent, President and Chief Executive Officer

Thanks, Sonya;

The COVID-19 pandemic continues to be a day-to-day global reality, and we are encouraged to have learned yesterday of the progress being made to discover a vaccine to this terrible affliction that has so deeply affected the lives of so many.

As we consider the step-change improvement in quarterly performance we just delivered, we recognize that the continued pace of CAE’s recovery—from this point forward—will be highly correlated to the rate at which travel restrictions and quarantines can be safely lifted and market activities resume. Short-term visibility in that context remains limited; however, I take confidence in the fact that we’re in a better position now than we were at the start of the fiscal year, and we continue to expect a stronger second half.

Looking beyond the current period, we remain encouraged by CAE’s long-term prospects. We’re seizing opportunities to strengthen CAE internally during this period and as you’ve heard from Sonya, our restructuring program currently underway is on track. We’re also well positioned to bolster our standing as the global market leader in our field through the application of advanced technologies and by expanding the aperture of our market reach. We’re continuing to invest in CAE’s capabilities to revolutionize our customers’ training and critical operations with digitally immersive solutions and to increase our market share. We remain confident that CAE will emerge from the current period as an even stronger company.

Looking at each of the business segments… in Civil, as the global fleet gradually recovers and daily flights resume service, we expect to continue to expand our market share and secure new customer partnerships with our innovative training and operational solutions. We continue to have discussions with
airlines about potential outsourcing and partnerships, and while we don’t control the timeline of these agreements, we expect some from our pipeline to come to fruition in the period ahead.

At a steady state, business aviation training represents about one-third of our Civil business, and based on global aircraft fleet activity levels, we expect this segment to continue recovering faster than commercial aviation.

Demand for Civil full-flight simulators is driven by new aircraft deliveries, and while the total market is currently much smaller, we expect to maintain our leading share of available FFS sales. We benefit from a large backlog of customer funded FFS orders, and we expect to substantially deliver this backlog over the next couple of years, including 35 to 40 this fiscal year.

In Defence, we’re managing through a transition year, as we work our way through the short-term challenges brought by the pandemic, and as we ramp up new leadership. 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 our bolstered team will bring to bear. I’m encouraged by our recent competitive wins and large pipeline, which bode well for Defence in the long-term. Despite 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’re expanding beyond training to become a leader in digital immersion and the application of synthetic environments to support analysis, planning and operational decision-making. With our expertise in the integration of live, virtual and constructive training, along with capabilities to address mission and operations support, we believe we’ll make inroads into the broader defence market in the period ahead.

And in Healthcare, we’ve also bolstered our leadership to enable CAE to fully capitalize on the greater market appreciation of the benefits of healthcare simulation and training to improve safety and to help save lives. The pandemic is serving as a catalyst to accelerate digital transformation across the
enterprise. In Healthcare, we see an emerging growth vector with the ramp up of distance learning this fall. While still early, I'm encouraged by our progress including new tools we just recently introduced on how to deliver training using our platforms, Maestro and CAE Learning Space, which offer remote and distance learning capabilities for virtual clinical examination and telehealth training.

In closing, I'd like to thank all the employees at CAE who are collectively responsible for these solid results against a macro backdrop that has been complex, and it goes without saying, under higher than usual uncertainty. Our employees have conducted themselves through these challenging last eight months with true professionalism and teamwork, retaining an impressive and singular focus on serving our customers’ as their partner of choice. I'm truly inspired and humbled to lead this great team of people here at CAE and couldn't be prouder of how we rose up against an incredible macro event that has almost been like a wartime effort and are arising from it stronger and even more aligned together.

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.