CAE

REMARKS FOR CAE'S FOURTH QUARTER AND FULL FISCAL YEAR 2022

June 1, 2022

Time: 8:30 a.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

Mr. Andrew Arnovitz, Senior Vice President, Investor Relations and Enterprise Risk Management

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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 FY23 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, June 1, 2022, 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.

Before Sonya and I get into the results, I want to first say how proud I am of our 13,000 CAE employees, who've exemplified our 'One CAE' culture and delivered a truly outstanding performance in fiscal 2022. We set a number of order intake records this year, culminating in record bookings of $4.1 billion and a record backlog of $9.6 billion. These numbers are especially impressive considering that our industry is still in the early days of a cyclical recovery. We're winning market share by innovating and delighting our customers, and this is because of the great dedication of our people. Testament to their passion and commitment is that employee engagement has never been higher -- even with the added complexities of managing through a pandemic. I'll talk more about the way forward at the end of the call, but these are some of the most important factors that underscore my enthusiasm and outlook for a 'bigger, stronger and more profitable CAE' in the period ahead.

Turning now to our results... on a consolidated basis, we grew fourth quarter revenue by 25 percent and annual revenue by 23 percent, before the contribution of our ventilator humanitarian initiative last year. We delivered 32 percent higher adjusted EPS in the quarter, and for the year, it was up 79 percent. Testament to the quality of these results, we generated a healthy $188 million of free cash flow for the quarter and $342 million for the year.

In **Civil**, we had strong performance with double-digit growth in revenue and adjusted segment operating income and we generated margins north of 20 percent for the second quarter in a row. Despite

Omicron disruptions during the fall and winter and continued market weakness in Asia, fourth quarter average training centre utilization reached 69%, which is up from 55% last year. Training demand in the Americas continued to be strongest in the quarter, easily absorbing the capacity we've deployed recently into the region to meet our customers' increased needs. We also had strong demand for new pilot training with record monthly hours flown at our flight school in Phoenix, Arizona. Training utilization in Europe improved in the quarter, with airlines having become more confident about the summer travel period. Asia Pacific was a bit better, with some easing of travel restrictions in Singapore and Malaysia, but remained at a much lower level compared to 2019. In business aviation, training demand was robust and reflects the high level of business aircraft flight activity, which is well above 2019 levels.

We overcame market and logistical challenges to deliver 7 Civil full-flight simulators in the quarter and 30 for the year. We had strong order activity in Civil overall in the quarter, booking training solutions contracts valued at $517 million, for a book-to-sales ratio of 1.19 times, including 15 full-flight simulator sales. Annual orders reached $2.0 billion, for a book-to-sales ratio of 1.25 times, including comprehensive, long-term training agreements with airlines and business jet operators worldwide, and a total of 48 full-flight simulator sales for the year, which is testament to the increased demand for pilot training. This is a big step up compared to only 11 orders for all of the previous fiscal year. Civil concluded the year with a healthy order backlog of $4.9 billion.

We also expanded our horizons during the year by partnering with four of the leading electric vertical takeoff and landing (eVTOL) developers to provide a range of solutions including simulators, pilot and maintenance training programs, and aircraft system integration engineering support. Additionally, we concluded the acquisition of Sabre's AirCentre airline operations portfolio during the quarter, giving us a valuable suite of flight and crew management and optimization solutions and a highly talented workforce, who we warmly welcome to CAE. The acquisition is part of a strategy to extend Civil beyond training and access an even larger portion of the Civil aviation market we already address. We continuously innovate to earn the right to be our customers' *training* partner of choice, and now we're expanding our aperture to also become their *technology* partner of choice. I'm very encouraged by the positive customer response we've had already, with airlines and business jet operators greeting CAE as a highly logical partner for these solutions.

In **Defense**, we also had double-digit growth in the quarter with the contribution of L3H MT, and I'm especially pleased with the acceleration in order intake, with bookings totaling a record $751 million in the quarter for a 1.60 times book-to-sales ratio. Notable wins in the quarter include a contract with the Government of Canada to extend and expand the NATO Flying Training in Canada program through 2027. Defense also broadened its customer access with a US$250 million ceiling U.S. Naval Air Systems Command (NAVAIR) Rapid Acquisition Prototyping, Integration and Development IDIQ win.

Defense concluded the year with a record $1.9 billion in orders, including competitive prime awards across all five domains (Air, Land, Sea, Space and Cyber). This higher level of activity contributed to a $4.7 billion Defense backlog, representing 1.20-times book-to-sales for the year. Notably, this is the first time our annual Defense book-to-sales ratio has been above one in the last four fiscal years and is key to driving higher performance in the years ahead. We also concluded the year with a record $8.6 billion of Defense bids pending customer decisions.

Turning now to **Healthcare**, we delivered our fifth consecutive quarter of double-digit year over year revenue growth (excluding ventilators) and we generated sequentially higher profitability in the fourth quarter. One noteworthy order during the quarter involves a collaboration between Healthcare and Defense to win a contract to support the German Armed Forces by providing patient simulators, user training and maintenance support. This collaboration is a great example of CAE’s cross-business synergies and is testament to our unique One CAE culture.

Our good progress in Healthcare during the year reflects a clear focus on achieving greater scale and the ramp up of our reenergized organization. We began worldwide deliveries of our newest pediatric patient simulator, CAE Aria, and we launched updates to expand the feature set and functionality of some of our main product solutions, including Vimedix, our ultrasound education platform, CAE CathLabVR and CAE LearningSpace.

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?

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

Thank you, Marc, and good afternoon everyone.

I first want to thank our stakeholders for their patience in our delay getting these results out to you. Our auditors required more time than anticipated to complete the technical manual tasks involved in the normal course of the audit.

Turning now to results, we delivered a strong performance in the fourth quarter and for the year, having worked diligently to overcome the ongoing COVID-related challenges and delivered double-digit revenue and adjusted segment operating income growth and higher margins. We also generated excellent free cash flow and helped to secure future growth with record order bookings and backlog. We have effectively deployed growth capital, seizing on opportunities to expand our market reach, and we achieved our targets on our restructuring program to lower our cost structure by approximately $70 million annually. Also, we continued to be on track with the integration of our acquisitions and the realization of planned cost synergies within the expected timeframes.

Looking at our results, on a **consolidated basis,** revenue of $955.0 million was up 25% compared to the fourth quarter last year, excluding $130.0 million revenue for ventilators. **Adjusted segment operating income** was $142.7 million, compared to $106.2 million last year. Quarterly **adjusted net income** was $92.0 million, or 29 cents per share, compared to 22 cents in the fourth quarter last year.

For the year, consolidated revenue was up 13% to $3.4 billion, and was 23% higher, excluding $230.6 million of revenue last year from the ventilator contract. **Adjusted segment operating income** was up 58% to $444.5 million, and annual **adjusted net income** was $261.5 million, or $0.84 per share, which is up 79% compared to $0.47 last year. We incurred restructuring, integration and acquisition costs of $36.0 million during the quarter, related to the L3H MT and AirCentre acquisitions, and our enterprise-wide restructuring program.

Net cash provided by operating activities was $206.8 million for the quarter compared to $174.6 million in the fourth quarter last year, and for the year, we generated $418.2 million from operating activities compared to $366.6 million last year. We had strong **free cash flow** in the quarter of $187.6 million and $341.5 million for the year, for an annual **cash conversion** rate of 131%.

Uses of cash involved funding **capital expenditures** for $74.7 million in the fourth quarter and $272.2 million for the year, which is in line with our outlook of total CAPEX of more than $250 million. CAE’s growth CAPEX is mainly driven by the expansion of our civil aviation training network and typically generates 20-to-30-percent range return on capital employed within the first few years of deployment. These opportunities translate to some the best examples of growth compounding at CAE. Looking at fiscal 2023, we continue to expect CAPEX of approximately $250 million, reflecting a large pipeline of attractive market-led expansion investment opportunities on the horizon.

Our **Net debt** position at the end of the quarter was approximately $2.7 billion, for a net debt-to-adjusted EBITDA of 3.6-times. This compares to net debt of $2.3 billion- and 3.2-times net debt-to-adjusted EBITDA at the end of the preceding quarter. During the last two fiscal years, we made several growth investments to expand our capabilities and reach, including nine acquisitions totaling $2.1 billion and capital expenditures for some $380 million. We're continuing to focus on attractive growth opportunities and at the same time, we expect to reduce leverage with net debt-to-adjusted EBITDA decreasing to below three times within the next 18 months.

Income tax expense this quarter was $3.7 million, representing an effective tax rate of 6%, compared to a negative effective tax rate of 21% for the fourth quarter of fiscal 2021. The tax rate was mainly impacted by restructuring, integration and acquisition costs. Excluding the effect of these elements, the income tax rate would have been 15% this quarter and 14% for the year. Reflecting some of the recent changes we have seen to global tax regimes, we expect the effective income tax rate to be approximately 22% going forward.

Also below the line, **non-controlling interest** (NCI) was $2.0 million for the quarter and $8.3 million for the year. We expect NCI to continue to increase, commensurate with the growth rate of CAE's adjusted segment operating income.

Now to briefly recap our segmented performance...

In Civil, fourth quarter revenue was up 11% year over year to $432.7 million and adjusted segment operating income was up 45% year over year to $96.3 million, for a margin of 22.3%. For the year, Civil revenue was up 15% to $1.6 billion and adjusted segment operating income was up 92% to $314.7 million for an annual margin of 19.5%.

In **Defense**, fourth quarter revenue of $469.5 million was up 40% over Q4 last year, which includes $146.9 million from the integration of L3H MT in our financials. Adjusted segment operating income was up 59% over last year to $36.8 million, for an operating margin of 7.8%. For the year, Defense revenue was up 32% to $1.6 billion, including $409.9 million from the integration of L3H MT, and adjusted segment operating income was up 37% to $119.2 million, representing a margin of 7.4%.

And in **Healthcare**, fourth quarter revenue was $52.8 million, up 27%, excluding the ventilator contract last year. Adjusted segment operating income was $9.6 million in the quarter compared to $16.4 million in Q4 of last year. For the year, Healthcare revenue was $151.4 million, up 25%, excluding the ventilators contract last year, and adjusted segment operating income was $10.6 million for a margin of 7 percent.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya.

As we look forward, we continue to see a clear path to emerge from the pandemic a bigger, stronger, and more profitable CAE in the years ahead. We are adeptly playing offence in a disrupted market, by seizing on highly strategic growth opportunities to expand our capabilities and market reach. In parallel, we're significantly lowering our cost base and continuing to innovate ways to revolutionize our customers' training and critical operations with digitally immersive solutions to elevate safety, efficiency, and readiness. Despite a still challenging environment, there is no doubt our strategy is bearing fruit, with several record milestones already reached in the early stages of a cyclical industry recovery. Our recent results, and the expanded set of opportunities before us, add to my conviction that CAE is poised to experience new heights as we recover from the cyclical downturn and ultimately benefit from secular growth in our end markets.

In **Civil**, we see pent-up demand for air travel as an important driver in the near-term, and the rate of Civil's recovery to pre-pandemic levels -- and beyond -- is expected to continue to be driven in large part by the easing of travel restrictions, particularly in our key Asian markets. We also expect more demand from airline customers wanting CAE's support as partner of choice to secure and train new pilots. They have acute needs arising from the challenges associated with restoring and growing flight capacity in a competitive market for pilots and flight crews. This dynamic, the strength of Civil's training recovery in the Americas, and the sharply higher FFS order activity this past year, provide a compelling blueprint for the potential of a broader global recovery. In business aviation, we remain bullish on the long-term and we believe the market is experiencing a structural expansion, as evidenced by the record 3.3 million flights worldwide last year. In fiscal 2023, in addition to continuing to grow our share of the aviation training market and expanding our position in aviation digital solutions, we expect to maintain our leading share of FFS sales and to deliver upwards of 40 FFSs to customers worldwide. From a profiling standpoint, we are planning a higher proportion of deliveries in the second half of the fiscal year. Overall, we expect continued recovery and growth in Civil in the year ahead.

In **Defense**, we're on a multiyear journey to becoming bigger and more profitable, and the first and most critical link in that chain involves winning orders. Our record order intake this past year makes it clear that we are indeed on the right path to growth. Furthermore, our record level of Defense bids and proposals is the result of bidding *more* and bidding *larger*. With our increased capabilities across all five domains, and the critical mass that our transformed Defense business now possesses, there's no program in our addressable market that's too large or too complex for CAE to bid on with a high probability of success. Our Defense business is now closely aligned with our customers' utmost priorities, which at their foundation, are about defending freedom in the face of near-peer threats. While we could not have known how or when such geopolitical threats would manifest, they have; and we're extremely proud of CAE's role in helping prepare NATO and allied nations to defend freedom. We're also very proud of our noble purpose to help make the world safer, and in the last two years, Defense has enabled that purpose by establishing its position as the world's leading platform agnostic, global training and simulation pure play defence business. Russia's invasion of Ukraine over the last three months has galvanized national defence priorities and we expect increased spending, and specifically the prioritization on defence readiness, to translate into additional opportunities for CAE in the years ahead. We also expect continued strong momentum with the integration of L3H MT in the year ahead, and to fully realize $35 to $45 million of cost synergies by fiscal year 2024. We look forward to continued growth in the year ahead. A few headwinds still exist for the international defence business in terms of travel restrictions, but we view them as temporary. We're also continuing to work our way through some of the lagging effects of a historically less than one-time book-to sales ratio, beyond which we expect higher growth from integration synergies and the translation of our recent record order intake and bid activity into revenue.

And lastly in **Healthcare**, the long-term potential is increasingly evident for this business to become a more material and profitable part of CAE as we gain share in the healthcare simulation and training market and continue to build on the great momentum created by the reenergized team over the last 18 months.

For **CAE overall**, based on everything we see at present, we're targeting consolidated adjusted segment operating income growth in the mid 30-percent range in fiscal 2023, weighted more heavily to the second half of the year.

In **summary**, our opportunity set for CAE is highly attractive, and I continue to be very excited about our future. We expect to continue making excellent progress in the year ahead and beyond, and we look forward to sharing more about this with you at our investor day on June 7th in New York. The CAE management team and I will be on hand to present why we believe CAE is so well positioned for superior growth and higher profitability. We'll also showcase some of our latest technological solutions and provide a view on CAE's multiyear growth potential.

CAE is a highly unique company, whose cutting-edge training and critical operations solutions empower pilots, crew members, defence forces, and healthcare practitioners to perform at their best every day and when the stakes are the highest. We equip those in critical roles with the skills and expertise needed to move our world forward safely. We also enable our customers to perform their complex tasks more efficiently and with a lower carbon footprint. At the very core, CAE's mission is to make the world safer. In addition to sharing a compelling financial picture, we hope investors will come away from our investor day with an even greater appreciation of CAE's noble purpose – a major driver for all of us.

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

Andrew Arnovitz, Senior Vice President, Investor Relations and Strategy

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.

*****Remind institutional investors and analysts to register for the investor day*****