

# Investor Presentation

November 2018



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of choice



# Caution regarding forward looking statements

This presentation contains forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future. These forward-looking statements include, without limitation, statements about our vision, strategies, plans, market trends and outlook, future revenues, capital spending, expansions and new initiatives, financial obligations, and expected sales. Forward-looking statements normally contain words like believe, expect, plan, intend, continue, estimate, may, will, should, strategy, future and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. A statement is forward-looking when it uses what we know and expect today to make a statement about the future. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties associated with our business which may cause actual results in future periods to differ materially from results indicated in forward-looking statements. While these statements are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are reasonable and appropriate in the circumstances, readers are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. All such forward-looking statements are made pursuant to the safe harbour provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995.

You will find more information in Section 9-Business risk and uncertainty of our fourth quarter and fiscal year ended March 31, 2018 MD&A. This document has been filed with the Canadian securities commissions and is available on our website ([www.cae.com](http://www.cae.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)). It has also been filed with the U.S. Securities and Exchange Commission under Form 6-K and is available on EDGAR ([www.sec.gov](http://www.sec.gov)). Forward-looking statements in this document represent our expectations as of November 13, 2018, and, accordingly, are subject to change after this date. We caution readers that the risks described are not necessarily the only ones we face; additional risks and uncertainties that are presently unknown to us or that we may currently deem immaterial may adversely affect our business. Additionally, differences could arise because of events that are announced or completed after the date of this document, including mergers, acquisitions, other business combinations and divestitures. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. The forward-looking information and statements contained in this report are expressly qualified by this cautionary statement.

The terms "segment operating income (SOI)", "backlog", "book-to-sales", "free cash flow", "return on capital employed", "net debt", "net-debt-to-capital ratio", "earnings per share (EPS) before specific items", "capital expenditures (capex)", "operating profit", "gross profit", and "non-cash working capital" are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other issuers. Refer to the definitions in this presentation and to Section 5- Non-GAAP and other financial measures in our second quarter ended September 30, 2018 MD&A for more details.





Our vision is to be the recognized global

**training partner of choice**

to enhance safety, efficiency and readiness.

## Leader in three business segments



### Civil Aviation Training Solutions

- Commercial Aviation
- Business Aviation
- Training equipment
- Ab Initio Training
- Crew sourcing

### Defence and Security

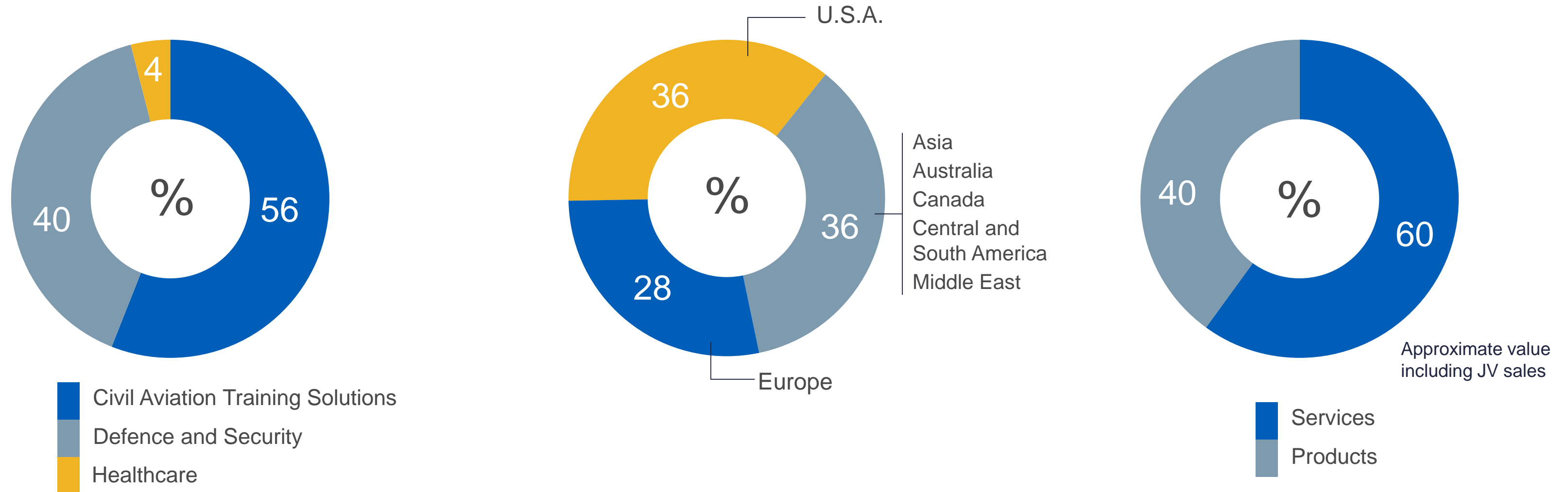
- Training Systems Integrator
- Virtual and live training
- Training equipment

### Healthcare

- Patient simulation
- Imaging/Interventional simulation
- Courseware & Audiovisual solutions
- Turnkey training solutions

# CAE at a glance

## Diversified base of business with a high degree of recurring revenue

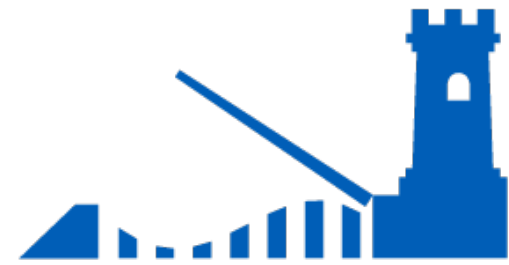


**Total FY18 revenue<sup>(1)</sup>:  
\$2,823.5M**

<sup>(1)</sup> Restated as a result of the adoption of IFRS 15



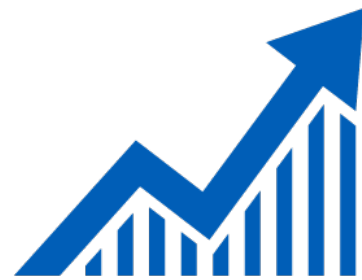
# 6 pillars of strength underlie CAE's strategy and investment thesis



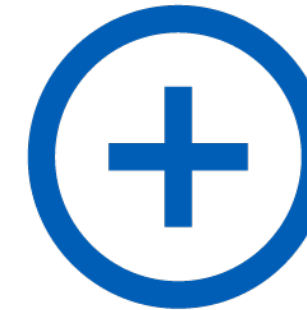
**Strong  
competitive  
moat**



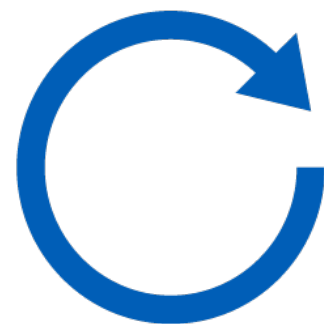
**Underlying  
secular  
tailwinds**



**Headroom  
in large  
markets**



**Potential  
for superior  
returns**

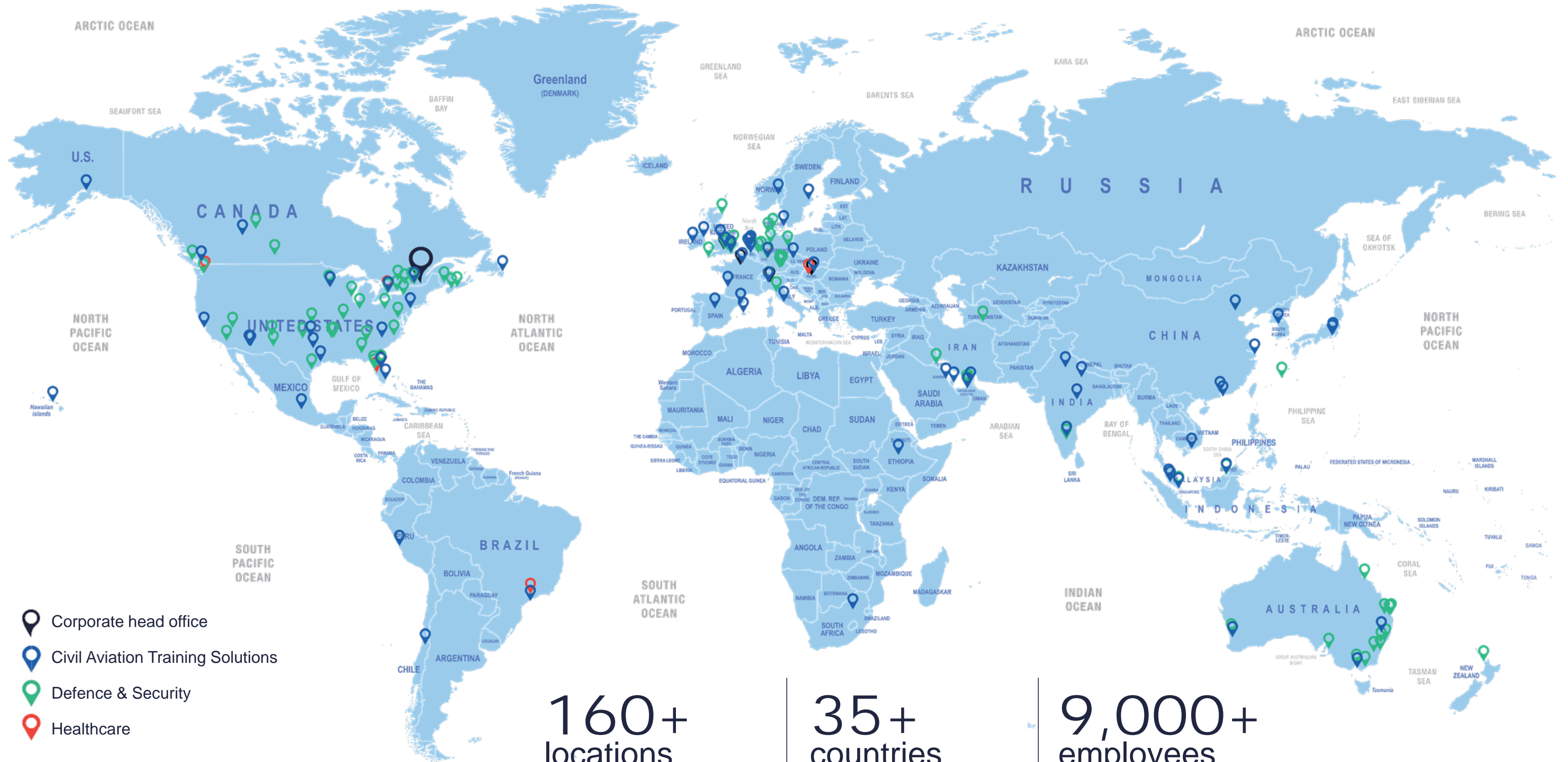


**High degree  
of recurring  
business**



**Culture  
of innovation**

# Unmatched global reach



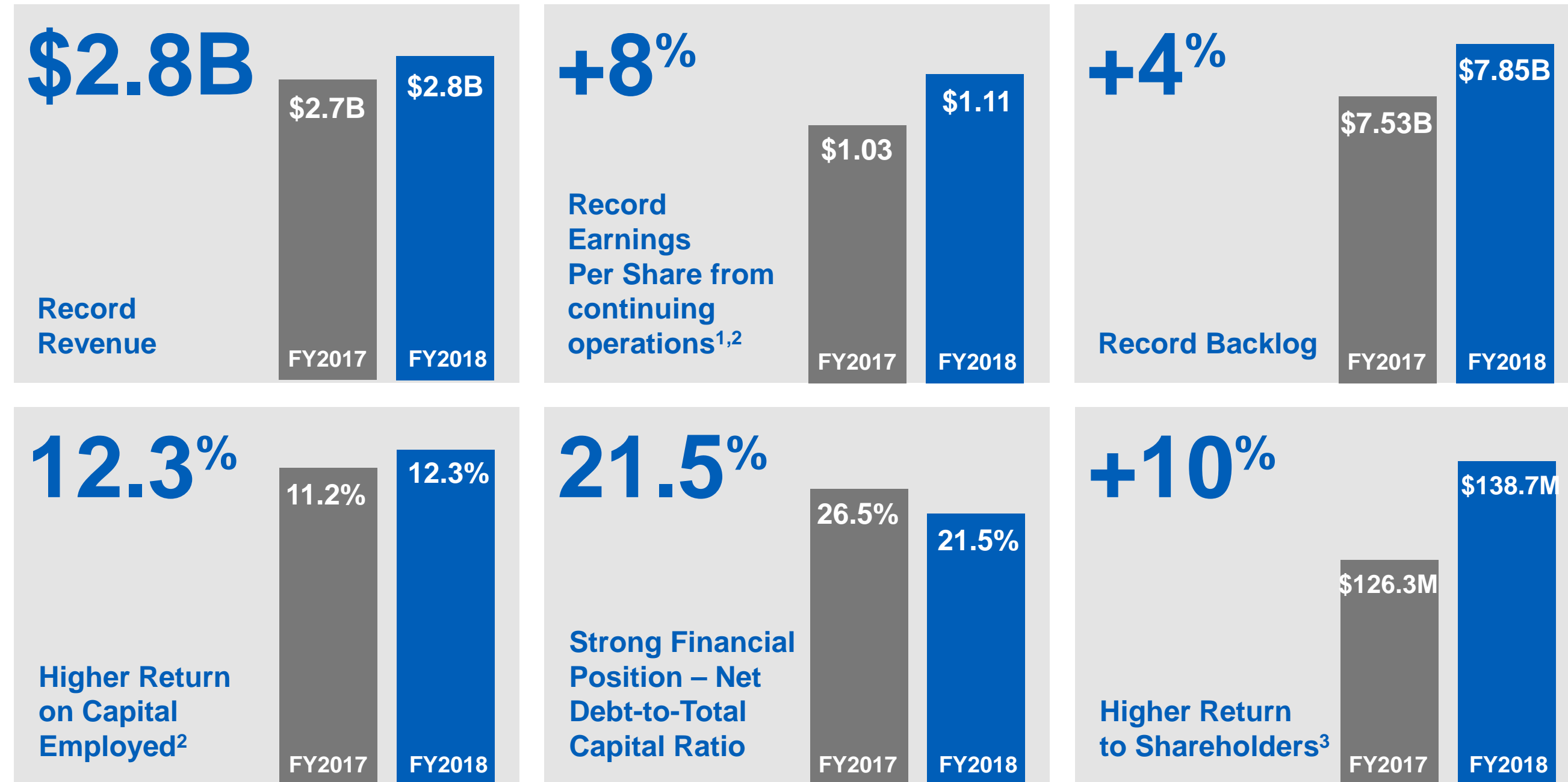
- Corporate head office
- Civil Aviation Training Solutions
- Defence & Security
- Healthcare

160+  
locations

35+  
countries

9,000+  
employees

# FY2018 SELECT PERFORMANCE HIGHLIGHTS



1. Before specific items in FY2017

2. Before impact of U.S. tax reform and net gains on strategic transactions related to Asian joint ventures in FY2018

3. Combining dividends and share buy-back

Note: EPS from continuing operations before specific items, backlog, return of Capital employed, and debt-to-capital ratio are all non-GAAP financial measures and are defined in CAE's FY2018 Management discussion and analysis



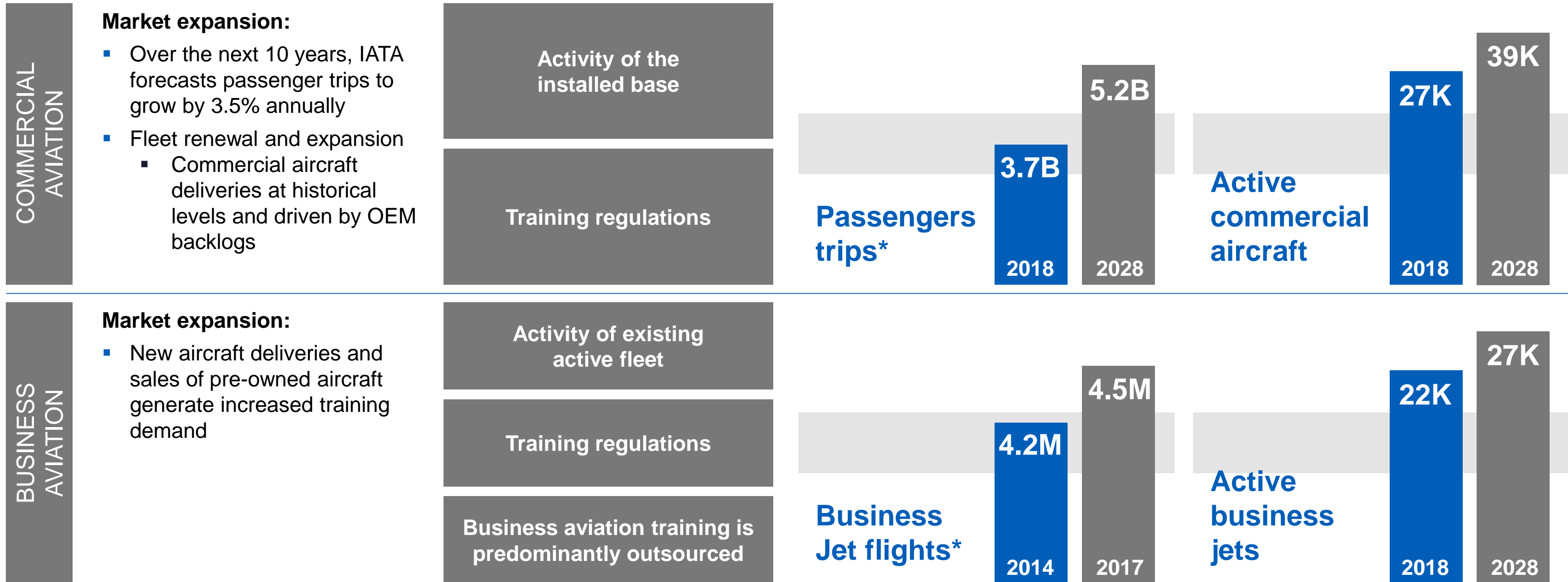
# Civil Aviation Training Solutions



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# Market drivers



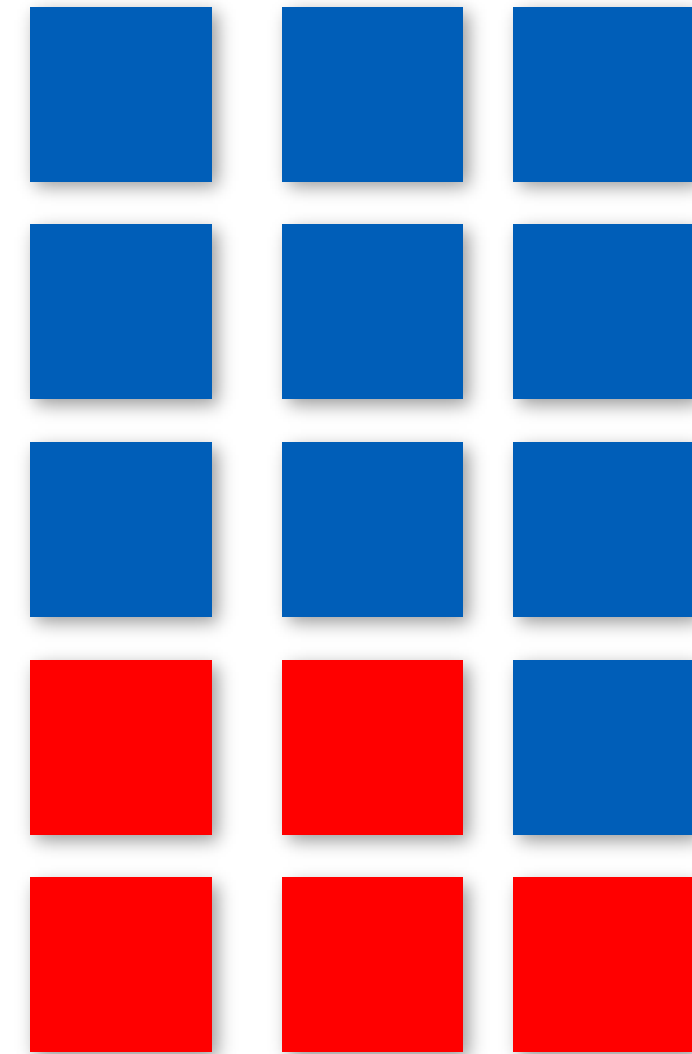
**CAE Civil business is supported by strong pilot demand and the recurring (and regulated) nature of training**

\*Passenger trips: IATA Passenger forecasts, October 2017  
 Business Jet flights: millions takeoffs and landings, FAA data

# Headroom in a large market



Civil Training Market  
**\$4.2B**

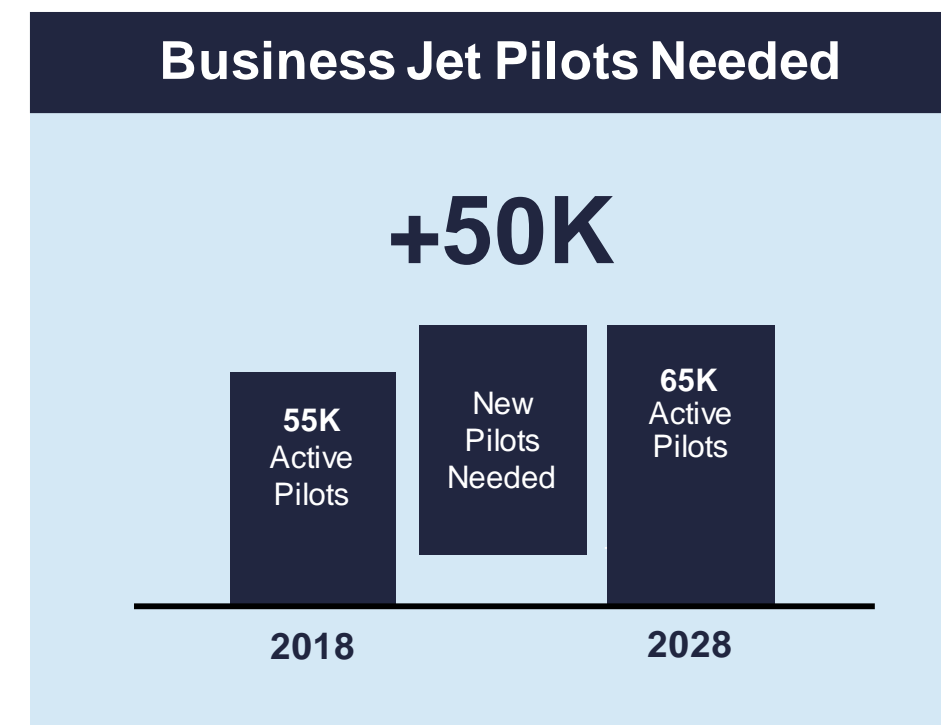
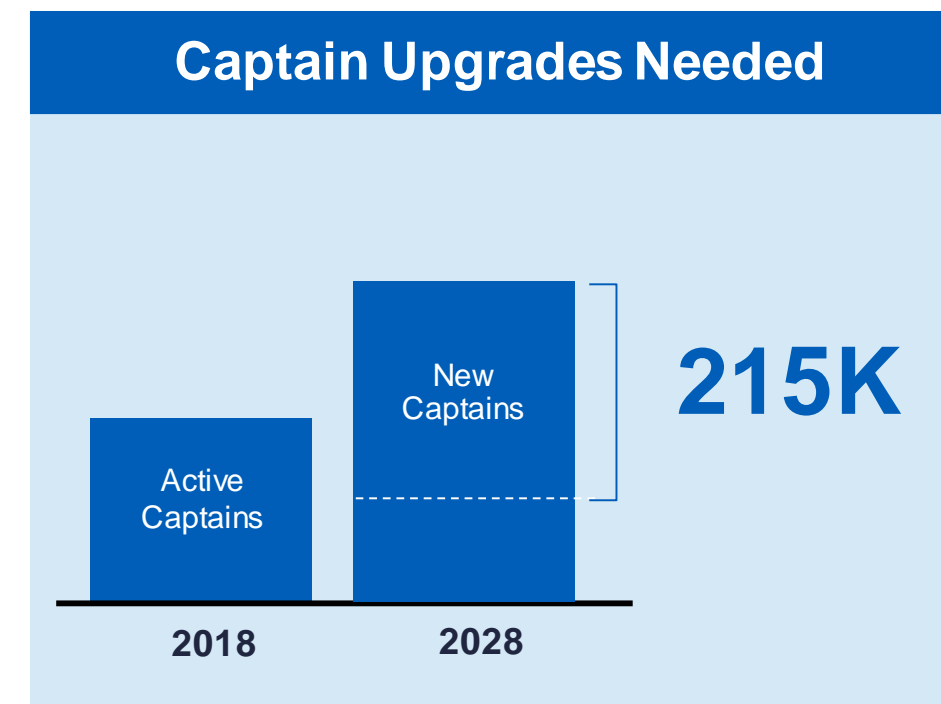
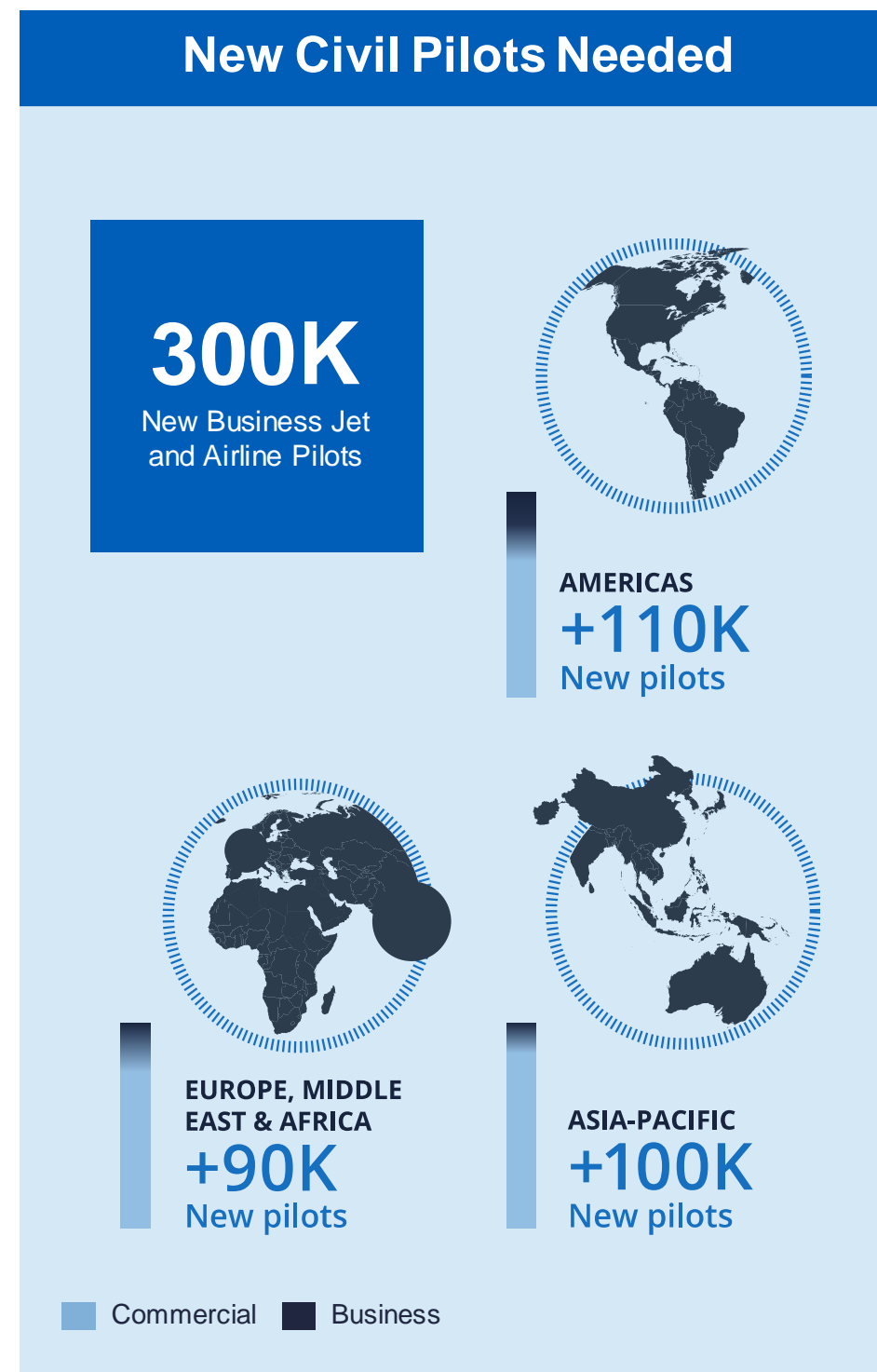
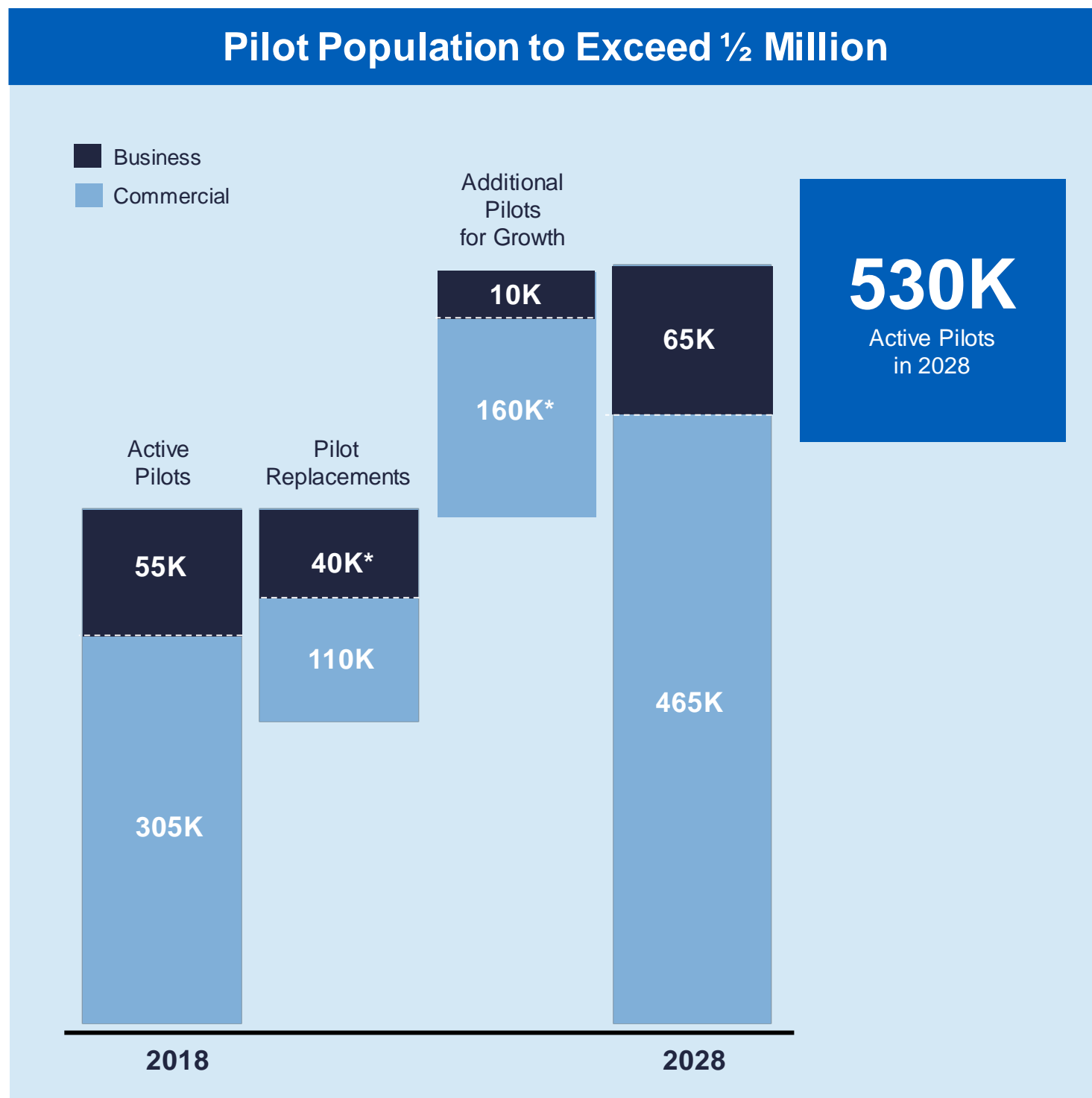


**35%**  
CAE

**CAE has potential to increase share in a large market**



# 10-YEAR AIRLINE AND BUSINESS JET PILOT DEMAND OUTLOOK



\*Including a net 20K business jet pilots movement to airlines

Sources: Based on CAE analysis

# World's largest civil aviation training network



50+

Training Locations



250+

Full Flight Simulators



10

Academies

160+

Aircraft

CAE trains  
180,000 crew  
members  
every year



# Thought leadership and innovation

Trusted partner of regulatory organizations and industry associations



Constantly developing training solutions for partners

## Development of the Next Generation Training System

Supported by innovative data collection and analysis techniques, we aim to improve training quality and efficiency through the integration of untapped data-driven insights into training (e.g. CAERise™)



- ✓ Electronic Training Suite
- ✓ SOP Management Tool
- ✓ Objective Assessment
- ✓ Data Analytics

Thought leadership and innovation are at the heart of our success



# Business Aviation Training expansion



**CAE to acquire Bombardier's Business Aircraft Training business for enterprise value of US\$645 million to expand its position in the business aviation training market**

# Acquisition highlights



## Expands CAE's addressable market in Business Aviation Training

- Acquires an established and growing business for the provision of flight and maintenance training services for operators of one of the world's largest and most valuable in-service business jet fleets
- Extends OEM Authorized Training Provider (ATP) agreement to 2038



## Enhances CAE's position in largest and fastest growing segment of Business Aviation Training

- Increases training portfolio focus on medium- and large-cabin business jet market



## High quality training platforms based on in-production aircraft with superior growth profiles

- Modern fleet of state-of-the-art full-flight simulators with limited ongoing maintenance investment required



## Strong strategic and operational fit

- Expands CAE's addressable market for business jet instructor-led (wet) training
- Provides greater leverage across CAE's BAT network
- Low-risk, plug-&-play integration with operations already co-located within CAE's training premises



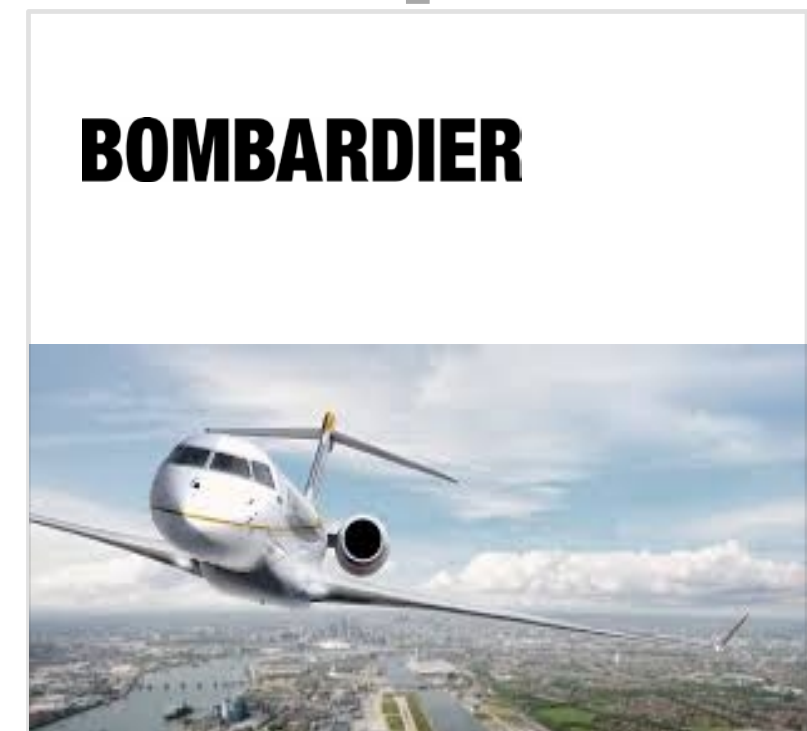
## Financially attractive

- Accretive to earnings and free cash flow in the first full year of ownership
- Attractive growth and margin profile
- Provides additional value from ATP extension and monetization of existing royalty obligations at a discount



## Fits capital allocation strategy for a balance of growth and cash returns to shareholders

- High cash flow generating business provides flexibility to deleverage balance sheet; continue supporting future growth opportunities; and generate current returns to shareholders
- Maintains CAE's investment grade profile with proforma leverage ratio remaining within target leverage range





# Transaction summary

## Transaction Overview

- Two main transaction elements ("Transaction"):
  1. Acquisition of Bombardier Business Aircraft Training ("BAT") business for enterprise value of US\$645 million
    - EV / one-year Forward EBITDA<sup>(1)</sup> <sup>(2)</sup> multiple of approximately 9x
    - EV / LTM (Jun-18) Bombardier BAT Adjusted EBITDA<sup>(1)</sup> <sup>(3)</sup> of approximately 10x
  2. Monetization of existing future royalties at a discount for US\$155 million ("Monetization")

## Expected Financial Impact

- Bombardier BAT business EBITDA<sup>(1)</sup> growing at a double-digit pace
- High single-digit-percentage earnings accretion for CAE in first full year of ownership
- Free cash flow accretive in first full year of ownership
- Expected cost synergies of US\$6.0 million by the end of the first fiscal year post closing
- Accretive to Civil segment operating margin by 100-150bps
- CAE's outlook for 13% ROCE <sup>(4)</sup> by FY2022 maintained

## Fully Committed Financing

- Acquisition financed through a combination of:
  - New committed term loans of up to US\$400M
  - Balance from cash on hand and drawing on existing credit facility
- Net-debt-to-capital <sup>(4)</sup> ratio of 42% pro-forma at closing is within CAE's target leverage range of 35-45%
  - Plan to return to lower end of target leverage range within 24-36 months post completion of the Transaction
- Investment grade financial profile maintains financial flexibility and access to debt markets at attractive terms

## Other Terms

- Transaction subject to customary regulatory approvals
- Closing of the Monetization transaction expected by end of FY19 and the Bombardier BAT acquisition by H2 CY2019

(1) EBITDA: earnings before net finance expense, income tax expense, amortization and depreciation






(2) Forecasted EBITDA reflecting the ramp up of newly deployed simulators and expected cost synergies

(3) Adjusted for lease costs and one-time / non-recurring items

(4) Refer to Section 5- Non-GAAP and other financial measures in our first quarter ended June 30, 2018 MD&A for definition and more details.



# Industry-leading Business Aviation Training platforms

Bombardier's BAT Business by Aircraft Platform				
Aircraft Platform	Entry Into Service	Cabin Size	In Production	# of Simulators
Global 7500 	2018	Large	2018	1 1 (Q3 FY19)
Global 5500/6500 	2019 (Expected)	Large	2019 (Expected)	1 (FY2021)
Global 5000/6000 (Vision) 	2012	Large	✓	2
Global Express XRS 	2005	Large	2012 (last year of production)	1
Challenger 650 	2015	Large	✓	2
Challenger 350 	2014	Medium	✓	3
Learjet 70/75 	2013	Small	✓	1

- Growth expected from strong demand by customers operating a large in-service fleet (4,800 business aircraft), additional business jet deliveries, and the ramp-up of new full-flight simulator (FFS) deployments already included with the acquisition
- Acquiring a network with 12 modern FFSs, three of which have recently (or will soon be) deployed
  - 1 Global 7500 FFS recently deployed
  - 1 Global 7500 FFS to be deployed Q3FY19
  - 1 Global 6500 FFS scheduled for FY2021
- Approximately 90% of training platforms are for aircrafts that are currently (or soon-to-be) in production
- Expands CAE's position on training platforms for high-growth and high-value, medium- and large-cabin aircraft

**Bombardier BAT business provides CAE with increased exposure to new generation medium- and large-cabin aircraft platforms**

# Defence & Security



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# Global Presence



**3650+**  
EMPLOYEES

**30**  
COUNTRIES

**50+**  
DEFENCE AGENCIES

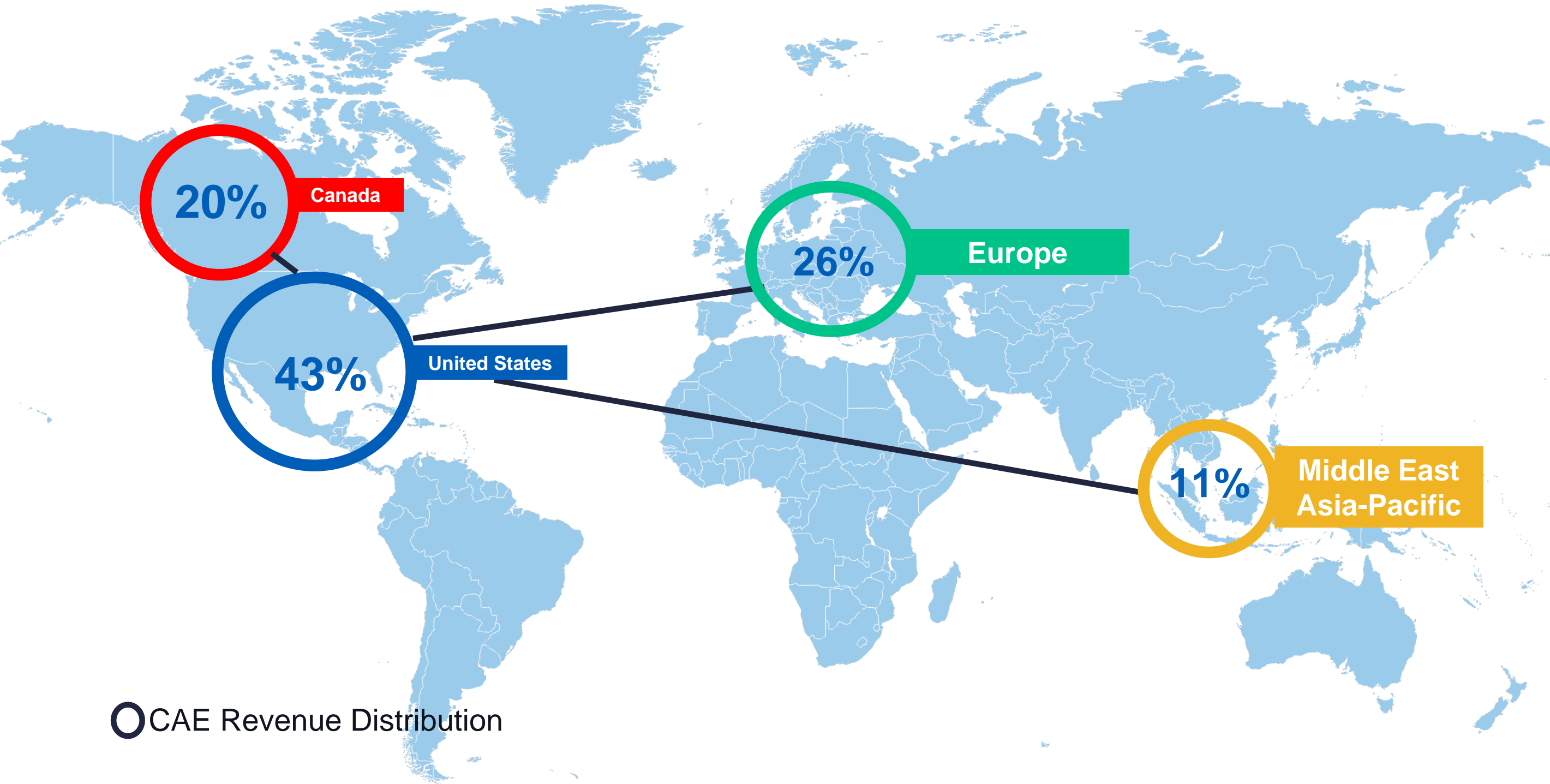
**80+**  
SITES

**70+**  
MILITARY AIRCRAFT TYPES

**\$1B+ Business strategically located in key growth markets**



# Defence Growth Cycle



○ CAE Revenue Distribution

- 70% spending increase over 10 years
- Acquisition of Major Capital Assets
- Significant unmet needs
- Reliant on US defense technology

- Persistent Defence budget increases
- Aerospace & Defence firms are
  - Shaping portfolio to focus on core
  - Vertically integrating
  - Consolidating
- Trend towards increased outsourcing
- Focused on Foreign Military Sales

- Plans to recapitalize/modernize aircraft
- Near-term shortfalls delaying programs
- Increased bi-lateral cooperation
- Reliant on US technology

- Instability in ME, IN/PAK, CH, NK
- Adoption of US technology
- Focus on Air/Naval Systems

**Historic increases in US Defence budgets are being met with similar increases in the EU, NATO, GCC and APAC**

# Defence Training Market Drivers



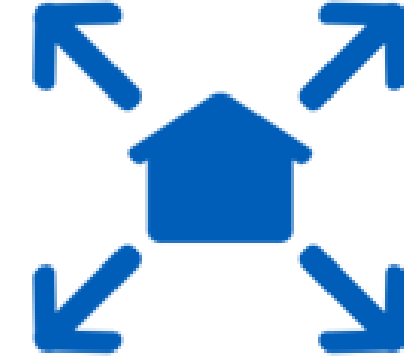
Increased  
Defence spending  
in all major markets



Requirement to  
maintain  
mission readiness



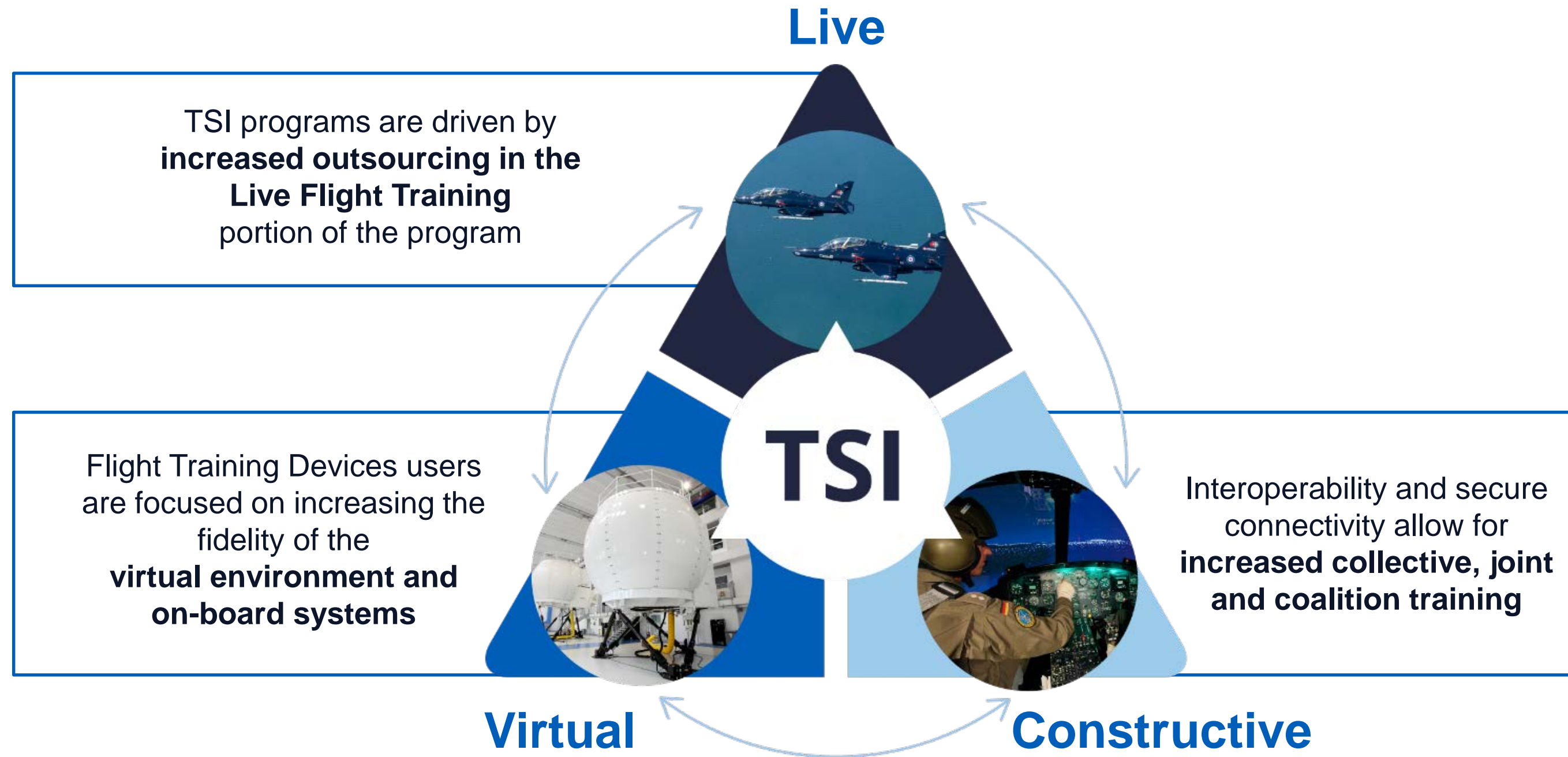
Increased use of  
Live-Virtual-Constructive  
solutions for  
Integrated Mission Training



Propensity to increase  
outsourcing of  
training solutions

**Increasing budgets, operational emphasis, adoption of advanced technology and increased reliance on contracted personnel are all persistent trends**

# Training Systems Integration (TSI) Strategy



**Integrated training solutions all have Live, Virtual and Constructive components  
The TSI approach defines and implements an optimal, integrated mix**



# Strategic Successes



## U.S. Army

- Fixed-Wing Flight Training Program
- Lakota Training System
- Abrams Maintenance Training System



## U.S. Navy

- CNATRA Contract Instruction Services for T-45 and T-6 Aircrew Training
- T-44C Aircrew Training
- MH-60R Tech Refresh



## U.S. Air Force

- MQ-1/MQ-9 Aircrew Training
- KC-135 Aircrew Training
- C-130J Training Systems



## Royal Canadian Air Force

- NATO Flying Training in Canada (NFTC)
- C-295 Fixed Wing SAR Aircrew Training
- CC-130J and CH-147F Operational Training Systems Provider



## U.K. Royal Air Force

- Medium Support Helicopter Aircrew Training Facility
- Military Flying Training System
- Merlin Life Sustainment Program



## Royal Australian Air Force

- Management and Support of ADF Aerospace Simulators (MSAAS)
- MRH90 Training System
- P-8 Training System



## UAE Defence Forces

- Naval Training Centre (NTC)
- Joint Aviation Command AH407 / UH60 Training System
- MQ-1 (Protector) Training Program

**Innovative and comprehensive training solutions on leading platforms for Defence organizations worldwide**

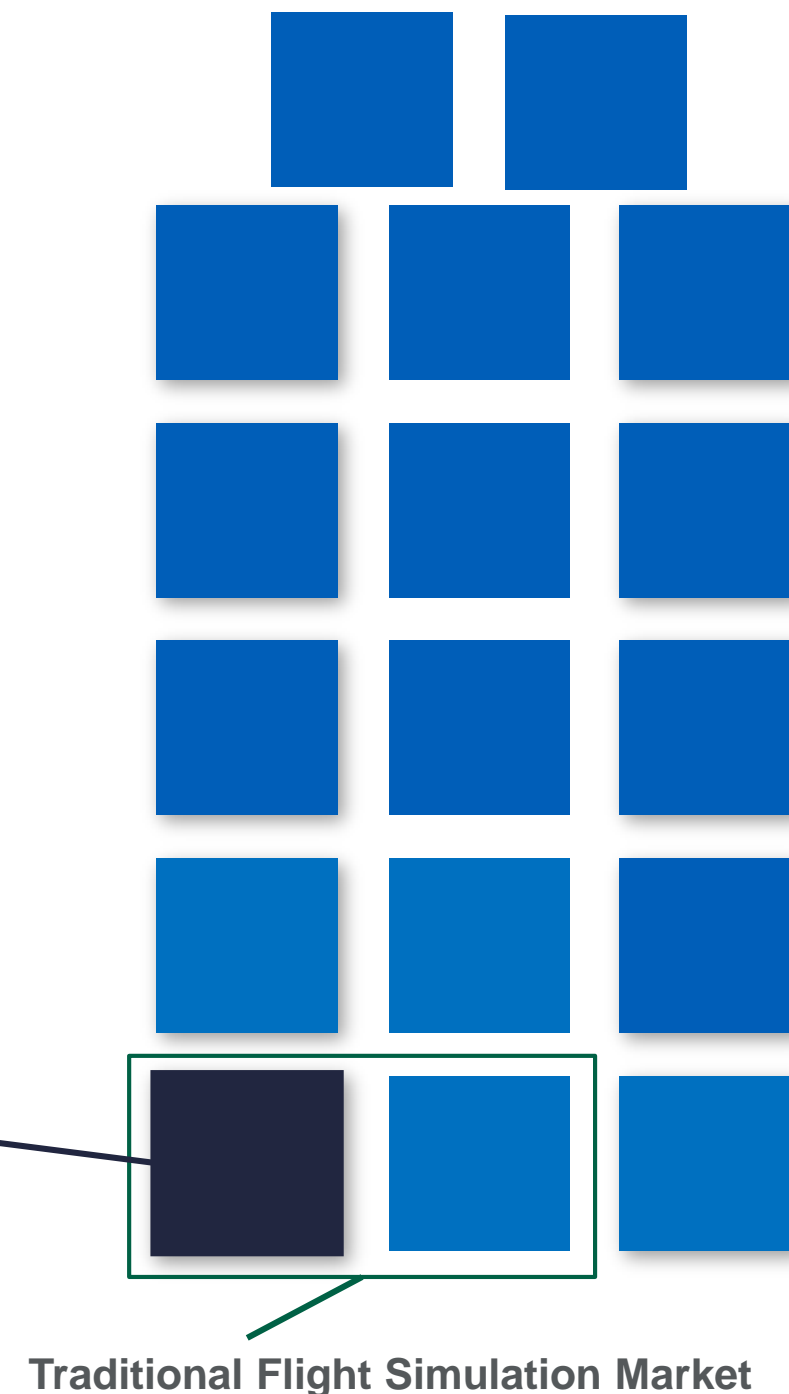
# Headroom in a Large Market



## Training Systems Integration Market

\$17B+

\$1.09B  
CAE D&S



Well positioned to increase share in a \$17B+ market

# Healthcare

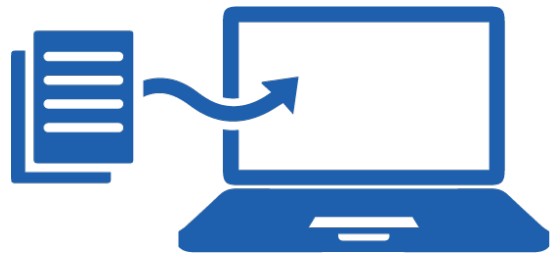


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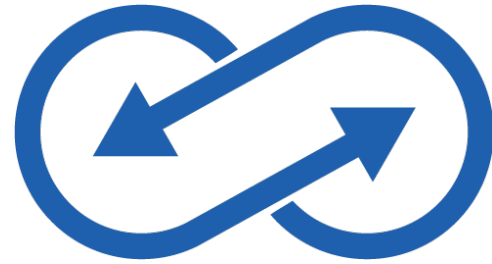




# The case for CAE healthcare



**Digital transformation enables data-driven care and training**



**Synergies with CAE's next generation training solutions**



**Explicit desire to adopt aviation best practices**



**Shift to value-based care aligns prices with patient outcomes**

**Opportunity to lead in a potentially much larger market as quality of care gets incentivized and regulations take hold**

# Market drivers

Increasing use of simulation in healthcare

Digital transformation of healthcare training

Growing emphasis on quality of care and patient safety

Reducing medical errors\* and improving patient outcomes

Limited access to live patients during training

- Students paired with experienced staff
- Limited access to high-risk procedures and rare conditions

Medical technology revolution

Advancements in medical technology are driving the use of simulation by OEMs, pharma and clinicians



\* 3<sup>rd</sup> leading cause of death in USA

# Regulatory shift toward Value-based Care

## US Centers for Medicare and Medicaid Services' *Hospital Acquired Conditions (HAC)*

- Uses quality of care as a performance metric

### 6 Quality Measures

1. Patient Safety Indicators 90 Composite
2. Central line bloodstream infections
3. Catheter-associated urinary infections
4. Surgical site infections
5. Multi-resistant infections
6. Clostridium difficile infections

- 25% lowest performing US hospitals face penalties

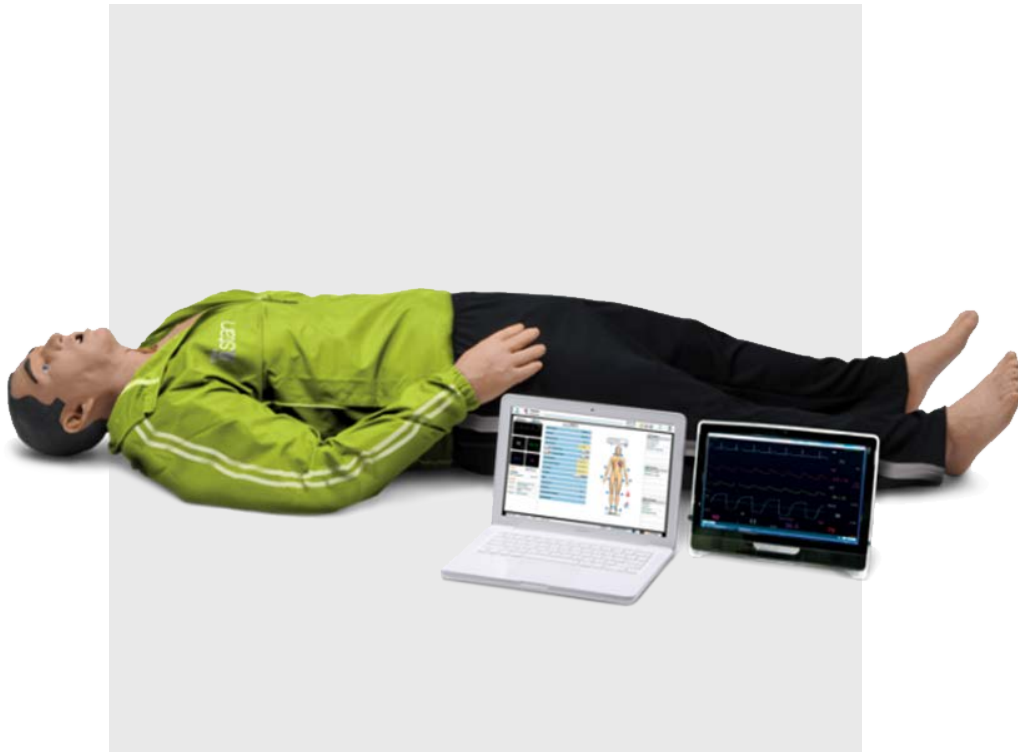
- FY17 = 1% payment cut
- FY18 = 4% payment cut
- FY19 = 6% payment cut

- ▶ In FY17, lowest performing hospitals lost **\$430M USD** in government reimbursements
- ▶ In FY19, lowest performing hospitals will lose **~\$3B USD** in government reimbursements

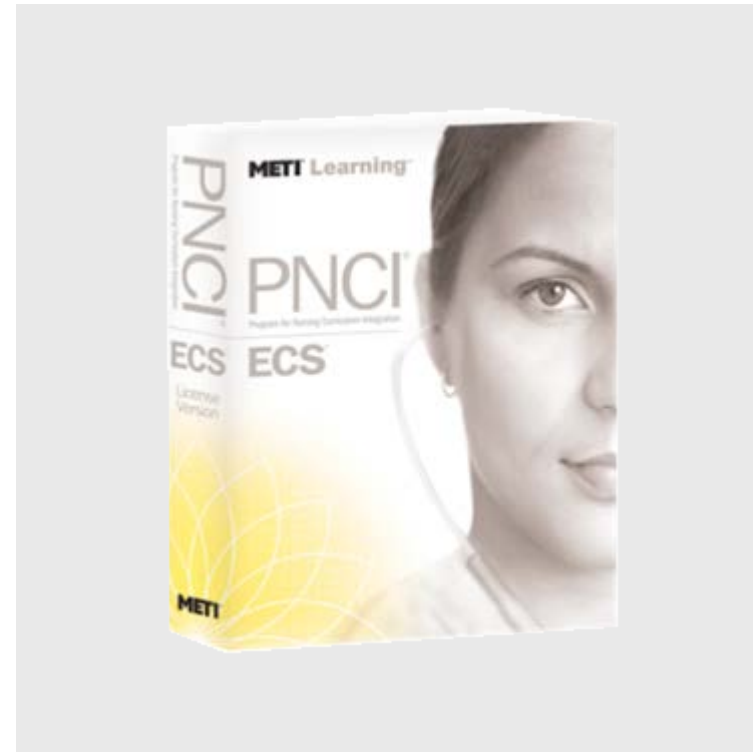
**Value-based Care is driving a greater adoption by US hospitals of simulation-based training to improve the quality of care**



# Broadest portfolio of training solutions



Patient simulators



Courseware



Ultrasound simulators



Surgical simulators



Simulation centre management solutions



# Culture of innovation

CAE Healthcare became the first company to bring a commercial Microsoft HoloLens mixed-reality application to the medical simulation market...



...by using the Microsoft HoloLens, the CAE VimedixAR ultrasound simulator integrates real-time interactive holograms of the human anatomy

# Thought leadership and Innovation

Trusted partner of scientific societies

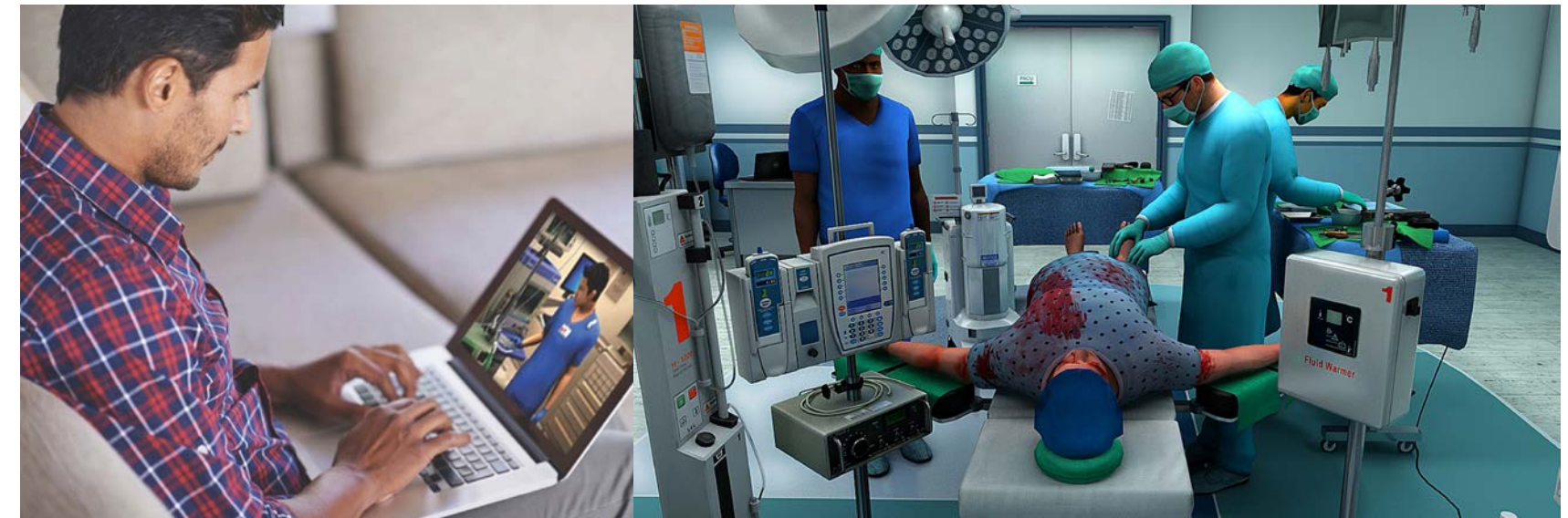


Screen-based simulation for Maintenance of Certification in Anesthesiology (MOCA)

## The Next Generation Training and Certification

Created in collaboration with American Society of Anesthesiologists (ASA) and approved by American Board of Anesthesiology (ABA)

Powered by CAE MÜSE physiology and deployed via ASA Education Center





# Financial highlights and capital priorities



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# Priorities

1

## **Invest in superior and sustainable growth**

Market/customer-led investments in core and close adjacencies with a clear path to market share gains and attractive returns

2

## **Provide current shareholder returns while generating long term growth**

Current shareholder returns commensurate with earnings and cash performance

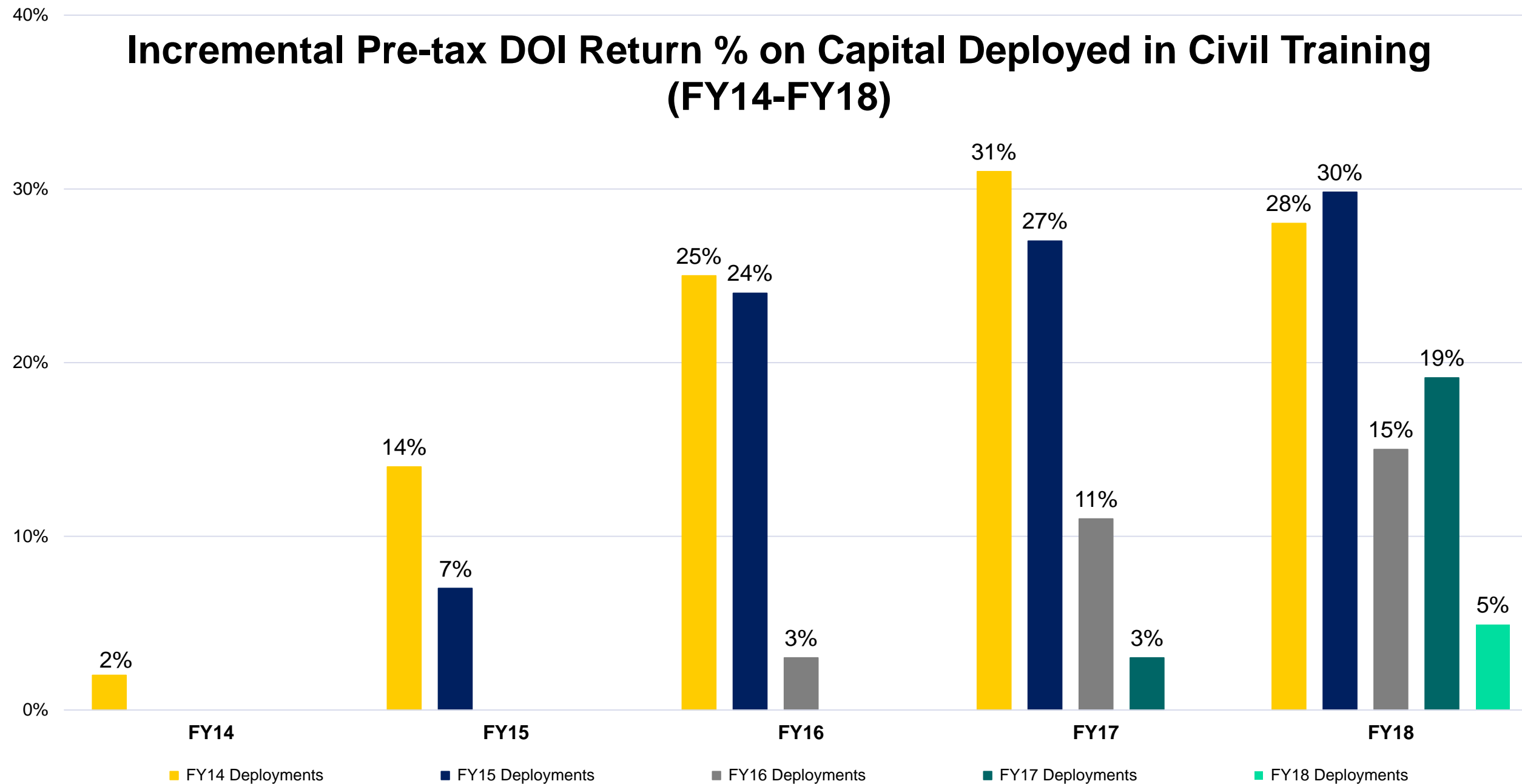
3

## **Maintain a strong balance sheet**

Target leverage ratio of Net Debt-to-Capital of 35-45% to maintain flexibility for growth investment opportunities

# Investment in accretive growth remains a priority given attractive return potential

1



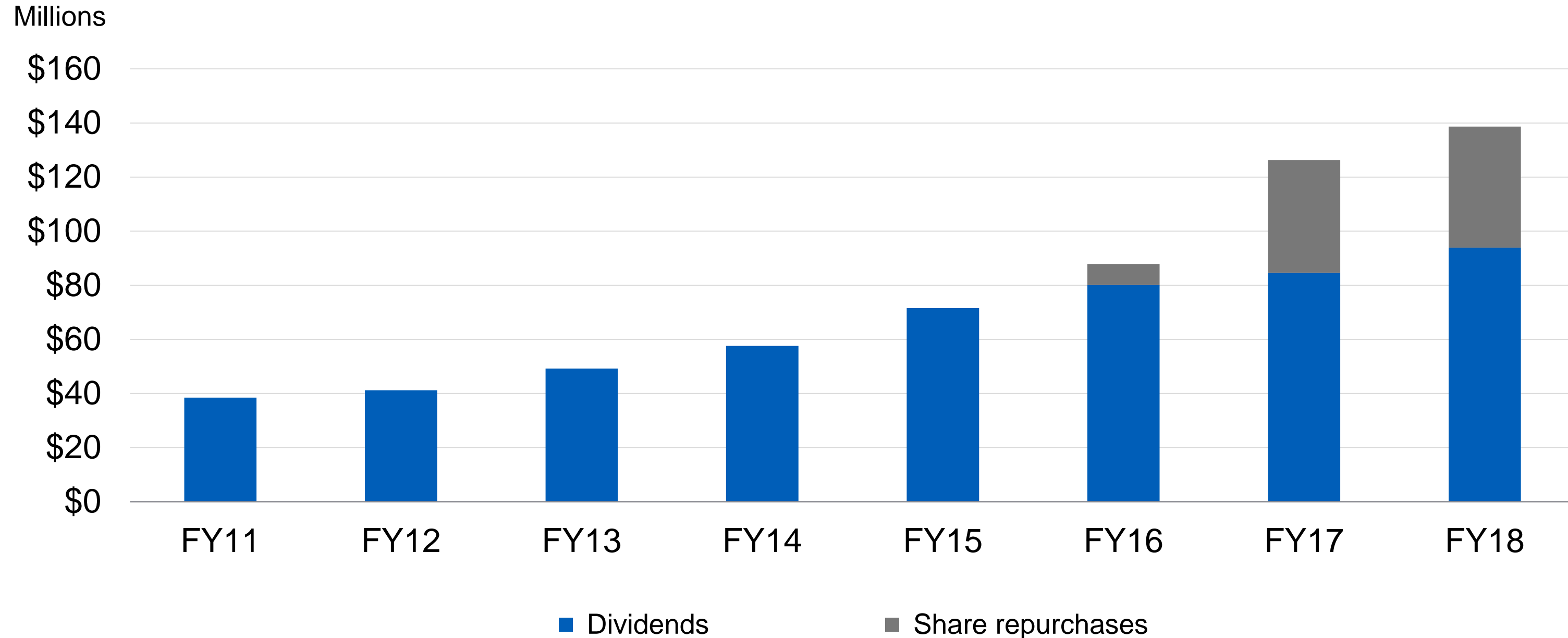
~\$316M capital investment from FY14-FY18 to deploy 47 FFSs within CAE's Civil commercial and business aviation training network

**Growth capital deployed in Civil in the last five years has grown recurring revenue and has been highly accretive**



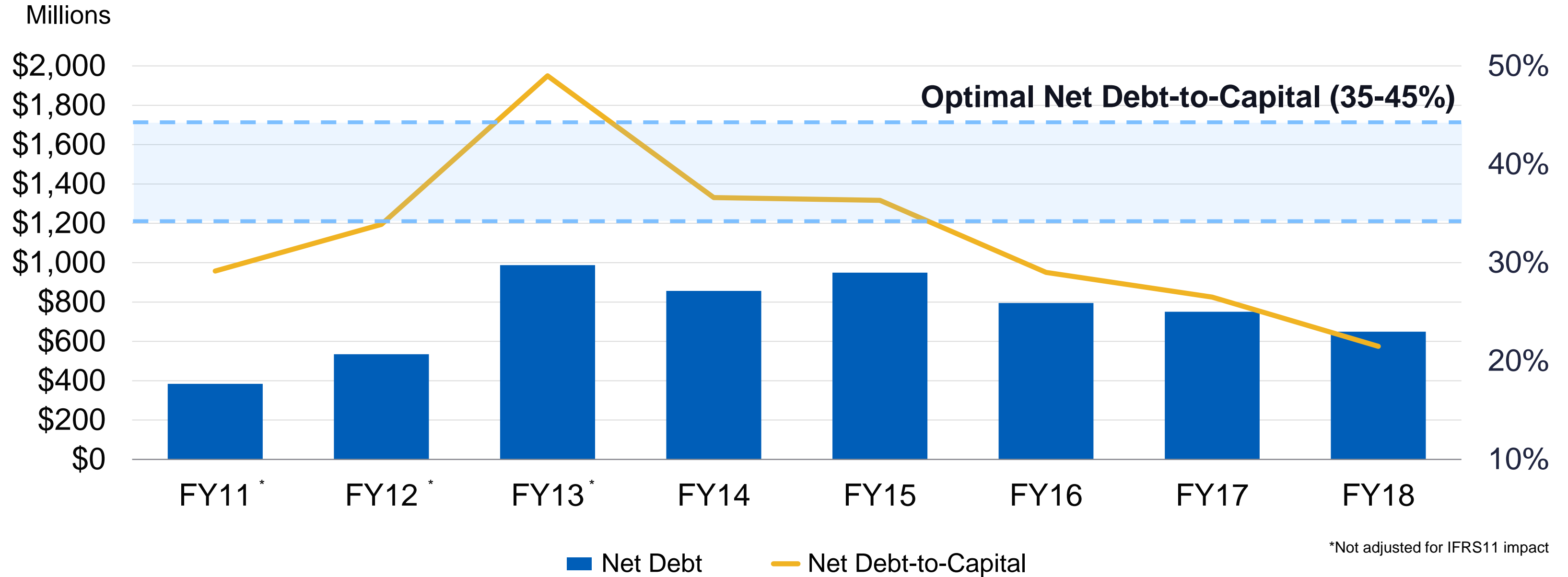
# Current shareholder returns

## Profits returned to shareholders



**CAE prioritizes a balance between long-term capital appreciation and cash returns to shareholders**

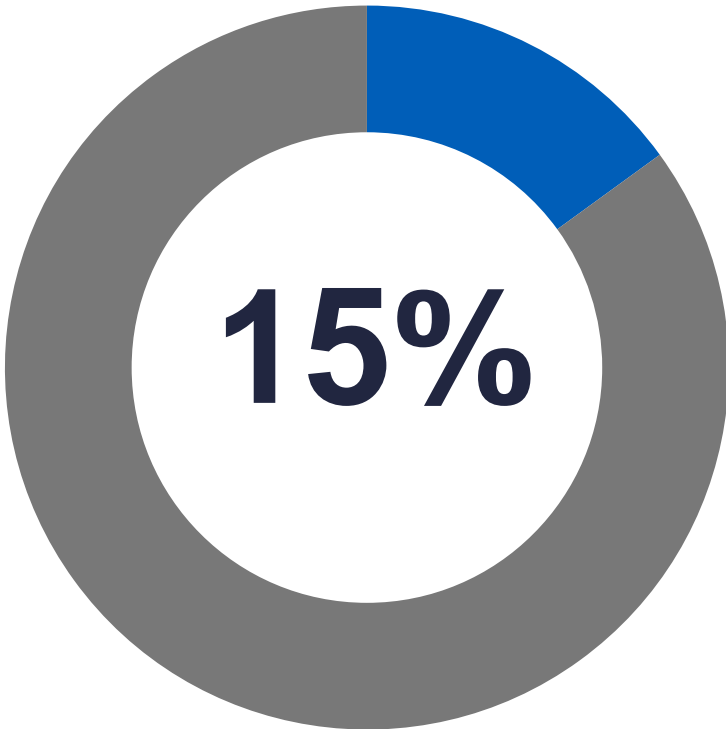
# Strong balance sheet



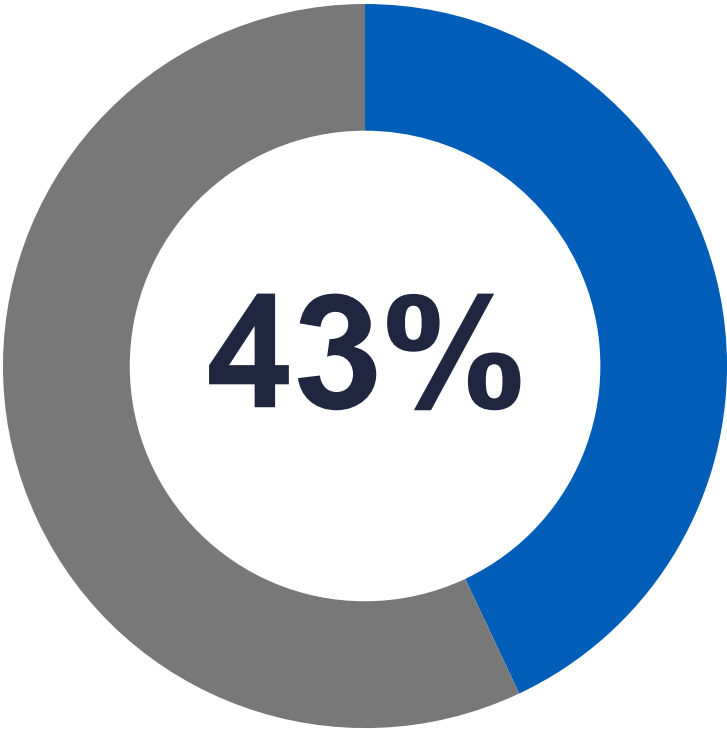
**CAE's strong financial position provides stability and flexibility to pursue accretive growth investments in our core**

# Increased proportion of recurring revenue (services)

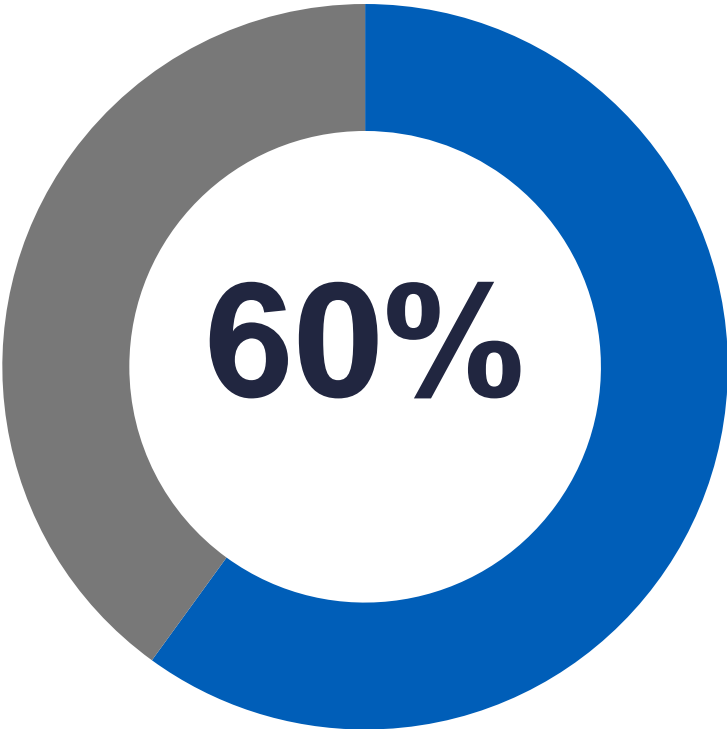
**FY2001**



**FY2008**



**FY2018**

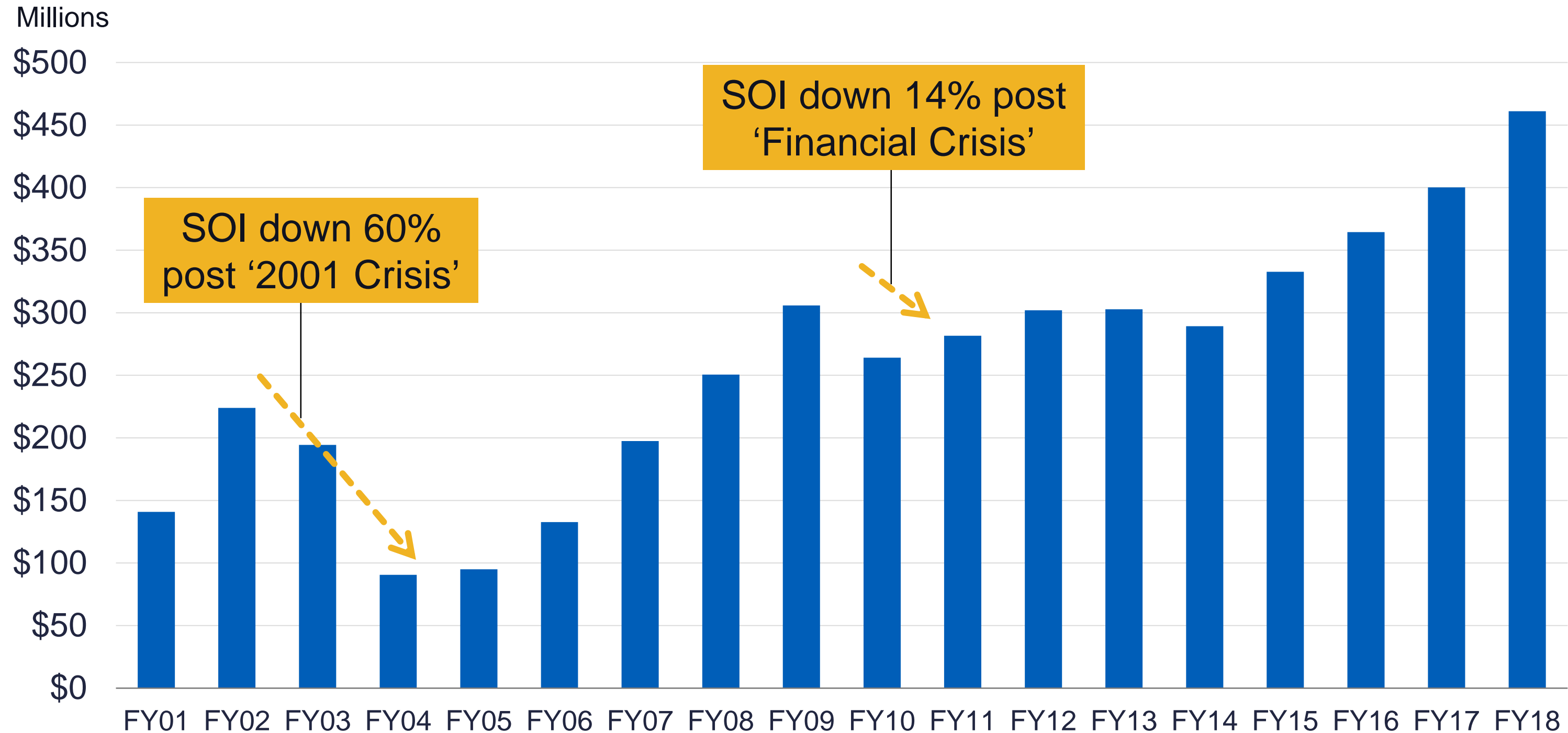


■ Products ■ Services



# A resilient business model

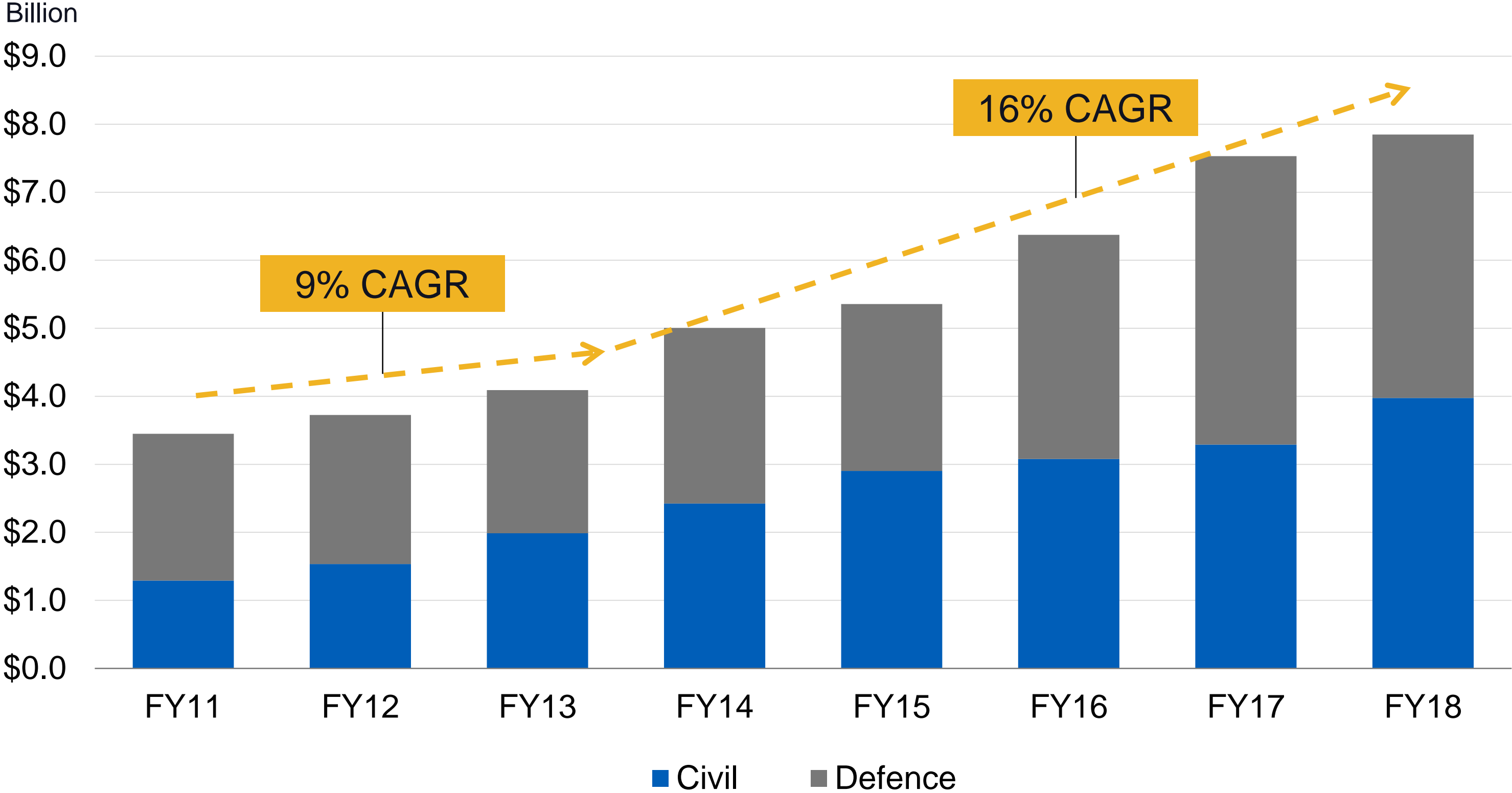
## CAE Consolidated Segment Operating Income (SOI)



FY01-FY10 Canadian GAAP; FY11-FY17 IFRS

# Strong backlog for enhanced visibility

## Total Backlog



# Compelling long term investment thesis

 <p><b>High Degree of Recurring Business</b></p>	<ul style="list-style-type: none"><li>• Services revenue approx. 60% of mix and expected to continue increasing relative to products</li><li>• Long-term contracts in regulated markets</li><li>• Large order backlog</li></ul>	 <p><b>Strong Competitive Moat</b></p>	<ul style="list-style-type: none"><li>• Market leader</li><li>• Unique comprehensive Solutions</li><li>• Unmatched global reach and scale</li><li>• Deep customer intimacy</li></ul>	 <p><b>Headroom in Large Markets</b></p>	<ul style="list-style-type: none"><li>• Large addressable markets in Civil Aviation and Defence</li><li>• Innovation leader in developing Healthcare simulation market</li></ul>
 <p><b>Underlying Secular Tailwinds</b></p>	<ul style="list-style-type: none"><li>• Long-term passenger traffic growth in Civil aviation</li><li>• Increased defence spending and rise in simulation-based training</li><li>• Rising adoption of simulation in Healthcare and potential for regulation</li></ul>	 <p><b>Potential for Superior Returns</b></p>	<ul style="list-style-type: none"><li>• Rising proportion of recurring services which portends lower volatility</li><li>• Potential to grow faster than underlying markets by increasing share in large markets</li></ul>	 <p><b>Culture of Innovation</b></p>	<ul style="list-style-type: none"><li>• Innovation leader in simulation products and training solutions</li><li>• Proven outsourcing models</li></ul>

**CAE's position for sustainable growth inside of large end markets makes it highly attractive from a risk/return standpoint**



# Outlook summary for FY2019

## CIVIL

Continued low double-digit percentage operating income growth

## DEFENCE AND SECURITY

Continued mid to high single-digit percentage operating income growth

## HEALTHCARE

Resumption of double-digit growth

**Continued measured and profitable growth investment mainly in support of and driven by customer training outsourcing opportunities**

**Total capital expenditures of approximately \$250M commensurate with larger scale of CAE and high level of opportunity for market-led investments offering accretive returns and free cash flows**

**Expect to exceed underlying growth of CAE's core markets**

# Appendix



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**Q2 FY19 business highlights****FY19 Q2**

<b>EPS</b>	\$0.23 vs. \$0.20 in prior year*
<b>Revenue</b>	\$743.8M (+20% YoY)
<b>Operating profit</b>	\$98.7M (+12% YoY*)
<b>Free cash flow</b>	\$137.7M compared to \$63.5M to last year
<b>Book-to-sales</b>	1.33x
<b>Total backlog</b>	\$8.67B

\*Q2 FY18 results exclude the impact of the net gain on a strategic transaction related to our Asian joint venture.



# Consolidated financial results

Summary of Consolidated Results <i>(amounts in millions, except per share amounts)</i>	Three months ended September 30	
	2018	2017 Restated*
Revenue	\$ 743.8	\$ 618.2
Gross profit	201.5	181.5
Operating profit	98.7	88.5
<i>As % of revenue</i>	13.3%	14.3%
Net income	63.6	55.1
Net income attributable to equity holders of the Company	60.7	53.3
Basic and Diluted EPS attributable to equity holders of the Company	0.23	0.20

\*FY18 results restated as a result of the adoption of IFRS 15. Q2 FY18 results exclude the impact of the net gain on a strategic transaction related to our Asian joint venture.

# Cash movements

Consolidated Cash Movements (amounts in millions)	Three months ended September 30	
	2018	2017 Restated*
Cash provided by operating activities (before changes in non-cash W/C)	\$ 123.0	\$ 102.4
Changes in non-cash working capital	54.1	(5.3)
Maintenance capex and other assets	(17.2)	(17.2)
Proceeds from the disposal of property, plant and equipment	-	10.8
Net payments to equity accounted investees	(3.6)	(4.0)
Dividends received from equity accounted investees	7.1	-
Dividends paid	(25.7)	(23.2)
Free cash flow	137.7	63.5

\*FY18 results restated as a result of the adoption of IFRS 15.



Our vision is to be the recognized global

**training partner of choice**

to enhance safety, efficiency and readiness.