REMARKS FOR CAE'S THIRD QUARTER FISCAL YEAR 2019

February 8, 2019

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

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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 FY19 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, February 8, 2019 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 highlights of the quarter, and then Sonya will review the detailed financials. I'll come back at the end to talk about our outlook.

We continued to have good momentum with our training strategy in the third quarter, as demonstrated by order intake of $882 million, which gave us a record $9 billion backlog. We concluded the royalty monetization transaction with Bombardier that we announced in November, and we had good cash performance with over $155 million in free cash flow generation. Operating income was lower year over year, which in large part reflects the impact of the five-week work disruption last summer. We were successful during the quarter to accelerate production to mitigate this impact and so, as expected, a disproportionate share of our annual growth outlook will be achieved in the last quarter of the fiscal year. Overall, our performance in the quarter, and year-to-date, supports our full-year outlook.

Looking at **Civil**, customer activity for training solutions remained strong with $587 million of orders, and the Civil backlog reached a new high $4.6 billion. Orders include the recently announced, exclusive 10-year pilot training contract with easyJet and a long-term exclusive training contract with Endeavor Air. We also signed exclusive business aviation pilot training contracts with Icon Aviation and Windsor Jet. Overall training centre utilization remained strong at 75%.

In products, Civil sold 16 full-flight simulators during the quarter, to customers including Nippon Cargo Airlines, Aeroméxico, Lufthansa Aviation Training, and Shanghai Eastern Flight Training Company. We're having an unprecedented year with 50 FFS orders booked in the first nine months and another 14 in the last six weeks. Based on our pipeline, we now expect Civil to book approximately 70 FFS orders for the year, which substantially exceeds the previous record.

On the order front, the Civil book-to-sales ratio for the quarter was 1.28x and for the trailing 12-month period was 1.31x.

In **Defence**, performance for the third quarter was mixed. We had strong revenue growth, driven mainly by a higher level of services activity on contracts that are being integrated and ramped-up, and there were additional timing-related factors that contributed to the lower Defence margin in the quarter.

Defence booked orders for $268 million, including the first increment of an eight-year contract with the U.S. Air Force, worth a total of more than $250 million, to provide comprehensive C-130H aircrew training services. Also, of note, we won contracts to provide simulator upgrades and maintenance support for Germany and Spain’s Eurofighter training program, and with Boeing for upgrades on P-8A Poseidon aircraft simulators. We also booked the next increment of a five-year contract with the U.S. Navy, worth a total of more than $160 million, to provide primary and advanced virtual instruction services for the Chief of Naval Air Training program. In addition, under a U.S. foreign military sale program the U.S. Navy awarded us a contract for maintenance and sustainment services for the Royal Australian Navy’s MH-60R helicopter training systems. The Defence book-to-sales ratio was 0.81x for the quarter and 1.03x for the last 12 months.

And finally, in **Healthcare**, we continued to adapt and ramp-up our salesforce to pursue the largest segments of the healthcare simulation market, like nursing, and we continued to release new products to stimulate demand. Our latest release is CAE Luna, an innovative infant simulator designed to fulfill clinical training requirements for neonatal and infant care. As well, we released CAE Vimedix 2.0 for ultrasound simulation, which features new educational content and compatibility with our latest augmented reality add-on modules.

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?

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

Thank you, Marc, and good afternoon everyone.

Consolidated **revenue** for the third quarter was $816.3 million, and quarterly net income was $77.6 million, or 29 cents per share. This compares to 38 cents in the third quarter last year, excluding the gain of approximately 15 cents per share attributable to the U.S. tax reform and fair valuation of CAE's prior investment position in the Asian Aviation Centre of Excellence.

Income taxes this quarter were $14.2 million, representing an effective tax rate of 15%, compared to a negative effective tax rate of 9% for the third quarter last year. The negative tax rate last year was mainly related to U.S. Tax Reform, while the tax rate this quarter reflects the positive impact of tax audits in Canada and a change in the mix of income from various jurisdictions.

Free cash flow improved in the third quarter, reaching $155 million compared to $146 million last year. The increase in free cash flow year-over-year results mainly from greater efficiency in our non-cash working capital accounts. We had improved collections in the quarter, improving inventory efficiency and increased deposits on contracts. Our positive free cash flow generation in the quarter enabled us to fund the US $155 million payment for the closing of the royalty monetization transaction with cash on hand and without additional borrowing.

Additional uses of cash in Q3 included funding capital expenditures for $61.6 million, mainly for growth, and we distributed $25.5 million in cash dividends. We used another $49.1 million to repurchase stock at a weighted average price of $25.54 per common share under the NCIB program, for which CAE's Board of Directors just approved its renewal.

Our **financial position** continued to be solid with net debt of $985.7 million at the end of the quarter for a net debt-to-total capital ratio of 29.4%. During the quarter, we entered an agreement to issue US $550 million senior unsecured notes to fund our acquisition of Bombardier’s Business Aircraft Training business and to refinance some of our existing debt and recent term loans. We’re very pleased with the market’s receptivity to our offering, with participation including 19 large institutional investors in the U.S. and Canada. The notes consist of several U.S. dollar denominated tranches with fixed rates ranging from 4.45 to 4.90 percent annually and with maturities ranging from 10 to 15 years.

Return on capital employed was 11.7% this quarter, compared to 12.8% last quarter and 11.9% in the third quarter last year. Part of the decrease this quarter results from the monetization payment we just made. We remain on track to our 13% ROCE target by our fiscal year 2022.

Now looking at our segmented performance...

In **Civil**, third quarter revenue was down 15% year over year to $458.4 million and operating income was down 24% to $87.2 million, for a margin of 19.0%, excluding the net AACE gain last year. Civil training performance remained strong in the quarter, with double-digit top and bottom line growth and healthy margins. The overall decrease in revenue and operating income for Civil this quarter compared to Q3 last year reflects the timing impacts we expected from the adoption of IFRS 15, as it relates to simulator product deliveries, and the five-week work interruption last summer. Last year, peak simulator deliveries were in the third quarter, so this made for an especially tough comp. This year, peak simulator deliveries will be in the fourth quarter, amounting to approximately 40% of our expected annual total of 56 Civil simulator deliveries.

In **Defence**, revenue was up 27% year over year in the third quarter to $330.2 million, while operating income was down 17% to $25.2 million, for an operating margin of 7.6%. Revenue growth was driven mainly by a higher level of services activity, including contracts under our recently acquired Alpha Omega Change Engineering business, and the U.S. Navy Chief of Naval Air Training contract. These services programs are in the early stages of profitability ramp-up and are still being integrated, so their contribution to operating income was nominal in the quarter. We had other timing related factors in the quarter that contributed to the lower Defence operating income and margins, including higher R&D expenses related to new development programs, and delays in some higher margin programs that would normally help offset the R&D effort. These included the Canadian Fixed-Wing Search and Rescue program and the UAE Naval Training Centre. The delays resulted in part from the work disruption we had last summer as well as delays in receiving customer and OEM inputs that we require for these programs to advance. These are timing related factors, and we have already taken measures, to include a re-baselining of milestones with the customers, to mitigate these impacts in the coming quarters.

And, in **Healthcare**, third quarter revenue was flat compared to Q3 last year at $27.7 million. Healthcare segment operating income was $0.6 million in the quarter, down from $1.5 million in Q3 of last year because of a higher investment in SG&A expenses to support the ongoing market repositioning and recent product launches.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya;

We continue to have good success with our training strategy, which is supported by solid secular growth trends, and we're succeeding to grow our share within large and growing markets.

We're highly positive about our prospects in **Civil**, and as a global leader in aviation training, CAE is a beneficiary of the long-term demand drivers that we see. Air travel continues to grow above the historical average rate of about 4%, and airlines have been increasing the number of city pairs to cater to passenger demand. The result has been, and continues to be, the ongoing expansion of the global in-service fleet of aircraft, which is operated by flight crews, who by regulation, must train on a simulator on a regular basis.

In addition, and highly relevant to CAE, is that we forecast demand for approximately 300,000 new pilots over the next decade to support this growth and to replace the large number of pilots who will reach retirement age. We believe there's no better industry partner than CAE to source, recruit, train and support pilots and crew members over the course of their careers. We offer the industry's most comprehensive 'cadet-to-captain' training solutions and we do this on a global scale.

I continue to be highly pleased with our progress to form enduring partnerships in training with our customers. In South America last week, we acquired Avianca's share of our training joint venture as part of an exclusive 15-year training outsourcing agreement, and we continue to cultivate a strong pipeline of outsourcing prospects that are at various stages of progress.

Last quarter we announced that we will acquire Bombardier's Business Aircraft Training business, and we're making good progress on this front with the transaction having now cleared regulatory hurdles under U.S. antitrust law and, pending the receipt of the remaining regulatory approvals and third-party consents, we now expect to conclude the acquisition by the end of March, which is earlier than we previously indicated.

Civil training remains the biggest growth vector for our company, and our success there continues to augment the recurring revenue and profit profile of CAE's business. Simulation products represent about a third of our Civil business, and it's noteworthy that we generated recurring revenues there too by providing ongoing support for regular updates and upgrades to the largest commercial aircraft simulator installed base in the world. And we continue to add to CAE's global customer installed base. As I mentioned earlier, we expect to sell more full-flight simulators this year than ever before, which is testament to the strength of our competitive position and the positive underlying market conditions.

In **Defence**, we're working our way through a record order backlog. The timing related issues that affected operating income in the quarter are temporary and are already being addressed with the appropriate measures. We expect this to be mitigated in the coming quarters.

We're continuing to pursue a large market, with over $4.6B of defence proposals in the hands of customers pending decisions. Like Civil aviation, defence forces around the world are facing the challenge of training and retaining sufficient numbers of critical personnel—specifically pilots. As a result, we're seeing a greater move toward the outsourcing of defence training systems to industry partners like CAE, and we expect to continue winning our fair share by building on our successes as a Training Systems Integrator.

In addition, we invest in the development and acquisition of new capabilities that we can leverage to bolster our prospects in our addressable market over the long-term. Our experience as the lead training systems integrator for the UAE Naval Training Centre will undoubtedly enhance the value CAE can contribute to other naval programs, to include the new Royal Canadian Navy's Canadian Surface Combatant Program, for which CAE is part of the team selected as the preferred bidder. As well, the acquisition of AOCE gives us access to new platforms like the F-15, F-16 and F-22 and to an expanded market of higher security programs. All these avenues present potentially sizable opportunities for CAE over the long term.

And finally, in **Healthcare**, we're now part way through our market repositioning to pursue the biggest current opportunities like nursing. Although it has taken longer to get to a double-digit growth cadence, we remain confident. Our new products are being well received by customers and we continue to make progress ramping-up our salesforce, particularly in North America where we have made some significant recent additions. We remain encouraged that there's a large market opportunity for CAE in healthcare and that the market is poised for long term growth. The International Meeting on Simulation in Healthcare, or IMSH, took place last week in San Antonio, Texas. It's the largest and most important event of its kind in the healthcare simulation industry. It saw the highest participation in its history, with a record number of exhibitors and participants, including a large delegation of hospital representatives. This is a tangible sign of the increased focus in the US on the quality of patient care, and CAE Healthcare was front and center at IMSH as the commercial and thought leader in this field.

In summary, we have good momentum in all our markets and we are on track to deliver on CAE's growth outlook for the year.

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.