REMINDERS FOR CAE’S THIRD QUARTER FISCAL YEAR 2020

February 7, 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 FY20 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, February 7, 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 review the detailed financials. I'll come back at the end to talk about our outlook.

CAE had strong growth in the third quarter with revenue up 13 percent, segment operating income up 37 percent, and we secured $1.1 billion of orders, for a 1.20 times book-to-sales ratio. CAE’s total backlog at the end of the quarter was $9.4 billion.

Our performance continued to be led by Civil, which delivered strong operating income growth and we continued to have good momentum in the market with our innovative and comprehensive training solutions. Our customers continue to place their trust in CAE as their training partner of choice.
Defence had good operating income growth in the quarter, which supports our view for a stronger second half. Also encouraging is the 1.11 times book-to-sales ratio for the quarter. And in Healthcare, we had double-digit revenue growth and we continued to bring highly innovative solutions to market to help make healthcare safer.

Looking more closely at Civil, we booked $706 million of orders for training solutions in Q3, including a long-term pilot training agreement with JetSmart Airlines, and 17 full-flight simulators, for a total of 37 for the first nine months of the year. The Civil backlog at the end of the quarter was a record $5.3 billion.
Remarks for CAE’s Third Quarter Fiscal Year 2020 Results
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To address the growing global demand for new pilots, we launched new Multi-Crew Pilot License programs with easyJet and Volotea and a new cadet pilot training program with Jazz Aviation and Seneca School of Aviation called, Jazz Approach. CAE is working together with our industry partners to create a pipeline of highly-qualified aviation professionals to support our customers’ growing needs for critical personnel.

In business aviation, we signed a range of pilot training contracts with business jet operators including JetSuite, Solairus Aviation, and TAG Aviation Holdings.

Overall training centre utilization was 70% this quarter on our network of 303 full-flight simulators.
In **Defence**, we booked orders for $367 million, including contracts to provide the German Navy with a comprehensive training solution for the NH90 Sea Lion helicopter and to upgrade and modify the German Army's NH-90 full-mission simulators. These wins underscore CAE’s strong position on this helicopter platform.

Other notable contracts include the next increment of a multi-year contract with the U.S. Air Force to provide comprehensive C-130H aircrew training services. Defence also received orders to continue providing long-term maintenance and support services for Rotorsim, a joint venture between CAE and Leonardo, and a contract for Abrams tank maintenance trainers for the U.S. Army.
Defence also launched the CAE TRAX Academy at the recent I/ITSEC conference, the world’s largest military training and simulation event. This is an advanced training continuum that delivers faster and more efficient military student pilot training. Customer response has already been highly positive to this new training solution, which brings together our latest innovations in virtual reality and advanced analytics.

In Healthcare, we also continued to innovate by developing custom training solutions for Edwards Lifesciences to enhance physician training, and we delivered a custom cardiovascular simulation application to Cardinal Health. Together with the American Society of Anesthesiologists, we launched a new Anesthesia SimSTAT module, which is a course approved for Maintenance of Certification in Anesthesiology credits. As well, Healthcare was awarded an EMS World Innovation Award for CAE AresAR, the Microsoft HoloLens application for our emergency care manikin.
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?
Thank you, Marc, and good afternoon everyone.

Consolidated **revenue** for the third quarter was $923.5 million, up 13% compared to $816.3 million in the third quarter last year, and **segment operating income before specific items** was $155.3 million, up 37% from $113.0 million last year. Quarterly **net income before specific items** was $98.0 million, or 37 cents per share, which is 28% higher than the 29 cents we reported in the third quarter last year.

**Net finance expense** for the third quarter was $36.7 million, up from $19.3 million in the third quarter of fiscal 2019. We had higher interest resulting from the issuance of unsecured senior notes since the fourth quarter last year and higher interest on lease liabilities because of the adoption of IFRS 16.
Income taxes this quarter were $18.4 million, representing an effective tax rate of 16%, which is up from 15% for the third quarter last year. The higher tax rate was mainly due to the impacts of tax audits in Canada last year, partially offset by a change in the mix of income from various jurisdictions.

We had good Free cash flow of $275.3 million in the quarter compared to $155.1 million last year. The increase results mainly from a lower investment in non-cash working capital and higher cash provided by operating activities. This is consistent with our expectations for a significant reversal of investment in non-cash working capital accounts in the second half of the fiscal year.
Uses of cash in Q3 included funding **capital expenditures** for $51.6 million, mainly for growth of our global training network to deliver on the long-term exclusive training contracts in our backlog. We continue to expect total capital expenditures for the year to be about 10-15% higher than in the prior year. Other uses of cash include the distribution of $28.3 million in cash **dividends**, and we used another $12.6 million to repurchase stock at a weighted average price of $32.69 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 a **net debt** of $2.3 billion at the end of the quarter for a net debt-to-capital ratio of 48.5%. Since we adopted IFRS 16, effective April 1, 2019, net debt now also includes obligations under lease contracts, which were previously accounted for as operating leases and therefore not included in debt. Excluding this impact, the net debt-to-capital ratio would have been 44.9% this quarter. We continue to expect to be at the lower end of our target leverage range—which is 35 to 45 percent on a pre-IFRS basis—within the next 18 to 30 months.
**Return on capital employed**, before specific items and excluding the impacts of IFRS 16, was 11.6% this quarter, compared to 11.7% last quarter and 11.7% last year.

Now looking at our segmented performance...

**In Civil**, we had double-digit organic growth in the third quarter, and in addition we benefited from the integration of the Bombardier BAT business, which also performed very well. Third quarter revenue was up 22% year over year to $558.1 million on 12 full-flight simulator deliveries and good demand for our training services with our expanded capacity. Operating income before specific items was up 42% to $123.4 million, for a margin of 22.1%. On the order front, the Civil book-to-sales ratio for the quarter was 1.27 times and for the trailing 12-month period it was 1.44 times.
In **Defence**, third quarter revenue of $332.4 million was up 1% over Q3 last year, while operating income was up 24% to $31.3 million, for an operating margin of 9.4%. We incurred some reorganizational costs this quarter to adjust our global structure for greater operational and commercial excellence. Before these costs, Defence segment operating income for the quarter would have been $33.2 million, for an operating margin of 10.0%, which represents a 32% increase compared to the third quarter last year. Defence benefited from a more favourable program mix in the quarter as well as some conversion of our active bid pipeline to orders.

The Defence book-to-sales ratio was higher this quarter at 1.11 times and it was 0.88 times for the last 12 months.
Lastly, in **Healthcare**, we continued to see higher sales momentum with third quarter revenue of $33.0 million, up 19% compared to Q3 last year. Segment operating income was stable at $0.6 million reflecting a higher investment in R&D and SG&A to develop and support a larger future business.

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

Thanks, Sonya;

We continue to have a positive outlook for CAE for the balance of the year and over the long-term.

In Civil, the industry expects approximately four percent long-term passenger traffic growth and this assumption continues to underlie our investment thesis. Higher demand for air travel drives an expanding global in-service fleet of aircraft and a significant need to attract and create new pilots to meet industry needs. As a company, we’re focused on providing comprehensive solutions to our customers to recruit, develop and maintain these highly critical personnel. CAE has the privilege and responsibility of being the world leader in aviation training and we have very good momentum in a large addressable market.
As we look ahead, we expect more opportunities to materialize from a large pipeline of long-term training partnerships. We also continue to expect another good year for full-flight simulator sales and to maintain our leading share of the market.

For Civil overall, we continue to expect operating income growth closer to 30-percent for the year on strong demand for our training solutions.

Since the start of January, we’ve received orders for seven more full-flight simulators, including six for the B737MAX. Boeing announced in early January that it would recommend simulator training for the MAX, which if confirmed by the aviation authorities, would indeed drive a higher rate of demand.
It’s our practice to respect the timelines of the OEMs and aviation authorities and not get out ahead of them—especially when it involves aircraft certifications or investigations. So, I’ll refrain from speculating on what the training regulations might entail for the MAX’s re-entry into service, and instead, I’ll summarize what has been CAE’s position so far on the aircraft type.

To date, we’ve sold a total of 56 MAX full-flight simulators to airlines, which represents the vast majority of all sales to airlines of the simulator type. The fact is, the majority of airlines that have ordered the MAX aircraft are indeed, CAE customers. So far, of the 56 simulators ordered, we’ve delivered 22 as of the end of December, and in addition, we’ve already deployed three to CAE’s own training network—and we’re in the process of deploying more. We mentioned on our last quarterly call that we had begun to build additional inventory of MAX simulators in anticipation of pent-up demand, and this continues to be our practice in view of the demand we expect.
The most essential point in all of this, is that we have our customers covered as their training partner of choice, and they recognize the support we bring to their most critical operations. We have the capacity and the capability to respond to our customers’ training needs, whatever the requirements, and we look forward to the successful and safe re-entry into service of the aircraft.

Now turning to Defence, we continue to expect a stronger second half, which is a view supported by a healthy book-to-sales ratio in the quarter and a robust pipeline. We continue to expect modest growth for the year, taking into account our year-to-date performance, and our current expectations for reaching milestones on programs in backlog. We also expect to conclude several more contracts in the current fourth quarter, and although we don’t control the timing of government decision-making, I take confidence in knowing that we’ve already been down-selected for most of them.
Our long-term prospects in the large addressable defence market remain positive and I’m encouraged by approximately $3.8 billion of defence proposals we have written and that are currently in the hands of customers pending decision.

Finally, Todd Probert officially became our new Group President, Defence & Security on January 27th. As with his predecessor, Todd is based in Washington, D.C., where he’s very well connected within the U.S. defence establishment and has a clear view of the military’s future operational and mission preparedness requirements. He’s a proven business leader and brings an excellent defence industry profile to CAE. He has a passion for artificial intelligence, machine learning and new development models, and his interests, competencies and background are very well aligned with our emphasis on digital innovation. I’m very pleased to welcome a leader of his calibre to our executive team, and I expect he’ll bring significant value to our Company and customers.
And lastly, in Healthcare, I’m encouraged by the response CAE is getting from the market. We expect to continue building on our current sales momentum with our highly innovative solutions. The increased imperative on patient safety was in full evidence at the International Meeting on Simulation in Healthcare, which took place last month in San Diego. The event, which is the world’s largest conference dedicated to healthcare simulation learning, research and scholarship was an excellent showcase for CAE Healthcare and our latest solutions. We continue to expect double-digit percentage growth in Healthcare this year.

In summary, our overall outlook for CAE this fiscal year is unchanged. We benefit from a strong position and secular tailwinds in each of our core markets, and we look forward to superior top and bottom-line growth in the years ahead.

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.