CAE

REMARKS FOR CAE'S SECOND-QUARTER FISCAL YEAR 2015

November 12, 2014

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stephane Lefebvre, 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 need to read the following:

"Certain statements made during this conference, including, but not limited to, statements that are not historical facts, are forward-looking and are subject to important risks, uncertainties and assumptions. These include statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our vision, strategies, market trends and outlook, future revenues, capital spending, expansions and new initiatives, financial obligations and expected sales. 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, listeners are cautioned not to place undue reliance on these forward-looking statements as there is a risk that they may not be accurate. 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 presentation are expressly qualified by this cautionary statement.

You will find more information about the risks and uncertainties associated with our business in our second quarter fiscal 2015 MD&A and in annual information form for the year ended March 31, 2014. These documents have been filed with the Canadian securities commissions and are available on our website (www.cae.com) and on SEDAR (www.sedar.com). They have also been filed with the U.S. Securities and Exchange Commission under Form 40-F and are available on EDGAR (www.sec.gov). Forward-looking statements in this conference represent our expectations as of today, November 12, 2014, and, accordingly, are subject to change after this date."

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Stephane Lefebvre, our Chief Financial Officer.

After comments from Marc and Stephane, we will take questions from financial analysts and institutional investors. Following the conclusion of that Q&A period we will open the call to 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 recap some of the highlights of the quarter and then Stephane will provide a more detailed summary of our financial results. I'll come back at the end of the call to discuss our view of the way forward.

Our overall performance for the second quarter was in line with the outlook we shared at the start of the fiscal year. In Civil, we had growth year over year, during the typically slower summer period, and we reached some important strategic milestones with our comprehensive solutions, which underscore CAE's market leadership. In Defence, we continued to be resilient with top line and operating income growth, and we booked a range of orders on long-term contracts and from our installed base of customers. And in Healthcare, we made some good progress with strong growth in the quarter.

Looking more specifically at each business…

In **Civil**, we're proud to have signed a joint venture agreement with Japan Airlines to provide flight crew training services across Northeast Asia. Starting in April of next year, Japan Airlines, one of the world's preeminent airlines, will conduct all its training at the CAE-JAL joint venture. This marks an important step forward in the application of CAE's solutions strategy.

Other notable deals we signed during the quarter involve a range of Civil solutions agreements with an expected value of approximately $300 million. We secured a long-term contract extension with LATAM Airlines in South America, which includes training for the new Airbus A350. We signed with Air Algérie in Africa to train 200 new cadets over the next four years to address the airline's need for pilots in a high growth market. And, we expanded our relationship with Jet Airways in India, with the airline consolidating its training activity into CAE's Bangalore training centre. The Civil book-to-sales ratio for the quarter was 1.01x and for the last 12 months it was 1.11x. Our Civil backlog was $2.4 billion, which does not yet include the joint venture with Japan Airlines.

In **Defence**, we continued to expand our base of long-term, recurring services contracts and our worldwide customer fleet of flight training devices with new deployments, contract extensions and technology upgrades. The U.S. Air Force exercised options on existing contracts to provide training services for the Predator/Reaper remotely piloted vehicles, and the KC-135 tanker aircraft, while the U.S. Navy did the same for its T-44C aircraft. We also received contracts to upgrade simulators for the German Air Force's Eurofighter, the Royal Canadian Air Force's CP-140 Aurora, the U.S. Air Force's C5 Galaxy, and the Royal Australian Air Force's Orion aircraft. As well, during the quarter, we won orders for a UH-72A Lakota helicopter simulator for the U.S. Army, and a C130 Fuselage trainer for the U.S. Air Force Reserve Command. The latter contract includes a suite of high-fidelity trauma patient simulators from CAE Healthcare, to create an immersive aeromedical evacuation training environment. In total, we received $167 million in Defence orders this quarter, representing a book-to-sales ratio of 0.80x. The ratio for the last 12 months was 0.89x and our second quarter Defence backlog was $2.4 billion.

Looking now at **Healthcare,** we saw increased volume in our second quarter as our new products and sales channels began contributing to results. We were successful across a number of healthcare markets involving sales of our patient and ultrasound simulators, audiovisual solutions, courseware, and training. In defence, our customers included the U.S. Navy and U.S. Air Force Reserve Command as well as a military training centre in Saudi Arabia. In nursing and health science education, we sold patient simulators and multi-year services to the Southeast Technical Institute in the United States. And in the professional and OEM segment, we developed a simulation-based training solution for physicians using the Impella® heart pump in partnership with medical device manufacturer, Abiomed.

With that, I will now turn the call over to Stephane.

Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the quarter was $529.4 million and net income attributable to equity holders from continuing operations was $42.0 million or 16 cents per share.

Our income tax rate this quarter was higher than in previous quarters at 24%. This compares to 17% for the same quarter last year and 21% in the first quarter this year. The higher rate is mainly due to differences in the mix of income from the various jurisdictions in which we operate.

Free cash flow from continuing operations was negative $17.1 million for the second quarter. The increase over last quarter was mainly due to a lower investment in non-cash working capital, partially offset by lower cash provided by continuing operating activities. The decrease from the second quarter last year was mainly due to unfavourable changes in non-cash working capital. Historically, our free cash flow is higher in the second half of the fiscal year and we expect that to be the case again this year with improvements in both working capital and higher operating cash flow.

Capital expenditures were $35.8 million this quarter, with growth investments representing 51% of the total and maintenance capital expenditures the balance.

Net debt was $998.5 million as at September 30, 2014, compared to $901.6 million as at June 30, 2014. Our net debt-to-capital ratio remained within our objective range at 39.9%.

Now looking at our segmented financial performance...

For **Civil**, second quarter revenue was $296 million, up by 10% year over year and operating income was up 16% year over year to $45.4 million for an operating margin of 15.3%. We had a tax gain in the quarter in one of our JVs as well as some non-recurring expenses, the net effect of which brings the Civil margin to about 14%, which is still better than last year on a normalized basis. Training utilization was 62% in the quarter, which reflects the impact of seasonality on training demand during the summer months.

In **Defence**, we continued to be resilient with second quarter revenue up 9% year over year at $209.1 million and operating income up 2% at $25.6 million for an operating margin of 12.2%.

And finally, in **Healthcare**, revenue for the quarter was up 37% year over year to $24.3 million and operating income was $1.8 million for a margin of 7.4%. This compares to $400 thousand last year and a margin of 2.2%. The higher margin results from our ability to absorb SG&A and development costs with higher volume, which underscores the healthy gross margins on our Healthcare product lines.

With that, I will turn the call back over to Marc.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

As we look ahead to the second half of the fiscal year, we continue to expect a stronger performance across all business segments.

We remain highly encouraged by the Civil aviation market and our opportunities for growth. Market fundamentals remain robust, with commercial OEM aircraft backlogs and delivery rates at historical levels, and global passenger traffic continuing to grow at a healthy pace – it was up by nearly 6 percent for the first nine months of the year. In business aviation, the market is showing signs that a broader recovery may be underway. According to the U.S. Federal Aviation Administration, the number of business jet flights has increased by 3% over the last 12 months, and has increased consecutively, every month for the last year and a half. In September, business jet operations were up 5.7%.

All of these factors bode well for our Civil business and we continue to expect better results in the last two quarters of the year as we benefit from the usual seasonal pick up. For the year, we're still expecting low double-digit revenue growth and even higher growth in operating income. Our pipeline remains strong and building on the 13 full-flight simulator sales and training deals we've announced so far; we reiterate our outlook for about 40 full-flight simulator sales for the year. We also expect to continue booking training and services contracts at a rate that is supportive of a positive book-to-sales ratio for Civil overall.

In **Defence,** we also continue to expect a stronger second half of the year. We have a solid backlog and a robust bid pipeline which gives us the confidence to maintain our view that Defence will remain resilient for the year overall. The value proposition of simulation-based training together with our platform and geographic coverage, gives us the confidence that we will grow in defence over the longer term.

Finally, in **Healthcare**, we have good momentum with our new products and sales channels and we expect to do even better in the second half as we achieve greater scale. We continue to be encouraged by our prospects and we expect to benefit from a larger market opportunity over the long term.

Thank you for your attention. We are now ready to take your questions.

Andrew?

Andrew Arnovitz, 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.