CAE

REMARKS FOR CAE'S SECOND-QUARTER FISCAL YEAR 2016

November 11, 2015

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 2016 MD&A and in annual information form for the year ended March 31, 2015. These documents have been filed with the Canadian Securities Administrators 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 11, 2015, 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 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.

Our strategy continues to bear fruit, and our progress this quarter, and for the first half, puts us on track to deliver on our outlook for the year. We continued to win new business with our comprehensive solutions in Civil, Defence and Healthcare, and we set a new record for the company, reaching 6.4 billion dollars of order backlog at the end of the quarter. We also had solid growth over last year with double-digit increases in operating income in both our Civil and Defence groups.

Looking specifically at **Civil**, we had 10% growth in operating income compared with the second quarter last year. Demand for training is seasonal, and this quarter was typical with 64% utilization of our training network.

Orders in Civil include a series of training solutions contracts that affirm our leadership position. They include 16 full-flight simulators as well as training programs for airlines and aircraft operators that cover the entire career life cycle of professional pilots—from cadet to captain. Notable wins involve an order for two full-flight simulators from Air Canada for the new Boeing 737 MAX, and another simulator order from Airbus for the A320. We renewed our longstanding services agreement with JetBlue Airways, and we signed a new exclusive long-term pilot training contract with Eastern Air Lines. In all, Civil orders totalled $482 million for a book-to-sales ratio of 1.32x for the quarter. The ratio was 1.16x for the last 12 months. Our second quarter Civil backlog crossed the $3 billion mark for the first time.

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Turning now to **Defence**, here too we had solid growth with an 11% increase in operating income compared with last year. We continued to have good success penetrating the market with our training solutions, with orders now exceeding revenue for the third quarter in a row.

During the quarter, we signed training solutions contracts involving enduring platforms like the MH-60 Seahawk helicopter, and the C130J Hercules aircraft. And we saw an increased adoption of simulation-based training as a way for defence forces to maintain readiness. We had a range of orders during the quarter involving integrated training systems. These include the expansion and extension of long-term training services for the U.S. Air Force MQ-1 Predator and MQ-9 Reaper unmanned aircraft systems, the U.S. Air Force KC-135 tanker, and the U.S. Navy T-44C fixed-wing aircraft. We also signed a new service support agreement involving the German Air Force's Eurofighter simulators. In total, Defence received $319 million in orders this quarter, for a book-to-sales ratio of 1.41x. The ratio for the last 12 months was 1.10x. This is notable since this is the first time in nearly three years that the ratio has been above 1x for the trailing 12 month period. Our second quarter Defence backlog reached $3.4 billion, which is also a record for the company.

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And lastly in **Healthcare**, revenue was $25.4 million in the second quarter, compared to $24.3 million last year. Second quarter operating income was $1.5 million, compared to $1.8 million last year.

Sales highlights this quarter include a contract for a comprehensive suite of simulator and centre management solutions for the world-renowned, McGill University Health Centre, to be used for research at the Centre for Innovative Medicine. We also expanded our relationship with a key scientific society with a view to increasing the use of simulation by educating and certifying healthcare professionals in the adoption of best practices in simulation. Specifically, we partnered with INACSL, the International Nursing Association for Clinical Simulation & Learning, to introduce a Healthcare Simulation Fellowship program for healthcare educators and professionals.

[PAUSE]

With that, I will now turn the call over to Stephane who will provide a more detailed look at our financial performance. I'll come back at the end of the call to comment on the way forward. Stephane?

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

Thank you, Marc, and good afternoon everyone.

Consolidated revenue for the quarter was up 17% over Q2 last year at $616.8 million, and quarterly net income before specific items, including restructuring costs and a one-time tax item, was up 14% to $47.7 million, or 18 cents per share.

Looking specifically at the business groups, in Civil, revenue increased 23% over the second quarter last year to $365.2 million, and segment operating income grew 10% to $50.1 million. Last year's quarter had some one-time gains, before which, Civil's operating income growth would be approximately 21% year over year. The Civil margin for the second quarter this year was 13.7%, which is comparable to the normalized margin we had last year but on higher revenue and a different business mix.

In Defence, revenue grew 8% over last year to $226.2 million and operating income grew 11% to $28.4 million for an operating margin of 12.6%. Our second quarter Defence backlog reached a record level $2.9 billion and was further augmented to $3.4 billion with the inclusion of backlog from the BMAT acquisition. This has no bearing on order intake or book-to-sales, but does add to our already substantial backlog.

And lastly, in Healthcare, revenue of $25.4 million generated $1.5 million of operating income for a margin of 5.9%.

Looking at some additional financial highlights, we had an income tax recovery this quarter of $17.2 million, mainly from tax settlements related to a favourable prior ruling on the tax treatment of the sale of certain simulators. Excluding the effect of these one-time items, income tax expense would have been $12.2 million this quarter for an income tax rate of 21%. On an apples-to-apples basis, this compares to 24% for the second quarter last year. The lower tax rate results mainly from a change in the mix of income from various jurisdictions.

We continued to implement the process improvement program we announced last quarter, and is intended to transform our processes and product offering and further strengthen our competitive position. We incurred net after-tax restructuring costs of $1.8 million in the quarter, for severance and other related costs.

CAPEX for the quarter was $25.2 million, down from $35.8 million in the second quarter last year. CAPEX of $48.8 million for the first half of the fiscal year is in keeping with our outlook for lower capital expenditures this year.

Free cash flow from continuing operations was $101.7 million in the second quarter compared to negative $17.1 million in the second quarter last year. The increase was mainly due to a lower investment in non-cash working capital. The sum of net cash from continuing operating activities and net cash used in investing activities was positive $65.5 million this quarter, compared to negative $84.4 million in the prior year.

Net debt as at the end of September was $937 million, down from $1 billion last quarter; and our net debt-to-total capital ratio was also lower at 33.5% compared to nearly 40% a year earlier.

With that, I will turn the call back over to Marc who will discuss the way forward.

Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Our consistent leadership in competitive markets and record backlog are testament to the solid progress we're making to realize our strategic vision—to be the 'Training Partner of Choice.'

In **Civil**, we continue to see favourable conditions for our comprehensive solutions. Our outlook for strong simulator demand—in line with last year—is supported by high aircraft delivery rates, which in the case of narrow-body aircraft, will, according to Airbus, be increasing yet again. We continue to lead the market in simulator sales and we're widening the gap between CAE and the competition with the process improvement program now underway, which will transform the way we design, sell and deliver full-flight simulators. In commercial aviation training, we have a robust pipeline of opportunities that would see us increase our share of the much larger training market. Over the last 15 years, CAE has become a credible partner for airlines to realize even greater value from training. And in business aviation, training demand is driven mainly by the utilization level of the active fleet of business jets. In the U.S., the world's largest market for business aviation, aircraft activity levels continue to be well supported by macroeconomic factors like corporate profitability. And we're also making good progress globally by winning more market share with our unique solutions. Just this week at the Dubai Airshow, our CAE-Emirates joint venture signed a new multi-year business aviation agreement with Arab Wings, expanding training from 3 to 11 aircraft types, and we see more opportunities of this nature in our pipeline. For Civil overall, we still expect higher margins for the year and double-digit operating income growth, driven primarily by higher utilization in our training centres.

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In **Defence**, we're continuing to build good momentum with our strategy to pursue larger programs and especially those involving complex training systems integration, where we believe we have an advantage. We're now integrating the NATO Flying Training in Canada program, which gives us greater capabilities in the live part of these comprehensive training systems. We're now the prime contractor responsible for producing qualified military fighter pilots for defence customers, which is something that we believe will help unlock more opportunities for CAE as a Training Systems Integrator.

We've been active on the business development front and we've got nearly $2.8 billion in bids and proposals pending with customers, which represents a new high-water mark for us in defence. We believe our efforts will continue to yield good results and that we'll continue to win our fair share of these opportunities. We have the underpinnings for a solid growth business long term and we still expect modest growth for the current fiscal year as a whole.

[PAUSE]

And in **Healthcare**, we see more opportunities for synergies with our Defence business. Just last week, we were awarded an $8 million contract to provide the U.S. Air Force with another fuselage trainer, which includes the provision of our Healthcare simulators to allow medical personnel to train as a team in an immersive aeromedical environment. On the OEM front, we expect to see more progress with medical device manufacturers to provide them with the most innovative training solutions in support of their latest technologies. And we see potential to make more headway with scientific societies to advance the use of simulation-based training for healthcare students and practitioners. For the year, we expect double-digit growth in Healthcare with higher margins.

[PAUSE]

Before we conclude, I'd like to take a moment on this Remembrance Day to acknowledge, personally and on behalf of all at CAE, the immeasurable sacrifices made by our service men and women, past and present. We are grateful for their contributions to ensure the continuity of justice and the preservation of our freedoms.

[PAUSE]

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

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.