CORPORATE PARTICIPANTS

Andrew Arnovitz
Vice President, Strategy & Investor Relations

Marc Parent
President & Chief Executive Officer

Sonya Branco
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Steve Arthur
RBC Capital Markets

Kevin Chiang
CIBC World Markets

Turan Quettawala
Scotiabank

Cameron Doerksen
National Bank Financial

Tim James
TD Securities

Charles Perron
Desjardins Capital Markets

Chris Murray
AltaCorp Capital

Peter Diekmeyer
IHS Jane's Defence Weekly

Konark Gupta
Macquarie

QUESTION AND ANSWER SESSION

Operator

Your first question is from the line of Steve Arthur with RBC. Please go ahead.

Steve Arthur, RBC Capital Markets

Thank you. I guess just to follow up on the civil utilization rate, I know there's many, many moving parts beneath 76 percent figure that you report but it showed pretty considerable improvement throughout the whole year. I guess looking ahead are you happy with it and where it is at this current level or when you look at the various demand drivers out there what kind of annual level would you see that targeting over the mid to longer term?

Marc Parent, President & Chief Executive Officer

It's hard to go that far and I don't we ever do, Steve, but, look, I'm happy at 76 percent for sure. I think certainly, as I said, we're continuing to see strong demand across our network and I certainly, for the foreseeable horizon I see that continuing. It's supported by, as we said in the remarks, by the strong activity we see in passenger traffic, which is still a very high level, the stable but still good for us activity levels we see in business aircraft. So I think we're at good levels right now and I would expect that to at least, like I said, I don't want to go too far out, but certainly we, for the foreseeable horizon, I mean certainly covering this financial year. And of course our goal, you know, utilization rate is one metric. It's not the only one we track. What you have to look at is within that there is I think more opportunity for us to, if you like, throw more revenue at the same assets by getting wetter, and that's a strategic priority for us to go after more training, doing the training ourselves and therefore increasing, if you like, the yield on each asset, and that's what we're spending a lot of time on, in addition to filling the existing capacity.

Steve Arthur, RBC Capital Markets

Right. And that has margin implications obviously.

Marc Parent, President & Chief Executive Officer

Yeah, absolutely.

Steve Arthur, RBC Capital Markets

I guess just a quick follow-up sort of related to that, just on the joint venture relationship with Japan Airlines announced sometime ago now, I guess just a couple of questions related to that. First, how is that progressing, on or above expectations? And then secondly, just any colour on activity levels, discussions with other airlines. Has that relationship kind of made others more optimistic about progressing with this kind of relationship?

Marc Parent, President & Chief Executive Officer

Well, certainly, I'll start with the latter, Steve. Certainly when you're able to sign such a prestigious carrier like Japan Airlines, not only for basically outsourcing of their training centre activity, which we've done as merged as a joint venture, but also you'll recall that we're also doing their initial pilot training using an MPL program. I mean it's a strong testimony to the franchise that we have because this kind of, you can only get this kind of contract, as I said, through a network carrier like Japan Airlines. People don't trust you with this responsibility unless you have a very strong record and credibility and delivery. So that's what it meant for us, that's what it continues to mean for us. I had opportunity to meet with right up to the CEO and heads of flight operations in Japan Airlines and I think the satisfaction on both sides of the relationships is very good and we're very happy with how our training centre, our joint training centre, or training centres I should say, because it's more than one training centre, is panning out from an economic standpoint for both companies. So I think we're very happy with the relationship and we see it growing.

Steve Arthur, RBC Capital Markets

Is it resonating with other carriers? Sorry.

Marc Parent, President & Chief Executive Officer

Yeah, just following up (inaudible), yes, definitely it opens up, you know, you wouldn't be surprised that it's one of the calling cards we will use when we go to see other airlines. And, as we've said before, today we command about 25 percent of the potential order activity, not (inaudible) but revenue opportunity there is in this market, a $3.3 billion market, for us it's all about, as you saw, going to convince other carriers to allow us to take on either partially or in totality their training, and there are opportunities like that and we are pursuing them. As I said before, I mean big opportunities, if I can (inaudible) one or two a year, we'd be doing really good. But what really doesn't come, well I think you have to read between the results. When we announced that we, in the quarters where we pick up training services activity, in a lot of cases it's us converting more of, say, a given airline's activity, you know, to giving us the training, but maybe not in totality. So you see some of that. So you'll see portions of it that doesn't (inaudible) as a name being announced, but I think I'd still think in a nutshell that the pipeline opportunity is supportive of the outlook we've given.

Steve Arthur, RBC Capital Markets

Good colour. Thanks very much.

Marc Parent, President & Chief Executive Officer

Thank you.

Operator

And our next question is from the line of Kevin Chiang with CIBC. Please go ahead.

Kevin Chiang, CIBC World Markets

Hi. Thanks for taking my question here. Maybe just turning to defence, a big increase in your backlog, it looks like you've had a number of a big wins in the fiscal Q3 and Q4 here. I'm just wondering how that plays out as we look out into defence margins. I think historically you've looked at that it being around 12 percent to 13 percent. Is there a line of sight of moving above that range as you start monetizing this backlog or do you think margins kind of hover around here even as you start seeing accelerated revenue growth?

Marc Parent, President & Chief Executive Officer

Well, I think there is always potential, but I think at the moment our expectations are that the backlog we're getting is in that range of 12 percent to 13 percent. And that's, the orders that we've won are supportive of that. Certainly when you throw more revenue, there isn't a possibility of doing more, I certainly would not discount that, we'll update that as we go along, but I think our focus is on growing the SOI, the absolute SOI dollars, absolute dollars coming out of this. And I think one thing to look at as well is the mix between products and services. I think I'm happy to see that we have a good mix between long term, in the orders that we've announced in the past period of time here there is a lot of product orders in there, which are, you know, inherently they'll deliver in a shorter period of time, say within the next couple of years, and if you get more revenue certainly you'll have synergies in engineering, you'll have synergies in operations, you have more overhead absorption. So that in itself permits you to do better if you can time them correctly. And at the same time we're getting these long-term service awards, which means that not only do we have a revenue, if you like, quasi certainty for years to come, but clearly if I've got that service revenue I don't need to bid on it and therefore I can concentrate, say, the current bid activity on a larger series of contracts, therefore not growing, if you like, my SG&A on a revenue that's going up, which of course has margin implications as well. So at the moment I think, you know, going back to it, the wins that we have are certainly supportive of 12 percent, 13 percent range, and I think that's where we'll keep up, but there's potential for more but clearly the SOI dollars in absolute, that's what's going up.

Kevin Chiang, CIBC World Markets

That's a good point there. And just secondly from me, you continued to see free cash flow generation. If I recall correctly, when you originally announced NCIB I think the purpose was to offset just the natural dilution that occurs to your stock option program, but year to date we've seen your shares outstanding decline as you repurchase more shares with growth CapEx presumably rolling over in fiscal 2018. Just wondering how we think about how you prioritize free cash flow around the NCIB. Should we think about your share count declining or maybe more dollars being put towards the buyback relative to the original expectations?

Sonya Branco, Chief Financial Officer

Hi, Kevin, it's Sonya. So, yes, very good free cash flow generation in the quarter and we're happy to see a reversal of non-cash working cap driven mainly by improved collection, so good performance on that side. On your question regarding the NCIB, the objective is really to offset dilution. And you saw that with kind of a lesser level of repurchase in the quarter at about $5 million. It was a little higher in previous quarters. So the objective remains to offset the dilution from our DRIP and option programs. And in terms of the mix between shareholder returns and investment, we continue with our balanced approach and really focus on our three capital allocation priorities, which is investment in accretive growth, market-led opportunities that will generate additional return on capital, and continue to return to shareholders via NCIB and dividends.

Kevin Chiang, CIBC World Markets

That's great. Thank you very much.

Operator

And our next question is from the line of Turan Quettawala with Scotiabank. Please go ahead.

Turan Quettawala, Scotiabank

Yes. Thank you. Good afternoon. I guess I wanted to just focus a little bit on the restructuring costs in the Lockheed acquisition. I think you've had about $6.5 million so far after tax. Just wondering if you could give us some sense on how much is left on that as we go through the next few quarters maybe.

Sonya Branco, Chief Financial Officer

So, you're right, about $6.5 million to date after tax. And the guidance we have provided was up $15 million to $20 million after tax and we're still tracking to that guidance. So there will be a higher level of restructuring and integration costs in Q4 as we finalize and complete the integration in the quarter.

Turan Quettawala, Scotiabank

I see. Okay, perfect. And then that will be, after Q4, Sonya, it should be sort of out of the numbers?

Sonya Branco, Chief Financial Officer

That's right.

Turan Quettawala, Scotiabank

Okay. And then I guess maybe one more question, it's probably related a little bit, but when we look at your civil SOI guidance here at sort of I guess low double digit growth for the year, you're obviously doing a higher than that here on a year-to-date basis, so as we think about Q4 it implies a bit of a slower growth rate. I mean the (inaudible) is a little bit higher but are you assuming some of these restructuring costs in there? Or what's going on in terms of that civil SOI growth?

Sonya Branco, Chief Financial Officer

No, no restructuring costs assumed in our outlook and Q4 is traditionally our strongest quarter and we expect that pattern to maintain and we are still tracking to our outlook of low double digit operating income growth.

Marc Parent, President & Chief Executive Officer

We certainly don't see a slowdown, Turan.

Turan Quettawala, Scotiabank

I beg your pardon?

Marc Parent, President & Chief Executive Officer

We certainly don't see a slowdown in the fourth quarter. As Sonya said, Q4 is historically strong. It's a big quarter for business aircraft and we don't have any indication that this year will be any different.

Turan Quettawala, Scotiabank

Okay. No, that's correct. I mean I know it's a stronger quarter, I was just wondering, it would have implied that you would have raised your guidance for the year, but you didn't, so that's kind of why we're asking the question.

Marc Parent, President & Chief Executive Officer

I think, I guess it's maybe that interpretation of what's lower double digit, right?

Turan Quettawala, Scotiabank

Okay. Thank you very much.

Operator

And our next question is from the line of Cameron Doerksen with National Bank. Please go ahead.

Cameron Doerksen, National Bank Financial

Good afternoon. Just a question on the healthcare segment. I recognize it's still pretty small part of the overall picture for CAE but it is, at times, a sore spot for investors, particularly when we see a quarter when there's no, like a zero percent margin. But I guess maybe you can address what kind of timeline should we expect to kind of return to some more interesting revenue growth and then of course you need the revenue growth to go higher so you can start to generate better margins. I'm just wondering what kind of confidence you can for investors in a return to growth in healthcare?

Marc Parent, President & Chief Executive Officer

Well, as we've said, we're no happier with results than you are for sure. We'd have expected more, as we said in remarks, this year. But we look at it in a pretty exhaustive detail, as you might imagine, about why we're in the situation we're in, and a lot has to do with orders. It's a bit unusual to have moved to the right in a quarter we expected to deliver this quarter, which did not. They do wind up in the fourth quarter. So we've got a pretty good view of growth in the fourth quarter and beyond. So, as we said in the outlook, although we've lowered it because, you know, realistically, with the amount of time that's left in the year, it's a bit of, ah, too far to be out there in terms of double-digit growth, but certainly we see growth for the year. And in the fall, definitely as we go into the next period of time, certainly in the next year and beyond, we certainly, to use your words, get growth that's a lot more interesting. And we believe in the market. We believe the market, the market is there and, as demonstrated by some of the product introductions we've made, for example, that we highlighted this quarter with the Microsoft HoloLens, we're interjecting a technology into these solutions which provide, you know, we think optionality on top of the existing market that we believe could be very interesting in the years to come.

Cameron Doerksen, National Bank Financial

Okay. Just maybe very quickly on just the defence, in the past you've talked about, I guess, a dollar value of outstanding bids. I mean you've won some, you know, a pretty good amounts of orders recently. Can you maybe just give us an update on where that outstanding bid pipeline is?

Marc Parent, President & Chief Executive Officer

Well I think, as you could expect, that with having just signed all these contracts, I think probably like $1.4 billion over the last very short period of time, the exact numbers we're still (inaudible) but it's certainly over $3 billion to date even with the recent wins we've had. So I don't think we're done here on orders. In fact, I know we're not.

Cameron Doerksen, National Bank Financial

Great. Thank you very much.

Operator

And our next question is from the line of Tim James with TD Securities. Please go ahead.

Tim James, TD Securities

Thank you. I believe at the investor day last year you talked about some dilution to return on capital employed in fiscal 2017 due to the investments and the timing of returns from the US military contract. Do you believe your return on capital employed will improve in fiscal 2017 relative to fiscal 2016 and would it be sort of a material improvement? Or is there anything you can provide in terms of helping us to think about where that goes for the year?

Sonya Branco, Chief Financial Officer

In terms of how we see ROCE I think we'll go back to our outlook and it remains unchanged of about 13 percent in three to five years. The ROCE for the quarter was 11 percent, which is holding relatively stable versus last year, and that's factoring, like you said, the investment on Fixed-Wing, the US Army Fixed-Wing training system, despite the fact that they are not necessarily operational yet but will be soon. So I think this underscores the return that's being generated by the rest of our asset base. And for the rest of the year, there's still some remaining additional CapEx that will put maybe some temporary pressure, but give or take a few basis points it should remain relatively stable.

Tim James, TD Securities

Okay, thanks. And, Sonya, just wondering with the tax rate, um, you've talked about 22 percent in the past for full year, could you provide any colour on kind of what, given that's been lower than that year to date, what you expect for the fourth quarter? Would it be significantly above 22 percent therefore or what should we expect?

Sonya Branco, Chief Financial Officer

So in the quarter there was the impact of an audit that was settled in Canada, which brought down the rate by about 2 percent. Otherwise, it would have been 16 percent, which was still on the low side, but a function of the mix of the profit and where we're earning our profits.

Now, as you can see, the tax rate can be very, fluctuate a lot from quarter to quarter, so I can't necessarily give guidance on a specific quarter but rather over the long term. And I think it's better to look at it over a longer term. So on a normalized basis, if you go back the last three years and the normalized average, it's been around the 22 percent mark. So I continue to use this as a guide over the long term. So for the year it we won't be 22 percent but a good guide going forward.

Tim James, TD Securities

Okay. And then, finally, if I might just sneak one in quickly here, the Lockheed Martin flight training acquisition looks like a very good revenue performance here in the third quarter. Can you about the fourth quarter and just give us a bit of a sense given how volatile that's been? Is that going to look more like the third quarter in terms of revenue or will it look more like Q1 or Q2?

Sonya Branco, Chief Financial Officer

When we purchased the Lockheed Martin acquisition we took into consideration that there would be some temporary dilution as we worked through the existing backlog and this quarter we actually delivered some of the work in progress that was purchased and therefore some revenue and SOI that was recognized in the quarter, and that drove the additional revenue and SOI contribution. Now it will fluctuate in the quarter as we work through the existing backlog of work in progress.

Tim James, TD Securities

Okay. So maybe just to round that out then, should we think about that business and the seasonality in that as just similar to your existing civil training business? Obviously the uptick in revenue in the most recent quarter was much more significant than we've ever seen historically from CAE but going forward maybe think about that as being in line with the existing seasonality of CAE's legacy civil training business?

Sonya Branco, Chief Financial Officer

So as we work through the remaining backlog what we'll see is a ramp down of that work in progress which we purchased, right? And ultimately this is being integrated into our existing products business. And other than that, work in progress, and so as we purchase contracts and install base, as well as some assets in training centres, and that's just being integrated into and has been integrated into our normal civil operations.

Tim James, TD Securities

Right. Sorry, I was referring to training, but it's the equipment side I meant to speak of. Okay. Thank you, Sonya. That's helpful.

Sonya Branco, Chief Financial Officer

Okay. Perfect.

Operator

Ladies and gentlemen, as a reminder, to register a question please press the one followed by the four.

Our next question is from the line of Benoit Poirier with Desjardins Capital Markets. Please go ahead.

Charles Perron, Desjardins Capital Markets

Hey. Good afternoon. This is Charles Perron filling in for Benoit. Thanks very much for taking my question.

I was just wondering if you could go back on defence, if you could provide more colour on the implication from the changes in the administration in the United States on your business and also, at the same time, provide more colour about the revenue growth expected for FY18 given the sizable book to bill that you recognized in Q3.

Marc Parent, President & Chief Executive Officer

Well, I think we haven't given our, you know, what we expect in terms of revenue growth, because we typically provide that next quarter in terms of what we expect, but certainly you would expect growth, as we've said in the, ah, because the orders that we've signed and as per the kind of outlook we've done on the market itself and the remarks, so expect growth. And we'll precise that number at that time. I think it's, you know, with the new administration in the United States, I commented on this last quarter and I think they're very focused on maintaining an increasing readiness and that in itself is driving a lot of activity, which is up tempo, and that's supportive of our business. At the same time, we see budgets on increase pretty much in all the markets that we serve, either because of local issues that, you know, in the geographies that they have, local threats, or that people are boosting their defence expenditures as per their NATO commitments or other such commitments. So overall for us, we definitely see a market environment which is conducive to growth. And of course what we do, simulation-based training, is absolutely invaluable to improve readiness while being very efficient from a budgetary standpoint.

Charles Perron, Desjardins Capital Markets

Okay. Great colour there. And just on civil, just wondering if you could provide an update on your full-flight simulator order guidance for FY17 and if you see potential for other sizeable orders in your crystal ball that could let you achieve more in the low-40s that you mentioned in the past. Just wondering if you can pinpoint a more specific number to what you mentioned in your previous remarks.

Marc Parent, President & Chief Executive Officer

Well, I won't get it pinned down to a specific number right now, only for the simple reason, well, the simple reason that where we are now with couple of months to go, I mean it's very easy for orders to literally go over the end of March date, if you like, and we certainly don't want to be in a situation of signing orders and making what I would consider less than optimal deals just to meet a number. But suffice it to say, as we've said in the remarks, that we'll exceed the outlook we had, which was similarly to last year, we spent about 40. So we'll definitely do better than that because we've got 39. As I said, the level of activity is still very strong. We've maintained our leading market share. So there's a lot of bids, there's a lot of campaigns on the way and I fully expect a number of those to be successful. So it's too, I mean it's not too early, I just won't get bogged, you know, be able to give you a precise number right now, except that certainly it will be in the 40s for sure, probably north of 45 I would think.

Charles Perron, Desjardins Capital Markets

Okay. That's helpful. Thanks for your time.

Operator

Our next question is from the line of Chris Murray with AltaCorp Capital. Please go ahead.

Chris Murray, AltaCorp Capital

Thanks. Good afternoon. Just, again, thinking about defence programs, Marc, can you maybe talk a little bit about how the nature of some of those programs are going to progress over the next few years? You sort of alluded to the fact that they're getting a little bit larger where you're having to take kind of a full approach to it, and we saw that with the Fixed-Wing Search and Rescue package, but I wonder if you could maybe give us a bit more colour on how that's going to work and if there's any sort of geographic differences. And, as well, if you'd also be kind enough to maybe comment on where you guys stand with the T-X program and any expectations on that?

Marc Parent, President & Chief Executive Officer

Well, maybe I'll start with the T-X, just with that one. I think that we're part of the current team there that did the M-346. We've been partners in the beginning. We believe in the aircraft. The aircraft has been successful in a number of countries and I think it has the capability, meets the specs that are required of the US Air Force, and I think it will be a very affordable platform. So I think that we think that the team will be successful.

With regards to the first question in terms of the defence business, the situation we're in is literally, you know, our strategy coming through, if you like. Over the past few years we've built the capability to be able to deliver all aspects of, if you like, how the military trains. I mean the military doesn't train obviously just using stimulators. Historically, and I'm going back a few years now, we would be a simulator manufacturer, but the military, all branches of military, they train not only using live assets, they use live assets, they use stimulators, they use what we call constructive tool, which is computer-based tools to be able to train, and they bring all together. So CAE now has not only the capability to deliver every one of them, it has a track record of doing it. We have a track record of being able to, just by the size of the company, the financial depth and breadth that we have, the capability that we have, we're able to deliver a comprehensive solution to be able to train like the military trains and literally going after contracts where they essentially can outsource the whole operation to you. And that's exciting because then you can differentiate yourself because obviously there's not, ah, you reduce the number of companies that can actually deliver that level of capability and that level of capability, a one-stop shop is very attractive, and you could bring synergies to it.

So those are the kind of contracts. What we mean by bidding as the training services integrator, that's what we mean. We integrate all aspects of the military's training program. And we've seen, you've seen us doing this with one of the last, or not last but one of the most recent tools in our toolbox for this was the acquisition we made in the last couple of years of the NATO Flying Training contract, which gives us the full capability to be able to conduct military fast jet training. Stimulators, aircraft, constructive assets. In fact, we run the actual base in Moose Jaw, for example, Saskatchewan. And then you look at the follow-on to that, well, we were able to literally become the US Army's training partner with the win on the US Army's Fixed-Wing program, and followed by the selection we just had of the US Army's Initial Entry Rotary-Wing training program. And when you look at what, I guess as I said in the remarks, you look at the capability that we are able to deploy as a company now within, you know, we talked about this $100 million of investment less than a year ago and here we are, that has been translated today into a training school, a very sizeable training school, aircraft on the ground, simulators on the ground, and an unveiling, ribbon cutting on March 6th in Dothan, Alabama. And our first students of the US Army are already starting 11 months after us starting the program.

So that's the kind of contract. They're bigger. They take longer. What I meant in my remarks is when you bid on such a program it takes longer for these programs to be bid, it takes longer for them to, you know, it takes longer to get a selection but, as we've been saying I think for a couple of years now, we'd been sitting on a pipeline of opportunities and, if you like, a bow wave of bids that we've made that we believed that we had a good probability of winning. And that's what we're seeing happening now that these, as I've said before, we don't bid on military programs unless we think we have a good shot at winning, because it involves a lot of cost and assets and time to bid on military programs, and I'm happy to say that our win rate has been quite high and I feel good about the bids that we have out there going forward.

Chris Murray, AltaCorp Capital

Okay. Thanks. Along those lines, some of the future bids, I mean I guess one of the issues you were talking about with a couple of other speakers was just the return on capital employed trend. Is that something that you see becoming more meaningful, is maybe having to make investments in winning some of these bids? And is that something that you're still prepared to do if it comes up again?

Marc Parent, President & Chief Executive Officer

Well, I think the—you're talking specifically to military here, I think?

Chris Murray, AltaCorp Capital

Yeah. Yeah, exactly.

Marc Parent, President & Chief Executive Officer

Well, I think the investment we've made in the US Army's program, the Fixed-Wing Program, it's kind of an exceptional program. Typically you don't have to deploy capital on military contracts. Typically the government likes to retain the assets. So that was a bit of an exception. But, having said that, that's going to be accretive the day we start it, which, as I said, is like imminent. And everything we've talked about is supportive of the outlook that Sonya talked about a few minutes ago, which we talked about at the investor day in terms of return on capital of, you know, 13 percent range in three to five years.

Chris Murray, AltaCorp Capital

Okay. Thank you.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Operator, I want to thank the analysts for their questions and at this point, with the time remaining, I'd like to turn the question-and-answer period over to members of the media.

Operator

Thank you. And our next question is from the line of Peter Diekmeyer with IHS Jane's. Please go ahead.

Peter Diekmeyer, IHS Jane's Defence Weekly

Bonjour, Monsieur Parent. Or hi, Marc. It's Peter from IHS Jane's. A quick question regarding the possible retaliatory actions about countries against the United States if Mr. Trump initiates tariffs against Mexico and China. One of the biggest, most venerable industries in the United States is aerospace, for instance, Boeing exports 90 percent of its production, and we're just wondering whether CAE would be exposed to any retaliatory actions or into anything arising out of NAFTA in the coming months and years?

Marc Parent, President & Chief Executive Officer

Would you like (French)?

Peter Diekmeyer, IHS Jane's Defence Weekly

No, I'm sorry. Because I know you're French, Marc, I'm sorry, I just, I'm forgetting which country I'm in.

Marc Parent, President & Chief Executive Officer

Okay. En français? Okay, so look, (inaudible) répondre à la quesiton en français—

Peter Diekmeyer, IHS Jane's Defence Weekly

No, no, please respond in English. The analysts calls are (inaudible).

Marc Parent, President & Chief Executive Officer

Okay. We'll get this. Okay. Well, look, I think there is lot of speculation going around and to me, we deal in facts, and the fact of the matter is that today a third of our employees are in the United States. We have about 2,500 employees and that's, in the United States 750 more than we had just five years ago. If I'm looking at the wins that we just had in the US, both on the fixed-wing contract and the rotary-wing contract, we'll have north of 400, possibly 500 employees just in the state of Alabama within the next year or so. So I think we are a quite sizeable employer in the United States. And in United States I think it's, and by the way, a third of our revenue gets generated there, and the work is performed by US workers, so I think that there's certainly, you know, any kind of, I don't see any retaliatory, but we'll have to see what happens. I think everything is very highly speculative. But when we bid in the United States, in the US Military, we bid out of United States as CAE USA. I think I would leave it at that. I think that we're quite, we're, I think overall the administration that is in the United States has been a positive for us at CAE because it's simulating the level activity that I talked about in defence specifically.

Peter Diekmeyer, IHS Jane's Defence Weekly

And could I ask a follow-up question? I don't know if I'm still connecting through. On the opportunity side, have you had any wind whether the Trump administration is pushing any of the NATO countries to meet their commitments? And, if so, would that present any opportunities for CAE?

Marc Parent, President & Chief Executive Officer

Well, I'm not going to comment about what they're doing, but I can tell you, look, I read the newspaper just like you are and I think we all see that clearly they want governments to meet their NATO commitments and anecdotally we certainly have evidence that governments are pushing to increase their defence expenditures in a lot of cases because of not only the NATO commitments but the threats that they see. I've talked about in the past that we have a unique situation geopolitically that we haven't seen the Cold War where there still is the threats out there, both from what was called and is still today sometimes called the war on terror, and now we have the resurgent Russia, which states in Europe, in Eastern Europe take note of in their defence expenditures, we have the Middle East having its own stance on increasing their defence, and we have the continued pivot to Asia causing defence expenditure there as well. So really across the markets that we're in we see a positive growth market in defence.

Peter Diekmeyer, IHS Jane's Defence Weekly

Thank you very much.

Marc Parent, President & Chief Executive Officer

And, by the way, the last thing I'll say, even though we focus a lot on the US, I think it's important to note that CAE deals with over 15 national defence forces worldwide with a strong position.

Operator

And our next question is from the line of Konark Gupta with Macquarie. Please go ahead.

Konark Gupta, Macquarie

Hi. Good morning. Good afternoon. Thanks for taking my questions. Just following up on defence—first, congrats on the strong order intake. I know you want us to wait for the guidance but just let me try and ask it this way. Is there a reason for you to believe that top-line growth would not accelerate to, let's say, high single digit or low double digit from modest growth this year given the amount of orders you have won so far?

Marc Parent, President & Chief Executive Officer

I think that was a double negative. I'm not going to get too out there on that. Look, I think that the order activity that we've had, you look at the 2.5 nearly book to bill in the orders we've signed recently clearly is supportive of strong top line growth. There's a lot of product orders in there. So I think if you allow us to be patient for the next quarter, very soon we'll let you what we think.

Konark Gupta, Macquarie

Okay, that's great. And in terms with capital requirement, Marc, the fixed-wing is pretty much done here in terms of the capital outlay but for the new defence programs that you have won, including the Canadian Search and

Rescue, what's sort of the expectation on CapEx requirement for those contracts?

Marc Parent, President & Chief Executive Officer

I don't think there is any, but I'll let Sonya answer.

Sonya Branco, Chief Financial Officer

I'll confirm. These contracts, as Marc just said, most defence contracts do not have capital commitments. The US Army Fixed-Wing is a bit of an exception. And so this is one that you just referred to, the Fixed-Wing Search and Rescue, has no capital requirements with it.

Konark Gupta, Macquarie

Okay, perfect. Thanks. And just on civil quickly, it looks like there's some softness in the OEM markets for business jets and wide-body commercial jets and then one of your larger competitors is ramping up beginning operations in Europe, so given those two things together do you think it would be fair to assume the overall civil market grows at say a 4 percent 5 percent rate and then you can maintain your market share in various segments?

Marc Parent, President & Chief Executive Officer

You said 4 percent, 5 percent rate, are you talking about OEMs in business aircraft or commercial…?

Konark Gupta, Macquarie

No, I'm talking about overall civil market you're exposed to. Can we assume that 4 percent to 5 percent growth rate is a fair assumption going forward?

Marc Parent, President & Chief Executive Officer

Well, that's the long-term growth rate that I've always talked about. In terms of growth of passenger traffic, which drives our training business, my assumption is, and it's well supported by the forecasts that are out there, is for an average 4 percent to 5 percent growth rate for next 20 years in civil passenger traffic. That's the assumption we operate under. I mean clearly there will be variations year to year but I think that's a pretty good number to use just based on every forecast you can get out there.

Konark Gupta, Macquarie

Okay. And given the competitive landscape...

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Operator, I want to be respectful of our time here and so I want to thank investors and analysts for joining us on the call as well as from participation of members of the media. If there are any remaining questions of course the team and I are available for discussion after this call. You can find a copy of today's transcript on CAE's website at www.cae.com. Thank you.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.
