CORPORATE PARTICIPANTS

Andrew Arnovitz
Vice President, Strategy & Investor Relations

Marc Parent
President & Chief Executive Officer

Sonya Branco
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Turan Quettawala
Scotiabank

Cameron Doerksen
National Bank Financial

Fadi Chamoun
BMO Capital Markets

Benoit Poirier
Desjardins Capital Markets

Chris Murray
AltaCorp Capital

Peter Diekmeyer
IHS Market

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the CAE First Quarter Conference Call. Please be advised that this call is being recorded. I would now like to turn the meeting over to Mr. Andrew Arnovitz. You may now proceed, Mr. Arnovitz.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Thank you, Julie. 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 fiscal year 2018 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, August 10, 2017, and accordingly, are subject to change. Such statements are based on assumptions that may not materialize or 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 risk 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 and the U.S. Securities and Exchange Commission.

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 and following the conclusion of that Q&A period we will open the call to questions to members of the media.

Let me now turn the call over to Marc.

Marc Parent, President & 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 of the presentation to talk about the new strategic developments we announced earlier today and then I'll conclude with some comments about the way forward.

Our progress to date in all three segments continues to support our full year outlook for growth and profitability. The Civil business showed very good momentum in the first quarter with strong top and bottom line growth on good utilization in our training centres. In Defence, although we didn't grow the bottom line in the quarter I am satisfied with our progress in view of our full year plan. Defence can be lumpy on a quarterly basis and in the first quarter we are beginning to ramp up a number of new developmental programs from backlog.

Overall for CAE in the quarter we grew operating profit by 10% compared with last year and we continued to enjoy strong demand from customers to our innovative training solutions. In Civil, we booked $400 million in orders, including eight full-flight simulators and several long-term training agreements with airlines and business aircraft operators. For the quarter, Civil grew segment operating income by 15% and filled its training centres to 78% utilization. In Defence, we booked orders for $262 million, including a Training Systems Integration contract with the UAE on the Predator XP.

Other notable wins include an in-service support contract for Canada's Fixed Wing Search and Rescue training program and contracts involving C-130J fuselage trainers for the U.S. Air Force and U.S. Marine Corps. We're also very proud that the first cohort of U.S. Army students went through the new Initial Entry Fixed Wing course at our Alabama training centre and successfully graduated to become Army fixed wing aviators. And finally in Healthcare, we had higher expenses in Q1 related to the ramp up of an expanded sales force and the launch of an important new simulator, CAE Juno, which begins delivering in the second quarter. We specifically designed Juno for nursing education, which represents the largest addressable market in the healthcare education market.

With that, I'll 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, Chief Financial Officer

Thank you, Marc, and good afternoon, everyone.

Consolidated revenue for the first quarter was $698.9 million and quarterly net income was $63.8 million or $0.24 per share. This compares to $0.26 per share in the first quarter last year, which is before specific items and includes the recognition of a deferred tax item. There were still some timing differences this first quarter with respect to the recognition of revenue on our standardized commercial simulators. This resulted in the deferral of approximately $0.03 of earnings per share. For the year as a whole we expect these timing differences to be relatively neutral as we deliver more of the standardized products.

Income taxes this quarter were $14.6 million, representing an effective tax rate of 18% compared to nil for the first quarter last year. Excluding the deferred tax item, the comparable tax rate last year would have been 14%.

Free cash flow was typical of CAE's first half of the fiscal year, as we usually have a higher level of investment in non-cash working capital during this period. First quarter free cash flow from continuing operations was negative $37.9 million compared to positive $15.5 million last year. As in previous years, we expect a portion of the non-cash working capital investment to reverse in the second half.

Uses of cash in Q1 included funding capital expenditures for $49.1 million, mainly for growth, and we distributed $21 million in cash dividends. We used another $2.7 million to buy back stock under the NCIB program.

Now looking at our segmented performance, in Civil, we maintained a strong growth in Q1 with revenue up 11% year over year to $411.8 million and operating income up 15% to $73.1 million for a margin of 17.8%. Before the deferral impact on the recognition of standardized products, Civil revenue and operating income would have been $452 million and $83.7 million respectively for a margin of 18.5%. On the order front, the Civil book-to-sales ratio for the quarter was 0.97x and for the trailing 12-month period it was 1.07x. Civil's backlog at the end of the quarter was $3.2 billion.

In Defence, the first quarter revenue was up 2% over Q1 last year to $263.2 million while operating income was down 7% to $26.3 million for an operating margin of 10%. The quarterly variability we often see in Defence is driven by product service mix and the timing on reaching certain program milestones. In the first quarter, profitability was impacted by the kick-off of a number of new programs won late in the last fiscal year, which involved R&D expenses as part of their start-up. To name a few, these included the Canadian Fixed Wing Search and Rescue training program, the UAE Naval Training Centre, and training systems for the Predator XP and Predator Guardian UAVs. As well, the business units faced an additional headwind this quarter in the form of higher SG&A expenses. Specifically, the share-based payment expense was $17.5 million compared to $8.7 million last year. The increase was driven by the sharp appreciation of CAE's shares and the mark-to-market fair value revaluation of our existing long-term share-based payment plans. Approximately 40% of this total expense was allocated to Defence. The Defence book-to-sales was 1x for the quarter and 1.31x for the last 12 months. Defence backlog at the end of the quarter was $4.1 billion.

And finally, in Healthcare, first quarter revenue was $23.9 million compared to $22.7 million in Q1 last year. Healthcare segment operating loss was $1.6 million in the quarter compared to a loss of $100,000 last year. The loss in the quarter results from higher initial expenses associated with the expansion of our sales force and the development and launch of our new product, CAE Juno.

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

Marc Parent, President & Chief Executive Officer

Thanks, Sonya.

Our outlook for growth this year remains unchanged and I continue to be encouraged by the positive response that we get from customers to CAE's innovative solutions. Underscoring our confidence in the way forward, CAE's Board of Directors approved this morning a $0.01 increase to our quarterly dividend, which becomes $0.09 per share effective September 29th. This marks our seventh dividend increase in the last seven years.

In Civil, pilot training demand continues to be well supported by high rates of commercial passenger traffic and continued stable aircraft utilization in business aviation. This past June at the Paris Air Show, CAE released its first ever CAE Airline Pilot Demand Outlook, our 10-year forecast for global pilot demand. A compelling take away from this report is the need for 255,000 new airline pilots over the next 10 years. Another important consideration highly relevant for airlines and CAE is that half the pilots who will fly the world's commercial aircraft in 10 years' time haven't yet started to train. These dynamics underscore the considerable value of our comprehensive cadet-to-captain solutions.

CAE's broad global offering enables unmatched flexibility to adapt and evolve our solutions to fit our customers' needs. To that point, I'm very pleased with the new strategic developments we announced this morning involving airlines in Asia. We signed a Memorandum of Understanding with Singapore Airlines to establish a joint venture to be operated out of the airline's Singapore Airlines Training Centre near Changi Airport. This marks an important evolution in our relationship with one of the world's premier carriers. Once underway, the joint venture will serve the training needs for Singapore Airlines and SIA Group subsidiaries, SIA Cargo, SilkAir, and Scoot, as well as other operators in the ASEAN region.

We also concluded a transaction with China Southern Airlines whereby China Southern has acquired our share of the Zhuhai Flight Training Centre, or ZFTC, for US$96 million. The evolution of this relationship means that CAE now has the flexibility to address the broader market in China and the ASEAN region as well. As part of this transaction, China Southern will outsource to CAE third party airline training being conducted at ZFTC. And, in addition, we'll continue to serve China Southern as their partner for training services support, ab initio pilot training, and for their simulation equipment needs.

Also, in response to reports by the media, we confirmed today that CAE and AirAsia are in advanced discussions to negotiate a sale and purchase agreement for CAE to buy AirAsia's 50% share of the Asian Aviation Centre of Excellence joint venture, or AACE. Our relationship with AirAsia began in 2004 and once a definitive agreement is reached it would expand with an exclusive contract to fully outsource the fulfillment of all AirAsia Group's training requirements, including current and future affiliates, in support of all the aircraft types that it operates for an extended period.

What these developments have in common is that they serve to align our capital with our strategic priorities. They also closely correspond with our investment criteria for accretive growth in support of CAE's 13% return on capital target within the next two to four years. Once completed, these transactions will offer us enhanced flexibility to further strengthen our position in China and the ASEAN region, which are the fastest growing commercial airline markets in the world.

These are indeed exciting times for CAE and our Civil business as we look to grow our share of the large global aviation training market. Our outlook for the year remains unchanged and we continue to expect Civil to generate low double-digit percentage operating income growth as we earn a greater share of wallet in training and maintain our leadership in simulator sales.

In Defence, we have a solid backlog and we expect to continue winning our fair share of programs from an active bid pipeline of over $3.6 billion. The market is supported by the positive fundamentals of increased Defence spending and an emphasis on mission readiness, which is a fundamental driver for training. We're very well positioned to continue growing our share in the large training systems integration market with our unique, comprehensive training solutions. Our outlook for mid to high single-digit growth in Defence this year on both the top and bottom line remains unchanged and we continue to be bullish about CAE's long-term prospects in this market.

And finally, in Healthcare, we're focusing on some of the largest value pools in the market, like simulation-based education and training for nursing. We continue to expect Healthcare to resume growth this year on higher sales from our pipeline and the launch of new products, which will put us on a course for long-term double-digit growth. As we've said before, the key to our success here is higher volume, and with innovative new products like CAE Juno that we launched this quarter and our expanded sales force, we're confident we can access a larger share of the market.

In summary, we're experiencing a high level of activity in all segments of our business and we're on course to deliver on our outlook for the year. With that, I thank you for your attention and we're now ready to answer your questions.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Thank you, Marc. Operator, we'll now take questions from investors and financial analysts.

QUESTION AND ANSWER SESSION

Operator

Thank you, sir. Ladies and gentlemen, if you would like to register a question, please press the one followed by the four on your telephone. You will hear a three-tone prompt acknowledging your request. If your question has been answered and you would like to withdraw your registration, please press the one followed by the three. If you are using a speakerphone, please lift your handset before entering your request.

Our first question comes from the line of Turan Quettawala with Scotiabank. You may proceed with your question.

Turan Quettawala, Scotiabank

Yes, good afternoon. Thank you for taking my question. I had a quick one about, I guess can you talk a little bit about what the incremental capital would be required for some of these new relationships I guess with AirAsia buyout as well as with Singapore Airlines?

Sonya Branco, Chief Financial Officer

Hi, Turan. So, one of those transactions with AirAsia is still very much an active deal, so I think you'd understand that we wouldn't want to comment other than, as we said, they are in line with the criteria that we set for ourselves for accretive returns and a target of 13% return on capital over the medium term. Now with Singapore Airlines, we are at the MOU stage but the expectation on the investment will be about US$20 million to US$25 million by each of the partners, but in our case we'd be contributing assets.

Turan Quettawala, Scotiabank

Okay, that's helpful. Thank you. And then I guess, I know you are talked about the return—

Sonya Branco, Chief Financial Officer

So I wouldn't expect this to be a matter of new capital but rather kind of portfolio shaping. I would look at it that way.

Turan Quettawala, Scotiabank

No, understood. So you get the $96 million from the Zhuhai, right?

Sonya Branco, Chief Financial Officer

That's right.

Turan Quettawala, Scotiabank

Okay. I guess would you be booking a gain in that Zhuhai sale?

Sonya Branco, Chief Financial Officer

There will be a gain on divestiture. We are finalizing that to get an extent of the gain with all the post closing adjustment and so we'll be finalizing that and reporting it out in Q2.

Turan Quettawala, Scotiabank

Great. Okay. And maybe if I just ask one more in terms of, ah, China Southern, is this sort of a one-off or are you seeing kind of more airlines looking at maybe taking it back in-house?

Marc Parent, President & Chief Executive Officer

No, it's not... To me, look, I think just to look at what (inaudible) is three yields together, Turan. I mean look at, for example, AirAsia. What you see, and I've had this conversation directly with the CEO, Tony Fernandes at AirAsia, I think it's very positive. When you look at it, what they're doing there, and of course we are still at the MOU stage, but I think, I mean they and he has already been pretty vocal on this, is they are so confident in the training that's being provided by CAE at the joint venture that not only do they now have a high-quality training operation for all of AirAsia and its affiliates and affiliates to come, but they have an opportunity, if you like, to monetize the value that they have created. So for us, this is a nice story, and in exchange, you know, I think that we are looking at expanded contract. Again, we're short on details right now, because we haven't finalized it, but I see this as a good story. And both of these deals together and to a certain extent Singapore Airlines, I think the thing to remember of this is that it gives us now, if you like, unfettered access to the markets in ASEAN and in China where we had exclusivity agreements with both of those airlines. So I think it's a good-news story. In fact, I'm very happy with it.

Turan Quettawala, Scotiabank

Okay. Thank you very much, Marc. That's helpful.

Operator

Our next question comes from the line of Cameron Doerksen with National Bank Financial. You may proceed with your question.

Cameron Doerksen, National Bank Financial

Thanks very much. I just wanted to maybe follow on with the questions on the, I guess, portfolio readjustment in Asia. Maybe just firstly on AirAsia, I know, again, it's still not a done deal, but can you maybe just describe how this would be an expansion, I mean beyond just you taking the 50% you don't own? Is it the fact that you're not doing all of the trading currently in that operation for AirAsia and this would be basically an expansion to all of their pilot training?

Marc Parent, President & Chief Executive Officer

Well, I think—we are currently already doing their training. The training is outsourced. Now we're not doing all of the training for all of the affiliates, and that will become part of the deal. You will know that, I mean AirAsia is going to be, is one of the airlines that's expanding the most in the world actually and they're going to be taking a lot of airplanes over the next few years. So, between the growth of AirAsia itself and the fact now that we are, even though we will be continuing to be doing AirAsia's training, because they have full confidence in us and we have such a fantastic relationship built since 2004, that we'll have a long-term training contract for them and their affiliates, which of course, and I should point out that in their case it's not only flight crews, it's maintenance technicians, it's flight attendants, it's actually even manager training that we do there. But we now have access to all the other airlines in the region that since now it's only CAE in some cases it's maybe slightly more attractive for them to come train with us, and we don't have any exclusivity in the region that we had in the past. So, clearly you would expect this to be growth.

Cameron Doerksen, National Bank Financial

Okay. And maybe just secondly, just on the sale of the China Southern JV, you've mentioned that it helps you maybe address the China market more broadly. Can you just maybe explain how that is the case? I mean were you restricted in pursuing other airlines in China? And do you have to, do you think you have to have a physical presence in China to address some of the pilot training demand there?

Marc Parent, President & Chief Executive Officer

Well look, I think that, you know, we serve the training, in China, for example, centred in Hong Kong, but I think what's, you know, to reflect on a whole story is we've built a great operation, a very successful operation with China Southern called ZFTC. We're very happy. I think this deal is win-win. And in the case—this was our first joint venture in training. We changed our strategy over the years, especially in the last three years, where we are very focused on training.

China Southern wants to, as we said in the press release, China Southern wants to focus on training. They want to just concentrate on their own operation. They're not interested in running this as a profit operation, you know, to make profit, if you like. We will continue to deliver the third party training as part of the agreement in the excess capacity at China Southern. And clearly, I don't want to say too much but clearly we did have, factual, we did have an exclusivity. Again, it was the first one in China. So we did have an exclusivity. Now we don't. So clearly, you know, China is a big market and it will be one of the largest markets if not the largest market in the world, so you would expect that we will want to, at some point, set up shop there. I would consider that very highly likely before too long.

Cameron Doerksen, National Bank Financial

Okay. Very good. Thanks very much.

Operator

Our next question comes from the line of Fadi Chamoun with BMO Capital Markets. You may proceed with your question.

Fadi Chamoun, BMO Capital Markets

Good afternoon. I want to go back to this Asian, strategic changes there. So, is it fair to say that CAE approach those two JVs with, the Zhuhai one and AirAsia one, to change the structure because you wanted to open the market and remove that exclusivity? Is that how we approach this?

Marc Parent, President & Chief Executive Officer

No. We have an ongoing dialoging with this airline over the years. I mean, in this case, it was specific events that in the case of AirAsia I think the fact of the matter is is that the CEO, I guess the airline itself wants to monetize assets that they have had. I think they have done it with other parts of their portfolio. I think their travel agency, they've done. And here, again, I'm just quoting the straight conversation I had with Tony Fernandes in their case that they wanted, they saw an opportunity to monetize the value that we both have created together in this training centre. And that for us, we get a very highly valued asset and we get a long-term training agreement out of this with AirAsia.

In the case of China Southern, I mean we're at a point in our relationship that, ah, in our joint venture where basically we're coming in to a 15-year point in the relationship where we had the conversation, and we continue as we go or not. I think that, you know, joint ventures in the end, you'll know, it's really how are the interests of the parties aligned? Are you strategically aligned? And, as I mentioned, this was our first training joint venture that we had. It was setup. The first one in CAE's portfolio. At the time, we were a products company, and it's been very highly successful. We've created a very highly, to quote the CEO or President of China Southern, a very highly successful pilot training facility. It's been a great outlet for CAE products. We've sold all of the simulators that are in that training centre.

So, going forward, I think the interest of China Southern and ours are going the way where our strategy is. And China Southern wants to concentrate on its training as the cost centre whereas we want to run a profit-making operation, as of course as we do in the rest of the business, and so it was a good time to go the way, in our respective ways in that sense. But, at the same time, it's an evolution of the relationship. As I said, we're going to sell excess capacity at the ZFTC. We're going to continue to be their partner for ab initio pilot training and equipment and support. So, again, I think it's a great win-win for both parties.

Fadi Chamoun, BMO Capital Markets

Okay, great. But it also means that those two airlines, AirAsia and China Southern, are basically not really interested in participating in the profit of the JV since they want to run the training. And we've in the past thought that this is like a big selling point on your approach in airline to outsource that training. Is that not the case?

Marc Parent, President & Chief Executive Officer

Well, I think it continues to be a strong selling point, it just emphasizes the fact that we're just doing it with Singapore Airlines, one of the premier carriers in the world. And I would disagree with you in the case of AirAsia or just point out that they are monetizing their asset. So they're taking the value that is being created, not only now but in the future, they're monetizing that value now. And I think at the same time they continue to retain the same service that they have with us, which is the training we provide. And we get a long-term contract. So, to me, that sets a great precedent for our business.

Fadi Chamoun, BMO Capital Markets

Yes. So, thanks for that colour, but one more quick one for Sonya. So the Zhuhai is probably a negative in terms of the contribution from Zhuhai going away and then AirAsia, I guess, positive. Is all of this sort of a wash as far as the guidance for this year?

Sonya Branco, Chief Financial Officer

Yes, so we're maintaining our outlook. Now there is a positive contribution from Zhuhai that would go away but with these deals upcoming they would relatively offset.

Fadi Chamoun, BMO Capital Markets

Okay.

Marc Parent, President & Chief Executive Officer

And if you're looking for colour, you know, we'll give you the exact numbers. Out of Zhuhai it's, ah, it was a dry lease operation that we ran and so if we just take that dry lease operation, so no consideration for sales of simulators, which are, mind you, we will now consolidate at 100% instead of 50%, but if you take just the training operation, on a run-rate basis it's $0.04 a share. So for this year's half year, so you can assume that $0.02 a share is lost on that. So clearly if we're maintaining our outlook, so we think it's going to be made up.

Fadi Chamoun, BMO Capital Markets

Okay, great. Thank you very much.

Operator

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

Our next question comes from the line of Benoit Poirier from Desjardins Capital Markets. You may proceed with your question.

Benoit Poirier, Desjardins Capital Markets

Thank you very much and good afternoon. Just to come back on the previous discussion, I was wondering if those discussions are mostly with emerging markets or do you see kind of a trend across airlines outside of Asia, Marc?

Marc Parent, President & Chief Executive Officer

No, I don't think the dynamics have changed. So the discussions are very opportune for airlines that don't have the infrastructure, such as, or have never created the infrastructure or we started with them from the beginning, and they're carriers are taking on a lot of aircraft. So I don't think the dynamics have changed much.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect. And with respect to the proceeds that are going to be received, the US$96 million, do you intend to place those proceeds in the coming year or it will take some time before you kind of use them?

Sonya Branco, Chief Financial Officer

Well, we'd expect to be using a portion of those proceeds in the upcoming AirAsia transaction, so to the point that it's essentially a portfolio shaping in our view.

Benoit Poirier, Desjardins Capital Markets

Okay. And those transactions, would expect they will be closing in Q2? Is that fair?

Sonya Branco, Chief Financial Officer

So the Zhuhai divestiture closed today, as at August 10, and we're ongoing in discussions with AirAsia.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect. And now if we look at Healthcare, obviously margins were below expectations. Just wondering about the implication of the simulator, Juno implementation, how should we be thinking about the margins going forward? Just wondering if this particular simulator has lower margin or it's basically ramping up volume that gives you confidence that margins will rebound.

Marc Parent, President & Chief Executive Officer

No, I think it's exactly that. No, the simulator, we're not anticipating low margin. What you're seeing mainly in the quarter is all the cost associated with the development ramp-up and launch of Juno, which together, just those costs alone in Q1 was about $1.7 million. And yes, the key here, as I said in my preamble, it's all about volume here. The products in Healthcare by themselves, there's not a product in there that doesn't have a good gross margin, and Juno is no exception right off the bat. So if we can be halfway successful in our ambitions of selling more, which we very much believe that we will, because the market is there. We've increased, we've got great product for the market, been very well received, and we've got the sales force to do it, and we're ready to produce it. So that's where the expansion in revenue and earnings will come from.

Benoit Poirier, Desjardins Capital Markets

Okay. And when you say that you remain confident to grow Healthcare, are you talking both in terms of top line and operating income for the year, Marc?

Marc Parent, President & Chief Executive Officer

Per our outlook.

Benoit Poirier, Desjardins Capital Markets

Yeah, for the outlook for Healthcare, yes.

Marc Parent, President & Chief Executive Officer

Yes. Which means both.

Benoit Poirier, Desjardins Capital Markets

Okay, perfect. And last one for me, there's a lot of discussion around M&A activity between UTC, Rockwell Collins, so any thoughts, Marc, on how this could impact CAE and valuation multiples?

Marc Parent, President & Chief Executive Officer

You'd be better placed to tell me about that. But I don't see it affect us right now. They play their game, we play ours.

Benoit Poirier, Desjardins Capital Markets

Okay. Perfect. Thanks for the time.

Operator

Our next question comes from the line of Chris Murray with AltaCorp Capital. You may proceed with your question.

Chris Murray, AltaCorp Capital

Thanks, folks. Just maybe cleaning up a couple of other housekeeping questions, Sonya, can you just kind of walk us through the calculation of the stock-based comp? It would have been something I would have thought there would have been kind of a quarterly accrual for, but if you can just explain why we had such a big jump in the quarter, that would be great.

Sonya Branco, Chief Financial Officer

Sure. And you're right, there is a quarterly accrual, and that's what's driving that expense. So the expense was due to really the sharp appreciation in the share price and the speed of that appreciation. So in just one quarter there was a significant appreciation and so you have that basket of all the existing plans, which includes many years of outstanding units and plans, which were revalued all in one quarter to mark-to-market with the updated share price. So what this does is it resulted in an unusually higher expense in just one quarter and resulted in a year-over-year $9 million headwind to both business units.

Chris Murray, AltaCorp Capital

Okay. So should we think about, like if we look at the magnitude of change between, I guess, the end of March and the end of June, that $9 million would kind of be the sensitivity based on the change in stock price, so should we just be starting to bake that into your SG&A comp? Is that the right way to think about it?

Sonya Branco, Chief Financial Officer

There's various variables to that compensation and so share price is one of them. So that's not the only one. So I don't think that would be an absolutely best measure. So, while it would be indicative, I don't think you can kind of do just a straight up regression on that.

Chris Murray, AltaCorp Capital

Okay, fair enough. And then, Marc, maybe another question, a little more longer term strategically. Boeing came out towards the end of July and talked about the fact that it wanted to make a significant move into developing its own avionic suite and, as part of that, driving more aftermarket. I mean one of the things certainly that's always been great, you know, Boeing has been at times a competitor, at times a customer, at times a supplier, so it's always interesting to see how this one evolves, but do you foresee any longer-term impacts from their decision to essentially take over the cockpit in its entirety?

Marc Parent, President & Chief Executive Officer

No. I think the impact, if any, would be more towards the manufacturer of those types of equipment.

Chris Murray, AltaCorp Capital

Yeah. I guess I'm just thinking about like does that give them a leg up in future simulator design or avionics or almost shut you out of markets as they design their own stuff, as they try to build more aftermarket support and services.

Marc Parent, President & Chief Executive Officer

No, I wouldn't think so. I think the... I mean, look, the fact, as you mentioned, is Boeing is both our competitor and a partner and we are a very good supplier. Like, for example, we provide all of the simulators for them for the P-8 Poseidon Aircraft, which is a militarized 737. So, no, I don't see that dynamic changing long term.

Chris Murray, AltaCorp Capital

Okay, great. Thank you, folks.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Thank you. Operator, we will conclude the Q&A session for investors at this point. If there are any other participants on the line who have more questions, I'll be available after the call. At this point I would like to open the line to members of the media, should there be any questions there.

Operator

Thank you. Once again, ladies and gentlemen, as a reminder, to register for a question please press the one followed by the four. Our next question comes from the line of Peter Diekmeyer with IHS Market. You may proceed with your question.

Peter Diekmeyer, IHS Market

Yes, good afternoon. I'm wondering if we could drill down a bit into the defence items. In particular, I'm wondering about, ah, if we can get an update on what's happening on your naval training facility that you guys are setting up, I believe in Qatar, and whether or not you see that as a platform to develop further opportunities in the naval sector and whether this is a material thing that we should be thinking about when looking at your overall defence numbers going forward.

Marc Parent, President & Chief Executive Officer

I think, like we've made no secret that I think we have capabilities beyond air, so I think it is an important contract that we had with the Qatar Navy. It builds on a contract that we delivered last year for the Swedish Navy. And, yeah, we are bidding to provide training capacity, both in equipment and in services, to navies around the world, because we see it as a good market. For example, here in Canada, that the Canadian military is going to be upgrading its fleets for the next few years, so I think clearly we wouldn't want to put ourselves forward. And, by the way, you had it mistake and I repeated it—it's not Qatar, it's the UAE Navy.

Peter Diekmeyer, IHS Market

Pardon me.

Marc Parent, President & Chief Executive Officer

So I think naval, it's in our portfolio and it's something that we definitely have capabilities that just carryover from our air experience, both in products and services, so I think we provide a lot of value and that's what we were able to bring forward for the navy in the UAE. And I think that will continue going forward.

Peter Diekmeyer, IHS Market

And how is that going in the UAE? What stage are we at right now? Is that centre operational or is that...?

Marc Parent, President & Chief Executive Officer

No. No. We just won the contract recently. We're in the start-up phases. One of the programs that Sonya talked about with regards to we're in the heavy R&D phase right now.

Peter Diekmeyer, IHS Market

Okay. Thank you.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Operator, if there are no more questions from members of the media, we'll conclude the call at this point. I want to thank all participants, investors, and media for taking the time to be with us this afternoon and I'd remind you that a transcript of today's call is available on CAE's web site at cae.com.

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 line.
