REMARKS FOR CAE'S SECOND QUARTER FISCAL YEAR 2018

November 10, 2017

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Ms. Sonya Branco, Vice President, Finance, and Chief Financial Officer

Mr. Andrew Arnovitz, Vice President, Strategy and Investor Relations

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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 FY18 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, November 10, 2017, and accordingly are subject to change. Such statements are based on assumptions that may not materialize and are subject to risks and uncertainties. Actual results may differ materially and listeners are cautioned not to place undue reliance on these forward-looking statements. A description of the risks, factors and assumptions that may affect future results is contained in CAE's Annual MD&A available on our corporate website and in our filings with the Canadian Securities Administrators on SEDAR at www.sedar.com and the U.S. Securities and Exchange commission on EDGAR at www.sec.gov.

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

After remarks from Marc and Sonya, we will take questions from financial analysts and institutional investors. Following the conclusion of that Q&A period we will open the call to questions from members of the media.

Let me now turn the call over to Marc…

Marc Parent, President and 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 to talk about our outlook.

Our performance in the second quarter continued to support our outlook for the full year. The results in Civil continued to be strong and our Defence and Healthcare segments showed positive momentum. Overall, we saw a high level of business activity with total orders for the quarter reaching $931 million, including $516 million from Defence customers.

Looking specifically at **Civil**, we booked orders for $388 million, including 11 full-flight simulators, and long-term training contracts with customers including, Iberia Airlines, Brussels Airlines and Endeavor Air. For the quarter, Civil had double-digit percentage operating income growth and we filled our training centres to a seasonally typical, 70% utilization.

In **Defence**, growth momentum improved as we continued to ramp up programs from our backlog. New orders included C-130J trainers for the U.S. Air Force and Air National Guard and a contract to continue providing helicopter aircrew training to the U.K.'s Royal Air Force. Defence also signed an order for more T-44C aircrew training for the U.S. Navy and received contracts from the U.S. Air Force to continue training for the KC-135 aerial refueling aircraft. Also with the U.S. Air Force, we signed a contract involving training aircrews on the Predator and Reaper remotely piloted aircraft.

And in **Healthcare**, we also saw more momentum with the launch of new products and the ramp up of our expanded salesforce. Customer response to CAE Juno, our latest simulator for nursing, has been positive with initial sales meeting our expectations. In fact, we began delivering our first Juno units during the quarter. CAE is the innovation leader in healthcare simulation and I'm proud that we've recently been recognized with industry awards, including the prestigious Unity Impact Award for our VimedixAR ultrasound simulator. This is a mixed-reality solution that integrates the Microsoft HoloLens.

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?

Ms. Sonya Branco, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

Consolidated **revenue** for the second quarter was $646 million, and quarterly **net income** was $65.2 million, or 24 cents per share. This includes a gain of approximately 2 cents per share from the divestiture of the Zhuhai Flight Training Centre. By comparison, in the second quarter last year, earnings per share before specific items were 21 cents.

Income taxes this quarter were higher than usual at $24.8 million, representing an effective tax rate of 27%, compared to 16% for the second quarter last year. The higher tax rate was mainly due to the gain on ZFTC and a negative impact from tax audits in Canada this quarter. Excluding the ZFTC impact, the rate would have been 23%.

Free cash flow from continuing operations improved in the second quarter, reaching $63.5 million, up from $27.3 million last year. The increase came from a lower investment in non-cash working capital and an increase in cash provided by continuing operating activities. As in previous years, we expect a partial reversal of non-cash working capital investment in the second half.

Uses of cash in Q2 included funding **capital expenditures** for $24.4 million and we invested $24.7 million to consolidate training capacity in the market by acquiring a portfolio of existing simulators. In terms of shareholder returns, we distributed $23.2 million in cash **dividends** and we used another $19.9 million to buy back stock under the **NCIB** program.

Our financial position continued to be strong with **net debt** of $670 million at the end of the quarter for a net debt-to-total capital ratio of 24.1%. Also, **return on capital employed** increased to 11.2% this quarter compared to 10.7% last quarter.

Now looking at our segmented performance…

In **Civil,** second quarter revenue was 2% lower year over year to $349.0 million, mainly because of some FX translation headwinds and timing differences related to the deferral impact of the accounting for standardized simulators. Notwithstanding these elements, operational activity in Civil was strong as demonstrated by operating income, which was up 16% year over year to $62.8 million, for a margin of 18%. These numbers exclude the gain on divestiture of ZFTC.

On the order front, the Civil book-to-sales ratio for the quarter was 1.11x and for the trailing 12-month period it was 1.03x. Civil's backlog at the end of the quarter was $3.1 billion.

In **Defence**, second quarter revenue was up 6% over Q2 last year to $268.7 million and operating income was up 3% to $30.0 million, for an operating margin of 11.2%. Business development activity was especially strong in Defence in the second quarter, leading to a Defence book-to-sales ratio of 1.92x for the quarter and 1.53x for the last 12 months. Defence backlog at the end of the quarter was $3.6 billion.

And finally, in **Healthcare**, second quarter revenue was $28.3 million compared to $27.6 million in Q2 last year. Healthcare's segment operating income was $2.2 million in the quarter compared to $2.6 million last year. This represents good progress given our ability to absorb the higher SG&A associated with the expansion of our sales force and the development and launch of our new products, which position us for higher growth.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya;

The macro environment remains favourable for CAE and we're on track to deliver on our outlook for the year. We expect to continue winning our fair share of opportunities and to convert them into top and bottom line growth.

In **Civil,** pilot training demand remains well supported by high rates of commercial passenger traffic and improved aircraft utilization in business aviation. And in an environment where airlines are having to find new approaches to meet their pilot staffing requirements, CAE is becoming even more valuable with its comprehensive, cadet-to-captain, training solutions.

On the business development front, we're making good progress to conclude the two new deals in Asia we announced last quarter. Namely, the new joint venture with Singapore Airlines, which we expect to finalize in the coming months, and the purchase of AirAsia's 50% share of our training joint venture, which should be concluded imminently.

We feel good about CAE's position and prospects, and we have a solid opportunities pipeline in Civil from which to grow our share of the large global aviation training market. Our outlook for the year continues to be for 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 been able to sustain a large pipeline as well. Even though we converted more than a half billion dollars worth of pipeline into orders in Q2, we've already replenished it to over $4 billion of active proposals submitted and pending customer decisions. This is a testament to the substantial opportunities we continue to find in an environment of rising defence budgets and a high emphasis on mission readiness. Momentum is positive for our Defence business and our outlook for mid to high single digit growth this year remains unchanged.

And finally, in **Healthcare**, we continue to expect to resume growth this year on higher sales from our pipeline and the launch of new products, which will put us on course for long-term double-digit growth.

The positive reaction to our new products like, CAE Juno and CAE VimedixAR, gives credence to our innovation leadership and we see good opportunity for CAE in this market. The use of simulation for the education and certification of healthcare professionals is being driven by a greater focus on the quality of patient care and a desire for standardized, competency-based training. I believe we have the right focus and I'm confident the investments we've been making in products and people in the Healthcare segment will provide long-term value for shareholders.

In summary, we have the benefit of positive tailwinds in each of our three segments: Civil, Defence and Healthcare. We have significant headroom in large and growing markets that are characterized by a high degree of recurring business. We also have a strong competitive position based on our unique solutions and global reach. We believe these advantages, together with our deep culture of innovation, give CAE the potential for superior returns over the long term.

Before we open the line to questions, I want to add how very pleased I am that Michael E. Roach has joined the CAE Board of Directors. As I'm sure most of you will know, Michael served as President and Chief Executive Officer of CGI from 2006 to 2016, where he led a highly successful growth strategy and enabled the company to become one of the foremost IT and business process services firms in the world. His experience leading a global solutions company such as CGI, with its comprehensive portfolio of services, make him a truly great addition to CAE's Board.

With that, I thank you for your attention. We're 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.