



**CAE'S 2020 ANNUAL MEETING OF SHAREHOLDERS**

**Mr. Marc Parent, President and Chief Executive Officer**

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

**Wednesday, August 12, 2020**

**Montreal**

**ENGLISH VERSION**

## **(VIDEO PLAYS)**

Thank you, John.

Good morning Ladies and Gentlemen and welcome to CAE's first virtual Annual General Meeting. We appreciate everyone joining us and adapting to this new format. None of us would have ever imagined how much our world has changed since COVID-19. Lives and jobs have been impacted, and many of us have grappled with anxiety and stress. Everyday heroes became more visible than ever – and on behalf of CAE, we'd like to thank frontline workers for their life-saving work. To all of you with us today, we sincerely hope to find you in good health, with a renewed sense of resilience and community.

As you saw in the video, we demonstrated once again what we can do as One CAE. As one team, we answered adversity with Innovation, Diversity, Human values, Agility and Resilience.

We were leading CAE towards what would have been yet another record year when the COVID-19 pandemic impacted us during our fourth quarter, which is normally our strongest quarter of the year. True to our mission of safety, our first response was to take decisive action to protect the health and safety of our employees and customers — and this continues to be our foremost priority today.

I am exceptionally proud of how our CAE employees responded worldwide. Throughout the past few months of this pandemic, amid lockdowns, closed borders and many other complex challenges, our employees have taken initiative and ownership finding ways to ensure the continuity of our customers' most critical operations, and ensure we continue to earn the privilege of being our customers' partner of choice. And they did this while facing their own difficult situations at home.

We could not stand idly by while fellow citizens of the world infected by COVID-19 struggled even to breathe, while hospitals became overwhelmed, confronted by increased needs for critical medical safety equipment, especially ventilators and personal protective equipment. We felt it was our responsibility to find ways to apply our strengths of innovation and speed in a meaningful way to support hospitals and front-line healthcare workers fighting to save lives.

As an example of CAE's culture of innovation and our ability to adapt quickly in a crisis, our employees came together to use their engineering and scientific skills to design a critical care ventilator. It started with 12 engineers developing a prototype, and it took just 2 months to design and manufacture this ventilator, starting from scratch – a true testament to our agility. Today, close to 500 CAE

employees are working together to deliver on a contract with the Government of Canada to manufacture 10,000 “Made in Canada” ventilators. I am proud of our team for rising to this humanitarian challenge and strengthening Canada’s self-sufficiency in the medical field during these exceptional times. Such an accomplishment speaks volumes about who we are.

So although we had a momentum for an even greater year, the pandemic and the new business complexities that followed confirmed what we are capable of, and we look back on this past year with a proud sense of achievement.

### **(Fiscal 2020)**

Notwithstanding the impact of COVID-19 headwinds on what is typically our best quarter of the year, we achieved strong performance overall in fiscal 2020.

Let’s have a look at what we have accomplished in our different segments over the past year.

### **(Civil aviation)**

In Civil – the largest of our three business units – we exceeded our annual outlook and continued to make a valuable contribution in shaping the future of training by delivering innovative and full-service cadet-to-captain training solutions.

We signed additional contracts with airlines outsourcing their training to CAE, sold 49 full-flight simulators, and delivered once again more than one million hours of training this year, underscoring CAE’s position as the largest Civil aviation training company in the world.

Among the contracts we signed were long-term training agreements with airlines including JetSmart Airlines, and Sunwing Airlines. In business aviation, we won long-term training contracts with customers worldwide, including TAG Aviation Holdings, JetSuite, Solairus Aviation, and Flightworks Inc.

Taking care of our customers, who were heavily impacted by the crisis, is more important than ever and we supported them in different ways while ensuring their safety and that of our employees and their families by working on virtual training solutions.

Our performance would have been even better, but as the pandemic set in, Civil saw a significant decrease in training services demand following the reduction in airline and business aircraft operations globally, and the disruption to the global

air transportation environment. Several of our Civil aviation training centres closed temporarily due to travel restrictions and local self-isolation measures worldwide.

### **(Defence & Security)**

In Defence & Security, our training is an essential service to allied defence forces – and it remains crucial during a pandemic.

But this part of our business was also affected by the pandemic in the last quarter of the year. A range of programs and contract awards with defence and OEM customers encountered delays principally due to travel bans, client access restrictions and supply chain disruptions. In the Middle East, the combined effects of the pandemic and lower oil prices resulted in work on certain programs to be halted and new contract awards to be materially delayed.

Despite the headwinds, key wins included contracts to continue providing KC-135 aircrew training services and simulator upgrades for the U.S. Air Force, multiple contracts from Lockheed Martin for C-130J simulators and upgrades, a contract to provide the German Navy with a comprehensive training solution for the NH90 Sea Lion helicopter and a contract to provide the French Air Force with another Pilatus PC-21 full-mission simulator, and the first sale of the CAE Medallion MR e-Series to BAE Systems for Eurofighter Typhoon simulators.

### **(Healthcare)**

While CAE Healthcare's performance was also impacted by the pandemic in the fourth quarter, we continued to elevate our position in the market with digital solutions. We won the EMS World Innovation Award for CAE AresAR, the Microsoft HoloLens application for our emergency care manikin. We also launched innovative products including new Anesthesia SimSTAT simulation modules, multiple custom simulators for OEMs and medical device companies, such as Baylis Medical and Edwards Lifesciences.

CAE Healthcare was also behind the key humanitarian contributions we made in the fight against COVID-19. Early in the pandemic, it launched simulation-based training solutions to prepare healthcare workers to fight the pandemic and train personnel in the safe practice of ventilation and intubation, which is key to saving lives. Additionally, CAE leveraged its global supply chain to source scarce N95 masks in support of front-line workers in Quebec and Manitoba, doing its part to help keep healthcare workers safe.

## **(Activity Report)**

The value CAE creates goes well beyond financial results.

In November, we announced our commitment for CAE to become carbon neutral – and next month, we will become the first Canadian aerospace company to achieve such an important milestone. We also created a Climate Change Committee to oversee the integration of climate-related issues into CAE’s business strategy. For the first time this year, we aligned our reporting to the Task Force on Climate related financial disclosure (TCFD).

We also furthered our Diversity and inclusion initiative, strengthening our stance against discrimination and investing in women development - and I am proud to say that I can count on four strong women leaders, out of the 10 members of my own executive team. We launched three Employee Resources Groups, selected by our employees, to foster a sense of belonging and inclusivity – one for parents of children with special needs, one for LGBTQ2+ employees and one for Women in Aviation and Technology. A fourth group based on race and ethnic background will open for members in the coming weeks. I personally signed the Black North Pledge, along with 200 Canadian CEOs, to fight anti-Black systemic racism in corporate Canada.

And most importantly, we pulled together as One CAE to face COVID-19, and put safety first, always. As a worldwide company with sites and activities in more than 35 countries, we approached this situation with the same mindset that guides us in all that we do – with a worldwide perspective. We rallied to address and overcome challenges in a global situation that evolved on a daily basis.

I invite you to read our interactive online Annual Activity and Corporate Social Responsibility Report to find out more.

(PAUSE)

Now I’d like to ask Sonya Branco, our Chief Financial Officer to provide us with an overview of our financial results.

## **Sonya Branco, Vice President, Finance and CFO**

Good morning ladies and gentlemen.

As Marc mentioned, CAE delivered a strong annual performance despite the COVID-19 impact during its fourth quarter of fiscal year 2020.

Annual revenue was up by 10% to \$3.6 billion, and annual net income before specific items was \$359.7 million, or \$1.34 per share, which is up 7% compared to the previous year. We had \$3.8 billion in annual orders and \$9.5 billion backlog, which underline CAE's positive momentum as the world leader in aviation training.

(PAUSE)

For fiscal 2021, we saw the full brunt of the COVID-19 pandemic hit us during the first quarter with sharply lower demand and major disruptions to our global operations. Our revenue was down 33% versus last year, segment operating loss was \$110.3 million including non-operational costs of \$108.2 million relating mainly to impairment charges as a result of the continued negative impacts of the COVID-19 pandemic. Excluding these costs, segment operating loss before specific items was \$2.1 million this quarter compared to a segment operating income before specific items of \$113.3 million (13.7% of revenue) last year. Earnings per share was negative \$0.11 before specific items, compared to \$0.24 last year. On the order front, we booked over \$417.1 million of orders, for a solid \$8.6 billion backlog.

As the pandemic began to spread, the impact was abrupt and acute. In response, we acted quickly to ensure the health and safety of our employees and customers. We asked all our employees who were not performing essential services to work from home.

As the number of commercial flights started to decline, we proactively took decisive yet flexible actions to protect our operations, safeguard our financial position and mitigate the impact on our employees. We implemented extensive cost-containment measures including temporary layoffs, salary freezes, reduced work weeks and temporary salary reductions, significantly reduced capital expenditures and certain R&D investments and temporarily suspended our common share dividend and share repurchase plan. We also secured additional credit lines for greater liquidity.

At the same time, we worked to access government emergency relief measures and wage subsidy programs in countries where we operate to mitigate the impact on our employees. Our employees have always been at the core of CAE's success, and while we regretted the hardship these temporary measures had on those affected, especially during these difficult times, they allowed us to

significantly mitigate the impact of the pandemic, and maintain a solid financial base during the worst time of our industry's history. And as a result of these decisive actions, we were able to mitigate our loss and secure a cash performance in the quarter that was better than that of our first quarter last year.

In Civil, mandatory temporary facility closures and travel restrictions presented our customers and us with considerable challenges. We were also required to temporarily suspend substantially all manufacturing at our main facility. Nevertheless, we still delivered two simulators during the quarter and averaged 33 percent utilization of our training network. At the worst point during the first quarter of FY21, utilization touched down in the low 20 percent range with more than half of our global training network either closed or on reduced operations. Since then, we have seen training centre utilization increase to upwards of 40 percent, as our facilities have reopened, and flight crews have resumed some of their critical training activity. In Defence, the pandemic contributed to delays in the execution of programs from backlog and in order intake. A range of global defence programs involving government and OEM customers experienced delays due to travel bans, border restrictions, client access restrictions and supply chain disruptions. And in Healthcare, the market for simulation products are academic institutions and nursing schools that were under lockdown protocols, which negatively affected Healthcare's ability to conclude contracts and to deliver on existing orders.

Subsequent to the end of the first quarter, we announced that we will be taking additional measures to best serve the market, by optimizing our global asset base and footprint, adapting our global workforce and adjusting our business to correspond with the expected lower level of demand for certain of our products and services. These measures also include the introduction and acceleration of new digitally enhanced processes.

As a result of these measures, CAE expects to record restructuring expenses of approximately \$100 million over the next 12 months, consisting mainly of real estate costs, asset relocations, and other direct costs related to the optimization of our footprint and employee termination benefits.

Taken together, these measures are expected to enable CAE to emerge from the current period from a position of strength and the Company expects to fully realize cost reductions of approximately \$50 million annually from fiscal year 2022.

In the short-term, CAE expects to generate negative free cash flow in the first half of the fiscal year, resulting from the acute pandemic impacts on demand and operations, and a seasonally higher level of investment in non-cash working

capital accounts. We expect positive free cash flow in the second half of the fiscal year.

The extended-term outlook for the Company remains compelling, with potential for compound growth and superior returns over the long term. Led with a culture of innovation, empowerment, excellence and integrity, CAE expects to emerge even stronger as a result of its optimization initiatives and acceleration of enhanced processes.

Thank you for your attention and I now turn the podium over to our CEO, Marc Parent.

### **Marc Parent, President and Chief Executive Officer**

Thank you Sonya. Let's now look at the way forward.

The COVID-19 pandemic disrupted the world with exceptional speed and magnitude. Global air transportation and air passenger travel were especially hard hit. Have a look at this animation: this is what a typical day looked like for commercial air travel before we felt the effect of the pandemic: over 100,000 aircraft carrying 8.6 million passengers every single day. This is our market... Look at it a few days later, at the height of the pandemic, less than a quarter of the aircraft are flying. And in some countries, like Canada, there were hardly any flights at all.

Remember these images from March? Deserted, eerie airports, thousands of planes grounded. Although things are not as dreary now, IATA is still forecasting commercial passenger traffic to be down 50 to 60% this year, and a recovery that could take three years before getting back to pre-COVID levels.

Looking ahead, we are planning CAE's future from a position of resilience and strength. We have global leading market positions, recurring revenue streams, attractive end markets in Civil, Defence, and Healthcare, as well as a solid financial position.

It may take some time before things get back to normal -or there may be a 'new normal'- and we are preparing for it. We have identified opportunities for cost-savings, we have launched programs focused on improving efficiency, we have adjusted our workforce to increase CAE's resiliency and remain competitive. We are redoubling our efforts to seek out more business in all areas: offering airlines to outsource their training activities to CAE, focusing on growing our defence and



healthcare businesses and putting a strategy in place to sell our CAE Air1 ventilator around the world. We will also invest more in areas that will position us for the future such as digital and data solutions.

We are also embarking on a transformation to drive efficiency. We know the current downturn is temporary, but COVID-19 will have fundamentally changed the world and the way we all work and live. This is an opportunity for us to rethink the way we operate, transform our processes, policies and approaches, and to create structural and recurrent savings, which will make us even more competitive when we return to normal times.

As our core end markets recover, our customers' challenges could translate into new opportunities. For example, in **Civil Aviation**, global airlines cite the return-to-service for pilots as one of their top concerns. Being close to our customers positions us well to proactively address this need.

Pilots were deeply impacted by COVID-19. To support them, we launched Airside, a digital platform which brings the pilot community together and provides them with career and training resources to prepare them to fly again. We also created new online courses to train pilots and maintenance technicians remotely.

In **Defence**, we maintain our leading position as a training and mission support partner thanks to our leading-edge capabilities in translating the physical world into the synthetic world.

We are expanding beyond training to become a leader in digital immersion. Our expertise in the integration of live, virtual and constructive training is providing attractive inroads into that market. We have a large backlog of contracts with government customers to provide training solutions and operational support services that are considered essential to national security. Looking ahead, while we are expecting fiscal pressures as lower oil prices are affecting some of our customers, the long term outlook for Defence continues to be supported by a large addressable market.

We just announced this week the nomination of Dan Gelston as our new Group President, Defence & Security. Dan is a proven leader with more than 20 years of experience in the U.S. military, intelligence community and the global defence industry, and I am confident that his industry experience and proven leadership will propel our Defence business to reach its full potential.

In **Healthcare**, our purpose, mission and passion is to make healthcare safer, and looking forward, the secular shifts ahead appear promising. We continue

to believe CAE Healthcare is well positioned to capitalize on this change in the appreciation of the critical role of healthcare simulation and training to improve safety and to help save lives -not only during a healthcare crisis, but also during normal times. With its innovative products and demonstrated agility, we expect Healthcare will become a more material part of the company over the long term.

(PAUSE)

Tough times require new thinking. This crisis and our response, as shown by the CAE Air1 ventilator, have made us look beyond. CAE is undoubtedly a Canadian high-tech powerhouse that excels at the nexus of three strategic areas: knowledge leadership, industrial infrastructure, and advanced technologies. The pandemic has highlighted our capabilities, and we are ready to support high tech solutions in many sectors for Canada.

We believe certain trends will arise in greater force post-COVID-19, such as e-learning, remote work, the imperative on safety, and the digital transformation and virtualization of the physical world. CAE's core capabilities align very well with these future needs and we will make use of the current period to further reinforce our technological expertise. To better seize these new opportunities, we strengthened our executive leadership team by welcoming Heidi Wood as Executive Vice-President, Business Development and Growth Initiatives. Heidi is playing a key role in maximizing opportunities that provide cross business unit growth, enable business units to better share ideas and knowledge, capture exciting opportunities faster and leverage them into new markets.

**In summary**, we are confronting a challenging period in CAE's history due to COVID-19 and we immediately took action to secure the safety and well-being of our employees and customers, and to safeguard the best interests of our company and shareholders. We drove ourselves to innovate rapidly in response to an urgent need for ventilators, safety masks and better medical training; we wasted no time and we are proud of our own agility in the process.

But this one year does not convey the whole story, and perspective gets richer when looking farther out. We have been building revenue, Earnings Per Share (EPS) and backlog steadily year upon year with an expectation to deliver consistency, reliability and excellence.

CAE has consistently outperformed the Toronto Stock Exchange (TSX), even with COVID-19. And in the last 11 years, CAE stock is up 200% vs. the TSX's 70% move. So clearly, while some years will have volatility, including managing through a global pandemic, when you examine us over the long term, we have

shown and will continue to demonstrate a willingness to make the right decisions in support of a broader long-term vision.

CAE's fundamentals remain solid and the ability to respond to challenges with agility is at the very core of why CAE excels as a global market leader and innovator.

We will forge ahead in applying leading edge technology to significantly improve our customers' experience. As the industry thought leader, we are paving the way to transform the very fundamentals of training and operational support in Civil, Defence and Healthcare.

CAE is and will remain a highly innovative company with over seven decades of industry firsts under its belt. COVID-19 has temporarily disrupted our markets, but certainly not derailed our growth story. The fundamental drivers for civil aviation are intact – people will continue to fly. We will seize the opportunity to grow our business throughout this pandemic, as airlines are looking to outsource more. Defence has proven to be an essential, critical service, especially in times of crisis, and our Healthcare business is more relevant than ever. We will continue to invest in CAE, strategically positioning ourselves and making sure that not only our core training business remains intact, but also seeking out new opportunities to grow in adjacent areas, and continue to invest in digital and R&D.

I am absolutely confident that we will weather this storm and come out of this crisis better and stronger.

I commend CAE employees for their dedication and excellence during this pandemic, and I thank them for their contributions. I am proud to lead this great company, an industry leader, playing a key role in making the world a better and safer place.

I would also like to thank all the members of our Board for their advice and support, and of course you, our shareholders, for your trust.

Thank you.