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QUESTION AND ANSWER SESSION

Andrew Arnovitz, Senior Vice President, Investor Relations & Enterprise Risk Management

Thanks, Marc. Operator, we'll now open the line to members of the investment community for their questions.

Operator

Thank you. If you would like to register a question, please press the one, four, on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the one followed by the three. Once again, to register a question, please press the one, four, on your telephone. One moment please for the first question.

Our first question comes from Kevin Chiang with CIBC. Please proceed.

Kevin Chiang, CIBC World Markets

Hi. Thanks. Thanks for taking my question and good afternoon, everybody. Maybe I could dig into some of the details you gave in terms of what happened in defense. Marc, it sounds like you're confident that the provisions you've taken only relate to these two contracts. But I guess, historically, when we look at these types of issues, a lot of times, it ends up being a lot more systemic than just one or two contracts.

And maybe you can give us a sense of why you're confident that the issues that you found are isolated to these two contracts. Maybe what may make these two contracts unique and why it's not more systemic in your backlog? And maybe any changes in your bidding process that might have occurred as a result of this revaluation?

Marc Parent, President & Chief Executive Officer

Yeah. Maybe I'll take it in two parts, Kevin. Look, I'll be the first one to tell you that the performance in the quarter certainly doesn't meet our expectations or my expectations for the defense business as a whole. And look, I'll start with maybe the specific charges that we took. Again, I'm not happy with them. And these were surprises to us that occurred in June as a discrete customer-led event that caused us to recognize these. But we re-baselined both programs following the cautionary discussions we had in June. And I think we've taken an appropriate approach going forward and having to recognize the charge that we took.

And to give you a little bit more colour on them, just to tell you, that I feel pretty confident that we can isolate these programs, because you would imagine they're just taking the step back a second, when you get impacts such as we've seen here. It forces a complete review of everything in your portfolio. You would have expected me to do that.

So just to go back on the programs. On the first one, on the Navy training contracts, Sinatra. This is where the customer demand has really outpaced our expectations. As I said in our remarks, we train at five naval air stations. And the Navy has been training at a very, very high rate, higher-- and I'll be very frank with you, higher than we did -- and we did this years ago. It's a legacy contract.

Now, we have put cost reduction measures in place to improve the profitability on that program. But what's happened now, is they're shrinking time to realize the benefit because the contract comes to an end at the end of this fiscal year. And you ask, well, how could that be? Well, what happened here is that we, and we have very good reason to believe this, we anticipated that the customer would have extended this particular contract at updated terms.

As I said, there's less than nine months left in the period of performance. But somewhat to us, very surprisingly, we had yet to get an RFP. Which, frankly, as I said, it's pretty counterintuitive, given the very high customer usage to date. I mean, they're really, really trying very hard. Now, given the shortened period of performance, we just have no runway left to take account of any equitable adjustments, any measures that we've taken to reduce cost. There's just not enough time, so we had to take the charges.

Now, we haven't factored that these--any extension of contract, which I fully intend to happen. So that's one to stay tuned on, but we haven't taken a benefit of it. So I think we've taken a conservative, prudent approach here.

Now, on the other contract, on the classified contract that I mentioned, this is really initial work on, I would tell you, an area of opportunity for us that really got impact on COVID-19 most recently. Again, I don't like the cost growth on that program, but I can tell you that because of what's happened here, I was on site on that program just less than two weeks ago. And I like to be able to look in the whites of the eyes of program managers, of engineers, of people working on the program. And I feel very confident about the re-baselined program. And I can promise you that this team is extremely diligent and will be even more so in evaluation of the schedule and not only this program in all of our programs.

And not just to validate--if I go back to this program itself, not just to validate our cost estimates, which we've done, but to make sure that we're positioning ourselves to capture the long-term opportunity that this program sets up on this program. Because as I mentioned in my remarks, the follow-on work on this contract is very large. I'm talking an order of magnitude here with the potential for very attractive margins when it reaches a mature state of production.

So look, I'm not happy. But none of this, to me, changes our long-term outlook for the defense business that we outlined, for example, at the Investor Day. Our orders, as you've seen, have been outstanding. We're tracking some very large opportunities. And with respect to short-term cost impacts, we have put a number of very specific actions in place already to address the challenges in each category, whether it be manpower, whether it be parts, or any other factors affecting us.

I can tell you personally, in my 35 years in the aerospace industry having managed very large programs in the past, full aircraft, the aircraft developer programs, I've seen this kind of thing before. Big work introduces its very, very specific challenges. But I can tell you, I'm all over it. The team's all over it. And you're going to see us making progress in the margin rates in the coming efforts as those efforts take hold, and that's what we reflected in our outlook.

Kevin Chiang, CIBC World Markets

That's helpful colour. And maybe just, like you just had an Investor Day, let's call it in the middle of the quarter, the middle of the previous quarter. I guess, these issues weren't evident at that time, I guess, just to state the obvious, when you agree from the outlook at that point in time. I guess, at what point did you realize that you had to start taking these provisions?

Marc Parent, President & Chief Executive Officer

Late June, late June. That's when it happened. And yes, it did come as a surprise. I don't like surprises. You don't like surprises. We don't like surprises. But that's what happened. And as I said--as I highlighted in remarks, the discrete charges, they're non-cash. They're onetime in nature. We've re-baselined every program in the portfolio. We've taken very specific actions on the rest of our programs. So I'm quite confident going forward.

But if I expand it, look, and even--and I'm sure the follow-on question might be that, and I think we've incorporated it in the remarks, that even if you take those two charges out, the three charges, the profitability of our defense business in the quarter is still very low. And I think we expected that. We expected that.

Now, I would tell you, I didn't expect that much, to be very frank with you. We knew it would be back half. So if it wasn't for the charges that we've taken here, I think we largely could have probably maintained our outlook. But what we've had here, we just can't--I couldn't expand upon that.

Kevin Chiang, CIBC World Markets

No, that's super helpful. I'll leave it there and thank you for taking my questions.

Marc Parent, President & Chief Executive Officer

Thanks.

Operator

Our next question comes from Fadi Chamoun with BMO. Please proceed.

Fadi Chamoun, BMO Capital Markets

Yes, thank you. Good afternoon. I guess I got a couple of questions. One, is the guidance for mid-20% EBIT growth, if we're assuming Civil is still on track to be mid-30% EBIT growth, really implies a very strong performance in the defense in the next nine months. Like, you would have to be doing almost 45% growth in EBIT in defense in the next nine months to basically be in that mid-20% EBIT performance for the year.

So I just want to make sure I'm understanding this because excluding the charges, the underlying profitability in defense was only 2%, and you seem to suggest that the headwind that kind of pressured that margin will continue at least into the second quarter.

Marc Parent, President & Chief Executive Officer

Well, it will gradually abate, but we're still going to see it in the second quarter. And as I said, we see more of a substantial uplift in the second half, which has always been our outlook. Look, I'm not going to break it down from a sector standpoint, Fadi. We purposely did not do that. You would expect, I think, that when you have issues like we had in the quarter, we are adopting a company-wide effort on this. We are taking actions that not only affect the defense business, but the business as a whole to maintain the profitable growth profile that we've indicated in our outlook.

The other thing I would tell you is that I talked about some of the orders--although we've done really--I would say, really well in the quarter on orders and especially on defense orders, I think we've said in the past that not all orders are created equal. And there are some orders that we really, frankly, totally expected to happen in Q1 that did not happen.

Now, some of those orders, we have won them subsequently, I can tell you. And the ones I'm talking about, which convert into revenue faster, are product orders. And therefore, when you take all of that into fact, into consideration, you will get to the outlook that I talked about.

Fadi Chamoun, BMO Capital Markets

Okay. Now, maybe the follow-up is, I mean, you've always run a very kind of fixed cost contract business in the defense. I think the majority of your revenues are fixed contract business. We've never really had the types of contract issues in the past. Is there--like, what's different that happened kind of recently to kind of make these cost performance deviate so much from your assumption?

I guess you gave some explanation on the U.S. Navy contract. But is there anything changing in how the business is being awarded or the risk profile that you're taking on these contracts that increases the risk of margin in defense? Or is this just a unique one-time kind of event here?

Marc Parent, President & Chief Executive Officer

Look, I think you're right. Look, first of all, you're absolutely right, that we haven't seen this before. And again, all the time that I've been at CAE, we have never seen this much impact in one quarter. No, you're absolutely right. And we haven't had a habit of running out of contingency on a program like that. And as I mentioned before, the CNATRA 1, which is part of the chart, very specific in nature, because of the contract not being renewed at the time that we thought it would. We still think it would. So that's one factor.

Just maybe to give you an idea, you talked about the firm fixed price. About 80% of our contracts are about firm fixed price. Now, that's actually--that's a much better picture than we were before the L3 Harris transaction now. And I wouldn't be overly precured by that number because, remember, there's a lot of service contracts in there. And service contract, we are very, very high predictability. And all of the others, as I talked about, again, you get an event like this, it forces you. I'm not saying that we weren't monitoring the programs before, but clearly, there's an extra level of scrutiny that occurs when a program like this happens.

And when we look at the contract, the fixed price contract that we have for the classified program that I visited just a couple of weeks ago, this is a very complex program. And to be--we inherited this contract through the acquisition of L3 Harris. Would I wish that this contract, which is a development program had been bid differently as not a firm fixed price contract? Yes, I would have.

Do I think we could have done a better job? I think, in hindsight of seeing that the fact that we have literally over 60 very highly cleared personnel working on this contract, that were off on COVID for a lifetime and finding it very hard to replace them because they're cleared personnel. Could we have seen this thing better? In hindsight, I would tell you, yes. And I would tell you the measures that we put in place for increased level of program management oversight at all levels of the company are there.

So I'm pretty confident. And in terms of extra factors, what's changed? I would tell you that what's changed is that what you see--I mean we're not alone in this case. You see across the industry, labor shortages, supply chain pressures, contracting delays, and that's impacted our results significantly. We anticipate some of those. They're worse than we thought.

Now, one of them is labor. Now, when I look at our labor hiring in the last couple of months, we have reversed the curve or actually--yeah, actually, we are on the positive trend now. So we have the labor we need to be able to secure the contracts for the assumptions that we've made. So maybe I'll stop there, Fadi.

Fadi Chamoun, BMO Capital Markets

Okay. Appreciate it. Thank you.

Operator

Our next question comes from Cameron Doerksen with National Bank Financial. Please proceed.

Cameron Doerksen, National Bank Financial

Yeah, thanks very much. I guess a question on the Healthcare business. I mean, I appreciate it's still pretty small, but there's been, I guess, maybe this is not the right term, but a bit of a revolving door on leadership of that business. So I'm just wondering if you can maybe talk about the change there? Why should investors think that this business is now going to be on track to ultimately getting to more consistent profitability?

Marc Parent, President & Chief Executive Officer

Well, like I said, Cameron, I absolutely understand this is a 'show me' story. What I would tell you is the 'show me' with six consecutive quarters of double-digit revenue growth has to translate into bottom line growth. I've said it before and it's true. It continues to be true that we've invested substantially in R&D and SG&A, meaning sales force, to be able to get the results that we have.

I would tell you the change that we had at leadership of Healthcare has gone very, very well. I'm not going to comment, although I will agree with you that we have had somewhat of a revolving door in Healthcare. Cannot debate that with you.

I can tell you that I'm very, very happy with the performance of Jeff Evans, who's leading the business at the moment. He's acting as interim at the moment. But I can tell you, I'm very satisfied with the performance so far. And I would tell you that Jeff himself, who is a 19-year veteran of GE Healthcare, has been running large P&Ls for GE. He is the main architect as Head of Sales for the run-up in revenue that you've seen.

I can tell you as well, that we've taken significant steps to improve the profit profile by reducing costs in the business. And as you've heard me say before, and continues to be true, the profitability of the products that we have in Healthcare are very good. We are suffering, and perhaps this is not surprising. We are suffering from inefficiencies because we have a high degree of parts shortage.

So what you have is, if you were to go to our facility down in Sarasota, which I've been quite a few times, you would see basically three-quarters-built products, medical mannequins, for example. And then when we get the parts, we complete them, we take them out of stores, we put the parts in, we retest them, and we ship them. You can imagine that causes a lot of inefficiencies over time, basically quality issues, all kinds of issues that are not great for your profitably profile. But I'm quite confident that a lot of those are abating themselves. And so I'm quite happy with the way forward, and I think you'll see some progress in the quarters to come.

Sonya Branco, Executive Vice President, Finance and CFO

Yeah, I agree, Marc. It's a great summary. I'll just add a little bit of additional colour on some drivers of the variability. So there is some R&D funding investment tax credits that go through Healthcare as well as the rest of the business. And these things can be lumpy. So last year, it was actually a tailwind. This quarter it was actually a headwind. So in the larger organization that doesn't have a lot of impact, but on Healthcare that's much smaller P&L, these kind of variabilities have a larger impact on the quarter-over-quarter. So in addition to everything that Marc just walked through, we have to consider a little bit of, I guess, non-routine variability coming from R&D and investment tax credits.

Fadi Chamoun, BMO Capital Markets

Okay. No, great. Appreciate the additional information. I'll leave it at one question. Thanks very much.

Marc Parent, President & Chief Executive Officer

Thank you.

Operator

Our next question comes from Konark Gupta with Scotiabank. Please proceed.

Konark Gupta, Scotiabank

Good afternoon, and thanks for taking my question. So just wanted to follow up on the defense mix here. So just trying to understand, Marc, how do these two adjusted contracts impact the margin mix for defense segment over the next three quarters as well as your long-term outlook for double-digit margin?

Marc Parent, President & Chief Executive Officer

Well, I think the first thing I'll tell you is, as I said in the remarks, that although we bid them that way, we're quite confident the re-baselining of the programs that we've won, all the progress that we've won in recent times, certainly, since we've had the new organization in place under Dan Gelson, the profitability profile of that backlog supports our objective of low double-digit margin defense. That's the first thing I would tell you.

I would tell you as well that we have a very firm handle on the inefficiencies and other impacts that we had that affect the profitability of our business. And I'm taking the two programs' charges to the side for one second. I'm just saying the inherently low percentage and profitability of Defense in this quarter, this results from, again, the inefficiencies that we had on labour, on parts. Sometimes lead times on parts have doubled, doubled, and the cost themselves have changed and introduced all kinds of inefficiencies that you would get on overtime, things like that.

Now, again, I would say that--and again, a bit repeating myself, that we had always anticipated that the first couple of quarters of this year in defense would be challenging for some of these factors that we could see. What I would say is that we're worse than we anticipated. It took us longer to get back and hire clear personnel, than we thought. Part shortages impacted us more than we thought. But we have a pretty good handle on it and are quite confident in that these factors, as they affect us, will abate in the second half. So again, leading into Defense contribution to the outlook that we've given.

Oh, the other factor I would say as well is if you look at the amount of bids and proposal money, now, our bid proposal costs this quarter are up very materially as we track some very large opportunities in our bid pipeline. And we talked about some of this in our Investor Day. Now, it's not very different from our internal expectations that we would bid higher, but some of these programs, I can tell you a couple of big Canadian programs, came at the same time in the quarter, and we cannot afford not to bid them. They are so large. So that causes a disproportionate amount of business proposal costs in this quarter, which is not necessarily going to be the same as we go throughout the year.

And just again, to help you understand the quantum here, the expenses on big proposals roughly, again, doubled over last year and are up pretty much the same thing this year. But what you're seeing here is the prework that we're doing to capture the opportunities that Dan Gelson outlined at our Investor Day. We're attacking those hard. And I think all of that answers your question as to where we're going in defense and in terms of its profitability.

Konark Gupta, Scotiabank

That's great. Appreciate the details and transparency, Marc. Thank you.

Operator

Our next question comes from Benoit Poirier with Desjardins Capital Markets. Please proceed.

Benoit Poirier, Desjardins Capital Markets

Yes, thank you very much and good afternoon, everyone. Just to come back to Healthcare. Given the favourable valuation for healthcare companies these days, and in light of the performance, would you consider potentially divesting these assets? And just searching for a new leader, what are the qualification that you're looking for in terms of a new leader for Healthcare?

Marc Parent, President & Chief Executive Officer

Well, I'll take your second one, is basically a leader who's going to drive the profitability growth of our Healthcare business, going to basically make it a more sizable contribution and accretive contribution to CAE's results. That's the minimum threshold for that. And as I said before, I think so far, Jeff Evans is demonstrating to me that that is the case. So there's more to see on that front.

And look, as I've said before, I am very confident in how Healthcare fits into CAE's overall portfolio, and it very much supports our noble mission, and there are substantial synergies across our organization in terms of facilities, in terms of people and technology. So it's part of our portfolio and there's no thought about changing that.

Benoit Poirier, Desjardins Capital Markets

Okay. And just looking at the Civil EBIT margin that came in below our expectation on the back of the higher utilization rate and the lower equipment deliveries where margins tend to be lower, could you provide more colour on what's putting pressure on margin, whether it's more equipment, commercial business-ship, and how we should expect the Civil margins to bounce back throughout the year.

Marc Parent, President & Chief Executive Officer

Well, look, I would tell you that Civil has certainly met my expectations. So I think I've said this many times before, Benoit, in every part of our business, I would look at this quarter-to-quarter. But having said that I'm very, very bullish and very satisfied of we've seen in the Civil business in the quarter and of course the indicators lead to the outlook. You look at the orders, you look at the training utilization is 71%. 71%, that is--and prior to COVID, we would have said, that is a pretty good utilization.

And we're seeing, if you look at the results, and I'm sure you are, you look at the results with a fine-toothed comb, you're seeing that the cost reduction translates into a result. And we were all ready, even at 18%, that may be down for your expectation, but don't look at it quarter for quarter because utilization, we said it before, is not a perfect measure. You always have product mix that is maybe less favourable in a quarter.

This quarter, we had higher R&D expenses to support some of our innovations, like, for example, eVTOLs that we spoke about at Investor Day. So in this quarter, it's really down to mix and I fully expect--you might look at next quarter, it might be the other way around. So look, I remain very firm that this business is going to realize strong results in the future. And our results, to me, what I see supports that, very bullish.

Benoit Poirier, Desjardins Capital Markets

Okay. Thanks for the colour, Marc.

Operator

Our next question comes from the line of Tim James of TD Securities. Please proceed with your question.

Tim James, TD Securities

Thanks. Good afternoon, everyone. I just want to change the discussion a little bit here, although sticking with kind of the Defense side of the business. Marc, I'm just wondering if you could kind of update us on any evidence that you are seeing of growing demand for virtual military training over live, or just new applications in the simulation industry that support the secular growth story for simulation-based training. And I'm thinking of aviation more specifically.

Operator

Pardon me, this is Frank. I can introduce the next question from Tim James from TD Securities.

Marc Parent, President & Chief Executive Officer

Yes, go ahead.

Tim James, TD Securities

Okay. Can you hear me okay, Marc?

Marc Parent, President & Chief Executive Officer

Yeah. Sorry. Don't know what happened there, Tim. We just heard radio silence on our end. We thought we lost the line.

Tim James, TD Securities

All right. I worded my question so well, I don't know if I can do it as well again, here. I'm wondering if you can update us on any evidence you are seeing, whether it's in this most recent quarter or maybe the last couple of quarters, of growing demand for virtual military training, relative to live. Or just new applications for simulation and the technology that support that secular growth story for simulation-based training. And I'm thinking of aviation more specifically.

Marc Parent, President & Chief Executive Officer

When you say aviation specifically, can you just expand on that? What do you mean there?

Tim James, TD Securities

Well, I mean, military aviation training as opposed to some of the other sort of fields, the other domains that you've gotten involved in recent years. I'm just thinking specifically of aviation applications.

Marc Parent, President & Chief Executive Officer

Well, I would tell you, look, the trend that we've seen increased use of simulation for training in the military continues. It continues to increase for very real reasons, that what does the military does when they're not in operations, they train for operations. That's all that they do, and in order to maintain readiness. And they need to do that, and they need to do that in an environment where costs are always an issue. Costs are an issue.

So there is still plenty of room to grow the use of simulation-based training, not only, I would say, using full-flight simulators, but using new technologies. And I think maybe that's where you're going, which we are investing in significantly and are deploying, in some cases, to AR/VR, as just an example. One of the contracts that we announced this quarter goes to that point. We're deploying--we're actually developing using AR/VR, a deployable trainer for people to be able to train when they're in operations or even down to a local sheriff's office, doing, for example, what they would have done in a gunnery range.

So rather than having a full gunnery range with real guns, for example, then you can do it virtually, and you can do it, deploy. That's just one example. There's plenty of that to go. And some of the very real opportunities that are in our pipeline represent that.

Again, I would point to you at the macro level, look at the bid pipeline, the amount of bids that we have out there has increased quite substantially, and the orders that are at five year highs in terms of our--if I look at our book-to-bill, it's the highest it's been out of 12 months trailing basis, which is, I say, I always look at that. Look at the 12-month trailing basis on our order intake. It's the highest it's been in five years. I think that's demonstrating where we're going here in growth in Defense.

Tim James, TD Securities

Okay. That's helpful. Thank you. My other question, just turning to the Air Center acquisition. At the time of the transaction, it was indicated that sort of pre-pandemic, that was a U.S. $150 million, I believe it was annual revenue business, and with $55 million in EBITDA, U.S. as well. How should we think about kind of the--or we would be wildly off if we kind of thought about that business as contributing a similar amount sort of today at this point if we think about the first quarter? Is there anything specifically different relative to kind of pre-pandemic? Is it simply lagging kind of as the rest of the Commercial Aviation business is relative to sort to pre-pandemic? I'm just trying to get a bit of a sense for what the contribution is in the quarter.

Marc Parent, President & Chief Executive Officer

No, look, I'll ask Sonya if she wants to tell you what the contribution is. But first, I would tell you, it's still very early in the integration. We're still basically in the very early innings on that, but we're on track. I feel very, very comfortable. The reaction of customers, specifically airlines, I had meetings with airlines specifically, most recently at Farnborough, they're very happy with CAE doing this business.

And you yourself can tell, we read it every single day, right, about the amount of inefficiencies that are out there, gates, baggage hiders, pilots, aircrew being in the right locations with airplanes. That's all things that our software solutions offer to help manage and optimize for greater efficiency. And that's going to be, and we're seeing an increased demand for CAE in this field. So I'm very optimistic in this regard. Again, the integration is on track. And everything that we said in terms of how this business would contribute to CAE, to me, is right on track.

Sonya Branco, Executive Vice President, Finance and CFO

I'll just add, for the quarter itself, it was not necessarily overly significant, but we're working through the integration on track, and we expect it to ramp up nicely through the fiscal year. Now, those benchmarks on pre-COVID are an indication of what this business can do at a more recovery rate than before even us adding to the investment and elevating this with our bundled sales. So ultimately, as the recovery plays out, we're very confident we can get to those numbers and even beat them as the recovery grows over the next couple of years.

Tim James, TD Securities

Great. Thank you very much.

Operator

Our next question comes from Noah Poponak with Goldman Sachs. Please proceed.

Noah Poponak, Goldman Sachs

Hi, everyone. The two programs that took a charge in Defense, when were those contracts ready? When did those programs start?

Marc Parent, President & Chief Executive Officer

Well, they're legacy contracts. We took over one, the one that we call the classified program was signed 2018, Cinatra. Prior to us--we took over that contract when we acquired L3. The Cinatra contract was the legacy CAE contracts 2018. I know that for sure.

Noah Poponak, Goldman Sachs

Okay. And what actually cost more? Where was the cost overrun?

Marc Parent, President & Chief Executive Officer

Well, in the case of Cinatra specifically, as I said, this is a contract specifically where the customer is training them more than we bided on. It's as simple as that, okay? And we had cost mitigations and other actions to lessen the impact of that, I would tell you, mis-bid at the time. Now, I can tell you, we don't bid that way now. We have completed in the past couple of years, we've refined how we look at risks and how we bid military programs. But this is one specifically because of this situation where we were with the customer, is still utilizing those training assets at five bases at a much higher level of demand that was anticipated at the time. That's what we're facing here.

Now, again, we put mitigating factors in, reduction to improve efficiency to improve that program, and we fully expected that the contract--we get an RFP to be able to extend that contract or to renew that contract because it ends in and about less than nine months. Now, that, as I said, somewhat very surprisingly and counterintuitive because of the fact that their using is so high, basically, we didn't get--not only did we not get the contract renewal, but the IDIQ--I'm getting a bit technical on this, the IDIQ number was changed. In which case, basically what it says is, we had no additional period of performance in which for our cost reductions or other measures that we put in place to improve the profitability of that program to take hold. We just ran out of time.

So basically, you have to recognize the loss at that point. And that's what happened. Now, do I think that that contract will go forward? The Navy needs this training. It's going to happen. So to me, we haven't baked in any upside on that, but again, stay tuned on that one.

Noah Poponak, Goldman Sachs

So if those two are categorized as mis-bid, the way you run the business today, you don't bid that way. What percentage of the revenue base at this point is exposed to possibly having been mis-bid?

Marc Parent, President & Chief Executive Officer

Well, I would tell you that, as I said before, when you get something like this, you take very specific actions, and again, I'm not going to say we weren't looking at our programs before, of course, we were. But we've taken some very specific actions, including, I would tell you, the establishment of a centralized program management organization, a center of excellence, if you will. And this was always part of our L3 Harris merger integration plan, but we've accelerated to bolster it, basically company program--company-wide program excellence.

So we have re-baselined and triggered a complete top-down review of our portfolio on all of our programs to make sure that we have the right staffing, the right contractual provisions and maximum visibility and transparency to make sure we don't get surprised again. I'm never going to say never, okay? But what I would tell you, Noah, is that all the programs, including the ones that were bid prior, have been looked at to make sure that we have the right provisions and the right cost investments and the right assumptions that we don't get surprised. That's what we put in place.

Noah Poponak, Goldman Sachs

And Marc, that review is complete or that review is in process?

Marc Parent, President & Chief Executive Officer

No, that review is complete.

Noah Poponak, Goldman Sachs

And did I hear you correctly earlier, committing to a 10% operating margin in this business in your fiscal '24 or did I hear that incorrectly?

Marc Parent, President & Chief Executive Officer

No. No, you didn't hear me say that. You've heard me say, I believe, that if not, I will stand corrected, that our target for this business is low double-digit returns in D&S. And that the--if I look at the programs that we've signed up that in our backlog, that backlog supports that goal. Now, we obviously have to execute them. And that's where the measures that we've taken, the centralized program management organization, for example, gives me that confidence.

Again, I think as I said before, I've seen this kind of thing before running major programs. When you get this kind of impact, you just--two things are slightly different. And I would tell you, you've got this, and I feel very confident about the team in place in Ddefense to make it happen.

Noah Poponak, Goldman Sachs

Got it. Okay. Thank you.

Marc Parent, President & Chief Executive Officer

Thank you.

Andrew Arnovitz, Senior Vice President, Investor Relations & Enterprise Risk Management

Operator, thank you. We're now going to use the last minute or so that we have here, unfortunately, not a lot of time, to open the call to members of the media, if there are any questions.

Operator

As a reminder, to register a question, to please press the one, four.

We have a question from Allison Lampert with Reuters. Please proceed.

Allison Lamp, Reuters

Thanks, guys. Marc, you talked a bit about some of the supply chain challenges you've had. Could you be a little bit more specific? Have you seen issues with shortages of semiconductors?

Marc Parent, President & Chief Executive Officer

Yes, we have. In fact, that's been especially acute, actually surprisingly in our Healthcare business. And I say surprising. That's where we have a highest concentration, I think, on an individual mannequin of chips, which had a specific shortage. But we've seen it. Now, I would tell you that I think overall, we managed it pretty well. So it's not just chips, but it's really what we're seeing across the board. It's that lead times for parts have extended, in some cases, literally more than double, which it makes--it's not only issue of the impact of the parts themselves not being there at the time that we need them, is that, obviously, that wreaks havoc to schedules.

So in order for us to maintain schedules, we have to do all kinds of things, like, for example, paying expedite charges for parts. We have to conduct over time. We have to conduct out-of-sequence work which introduces all kinds of inefficiency. So maybe I'll just stand there, Allison.

Allison Lamp, Reuters

Okay. Fair enough. And just to follow up, are you seeing--what kind of demand are you seeing for MAX 10 simulator?

Marc Parent, President & Chief Executive Officer

For what simulators, I'm sorry?

Allison Lamp, Reuters

MAX 10. Boeing MAX 10.

Marc Parent, President & Chief Executive Officer

I'm not understanding. Oh, the MAX. I'm sorry. I'm sorry. The MAX. Okay. No, look, I think demand for the simulator for the MAX aircraft overall, basically break it down to MAX 8 or MAX 10, they're very strong, very strong. And it's part of the backlog that we've signed in simulator orders over the past--as well as training that we've signed in the last 12 months.

Allison Lamp, Reuters

Okay. And just to follow up on semiconductors, would you say that the shortages you're seeing now are more acute on the chip side, whether it's in aviation specifically than in the past? Because we've seen historically more on the auto side than in aviation.

Marc Parent, President & Chief Executive Officer

Look, I can't comment about the other industries in detail except for what I read in your newspaper. But what I'd tell you is, look, the impacts have been real for us. But as I said, we know where they are. We know what our bill of materials is and we know when we need the parts to support our schedule. So we have harmonized schedules for those parts that support the forecast that we have, that we presented, that we take to support the forecast that we have today.

Allison Lamp, Reuters

Okay. Thank you.

Andrew Arnovitz, Senior Vice President, Investor Relations & Enterprise Risk Management

Great. So operator, that's all the time we have for today. I want to thank all of our participants for joining us on the call and remind you that a transcript will be available on CAE's website. Thank you.

Operator

That does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line. Have a great day, everyone.
