REMARKS FOR CAE'S FOURTH QUARTER AND FULL FISCAL YEAR 2021

May 19, 2021

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

Mr. Andrew Arnovitz, Senior 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 FY22 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, May 19, 2021, 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.

Before getting into our results, I'll first share some of my reflections on how we've been managing through the maelstrom of COVID-19 and where I believe CAE is now situated some 14 months later. Sonya will provide details about our financial performance and the restructuring program underway, and then I'll come back at the end of the presentation to comment on our outlook.

Looking back on the fiscal year, CAE demonstrated tremendous mettle and resiliency in confronting the challenges of COVID-19 in highly innovative ways and without ever skipping a beat in terms of the critical support we provide to customers worldwide. At the same time as we rapidly learned to adapt to a ‘new normal,’ we leaned in and fundamentally strengthened the Company for the future. We took extraordinary steps to protect CAE, our employees, and our customers, and I’m extremely proud of our performance and the nobility with which all at CAE rose up under such exceptional circumstances. We also secured our future by harnessing our OneCAE Culture and seized on several strategic growth opportunities drawn from an expanded pipeline.

We made important progress throughout the year to significantly enhance CAE’s position for future growth. The added financial flexibility from our capital raises has enabled the succession of five highly strategic acquisitions we announced over the course of the last six months. We expanded our ability to address the Civil training market by acquiring Flight Simulation Company in Europe and TRU Simulation and Training Canada in North America, and we accelerated our expansion into software-enabled civil aviation services with our acquisitions of Merlot and RB Group. These latter two help to solidify our industrial technology leadership and further expand our already large addressable market. We also announced a major opportunity in Defence with our definitive agreement to acquire L3Harris’ Military Training business, which will significantly accelerate our Defence growth strategy and align us more closely with national defence priorities. We expect to close the acquisition in the second half of the calendar year.

Over the course of the year, we also accomplished a lot organically and internally to strengthen our position. We launched new digitally enabled products and business processes, put a comprehensive program in place to structurally lower our cost base, and we bolstered key talent. The combination of these recent initiatives give us greater potential than ever before for higher growth and profitability in the years ahead.

Turning now to our results… up against the sharp challenges of COVID-19, I’m especially pleased with what we’ve been able to deliver in the fiscal year. In the face of the biggest-ever shock in the history of civil aviation, and major disruptions across the defence and healthcare markets, CAE rebounded to quarterly profitability and positive free cash flow after only our first quarter, when the brunt of the pandemic hit us. We believed early on that the year was going to be characterized as a ‘tale of two halves.’ The second half was indeed stronger, and the positive momentum of our recovery has continued throughout the year and into the latest fourth quarter. On a consolidated basis, we generated $0.22 adjusted EPS in the quarter and $0.47 adjusted EPS for the year. Order intake was $928 million for the quarter and $2.7 billion for the year, giving us a solid backlog of $8.2 billion. This is strikingly positive when considering that global air travel dropped by approximately 90% at the peak of the crisis and hundreds of millions of dollars in expected defence contracts slipped into next year or beyond. With the measures we implemented and the resiliency inherent to our business, we also generated strong annual free cash flow of $347 million. This, in and of itself, makes an important statement about CAE as a sustainable growth company. In addition to positive investment attributes, including secular tailwinds and a cash generative profile, CAE has also proven once again to be a safe port in a storm.

Now turning to some of the segment highlights…

In **Civil**, average training centre utilization continued to edge higher, reaching 55% in the fourth quarter, and we saw sequentially higher adjusted SOI margins. We delivered 14 full-flight simulators in the quarter, and despite market and logistical challenges, we delivered 36 Civil full-flight simulators for the year. We also continued to win new orders, with $386 million booked in the quarter and annual orders totaling $1.3 billion, including comprehensive, long-term training agreements with airlines, cargo operators and business jet operators worldwide and 11 full-flight simulator sales for the year. Civil finished the year with a backlog of $4.3 billion.

In **Defence**, orders of $370 million in the quarter gave us a book to sales ratio above 1.1x for the first time in the last five quarters, and even with significant expected orders moving out of the fiscal year, Defence order bookings reached $1.1 billion for a $3.9 billion Defence backlog. Despite having to contend with COVID-19 headwinds in Defence – especially in international markets – we stabilized the business and made excellent progress to position it for future profitable growth. During the year, we secured all our foundational recompetes, and we won significant new competitions in our core market, and expanded our position in digital immersion, operational support and security.

CAE's mission is to lead at the frontier of digital immersion with high-tech training and operational support solutions to make the world a safer place. A prime example of how we are positioning Defence for the future and bringing our mission to fruition is our recent win of a flagship program from the United States Special Operations Command (USSOCOM) to lead the integration and architecture development efforts for the SOF Global Situational Awareness initiative. I want to underscore the significance to Defence of our FY21 wins, and in particular this USSOCOM program, and I'll comment more on them in my outlook.

Turning finally to **Healthcare**, we completed deliveries of the CAE Air1 ventilators during the quarter and we reached record level quarterly revenue, even before the contribution from ventilators. Our ventilator initiative was an important humanitarian effort that had the added benefits of generating incremental cash flow and providing employment during a time of crisis. The speed and effectiveness with which we developed and delivered the CAE Air1 is a testament to the unique combination of CAE's agility, our deep subject matter expertise in healthcare, and the vast industrial and technological capabilities of the Company.

During the year, Healthcare continued to bolster its position as the innovation leader in simulation-based healthcare education and training through the launch of new AI-enhanced training tools and digital management solutions in support of our customers' training needs during the COVID-19 pandemic. We also launched CAE SimEquip simulated medical equipment and we continued to develop transformative digital training solutions for OEMs and leading medical device companies, including Edwards Lifesciences and Cordis, a Cardinal Health Company.

With that, I will 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, Executive Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

We continued to see good sequential performance improvements in the fourth quarter. **Consolidated revenue** of $894.3 million was up 7% compared to the third quarter and is 8% lower compared to the fourth quarter last year. **Adjusted segment operating income** was $106.2 million, compared to $97.2 million in Q3, and $193.9 million last year. Quarterly **adjusted net income** was $63.2 million, or 22 cents per share, compared to 22 cents in Q3 and 46 cents in the fourth quarter last year.

For the year, consolidated revenue was down 18% to $3.0 billion, and **adjusted segment operating income** was down 52% to $280.6 million. Annual **adjusted net income** was $127.1 million, or $0.47 per share, which is down 65% compared to $1.34 last year. Our disclosure this quarter provides the impact of the Canadian Emergency Wage Subsidy and other COVID-19 government support programs, and we have highlighted the impact on some key metrics. During the period, we carried higher employee costs than we would have otherwise been carrying as amounts received from COVID-19 government support programs either flowed through directly to employees according to the objective of the subsidy programs and the way they were designed in certain countries, or the amounts were offset by the increased costs we incurred in revoking some of our initial cost saving measures including eliminating salary reductions and bringing back employees who were previously placed on furloughs or reduced work weeks. As such, we have been operating with higher expenses than we would have in the absence of CEWS, and so the impacts of the government support programs are almost entirely neutralized.

Our global training operations are especially cash generative in nature. Net cash provided by operating activities was $174.6 million for the quarter compared to $246.3 million in the fourth quarter last year, and for the year, we generated $366.6 million from operating activities compared to $545.1 million last year. We had strong **free cash flow** in the quarter of $170.6 million and $346.8 million for the year, which compares to $351.2 million last year. We continue to target an average conversion of net income to free cash flow of 100%.

Uses of cash involved funding **capital expenditures** for $50.5 million in the fourth quarter and $107.6 million for the year, in line with our outlook of total CAPEX of approximately $100 million for the year. Our growth CAPEX is directly linked to our opportunities to invest incremental capital with attractive returns and free cash flows. With our current view of attractive market-led expansion investment opportunities, we expect total capital expenditures to more than double in fiscal year 2022 vs. the prior year.

Income tax recovery this quarter was $3.2 million, representing a negative effective tax rate of 21%, compared to an effective tax rate of 25% for the fourth quarter of fiscal 2020. The tax rate was low because of the restructuring costs we incurred this quarter. Excluding the effect of these elements, the income tax rate would have been 16% this quarter and 19% for the year.

Net debt was $1.4 billion at the end of March, for a net debt-to-total capital ratio of 30.7%. This compares to $2.4 billion or 47.8% of total capital at the end of last year. **Net debt to adjusted EBITDA** was 2.38 times at the end of the quarter. All told, between cash and available credit we have approximately $2.7 billion of available liquidity.

CAE's **liquidity** was further enhanced with the completion in March of a marketed cross-border public offering of common shares for gross proceeds of $358.5 million. As at March 31, 2021, we had a higher cash balance on hand from our recent equity issuances, and these proceeds will be used to fund the proposed L3Harris Military Training business acquisition and other potential growth investments in our pipeline.

On the **restructuring** front, we're continuing to make good progress. The program is enabling CAE 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 level of demand and the structural efficiencies that will be enduring. While maintaining our presence in all markets, we've made excellent progress consolidating our global footprint for greater efficiency and to better serve our customers. In the

UK, we have consolidated 5 locations into 3, in Europe, we are in the process of consolidating 17 training locations into 13 in addition to optimizing certain remaining locations, and in South America, we are moving from 6 to 4 locations. We began executing our restructuring program in the second quarter, and as of the end of March, we had incurred a total of $124.0 million of restructuring, integration and acquisition expenses for the entire year. In fiscal year 2022, we expect to incur an approximate $50 million in additional restructuring expenses related to this approximate $170 million program. We continue to expect to realize significant annual recurring cost savings, ramping up to a run rate of approximately $65 to $70 million by the end of the new fiscal year.

Now turning to our **segmented performance…**

In Civil, fourth quarter revenue was down 6% compared to the preceding quarter and down 36% year over year to $388.2 million. I would note that revenue is generally not the most representative metric for Civil given there is no recognition of our share of revenue from the large number of joint ventures that we operate around the world. And in fact, part of the utilization increase we saw in the quarter was the result of stronger performance in regions where we operate under JVs. Civil performance is better represented by adjusted segment operating income, which was up 7% sequentially and down 57% year over year to $66.6 million, for a margin of 17.2%. For the year, Civil revenue was down 35% to $1.4 billion and adjusted segment operating income was down 66% to $164.3 million for an annual margin of 11.6%. The Civil book-to-sales ratio for the quarter was 0.99 times and for the year it was 0.89 times.

In **Defence**, fourth quarter revenue of $334.4 million was up 12% compared to the preceding quarter and down 2% over Q4 last year, and adjusted segment operating income was up 4% over the preceding third quarter and down 42% over last year to $23.2 million, for an operating margin of 6.9%. For the year, Defence revenue was down 9% to $1.2 billion and adjusted segment operating income was down 24% to $87.0 million, representing a margin of 7.1%. The Defence book-to-sales ratio for the quarter was 1.11 times and for the year it was 0.91 times.

And in **Healthcare**, fourth quarter revenue was $171.7 million, up 42% from the preceding quarter and 411% from $33.6 million in Q4 last year. Adjusted segment operating income was $16.4 million in the quarter compared to $12.9 million in the preceding quarter and $100,000 in Q4 of last year. For the year, Healthcare revenue was $351.9 million, up from $124.5 million, and adjusted segment operating income was $29.3 million, representing an increase of $32.8 million compared to a segment operating loss of $3.5 million last year. For comparative purposes, the CAE Air1 ventilators contract with the Canadian government contributed $130.0 million to fourth quarter revenue and $230.6 million for the year.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya.

As we look to the period ahead, I'm highly encouraged by all we have done to reinforce CAE's base over the last year and to expand our horizons for long-term sustainable growth. True to our vision to be the partner of choice, we exercised great agility and collaboration as OneCAE to quickly and effectively protect our employees and customers, which has engendered even greater loyalty and engagement. Like few other companies, throughout the turmoil, we executed a series of five highly strategic acquisitions, raised equity, and fundamentally repositioned the company for the future, while, at the same time, launching new products, investing into new growth adjacencies and structurally lowering our cost structure. CAE is indeed a unique company with a highly talented team, and a shared culture of innovation.

I expect we will continue to make important strides to enhance CAE's position for future growth. We're focused on the successful integration of our four Civil acquisitions and on closing the acquisition of the L3Harris Military Training business. We look forward to realizing the very significant potential of the combined businesses to better serve the needs of our customers. At the same time, we've ensured that we continue to have the financial flexibility and bandwidth to cultivate a large pipeline of sustainable growth opportunities, including the deployment of expansion capital in highly accretive and sustainable areas like training, and to expand our reach and strengthen our position as an industrial technology leader. We're leaning in and focusing on the long-term, bolstering our standing as the global market leader in our field through the application of advanced technologies and by expanding the aperture of our market reach. And we're continuing to invest in CAE's capabilities to revolutionize our customers' training and critical operations and increase market share with digitally immersive solutions.

In the short-term, we continue to expect to trend positively, and there's little doubt that with all that we've done in recent months internally and externally to enhance our position, we'll see strong growth for CAE in fiscal year 2022. The exact slope of CAE's recovery to pre-pandemic levels and beyond is dependent on the timing and rate at which travel restrictions and quarantines can be safely lifted and normal activities resume in our end markets. The global roll-out of vaccines to combat COVID-19 is highly encouraging and we believe the summer months will be very telling. This is especially the case for Civil, where we believe there’s considerable pent-up demand for air travel and we’re already seeing this manifest in regions like the US where domestic air travel is ramping up strongly. We’re also highly encouraged by our prospects for renewed growth and profitability in Defence, the extent of which in the current fiscal year will depend on, among other initiatives, the potential and timing of closing of the L3Harris Military Training business acquisition. Taking all these variables into account, we expect to have greater clarity and be in a position to provide a more precise growth outlook for fiscal year 2022 when we report our first quarter results in August.

As we look further out, I’m more confident than ever before in CAE’s future. Our strategy and positioning are very well aligned with a post-COVID-19 business and geopolitical landscape, with expected secular trends favorable for all three of our Business Segments. Greater willingness to outsource training by airlines, higher expected pilot demand, and strong growth in business jet travel are enduring positives for the Civil business. The paradigm shift from asymmetric to near-peer threat and recognition of the sharply increased need for digital immersion-based, synthetic solutions in national defence considerations are tailwinds that favour CAE’s Defence business. And Healthcare is poised to leverage opportunities presented by a growing awareness and appreciation of simulation and training to help make healthcare safer.

More specifically on **Civil**, we continue to see training demand preceding the return to air travel as airline capacity and the associated crews are prepared to re-enter service. Domestic air travel is coming back faster, especially in regions with a more advanced ramp-up of vaccinations, while cross-border and transcontinental operations are lagging as they’re more tied to the easing of travel restrictions. In the US, we currently have requests and indications that pilot hiring will resume in the next couple of quarters and we’re already hiring instructors in support of our regional airline customers.

We expect to continue expanding our market share and securing new customer partnerships drawn from a large pipeline of airline prospects. We made very good progress in the last year having signed exclusive training agreements for supplemental training capacity on narrow-body aircraft with six customers, including major airlines in the Americas and aircraft OEMs as well, which is often an initial step toward a more comprehensive outsourcing. We also signed exclusive training agreements with six new start-up airlines that have elected to bypass the insourced training model altogether. Our growth in commercial aviation training in fiscal year 2022 will come from these new partnerships, additional partnerships that we expect to conclude from our pipeline, and the general improvement in flight activities involving existing customers as restrictions ease. We also expect to see the benefits of a lower structural cost base as the recurring savings ramp up toward the end of the year.

In business aviation training, flying activity has recovered much faster than commercial and, with levels of demand in the US nearly back to 2019 levels, this bodes very well for training demand in this highly important segment of the Civil training market.

Civil full-flight simulator sales are driven by new aircraft deliveries, and while the total market remains small at present, we expect to maintain our leading share of available FFS sales. We still have the benefit of a large backlog of customer funded FFS orders, and we expect to substantially deliver this backlog over the next couple of years, including upwards of 30 in fiscal year 2022.

Over the last couple of years, we've been steadily unifying the digital flight operations ecosystem with the goal of delivering a holistic suite of solutions designed to improve operations and enhance the crew experience while further increasing our large addressable market in Civil. Our vision began in 2018 with the acquisition of Pelesys, an aviation training courseware developer and publisher, with one of the most comprehensive training and compliance systems in the industry, and we expanded on this vision with the launch of CAE Rise, our predictive management and training visibility system. In the period ahead, we're going to continue to expand our reach beyond pilot training solutions into the rapidly growing market for digitally-enabled crew optimization services. The acquisitions of Merlot and RB Group are building blocks that allow CAE to provide an end-to-end offering of crew performance software that extends from training through optimized crew operations and is unique in the industry.

We're also positioning in the Advanced Air Mobility market, which we believe will become another secular driver for pilot training and demand for CAE's expertise in modeling and simulation. Last week we announced that CAE has been selected by Jaunt Air Mobility to lead the design and development of the Jaunt Aircraft Systems Integration Lab (JASIL) for the company's new all-electric vertical take-off and landing (eVTOL) aircraft, the Journey aircraft. By leveraging CAE's extensive experience in high-fidelity simulation, we will work hand-in-hand with Jaunt to bring best-in-class simulation and modeling to the aircraft development program from inception.

In **Defence**, at the same time as we stabilized the Defence business in FY21, we positioned for future profitable growth. I'm encouraged by our new competitive wins and large pipeline of programs that specifically call upon CAE's expertise in the synthetic domain.

As I introduced in my opening comments, Defence won all its foundational recompetes, including the U.S. Air Force KC-135 Aircrew Training System contract, which also adds training support services for the Air National Guard boom operator simulation systems. We also secured the critical follow-on for

US Navy T-44C Instructional Services. These wins underscore the strength of our recurring base of core programs in Defence. New FY21 competitive wins in our core market add to that base, including the US Army Advanced Helicopter Flight Training Services, and France/Germany C-130J training solutions. We also signed agreements with Boeing to provide P-8A training support services for the UK Royal Air Force and with General Atomics to continue the development of a comprehensive synthetic training system for the UK Protector remotely piloted aircraft program. The Protector is General Atomics' first major MQ-9B sale, their next generation platform, which is expected to sell hundreds worldwide with CAE providing its training support. We also expanded our position in the security market with an agreement for United States Customs and Border Protection aircraft pilot training services, and we added to our customer base at our Alabama-based Dothan Training Center with the provision of training to the Irish Air Corps.

Defence also expanded its position in digital immersion with notable wins including the US Air Force Advanced Battle Management System, and the UK Single Synthetic Environment. The announcement earlier this week of our selection by the United States Special Operations Command for the SOF Global Situational Awareness initiative is strategically noteworthy. After a highly competitive process beginning with over 100 companies, including some of the largest defence OEMs and Silicon Valley entrants, CAE was awarded a US $135 million contract to deliver the scalable next-generation Mission Command System that unifies the SOF enterprise through the creation of an integrated common operational picture. Called Mission Command System Common Operational Picture (MCS / COP), it will deliver enhanced global situational awareness to US Special Operators around the globe. CAE's digital ecosystem solution leverages our world-class modeling and simulation expertise beyond training by integrating data analytics, artificial intelligence and digital immersion technologies into a synthetic environment to create a powerful tool for analysis, planning, and decision support. This technology is a critical enabler for US and allied forces to successfully train and operate across all five battlespace domains, a mandate laid out in the US National Defense Strategy.

Our Defence priorities are focused on the long-term and investing in our leading position as a training and mission support partner with leading-edge capabilities in digital immersion. We are also enhancing our position by laying the groundwork to strategically team with major OEMs on next generation platforms. With our expertise in the integration of live, virtual and constructive training, along with capabilities to address mission and operations support, we believe we'll make significant inroads into the broader defence market in the years ahead. Defence is well positioned to capture business around the world, accelerated with the expanded capability and customer set following the expected close of the L3Harris Military Training acquisition.

And lastly in **Healthcare**, we're capitalizing on the greater market appreciation of the benefits of healthcare simulation and training to improve safety and to help save lives. I continue to be encouraged by what our new team has been able to do and look forward to gaining sustainable scale with our innovative solutions to help make healthcare safer.

Healthcare has been and continues to be an important dimension of CAE's social profile, and, CAE has recently spearheaded the Industry for Vaccination coalition by gathering support from companies and their CEOs across Canada. The goal of the coalition was to accelerate mass vaccination through the private sector at no cost to governments to restart the economy as soon as possible. CAE converted 12,000 square feet of conference rooms into a world-class operational vaccination centre which opened on April 26. In addition to the critical role it serves in the ramp up of vaccinations in Quebec, it is a great example of CAE's corporate citizenship and a source of pride for all of us at CAE.

In summary, a year and two months after the pandemic began, the investment thesis for CAE is more compelling than ever. I strongly believe we'll achieve new heights in growth and profitability in the years ahead as we bring to fruition our recent acquisitions, new digital products and expansion investments, bolstered leadership, and operational efficiencies.

With that, I thank you for your attention. We're now ready to answer your questions.

Andrew Arnovitz, Senior 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.

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Operator, before we open it up to questions from the media, Marc will say a few words in French.

Marc, à toi la parole.

Marc Parent, President and Chief Executive Officer

Merci, Andrew.

Je tenais seulement à vous dire à quel point je suis fier du rôle que CAE a joué dans la vaccination en entreprises. Vous avez vu l'annonce faite par le gouvernement chez CAE le 19 mars dernier et les 23 pôles de vaccination en entreprises qui ont été confirmés depuis. CAE a été le premier pôle de vaccination en entreprise ouvert le 26 avril dernier. En seulement 3 semaines, on a déjà vacciné 7200 personnes. Notre centre de vaccination est donc bien rodé et je suis heureux de vous annoncer que dès la semaine prochaine, le centre de vaccination de CAE sera ouvert à la population en général et donc visible à tous comme site de vaccination dans Clic Santé. Notre engagement dans cette initiative démontre l'importance que nous accordons à notre rôle et notre impact social.

Je suis maintenant prêt à répondre à vos questions.