REMARKS FOR CAE'S FIRST QUARTER FISCAL YEAR 2022

August 11, 2021

Time: 1:30 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, August 11, 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.

Our positive momentum continued into the new fiscal year and I'm pleased with our strong first quarter performance. Even in the midst of a pandemic, we've been able to drive results by being adaptive and agile through some of the most rapidly changing circumstances. We reported top and bottom line growth across all three business units during the quarter, and on a consolidated basis, we generated 37% year over year revenue growth and $0.19 of adjusted earnings per share.

In **Civil,** first quarter average training centre utilization was 56%, which is one percent higher than last quarter and much higher than the 33% in the first quarter last year. We also delivered 11 full-flight simulators to customers around the world. On the order front, we signed training solutions contracts valued at $338 million, including five full-flight simulator sales, new four-year business aviation training agreements with Journey Aviation and GAMA Aviation and a three-year business aviation training agreement with Avcon Jet AG. We also succeeded to penetrate more share of the traditionally insourced airline training market with two new ten-year exclusive aviation training agreements with Scandinavian Airlines (SAS) and WestJet We were also selected as partner of choice to aircraft OEMs in the emerging Advanced Air Mobility market. We're leading the design and development of the Jaunt Aircraft Systems Integration Lab for the company's new all-electric vertical take-off and landing (eVTOL) aircraft -- the Journey aircraft. And just after the end of the quarter, we announced a strategic partnership with Volocopter to develop, certify and deploy an innovative pilot training program and courseware development for eVTOL operations. On the M&A front, we expanded our position in Civil maintenance training with the acquisition of GlobalJet Services, a proven leader in aviation maintenance training. This tuck-in acquisition expands our capabilities with increased addressability of business aircraft and helicopter platforms for maintenance training through world-class, regulatory approved training programs.

By leveraging our experience in pilot training, we expect this to enable rapid growth for CAE in the maintenance training market.

In **Defence**, we booked orders for $152 million, including newly awarded contracts from the U.S. Army to provide a new and upgraded Maritime Integrated Training System and the SOSSEC consortium to design and develop the initial prototype HH-60W virtual reality/mixed reality aircrew trainer for the USAF. Other notable contracts include: continuing to provide upgrades and updates on C-130J training systems for the U.S. Air Force as well as KC-130J training systems for the U.S. Marine Corps; continuing to provide a range of in-service support solutions for the Royal Canadian Air Force's CF-18 aircraft; and continuing to provide management and support of Royal Australian Air Force aerospace simulators. Defence also received an order to provide a new part-task trainer, a range of updates, and additional training support services for the PC-21 ground-based training system supporting pilot training for the French Air Force.

I'm especially pleased with the speed at which the team concluded, right after the end of the quarter, our acquisition of L3Harris Military Training, having obtained all regulatory approvals and meeting all other closing conditions. We're excited to welcome some 1,600 members of the L3Harris Military Training team and to leverage our combined expertise to support the mission of our defence and security customers. Our combined teams are now squarely focused on integration efforts and seizing on our expanded market opportunities.

As testimony to how our position has already been substantially augmented by L3Harris Military Training, since the end of the quarter, Defence won key positions on three major IDIQs and two noteworthy prime contracts that together significantly expand CAE's customer base and market reach. Specifically, we won the largest IDIQ contract in CAE's history with our prime position on the U.S. General Service Administration (GSA) ASTRO IDIQ vehicle for data operations, aircraft, development and systems integration, support and training pools. We gained access to four of the five pools because of the L3Harris Military Training acquisition which in total represent a budget of several billions of dollars over a 10-year period. We also won a prime position on the Multiple Award Task Order Contract (MATOC) IDIQ to provide mission support services to the US Army Futures Command. Defence also won a position in an important growth domain as a key partner to a small business on the National Cyber Range Complex IDIQ. Furthermore, Defence won a competitive prime contract with an expected life cycle value of $90 million USD over eight years to develop simulators and training for U.S. Air Force Joint Terminal Attack Controllers. And in another first for CAE, Defence won a three-letter agency prime contract, expanding our market penetration into synthetic environment-enhanced multi-domain operational support and training.

In **Healthcare**, I’m encouraged by the double-digit year-over-year growth we had in the quarter, which is driven by our core Healthcare simulation and training business. We continued to bring highly innovative solutions to market with the release of CAE Vimedix 3.2, an advanced software technology that makes our platform the industry's first ultrasound simulator with 3D/4D ultrasonography and multiplanar reconstruction for improved fidelity and realism. We also re-launched CAE ICCU, which is a digital portfolio of learning solutions targeting critical-care clinicians for ultrasound education.

With that, I’ll now turn the call over to Sonya who will provide additional details about 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.

Our results continue to reflect the success of the measures we have taken to strengthen the Company both externally in terms of expanding our reach and adapting to dynamic market conditions, and internally, to lower our cost structure.

Consolidated revenue of $752.7 million was 37% higher compared to the first quarter last year. **Adjusted segment operating income** was $98.4 million, compared to a loss of $2.1 million last year. Quarterly **adjusted net income** was $55.6 million, or 19 cents per share, compared to negative 11 cents in the first quarter last year.

Cash used in operating activities this quarter was down 46% to $129.1 million, compared to $88.4 million in the first quarter of fiscal 2021. **Free cash flow** was negative $147.6 million compared to negative $92.7 last year. We usually see a higher investment in non-cash working capital accounts in the first half of the fiscal year, and as in previous years, we expect a portion of the non-cash working capital investment to reverse in the second half. We continue to target a 100% conversion of net income to free cash flow for the year.

Growth and maintenance capital expenditures totaled $73.9 million this quarter, mainly for growth and specifically to add capacity to our global training network to deliver on the long-term exclusive training contracts in our backlog. Our growth CAPEX is directly linked to our opportunities to invest incremental capital with attractive returns and free cash flows. With several attractive market-led expansion investment opportunities on the horizon, we are in a good position to deploy more organic capital and so we are raising our expectations for total capital expenditures to more than $250 million in fiscal year 2022.

Income taxes this quarter were $10.3 million, representing an effective tax rate of 18%, compared to 24% for the first quarter last year. The income tax rate was impacted by restructuring costs this quarter, excluding which, the rate would have been 19%. On this basis, the decrease in the tax rate was mainly attributable to a beneficial impact on certain tax assets, partially offset by the change in the mix of income from various jurisdictions.

Our **Net debt** position at the end of the quarter was $1,669.2 million, for a net debt-to-capital ratio of 33.9%. And, net debt-to-adjusted EBITDA was 2.43 times at the end of the quarter. All told, between cash and available credit we have approximately $2.6 billion of available liquidity.

On the **restructuring** front, we're continuing to make very good progress. The program is enabling CAE to best serve the market by optimizing our global asset base and footprint and adjusting our business to correspond with the expected level of demand and the structural efficiencies that will be enduring. We continue to expect significant annual recurring cost savings to ramp up to a run rate of approximately $65 to $70 million by the end of the current fiscal year. We began executing our restructuring program in the second quarter last year, and as of the end of June 2021, we had incurred a total of $136.2 million of restructuring expenses for the entire program, including $12.2 million this quarter. We expect to incur total restructuring expenses related to this program of approximately $50 million in fiscal year 2022.

Now turning to our segmented performance...

In Civil, first quarter revenue was up 75% over Q1 last year to $432.9 million and adjusted segment operating income was up $85.9 million over the first quarter last year to $69.7 million, for a margin of 16.1%. The Civil book-to-sales ratio for the quarter was 0.78 times and for the rolling 12-month period it was 0.88 times.

In **Defence**, fourth quarter revenue of $288.2 million was up 3% over Q1 last year, and adjusted segment operating income was up 37% over last year to $23.7 million, for a margin of 8.2%. The Defence book-to-sales ratio for the quarter was 0.53 times and it was 0.87 times for the last 12 months.

And in **Healthcare**, fourth quarter revenue was $31.6 million, up 42% from $22.3 million in Q1 last year. Adjusted segment operating income was $5.0 million in the quarter compared to a loss of $3.2 million in Q1 of last 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 expect our positive momentum to extend throughout the fiscal year and beyond. 18 months ago, we were just beginning to confront the most severe shock our company has ever faced, and yet despite the many uncertainties at that time, we were resolute in our determination to not only recover from the pandemic, but to emerge from it as an even stronger company.

We're still in the pandemic *and* despite that reality, we've gotten stronger. I'm very encouraged by everything we have done to reinforce CAE's base over the last year and a half to expand our horizons for long-term sustainable growth. The slope of our recovery to pre-pandemic levels and beyond continues to depend on the timing and rate at which border restrictions can be safely lifted and normal activities resume in our end markets -- and in the geographies where we and our customers have significant operations. Notwithstanding the disparate global vaccination rates and the volatility of border restrictions, which continue to obscure usual market visibility, we still expect strong growth in our core markets this fiscal year, coming mainly in the second half.

We draw confidence from several important moves we made to expand and solidify our leadership position, including the pursuit of a growth opportunities pipeline that has so far netted five acquisitions in Civil to consolidate our position and expand into growth adjacencies, and our largest-ever acquisition, namely L3Harris Military Training in Defence, which doubles our presence in the US defence market and accelerates our Defence & Security strategy. At the same time as expanding CAE's reach externally, we embarked on enterprise level projects to substantially lower our cost structure and achieve even greater levels of operational excellence. You heard Sonya reiterate our expectations that we will reach an exit rate this fiscal year of $65 to 70 million for annual recurring costs savings from those initiatives.

In **Civil**, we're in an excellent position to benefit from a broader market recovery, which so far has been more narrowly led by domestic air travel, specifically in regions with relatively high vaccination rates, and cargo operations. The rebound in domestic operations demonstrates the pent-up demand for air travel and the potential for a rapid ramp up when restrictions ease. Cross-border and transcontinental operations have continued to lag as they're much more tied to the easing of border restrictions, but we believe considerable pent up demand exists there too. At the same time as a broader market recovery looks to take hold in commercial aviation, we intend to continue expanding our market share and securing new customer partnerships drawn from a large pipeline of airline prospects. We are also succeeding to expand our Civil addressable market by over $1 billion to over $6 billion, by extending beyond pilot training solutions into the rapidly growing market for digitally enabled crew optimization services and aircraft maintenance training services.

In business aviation, demand has rebounded at a very rapid pace with current flight activity in the US now exceeding 2019 levels and approaching the prior levels in Europe. This bodes very well for pilot hiring and business aviation training demand in this highly important segment of the Civil training market. Much of the current demand is coming from first-time consumers of private aviation and we believe the market has structurally expanded as a result.

Civil full-flight simulator sales are driven by new aircraft deliveries, which are showing signs of improvement. The total market for simulator products remains small at present, but we expect to maintain our leading share of available FFS sales and we still expect to deliver upwards of 30 in fiscal year 2022, driven mainly from backlog.

We're also expecting to build on our initial successes in the emerging Advanced Air Mobility market, which we see as a new potential secular driver for pilot training and CAE's expertise in modeling and simulation. Already with selections by OEMs including Jaunt Air Mobility and Volocopter we see an important leadership role for CAE, helping to shape the training standard for an estimated 60,000 new pilots by 2028 in support of this entirely new modality of air transportation.

In **Defence**, the rapid closing of the L3Harris Military Training acquisition provides greater definition to the remainder of fiscal year 2022 and beyond -- and our focus will be on its successful integration. International opportunities are somewhat slower to materialize in the current environment, but we see this headwind as temporary, and we have a strong pipeline with some $5.8 billion of bids and proposals pending customer decisions. From a balance standpoint, having now substantially augmented our presence in the defence segment -- and in the United States in particular -- we expect Defence to benefit from the greater government budgetary stability this provides.

CAE's Defence business has become the world's leading, platform-agnostic, global training and simulation pure-play, and we're very excited about the increased potential it brings to capture business around the world, accelerated with the expanded capability and customer set we now possess. Our new prime positions on major IDIQs and our contract to develop simulators and training for U.S. Air Force Joint Terminal Attack Controllers are all perfect examples of what we mean by synergies and how L3Harris Military Training expands our core offerings across multi-domain operations and brings access to new customers and programs.

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 our newly expanded capabilities to address mission and operations support, we believe we'll make significant inroads into the broader defence market in the years ahead.

And lastly in **Healthcare**, I believe we have the right team in place, including a reinvigorated front end, to fully leverage the greater market appreciation of the benefits of healthcare simulation and training to improve safety and to help save lives. We're making deliberate moves to increase our addressable market and access the largest pools of value in healthcare training like nursing and in the military. Here too we expect good momentum and I look forward to gaining sustainable scale with our innovative solutions to help make healthcare safer.

In summary, CAE is poised to benefit from how the world is changing in a post-COVID-19 environment and we adapted our growth strategy to seize on the opportunities presented by these new realities. We made several important moves over the last year-and-a-half to expand and strengthen our position, and the investment thesis for CAE is more compelling than ever. We look forward to strong growth in the year ahead and superior and sustainable growth and strong free cash flows over the long-term.

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.