REMARKS FOR CAE’S SECOND QUARTER FISCAL YEAR 2022

November 11, 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, Investor Relations and Enterprise Risk Management

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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 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, November 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.

Today is November 11, so please allow me to start by saying thank you to all veterans for their service. On November 11, we honour members of the military past and present – veterans of all conflicts, those who made the ultimate sacrifice for our freedom, and those who serve their countries today. At CAE, we are privileged to work every day with many veterans. They bring a unique point of view and skill set to our company, allowing us to achieve new heights.

Now on to the quarter…

In an environment where we continued to experience an uneven recovery in the various markets and geographies where we operate, CAE delivered year over year growth in the second quarter. On a consolidated basis, we drove 16% year over year revenue growth and $0.17 of adjusted earnings per share. These results came mainly from the strengthening of our Civil training business, the continued progress of our structural cost savings program, and the integration of L3 Harris Military Training in our Defence results. We also built continued momentum with $871 million in orders for a positive book-to sales ratio of 1.07 times and an $8.8 billion backlog.

In **Civil**, second quarter average training centre utilization was 53%, up from 49% last year, and three percent lower than last quarter, reflecting usual seasonality but also the varying global realities with respect to the COVID-19 Delta variant and the measures taken to contain its spread. For example, in the Americas, with the benefit of high vaccination rates and easing travel restrictions, we saw near pre-pandemic demand during the period in both commercial and business aviation training, while Asia Pacific took a step back and remained at low levels as countries including Malaysia, Thailand and Vietnam renewed lockdowns.

On the order front, we signed Civil training solutions contracts valued at $409 million for a 1.13 times book-to-sales ratio, including nine full-flight simulator sales, and a five-year aircraft maintenance training partnership agreement with Air Canada, a three-year exclusive agreement with Brussels Airlines, a five-year agreement with Envoy Air, a four-year agreement with PGA Portugalia and a five-year agreement with Alaska Airlines. We also announced new partnerships and relationships including a strategic partnership with BETA Technologies to design and develop a best-in-class pilot and maintenance technician training program for the ALIA eVTOL aircraft, and a relationship with Starr Insurance Companies for a first of its kind program that combines a rigorous training regimen and insurance for single-pilot jet owners. Additionally, Innotech-Execaire Aviation Group has become the launch partner for CAE's innovative suite of digital services specific to the business aviation market. On the expansion front, we deployed a Boeing 737 MAX FFS in Europe at our Amsterdam training center and we announced a new flight-training location in Las Vegas, Nevada, in order to meet higher demand and expand our business aviation footprint, which is expected to open next summer.

In **Defence**, we closed the acquisition of L3 Harris Military Training on July 2nd and it delivered solid revenue with double-digit margins in the quarter, in line with what we expected. I had the pleasure to visit our new employees and facilities in Texas and Colorado in August to inaugurate the closing. I'm highly impressed by the technologies we've acquired and the potential to provide for even greater differentiation of our Defence training and mission support solutions. I'm also extremely pleased by the great cultural fit with CAE. We live and breathe simulation and training in support of our customer's most critical missions. The energy and excitement our combined teams have for the future is palpable, and since the acquisition, we've retained all 67 members of the senior leadership team, which is a strong statement in and of itself about the strength of our shared vision and the mutual passion for what we do.

The organic Defence business was negatively impacted this quarter by delays in orders and program execution, particularly internationally, which have been largely due to the pandemic. Notwithstanding these headwinds, we booked Defence orders for $427.6 million in the quarter, representing a positive book-to-sales ratio of 1.02 times.

These orders include our recently announced, first-ever prime contract award from the US Intelligence Community with the Beyond 3D prototype for the National Geospatial Intelligence Agency. We will be integrating our capabilities across digital technologies, big data architectures, machine learning and artificial intelligence, making this a great example of CAE at the forefront of modeling and simulation expertise for mission and operations support across the multi-domain environment.

Other notable Defence orders during the quarter involve a range of contracts for support services, simulator upgrades and modifications in support of customers including the U.S. Army, Navy, Air Force, and Air National Guard, and internationally, for the German Armed Forces.

In **Healthcare**, we also experienced COVID-related headwinds during the quarter, particularly in Florida where our business is based. In light of the added challenges, I continue to be encouraged by the dedication and achievements of our team to deliver double-digit year-over-year topline growth in the quarter, excluding the ventilator contract from last year. Notably, this marks the third quarter of year over year revenue growth for Healthcare as it ramps up an expanded and reenergized organization.

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.

We delivered year over year growth overall during the second quarter, and our results continue to reflect the success of the measures that we have taken to strengthen the Company both externally in terms of expanding our reach and adapting to dynamic market conditions, and internally, by lowering our cost structure.

Consolidated revenue of $814.9 million was 16% higher compared to the second quarter last year. **Adjusted segment operating income** was $90.7 million, compared to $79.3 million last year. Quarterly **adjusted net income** was $53.2 million, or 17 cents per share, compared to 13 cents in the second quarter last year.

Cash provided by operating activities this quarter was down 32% to $30.9 million, compared to $45.6 million in the second quarter of fiscal 2021. **Free cash flow** was $19.4 million compared to $44.9 million last year. The decrease was mainly due to a decrease in cash provided by operating activities due, in part, to cash costs for restructuring, integration and acquisition costs this quarter, which amounted to approximately $52 million, partially offset by lower investments in non-cash working capital. 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. Also, we continue to target a 100% conversion of net income to free cash flow for the year.

Growth and maintenance capital expenditures totaled $46.7 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 investments on the horizon, we continue to expect total capital expenditures to be more than $250 million in fiscal year 2022.

Income tax recovery this quarter amounted to $13.0 million, which, normalized for restructuring, integration and acquisition costs, represents a rate of negative 1%, compared to an effective tax rate of 14% for the second quarter last year. On this basis, the decrease in the tax rate was due to impacts of changes in tax laws on tax assets, a positive impact of audits and the mix of income from various jurisdictions.

Our **Net debt** position at the end of the quarter was $2.48 billion, for a net debt-to-capital ratio of 38.2%. And, net debt-to-adjusted EBITDA was 3.55 times at the end of the quarter. All told, between cash and available credit we have approximately $2.2 billion of available liquidity. The increase in net debt this quarter was mainly attributed to the closing of the L3H MT acquisition and the execution of the related financing package. We see this increase flowing through to interest expense, which should continue at about this $35 million quarterly run rate going forward.

Now turning to our segmented performance...

In Civil, second quarter revenue was stable compared with Q2 last year at $362.1 million and adjusted segment operating income was up $13.4 million over the second quarter last year to $65.3 million, for a margin of 18.0%. This was the result of higher training utilization in the Americas, offset by lower products revenue with the delivery of only five FFSs this quarter compared with 10 last year and

11 last quarter. The lower FFS deliveries number this quarter was on plan, and we continue to expect to deliver north of 30 FFSs for the year. Our ability to drive an 18% margin on just 53% training utilization shows the benefits of the higher mix in training and the solid progress we're making to ramp up our recurring cost saving initiatives.

In **Defence**, second quarter revenue of $417.9 million was up 38% over Q2 last year. This includes $135.1 million from the integration of L3H MT in our financials. Adjusted segment operating income was $26.7 million, including $16.2 million from the acquisition, for a margin of 6.4%. On an organic basis, our Defence business decreased this quarter, most acutely in terms of adjusted segment operating income, and as Marc pointed out, this was mainly driven by delays in product-related orders and program interruptions and delays, particularly internationally as COVID impacts persisted in several regions. We closed the L3H MT acquisition early and synergies realized in the quarter were nominal. We are progressing well with integration efforts and are on track to $35 to $45 million of total cost synergies by the end of year-two following our closing of the transaction. Underlying the quarterly Defence book to sales ratio of 1.02x were international orders, which continued to lag at 0.75x book-to-sales, and orders from the U.S., which was higher at 1.15x.

And in **Healthcare**, second quarter revenue was $34.9 million, up 17%, excluding the ventilator contract last year. Adjusted segment operating loss was $1.3 million in the quarter compared to an income of $3.2 million in Q2 of last year. Segment operating income reflects growth in SG&A expenses in preparation for higher revenue growth, and the acute impacts in the quarter related to the severe COVID conditions in Florida, which affected supply chain and limited the team's ability to execute on orders.

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, we are confident we will emerge from the pandemic a larger, more resilient, and more profitable CAE than ever before. Until then, we must manage in an environment with disparate rates of recovery in our markets and in the geographies where we operate — something that will likely continue to be a factor for several more quarters until a more uniform global recovery takes hold. We have additional reason for optimism with the reopening of the U.S. border this week to vaccinated international travelers, and the latest news about the potential of antivirals to mitigate the effects of COVID-19. Ultimately, the slope of our recovery to pre-pandemic levels and beyond rests on the timing and rate at which border restrictions and quarantine measures around the world can safely be lifted. We certainly haven't been standing still waiting for the recovery to happen, and we have been focused on the things we can control. Specifically, we've been getting stronger by playing offense in a downturn, and 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 pursuit of an expanded growth opportunities pipeline has so far netted CAE nine accretive acquisitions, including the most recent announcement of our agreement to acquire Sabre's AirCentre airline operations portfolio, a highly valuable suite of flight and crew management and optimization software solutions designed to enable airlines to operate their businesses with efficiency and precision. And we have continued to secure highly attractive opportunities to deploy organic growth capital, including our recent expansion of business aviation training in Las Vegas, Nevada. At the same time as expanding CAE's reach externally, we're substantially lowering our cost structure and achieving even greater levels of operational excellence. In fact, we're on track to reach a run rate of $65 to 70 million of annual recurring costs savings by the start of the next fiscal year in April 2022.

In **Civil**, a greater desire by airlines to entrust CAE with their critical training and digital operational support and crew management needs, higher expected pilot demand, and strong growth in business jet travel demand are enduring positives underpinning a secular growth market. There is considerable pent-up demand for commercial passenger air travel, and once unleashed, drives higher flight activity and training demand. We're seeing this chain of events manifest itself already in the Americas, where we're experiencing a near total recovery in training utilization and a strengthening pipeline of full-flight simulator order activity. We believe this provides a blueprint for what a broader global recovery in air travel should look like. Since the end of the quarter, the market has improved with average training centre utilization trending to upwards of 60% globally, again with the highest utilization rates currently in the Americas, combined with still relatively depressed levels in Asia and the Middle East. In business aviation, we're seeing strong demand for training across the network, propelled by flight activity in the US and Europe that is now well above 2019 levels.

The uneven nature of the global recovery is likely to persist for a while, but we're ultimately in an excellent position to benefit from the multi-year cyclical market recovery underway. For the current fiscal year, we expect continued strong growth in Civil, weighted more heavily to the second half.

In **Defence**, the paradigm shift from asymmetric to near-peer threat and a recognition of the sharply increased need for digital immersion-based, synthetic solutions in national defence are tailwinds that favour CAE's business.

Given the increasing relevancy of training and simulation, our Defence unit is also on a multi-year path to becoming a larger and more profitable business. We are currently focused on the successful integration of L3H MT and expect to fully realize the $35 to $45 million of cost synergies we laid out, by fiscal year 2024. Defence is now more closely aligned with our defence customers' utmost priorities and is established as the world's leading platform agnostic, global training and simulation defence pure play business. This is expected to bring increased potential to capture business around the world, accelerated with the expanded capability and customer set we now possess. The pandemic has made international opportunities slower to materialize in the current environment, but this headwind is temporary, and we have a strong pipeline with some $6.5 billion of bids and proposals pending customer decisions. We continue to expect to deliver strong annual growth for fiscal year 2022, with sequential quarterly improvements in revenue and adjusted segment operating income expected in the second half. Supporting our view is our expectation for a reacceleration in order intake, especially from bids involving international programs as pandemic-related disruptions ease, and with that, we also expect the Defence book-to-sales ratio for the fiscal year to exceed 1x for the first time in the last four years. Other drivers in the second half and beyond include higher levels of execution on programs — specifically those involving higher margin products — and the progressive realization of synergies as we integrate L3H MT.

And lastly, our outlook for **Healthcare**, is continued quarterly year over year growth, as we ramp up our expanded and reenergized organization. Over the long term, we believe Healthcare is on track to become a sustainably material and profitable business, and for the current fiscal year, we project double-digit growth, compared to last year, excluding the ventilator contract.

In summary, while COVID-related impacts continue to affect all our business units, we increasingly see a clearer path to recovery and a larger, more resilient, and more profitable CAE in the future. Specifically, we are currently targeting to reach a consolidated adjusted segment operating margin of approximately 17% by the time our markets are generally recovered, with steady room for further improvement thereafter. We expect to reach this level of profitability on a significantly larger base of business with a post-pandemic capital structure that will allow us to sustain ample flexibility to further invest in our future. We continue to play offence during this period of disruption, as evidenced by our nine accretive acquisitions and continued growth capital deployment since the pandemic began. As business conditions continue to improve further, we look to extend this posture as it relates to both organic and inorganic growth investment. Our opportunity set continues to look very attractive, and I've never been as excited about CAE's future as I am today.

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

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

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.