REMARKS FOR CAE’S THIRD QUARTER FISCAL YEAR 2021

February 12, 2021

Time: 1:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

Mr. Andrew Arnovitz, 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 FY21 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, February 12, 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. I'll first discuss some of the highlights of the quarter, and then Sonya will provide additional details about our financial performance. I’ll come back at the end to talk about our outlook.

We continue to manage well through a challenging period. CAE’s stronger performance in the third quarter, compared to the first half of the fiscal year, reflects our ability to adapt quickly to a ‘new normal’ and also the resiliency of our business, which is largely recurring. On a consolidated basis, earnings per share before specific items of $0.22 was nearly 70% higher than last quarter and we had a near five-fold increase in free cash flow to $224.0 million, which is indicative of the cash generative nature of our business.

We also made important progress to significantly enhance CAE’s position for future growth. During the quarter, we bolstered our financial resources with the issuance of $495 million of common equity and we strengthened and expanded our market position with a succession of three acquisition announcements.

In Civil, revenue increased by 13% compared with the second quarter, driven by 50% average training centre utilization and the delivery of 10 full-flight simulators. We also continued to book new orders, with Civil signing training solutions contracts valued at $329 million. These included three full-flight simulator sales and a five-year exclusive business aviation training agreement with Bundeswehr of Germany for the Global Vision. We also signed an exclusive training agreement with MasAir, a new cargo
airline in Mexico, and we signed a five-year extension of our exclusive training agreement with Iberia to do all their training. And finally, we signed another five-year training agreement with TUI Airways, a British charter airline, and an exclusive two-year pilot training agreement with LOT Polish Airlines on a broad range of aircraft platforms.

In Defence, revenue remained stable with last quarter, while the Defence segment operating margin was 7.5% as we continued to manage through COVID-related impacts and disruptions on the timing of execution and deliveries. Near-term challenges aside, Defence booked orders for $261 million, including a contract with Lockheed Martin for a suite of C-130J training devices for the binational French and German C-130J training facility. We also signed with Lockheed for the supply of the CAE Magnetic Anomaly Detection-Extended Role system for U.S. Navy MH-60R Seahawk helicopters. Also, during the quarter, Defence was awarded a contract for the next increment of a multi-year contract with the U.S. Air Force to provide comprehensive C-130H aircrew training services, as well as an order to continue providing the U.S. Navy with primary and advance jet instructor support for the Chief of Naval Air Training at five naval air stations. Finally, as a result of superior contract performance, Defence received a sole source extension award for T-44C aircrew training services through mid-2027.

Defence also announced its involvement in a highly strategic contract to further develop and extend a Single Synthetic Environment (SSE) technology demonstrator for the United Kingdom’s Strategic Command. The SSE aims to deliver a virtual world to be used for operational planning and decision support across all domains -- cyber, space, maritime, land and air. This together with the recent award to support U.S. Special Operations Command last quarter are indicative of the good progress we’ve been making with our digitally immersive solutions.
At the end of the quarter, Defence won the competitive recompete of the U.S. Air Force KC-135 Training System contract—a program worth approximately US$275 million over the next eight years. This is a prime example of CAE’s ability to renew and expand major long-term training systems contracts as the partner of choice.

And in Healthcare, we continued to deliver CAE Air1 ventilators and segment revenue more than tripled with margins reaching 10.7%. I’m extremely proud of what we’ve been able to accomplish, first in rising to the challenge to develop life-saving ventilators in a time of great humanitarian need, and in our continued wartime efforts in the fight against COVID-19. We are continuing to provide new tools and training capabilities in support of our customers’ training needs during the pandemic. These include solutions like CAE Vimedix 3.1, an ultrasound education platform with new remote learning and screen sharing capabilities, curriculum development tools for distance learning and Microsoft HoloLens 2 mixed reality interface for remote education. We also expanded our adaptive clinical digital learning courses covering mechanical ventilation to include basic, advanced and COVID-19 patient management.

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?
Sonya Branco, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good afternoon everyone.

We continued to see good sequential performance improvements in the third quarter. Consolidated revenue of $832.4 million was up 18% compared to the second quarter and is 10% lower compared to the third quarter last year. Segment operating income before specific items was $97.2 million, compared to $79.3 million in Q2, and $157.2 million last year. Quarterly net income before specific items was $60.0 million, or 22 cents per share, which on the same basis compares to 13 cents in Q2, and 37 cents in the third quarter last year.

We had strong free cash flow in the quarter of $224.0 million, which is a big improvement over the $44.9 million we generated in the second quarter and is the result of continued good cash flow from operations and reversals in non-cash working capital accounts. I’m especially pleased to see that even with the negative free cash flow performance we had in the first quarter, when the brunt of the pandemic hit us, we’re now at positive $176.2 million free cash flow for the nine months year-to-date. So while we still face some challenging conditions, we’re confident about our outlook to be free cash flow positive for the year.

Growth and maintenance capital expenditures totaled $23.9 million this quarter and for the first nine months of the fiscal year, totaled $57.1 million. We had indicated in our outlook that we expect total CAPEX of approximately $100 million for the year and this continues to be our view. Our growth CAPEX is directly linked to our opportunities to invest incremental capital with attractive returns and free cash flows.
**Income tax recovery** this quarter was $0.1 million, representing an effective tax rate of nil, which compares to 16% for the third quarter last year. The tax rate was low for two reasons: first, the positive impact of tax audits, and second, 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—the same as Q3 of last year.

Our **Net debt** position at the end of the quarter was $1.8 billion, for a net debt-to-capital ratio of 38.9%, which is back within our target range of 35 to 45%. And net debt to EBITDA before specific items was 2.65 times at the end of the quarter. All told, between cash and available credit we have approximately $2.4 billion of available liquidity.

CAE’s **liquidity** was further enhanced with the completion in November of a public offering and a concurrent private placement of common shares for aggregate gross proceeds of $495.3 million. The net proceeds are intended to fund growth investments, including the three acquisitions we recently completed, and other future potential acquisition and growth opportunities. Pending such uses, we’ve been using the proceeds to repay indebtedness on our credit facilities and to hold them as cash or cash equivalents.

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. We began executing our restructuring program last quarter, and as of the end of December, we had incurred a total of $65.4 million of restructuring expenses.
We expect to record a total of approximately $140 million of restructuring expenses this fiscal year, which is higher than our previous estimate, because we’ve identified additional measures to optimize our global asset base and footprint, plus, we now have some additional restructuring related to the optimization and integration of our recent acquisitions. In connection with these efforts, we expect additional restructuring expenses of approximately $30 million in fiscal year 2022. Taken together, we expect our restructuring program to translate into significant annual recurring cost savings, commencing in fiscal year 2022 and ramping up to a run rate of approximately $65 to $70 million.

With that, I will ask Marc to discuss the way forward.
Marc Parent, President and Chief Executive Officer

Thanks, Sonya;

CAE is clearly in a much stronger position than it was back when the pandemic hit, and we’re bullish about CAE’s long-term prospects to emerge from this period in a position of even greater strength. We’re successfully implementing measures to fortify the company internally and finding additional opportunities for greater efficiencies. We’ve also made excellent strides to capitalize on external opportunities to enhance our market position and deploy growth capital. 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.

While COVID-19 remains a persistent global reality, we’re encouraged by the light at the end of the tunnel and we recognize that market recovery is really a question of when and not if. Fundamentally, the secular growth drivers for our business are unchanged. The resumption of CAE’s recovery remains highly dependent on the timing and rate at which travel restrictions and quarantines can eventually be safely lifted and normal activities resume in our end markets.

Now, looking at each of the business segments… in Civil, we expect to see a relatively stable performance in the fourth quarter compared to our current third quarter results. The global roll-out of vaccines to combat COVID-19 is indeed encouraging; however, the renewed quarantine measures and
border restrictions to contain the spread of the virus have contributed to expectations for a potentially more protracted recovery period for commercial air travel—particularly for cross-border and transcontinental operations.

At the same time, we expect to continue expanding our market share and securing new customer partnerships with our innovative training and operational solutions. We’re in advanced discussions with airlines about potential outsourcings and partnerships, and while we don’t control the timeline of these agreements, we expect some from our pipeline to come to fruition in the period ahead. Business aviation training has been recovering faster than commercial and we continue to see this trend ahead.

Demand for Civil full-flight simulators is driven by new aircraft deliveries, and while the total market is currently much smaller, we expect to maintain our leading share of available FFS sales. We benefit from a large backlog of customer funded FFS orders, and we expect to substantially deliver this backlog over the next couple of years, including approximately 35 this fiscal year.

In Defence, we’re managing through a transition year, as we work our way through the short-term challenges brought by the pandemic and ramp up a reinvigorated growth strategy under our highly talented leadership. The long-term outlook for Defence continues to be for growth, supported by a large addressable market for our innovative solutions and the realization of the benefits our bolstered team will bring to bear. I’m encouraged by our new competitive wins, large pipeline, and our recent success in the security sector with a contract award to provide United States Customs and Border Protection with Aircraft Pilot Training Services. This win leverages the CAE Dothan Training Center and CAE’s commercial and business aviation training centres to deliver simulator and live flight training services on
a range of fixed-wing and rotary-wing platforms. We were also selected, after a highly competitive process, to demonstrate our capabilities to the US Army Futures Command as part of its Synthetic Training Environment program, which is designed to provide a collective, multi-echelon training and mission rehearsal capability across the Army.

The takeaway here, is that while managing through the current period, we’re also focused on the long-term and we’re investing in our leading position as a training and mission support partner with leading-edge capabilities in translating the physical world into the synthetic world. We’re implementing a strategy to expand beyond training to become a leader in digital immersion and the application of synthetic environments to support analysis, planning and operational decision-making. 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 period ahead.

And 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. In addition to our core healthcare business activity, we’re continuing to work toward the delivery of our ventilator contract with the government of Canada. And we’re also continuing to find innovative ways to provide even more solutions to make the world a safer place. The contract we announced last week with PYURE to build and help develop high tech air sanitizers allows us the great benefit of maintaining manufacturing jobs in Montreal while continuing to play a role in the fight against the pandemic. And it’s another great example of CAE’s agility in leveraging our strengths in new ways. In fact, we obtained this contract by leveraging the expertise we gained developing ventilators as well as the ISO certification for medical device design,
manufacturing and distribution that we obtained last month. CAE has been an innovation powerhouse for more than 70 years, with world-class engineering, intellectual property, supply chain and manufacturing capabilities, and I look forward to more great things to come.

With that, I thank you for your attention. We’re now ready to answer your questions.
Andrew Arnovitz, Vice President, Strategy and Investor Relations

Operator, we would now be pleased to take questions from analysts and institutional investors.