



REMARKS FOR ACQUISITION OF METI

August 24, 2011

Time: 10:30 a.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

Mr. Andrew Arnovitz, Vice President, Investor Relations and Strategy



Andrew Arnovitz, Vice President, Investor Relations and Strategy

Good morning, everyone, and thank you for joining us. Before we begin I need to read the following:

“Certain statements made during this conference, including, but not limited to, statements that are not historical facts, are forward-looking and are subject to important risks, uncertainties and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events. These statements do not reflect the potential impact of any non-recurring or other special items or events that are announced or completed after the date of this conference, including mergers, acquisitions, or other business combinations and divestitures.

You will find more information about the risks and uncertainties associated with our business in the MD&A section of our annual report and annual information form for the year ended March 31, 2011. These documents have been filed with the Canadian securities commissions and are available on our website (www.cae.com) and on SEDAR (www.sedar.com). They have also been filed with the U.S. Securities and Exchange Commission under Form 40-F and are available on EDGAR (www.sec.gov). Forward-looking statements in this conference represent our expectations as of today, August 24, 2011, and, accordingly, are subject to change after this date.

We do not update or revise forward-looking information even if new information becomes available unless legislation requires us to do so. You should not place undue reliance on forward-looking statements.”

On the call with me this morning are Marc Parent, CAE’s President and Chief Executive Officer, and Stephane Lefebvre, our Chief Financial Officer.

After comments from Marc and Stephane, we will take questions from financial analysts and institutional investors.

Let me now turn the call over to Marc...



Marc Parent, President and Chief Executive Officer

Thank you, Andrew, and thanks to everyone joining us on short notice.

As you'll have read in our release this morning, CAE has acquired Medical Education Technologies Inc. or METI for \$130 million. This is an exciting and transformative move for CAE Healthcare that had been in the making for several months and I'm pleased to finally be able to discuss it with you today. I'll first take a few moments to walk you through the strategic rationale behind our decision to buy the company and then I'll ask Stephane to discuss some of the deal highlights.

The acquisition gives critical mass to our New Core Markets segment and it gives CAE some important advantages as we consolidate our success to date in healthcare and move to accelerate our progress in this highly attractive growth market:

[Slide "**Advantages for CAE**"]

- First, it provides CAE Healthcare with a platform that immediately propels us to a leading position by giving us access to the human patient simulator segment. This is significant because it's the largest segment of the overall healthcare simulation market;
- Second, the acquisition significantly expands the customer base for CAE Healthcare which enables us to offer our existing portfolio of solutions to a much broader market;
- Next, as a related point, it provides enough critical mass to CAE Healthcare for our New Core Markets segment to become profitable in the first full year following the acquisition—our fiscal 2013; and finally,
- We gain an experienced management team with the subject matter expertise and industry know-how to take CAE Healthcare to the next level.

Let's now take a closer look at each one of these advantages...

[Slide "**CAE Healthcare Vision and Mission**"]

The acquisition of METI brings us much closer to fulfilling our vision in healthcare, which is to drive industry acceptance of simulation as the way to improve the way that doctors, nurses and other healthcare professionals are trained. Our intent is to lead the industry by setting standards and gaining acceptance of simulation-based training as we've done in aviation over the past 60 years.



Already, with this acquisition, CAE Healthcare is propelled from start-up just a few years ago to a leading position in the overall healthcare market for simulation-based training.

[Slide **“METI Provides Excellent Customer Reach in a \$750M and Growing market”**]

Customers for human patient simulators and related solutions include hospitals, medical and nursing schools, governments, militaries and health services providers. Together with international markets, these customer groups spend more than \$750 million annually on the operation, maintenance and procurement of all types of simulation-technology-based training.

The market for human patient simulators alone is approximately \$150 million of that total, and METI has approximately 40 percent market share with over 1,700 customers. These include leading U.S. hospitals like the Cleveland Clinic and Dartmouth Hitchcock Medical Center; and medical schools and nursing schools like Mount Sinai School of Medicine and Emory University. METI has broad customer reach with 60 percent of medical schools in the US and Canada, and 25 percent of nursing schools in the US using METI simulators for part of their training. We see strong growth potential from these customer groups as they increasingly adopt simulation technology to improve the efficiency and effectiveness of healthcare education.

[Slide **“CAE Healthcare Expanded Offering”**]

METI is a market leader in human patient simulation with an installed base of approximately 6,000 simulators which provides a great platform for CAE Healthcare to extend its other solutions areas like medical imaging and surgical solutions. As well, this gives us the added benefit of a healthy recurring revenue stream from support and lifecycle replacement. Seventy percent of METI's sales are generated from within its existing customer base.

[Slide **“Human Patient Simulators The Full-flight Simulators of Healthcare”**]

Human patient simulators consist of highly sophisticated technology that instructors use to replicate the function and interaction of multiple human systems. They're used for training doctors and healthcare professionals in procedures much the same way we train pilots to interact with aircraft systems in a range of highly complex and stressful real world scenarios. Human patient simulators – or mannequins – are essentially the full-flight simulators of the healthcare industry.



[Slide “**Human Patient Simulators (wide range)**”]

METI has the broadest portfolio of patient simulators, each with a different level of sophistication and cost. In terms of innovations, it was the first to market with a pediatric patient simulator and the first to offer a completely wireless simulator.

And consistent with CAE’s core approach, METI solutions maximize technology to enhance the learning experience. A big differentiator for METI is the 13 human physiology models that function concurrently in all METI simulators. These are based on complex algorithms and cause the simulated patient to automatically respond to different traumas, medications and treatments. No other company in the industry offers this level of realism and fidelity.

[Slide “**Human Patient Simulators (maximize technology)**”]

In addition to its technology leadership, METI also offers a range of learning modules which are an excellent complement to CAE Healthcare’s expanding library of courseware. These are developed, written and validated by clinical educators and prestigious partners, such as the American College of Chest Physicians and the European Society of Intensive Care Medicine.

[Slide “**Highly Capable Management Team**”]

With this acquisition we gain the critical mass of a broad portfolio of proven products and much greater customer access, and we also gain a highly capable management team, led by METI’s former CEO, Michael Bernstein, who becomes President of CAE Healthcare. We welcome the METI team of more than 200 employees, including 50 clinical specialists and a sales network of 40 sales professionals and 40 international distributors.

With that, I will now ask Stephane to take you through some of the highlights of the transaction.

Stephane?



Mr. Stephane Lefebvre, Vice President, Finance, and Chief Financial Officer

Thank you, Marc, and good morning everyone.

The acquisition of METI closed late yesterday having met all of the necessary conditions.

[Slide “Deal Highlights”]

The \$130 million purchase was made in cash and represents approximately 8.5 times proforma EBITDA including synergies with CAE Healthcare.

I am pleased to report that we have obtained 100 percent of the financing for this transaction through a private debt placement averaging 11.7 years in duration and having an average interest rate of approximately 4.5 percent. Given our strong financial position, we have the capacity to borrow at attractive rates and we believe this represents a good opportunity to secure the long-term financing of this growth initiative.

Integration of METI and CAE Healthcare will begin over the next few weeks and will involve the realization of synergies in the period ahead. We plan to do the majority of Research and Development in Montreal and to consolidate manufacturing from San Jose to METI's state-of-the-art facility in Sarasota. Transaction costs under IFRS are expensed as incurred and as such, approximately 7 to 9 million dollars relating to the transaction and integration will be expensed mainly in the current second quarter.

METI is a profitable business and we expect the acquisition to enable our New Core Markets segment to become profitable in the first full year post integration—our fiscal year 2013. And based on our forecast, we believe New Core Markets is on track to generate over \$120 million revenue in fiscal 2013.

Thank you for your attention and back to you Marc.



Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

Our New Core Markets strategy is rooted in the belief that we could establish additional avenues of growth by building on CAE's decades of success and credibility in our core civil and military aviation markets.

[Slide "Investment Thesis for New Core Markets"]

We've been highly selective in our approach, recognizing that resources—particularly management bandwidth—are limited. We believe that healthcare and mining offer the best opportunity to leverage our core competencies of modelling, simulation and training.

These markets have good fit in terms of the criticality of the customers' mission and their need for greater safety and efficiency. They're also accessible and growing such that we can develop a leadership position and a material business over time.

We've been making solid progress establishing these new businesses. From a modest base of approximately \$2 million revenue in fiscal 2010, we generated \$38 million last year, and we're poised for continued growth.

We've been in discussions with METI's management and owners for nearly a year and I believe the high value they place on CAE's strategic direction and the customer receptivity to CAE Healthcare in general were important considerations leading to this agreement. From our perspective, the opportunity to acquire one of the few large leading players in healthcare education technology is a major leg up in the advancement of our strategy.

We believe the industry is poised for long-term growth because there's significant potential for it to adopt the use of simulation in an even more material way. What's fundamentally driving demand for simulation-based technology is the need for greater patient safety and the necessity of more efficient and more effective educational solutions for healthcare professionals and students.



[Slide "**Summary**"]

We launched New Core Markets with definite expectations that it would become profitable and at least as large as any one of CAE's four other business segments. With today's announcement, New Core Markets begins the transition from option value to tangible value for CAE's shareholders. CAE Healthcare is positioned to take full advantage of all the capabilities that CAE brings to bear on a global scale. I'm encouraged by the progress we've made to date and I'm confident that we now have a strong platform to take our healthcare business to the next level.

[Slide "**Your Questions Please**"]

Thank you for your attention. We're now ready to take your questions.

Andrew?

Andrew Arnovitz, 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.