Conference call: CAE INC. Q2 CONFERENCE CALL (Q&A only)
Time: 1:00 p.m. E.T.
Date: November 10, 2011

OPERATOR: And our first comes from the line of Hamzah Mazari with Credit Suisse. Please go ahead.

HAMZAH MAZARI: Good morning. Thank you. The first question is, or my only question I guess is on the civil training business. I realize the summer's a slow period, but maybe if you could tell us what you saw in that business in September and October, and maybe talk about the mix you're seeing in that business in terms of initial certification-type work relative to recurrent training.

MARC PARENT (President and Chief Executive Officer, CAE Inc.): I think it's strong in the quarter. I mean, if you look at the numbers of utilization, you see we have I think 70 per cent in the quarter. If you look year over year that compares to 67 per cent last year at the equivalent time. So both in the summer months where people… airlines usually are flying the line, and it is normal that we saw the drop from Q1, probably less than we saw last year.

I'd tell you the mix… I mean, again, very, very strong both in initial then recurring, particularly on the airline side in emerging markets. On the business aircraft side it's again strong on the business jet side than in the large segments like, you know, Dash 8, Global Express, Gulfstream. That level is strong. And less in terms of your entry Lear Jet series, Cessna, that kind of product line. That hasn't really changed from the last quarter. So, you know, I think that when we talk about our 20-per-cent EBIT expectations for the next period in consolidated civil, that's the assumptions we're making here.

HAMZAH MAZARI: Got it. Thank you very much.

MARC PARENT: You're welcome.

OPERATOR: And our next question comes from the line of David Newman with Cormark Securities. Your line is open. Please go ahead.

DAVID NEWMAN: Good morning, gentlemen. Or I guess afternoon. Just on the production delta and civil sim, I know you don't disclose this, but just year over year in a quarter how many more sims might you have, I guess, produced?

MARC PARENT: Do we have that number, Andrew?

ANDREW ARNOVITZ (Vice President, Investor Relations and Strategy, CAE Inc.): Yes, in terms of deliveries, David…

DAVID NEWMAN: Yes.

ANDREW ARNOVITZ: We delivered six in Q2.

DAVID NEWMAN: Okay.

ANDREW ARNOVITZ: But deliveries don't quite capture, I think, what you're looking for because it measures where the simulators are at a point in time.

DAVID NEWMAN: Yes.

ANDREW ARNOVITZ: The actual volume moving through the plant would be greater than what that number tells.

DAVID NEWMAN: Okay. Got it.

ANDREW ARNOVITZ: And the revenue volume, I think, gives you a good indication of the year-over-year comparison.

DAVID NEWMAN: And for the year what are you sort of anticipating on production versus let's say last year, which I think you were 20, in last year?

ANDREW ARNOVITZ: Yes, it'll be significantly higher.

DAVID NEWMAN: Okay. And then it sounds like you've cleared out that lower-margin backlog on the low price through the recession. Is that pretty much effectively gone now?

MARC PARENT: Yes, and we always have a mix of programs, but yes, what we referred to as the low-margin backlog, which is saying yes, that's pretty much cleared through now.

DAVID NEWMAN: Okay. And you said you're still expecting I think growth for the year on the top line on the military side. Marc, I don't know, did you mention a margin that you're still anticipating for the year? Is it still going to be like 15 sort of combined military overall, is that your expectation or how do you think this plays out?

MARC PARENT: Yes, that's what I expect. I mean, I'm a broken record on this, but I continue to expect that we'll be able to do, you know, 15-plus margins in the military, and that's what we expect to see as for the year going forward.

DAVID NEWMAN: And I know it's early days, but I mean if you're looking at the next year, you have any sense on how organic growth might come back on the military side? I mean, where are you I guess in the traction that you're getting I guess in convincing the military that simulation is the way to go, and like how does that all sort of play out as we go into next year?

MARC PARENT: Well, you know, as I said, you know, talked about in my remarks, we clearly see evidence that they're using more simulation to save costs. And we see that because we've seen some programs where people are upgrading simulators so they can do more training, more effective training on it. We've seen contracts like that. We've seen uptick in some other areas. But, you know, some of it is counter balanced by the fact that, you know, they're cutting in the overall core structure.

Now longer term I think that's definitely a positive, you know, it goes more positive. That's one factor. And the other ones, as I've mentioned, the platforms that we're on, helicopters, C-130s, P8s, I mean, that's still going, that's growing, that's strong.

And finally again, the global diversification, you know, obviously we're focused on, you know, the big news in the U.S. and in Europe. But if you look at some of our order intake you'll see it's coming from areas of the world which are growing.

So it's too early for me to tell, you know, with any certainty what the growth rate will be next year. I mean, we'll have to update because it all depends on some of the decisions that are being made. But what I see today though, if I look at our order pipeline, and we always look at this…

DAVID NEWMAN: Yes.

MARC PARENT: I see as many orders, I see any many potential orders in there as I've ever seen.

DAVID NEWMAN: Okay.

MARC PARENT: So that for me has not changed. I haven't seen a drop in the numbers of opportunities. I mean, clearly we have to win them. There's competition, but do I feel optimistic about the future? Yes, I'm optimistic about the outlook in military.

DAVID NEWMAN: Okay. And the last one for me. Just on the tax rate, obviously 21 per cent in the quarter. How long do you think you might be able to utilize those tax-loss carry forwards, and sort of the effective tax rate for the year? And I guess, you know, how long it might take to absorb them?

STÉPHANE LEFEBVRE (Chief Financial Officer, CAE Inc.): Well, you see, the benefit in the quarter was around $3 million. So the loss carried forward itself was in the range of $8 to $9 million.

DAVID NEWMAN: Okay, so a couple of more quarters ago.

STÉPHANE LEFEBVRE: Yes. Well as we said there's going to be, by the time that we actually ramp up the business and get to a steady state, I think we said last quarter that in that business we expect getting to a profitable situation for the whole new core market next year. So it will definitely be next… by the start of next year.

DAVID NEWMAN: Okay. So a couple of quarters of maybe lower tax rates for the back half of the year, kind of thing?

STÉPHANE LEFEBVRE: No, sorry. We expect that the tax losses will be used starting next year.

DAVID NEWMAN: Okay. Okay.

STÉPHANE LEFEBVRE: But the benefit has been accounted for in this quarter. So that's why we're at 21 per cent. Going forward for the rest of the year, I expect being in the 28 per cent tax rate range.

DAVID NEWMAN: Very good. Thank you.

OPERATOR: And our next question comes from the line of Cameron Doerksen with National Bank. Please go ahead.

CAMERON DOERKSEN: Yes, a question on the military business, and specifically in Germany, I mean, we've gotten a little more recently anyway an indication of specifically what the German military's going to do as far as cutting some of their programs. And then there's a number of programs in which you're involved there. So I'm just wondering if you can discuss what the impact you think will be to your business in Germany specifically?

And you've also got a joint venture there on the NH-90 training, and I'm just wondering how the cuts that have been announced are going to affect the value of that investment for you?

MARC PARENT: Well I don't think it changes – just specifically the last part of the question – I don't think it changes the value of our investment. We've looked at that very close, as you can imagine, because of what you say, our business there, we're quite integrated with the German army. We're on their bases. We do a lot of their training.

So clearly, what we've seen is they've announced a number of base closings, reductions of certain platforms. They still have some decisions to make, by the way. But I mean so far what we've seen is that there's some modest negatives to our existing business on the services side. But there's also potential to mitigate it. I mean, the complete shoe hasn't dropped.

It's kind of what I talked about again this quarter as in last quarter is that the first thing you do is cut. But then you figure out, okay, well we still got to maintain readiness. And as they look about how do they maintain readiness, then you look at well, how can we basically do things, you know, and just train people at lower costs? And that's what we do, obviously.

So for us in the short term, it's a modest negative. But we're looking for, based on what we've seen so far, I think in Germany specifically, I think we kind of have a flat situation in terms of revenue for the foreseeable future. But that’s reflected in our overall thinking about the military business.

CAMERON DOERKSEN: Okay. And maybe if I could just sort of follow up on the same theme, I mean, you’ve started, or set up, I guess, a joint venture within the company in India obviously to pursue some military opportunities there. I’m just wondering if there’s anything you can specifically say about what opportunities you think are available in India on the military side that might, you know, offset some of the weakness we might be seeing in other countries?

MARC PARENT: I don’t have the detail here. I mean, there’s a number of opportunities that we can probably give you some specific programs that Andrew can provide. I mean, basically the Indian military is undergoing a very significant modernization of their defence forces. And that’s not only in India, but specifically a question is for India. And that’s supported by the growth that they have in that country.

So I think we have a very good position. If you look at the joint venture we have there, the joint venture is with HAL, and that’s Hindustan, and Hindustan is the largest defence contractor in India. Most of the airplanes and helicopters that are produced in India are produced there either indigenously or through, you know, an agreement with the OEMs to produce them there. So I think we're well positioned, and we'll get back to you, I guess, with the specific platforms that they're buying.

CAMERON DOERKSEN: Great. Thanks very much.

MARC PARENT: You're welcome.

OPERATOR: Your next question comes from the line of Ben Cherniavsky with Raymond James. Please go ahead.

BEN CHERNIAVSKY: Hi. It's still a good morning from out here.

MARC PARENT: Okay.

BEN CHERNIAVSKY: Just one question I have from the commentary you made in the MD&A, and we haven't heard a whole lot about this recently on the CAE Global Academy that the revenue, there was revenue drag there.

BEN CHERNIAVSKY: Can you give us an update on what's happening with that initiative and the end markets that would explain that?

MARC PARENT: Yes, I think what you're seeing is we've refocused that business from, you know, going where the markets for new pilots really is. I mean, from the legacy to markets to emerging markets. So I think that explains a large part of it. That's really where you see it going.

You know, we continue to be very optimistic about that business, not only from the point of view of being able to train people to become pilots, but it's a great complement to our total solutions offering. Like for example, you know, we sold simulators to Vietnam Airlines, but they needed pilots. And we can differentiate ourselves by being able to train pilots, and if we were to go, for example, to our CAE Global Academy location, Phoenix, you would find quite a number of cadets from Vietnam in Phoenix.

But I think, back to your question, I think it's mainly a focus on legacy to emerging markets.

BEN CHERNIAVSKY: Okay. Thank you. And on the end markets, just looking at some of the plans for capacity from major carriers in Europe and the U.S. predominantly, I appreciate the emerging markets. They're still very robust. But do you see any potential pressure on training revenues, commercial training opportunities, as airlines start to consider scaling back capacity this fall and being more disciplined about ASM growth next year?

MARC PARENT: Well I guess we'll see if that happens. I can tell you what we see now is it's strong across the board, including Europe. I mean, we're doing very well. Sometimes you wonder if it's counter intuitive because of what you read and what you see about what's happening from an overall macro-economic situation. But it's really not reflected in what we see in terms of activity in the airlines, again, not only the emerging markets across the world. So, you know, we'll see what happens in a few quarters, but that's the situation today.

BEN CHERNIAVSKY: But hasn't there traditionally been a relationship between capacity plans and command for training?

MARC PARENT: Yes, you're right. I mean, in the end it's pretty directly related. I mean, if they cut capacity, they take airplanes out, then clearly they're going to… pilot training demand is pretty proportional to the amount of airplanes flying. I mean, it doesn't go down that much, clearly, because it's a regulated market. They have to train.

But I think, in the end, if it comes back… should… I'm of a mind that we're growing here and that we'll continue to see what we're see in the market today. But I mean, in the end should it go the other way I think we've proven the ability to adapt and be resilient in a down market, so, as we proved when coming out of the 2008-2009 crisis. So if it goes the other way we'll adapt…

BEN CHERNIAVSKY: Fair enough. Can I squeeze one more quick one in there? Just on the new core markets, you mentioned you expected to be profitable next year. Would you be willing to give us any indication of what the margin potential for that business is at a normalized rate? Like just trying to get a better understanding of the economics of that business versus aerospace simulation, you know, what are you sort of aiming for long term for profitability of that business?

MARC PARENT: Long term, we're expecting the same kind of profitability as the rest of our business.

BEN CHERNIAVSKY: So it'd be comparable margins?

MARC PARENT: Yes, comparable margins. I mean, I don't say we're going to get there next year because…

BEN CHERNIAVSKY: Yes.

MARC PARENT: … our focus is still attaining the revenue that we're targeting, which is as big as any other of our segments. But as I've said in the past it's not going to be dilutive to the margins in the rest of our business. So that's what I mean by it. We're targeting the same kind of margins as the rest of the business.

BEN CHERNIAVSKY: Right. Okay. Thanks very much.

MARC PARENT: You're welcome.

OPERATOR: Once again as a reminder, to register a question, please press the 1 followed by the 4. And the next question comes from David Tyerman with Canaccord Genuity. Please go ahead.

DAVID TYERMAN: Yes, good afternoon. Just following up on the training question, and I guess the question I have – and it's not just training, it's also the civil equipment business – can you kind of remind us in 2008-2009 when you really started to see something happening? I guess it feels a little bit like September 2008 right now. And I'm wondering whether you just haven't seen it yet. And you probably didn't back in September 2008 because it was too soon for people to know what was going on. But the tea leaves were there from the broader geopolitical situation and macro-economic situation.

So I'm just wondering how long was it before you saw something back then in terms of order flow or order activity from the customers, both on the training side and on the equipment side for civil?

MARC PARENT: You know, I think what we saw first, at the time, was we saw airlines starting to be capital constrained. They're shutting down capital, and that reflects itself in what our aftermarket is, like upgrades, maintenance of their simulators. That's where they start cutting first. Then, of course, it follows on by… because of a capex crunch then basically shutting down any kind of acquisition of any unused… any unused kind of or not absolutely essential kind of equipment, including simulators.

I can tell you we're not seeing it. It didn't happen overnight, and if you remember at the time, we restructured our business, and we did a pretty good restructuring in advance of everything happening, so... And that allowed us to continue to be profitable throughout the whole downturn. That's why I continue to say that should a storm happen we're... sees a pretty good port in a storm.

So I think, you know, I don't know about being in the same place as we were in 2008. I mean, there is a different situation. If you remember at the time, you know, people were talking about, you know, whether or not we were going to go in global depression. I mean, that's how bad it was, and nobody knew what was going on. There was no access to capital. People were worried about whether or not they could get any liquidity. So this is not the situation we have today.

Having said that, you know, we keep monitoring very closely – very, very closely. I mean, we look at leading indicators. We had seen a drop in freight indicators over the last few quarters. That's something we look at because that typically usually reflects itself in, you know, down shipments, then, you know, is that signalling a slowdown? Well that we're watching. But usually, you know, passenger traffic comes in pretty close after, but that's not what we're seeing. We're seeing it very strong across all segments of our industry, in the airline business.

DAVID TYERMAN: So just to follow up – sorry, just to follow up, Marc, so the maintenance, the sector that you talked about as the sort of the leading edge of what you do see. When did you actually start seeing that? Was it the fall of 2008 or was it really by the time you were getting into the start of 2009 or the spring of 2009?

MARC PARENT: I don't really remember, to be very honest about it. Do you remember?

ANDREW ARNOVITZ: Yes. David, it's Andrew. I think one of the big factors in the last downturn was the sudden… the very abrupt interruption of capital, as Marc was saying. And so part of it clearly is a function of decreased demand for air travel. But the absence of or the perceived absence of credit where many of our customers saw them clamp down on their capex plans pretty abruptly. To this point I don't think we've seen that.

The other factor to consider is where were the airlines, you know, in the 2008 period relative to where they are today in terms of the capacity they're flying and the kinds of yields that they were generating? So as a question to how much they would need to take out relative to what they took out in 2008-2009.

DAVID TYERMAN: Okay. Thank you.

OPERATOR: And our next question comes from the line of Benoît Poirier with Desjardins Capital Markets. Please go ahead.

ETIENNE DUROCHER: Yes, good afternoon. This is Etienne Durocher on for Benoît this afternoon. The first question on civil simulation side, I was just wondering whether you were seeing somewhat lesser competitive pressures as you used to in the past quarters?

MARC PARENT: In what segment, sorry?

ETIENNE DUROCHER: In SDC.

MARC PARENT: SDC, okay. No, I think the competitive environment hasn't really changed. Same number of competitors, same players that you see not necessarily in all markets, but I haven't seen a huge difference in the competitive environment.

ETIENNE DUROCHER: Okay. And would you say that the second quarter level for margins is a good number to look at going forward?

MARC PARENT: Yes. I mean, there'll be some variations because, you know, to the level that we can predict it, of course. But I mean, I think it'll be probably around what you see. I think what I tend to look at more is the combined number, and that's, you know, as I said, at least for what we see going forward here, I expect it to be around 20-per cent combined.

ETIENNE DUROCHER: Okay. Next question on the military side, maybe if I remember correctly I think you said on a previous call that you still needed to secure around 30 per cent of your fiscal ’12 revenues on the defence side. So I was just wondering if you could give us an update on that?

MARC PARENT: Well you saw the orders that we had in the quarter. I think we’re pretty satisfied with the orders. That lessened the risk that we were looking at in terms of us being able to grow this year. The exact number right now… like, we’re north of 80 per cent for sure. I don’t have the exact number for you, but I think they’re trying to dig it out for me. I think… yes, I think we have the exact number. It’s around 86 per cent for the whole year.

So, you know, I think there’s… We still have to win some, but I think the risk has been minimized of what we need to win. And I think what continues to be the risk for us is not specifically whether we’ll win is when we’ll win, the timing. But having said that, you know, with what we need to win, I’m pretty confident that we’ll grow it overall for the whole year.

ETIENNE DUROCHER: Okay.

MARC PARENT: Which means, of course, we’ll have a strong second half in the military business.

ETIENNE DUROCHER: Right. Right. And these recent orders, would you say that you've gotten them on time or were they somewhat delayed compared to your expectations?

MARC PARENT: Well, if you remember what we said, we said things tended to be just moved from like one quarter to the next or one half to the next. And that's pretty much what's happened. So some of them that we expected to win a couple of quarters ago we've won, and it's kind of a mix of that.

ETIENNE DUROCHER: Thank you very much.

OPERATOR: And the next question comes from the line of Marko Pencak with GMP Securities. Please go ahead.

MARKO PENCAK: Thanks. Good afternoon. In your MD&A for the civil equipment segment you talk about more revenue being recorded for simulators already manufactured for which you signed contracts during the quarter. Can you explain to me how that's possible? In other words, why is it that you guys had the availability of those, like as pre-built simulators?

MARC PARENT: Actually it's not something that happened this quarter. You know, we always have that happening to a certain extent in a quarter, and sometimes it gets a little bit more… it becomes more of a…

than a previous quarter, that's why we've pointed it out. But what it is, is that, these simulators, as we've built the simulators, you know, we don't necessarily – usually we have a customer, but not always. In some cases we want to have some that are partially built in order that we can react quickly to a customer having a short lead-time requirement. Specifically on A320s, on Boeing 737s, we tend to want to do that.

So depending on when we sell it, if let's say the simulator's half built when we sell it, well clearly because of the way we account for revenue on a percentage of completion, basically we recognize, you know, half the revenue immediately when we sign the contract. And, of course, if it's 90-per-cent built by the time we sell it then of course we'd recognize 90 per cent. That's one factor.

Another factor is sometimes we'll batch simulators, meaning that let's say we've sold two 737 simulators, and we may, even though the timing may be such that one delivers, let's say now, and another one delivers in six months. It's more cost efficient for us to build them at the same time. So it's those kind of factors that you see, but it's mainly the first one. And that is why...

MARKO PENCAK: So as you go through your budget process, what portion – and let's say… just – and I'm pulling a number out of the air just for discussion purposes – let’s say you’re planning to build 40 simulators next year. Well how many of those would be based on orders and how much would be sort of quote unquote, you know, built to a forecast?

MARC PARENT: Typically we build most of them on the orders we expect to win, i.e., we typically build, you know, based on getting an order. But we’ll have a certain proportion that we don’t disclose for competitive reasons that we build in order to have a shorter lead time. But we don’t disclose how much because it’s commercially sensitive.

MARKO PENCAK: And so none of these were related to order cancellations from like prior orders you got from other customers?

MARC PARENT: No. No. And as I’ve said, I mean this is… if you go back and look at MD&As for the last three or four years you’ll find it’s not something new. It’s something that’s pretty regular in our business, ASPC specifically.

MARKO PENCAK: Okay. Well I actually thought it was kind of new, which is why I’m asking.

MARC PARENT: Oh, sorry. Sorry. But it isn’t. It isn’t.

MARKO PENCAK: Okay. Thank you.

MARC PARENT: You know, it sometimes… it's sometimes just more in one quarter than it is another just because, you know, of the… You know, if everything was… if everything was linear then, you know, of course you wouldn't see it. But then sometimes we'll deliver two in a quarter and one in the next. But, you know, that's kind of reflected in our thinking of when we talk about the margins for the whole year.

MARKO PENCAK: Okay. And I'm sure you saw the acquisition of some industries by Lockheed Martin. So just curious how you see the competitive dynamic evolving over the next two years?

MARC PARENT: Well no, we saw it, of course. I mean, our industry is pretty small, all things considered, and Lockheed we know well, of course, because we work with them and they're a partner. They're a competitor as well. It depends which segment we're looking at.

They haven't been a competitor in training, so, you know, now that they own Sim-Industries, I think they'll be a competitor there. Now having said that, I think what they've said is they're going to, I think... who knows what they're going to do.

But I think to me what it says is that, you know, Sim-Industries, we've seen them in the market. They tend to place two to four simulators into the market every year. I expect that to continue. I expect that they'll continue to be a competitor. I think we'll see how that changes. I'm sure Lockheed has their strategy for it.

For us I think we still continue to play our game. I think we have… we're the only pure play in the business. We have a strong brand, and, you know, we have very deep relationships with the majority of the world's airlines. So I think we're going to continue to focus on our business, on our strategy.

But at the same time we don't rest on our laurels. We take everyone, any competitor in the market we take very seriously. And, you know, even though this is not a new competitor, it's Sim-Industries owned by someone else, and that someone else is Lockheed Martin. You know, we don't take it for granted. And, you know, I'll point out that… I mean it's not new that we're competing with, you know, high-tech relatively… I feel like I should say rich competitors, you know. For example, Rockwell Collins is in the business. They've been in the business for quite a few numbers, and they got into it by acquiring a small company called NLX at the time. We compete with FSI in the market. So I think we're used to competing with highly… you know, high-tech companies that are well capitalized.

Now Sim-Industries is that way, so I think, in the end I think it's not a new competitor, but it's one we'll be watching. But we'll be playing our game.

MARKO PENCAK: Okay. Thank you.

OPERATOR: And the next question comes from the line of Ron Epstein with Bank of America. Please go ahead.

ELIZABETH: Hi. It's actually Elizabeth in for Ron. The first question is…

MARC PARENT: Hi, Elizabeth.

ELIZABETH: Hi. The 86 per cent that you're now booked on the defence leg, where are you typically at this point in the year? Is that 86 haul? How does that sort of fall into the average?

MARC PARENT: It's about average.

ELIZABETH: Okay. And then when you talk about the new core markets being profitable by next year, does that mean it'll end the year profitable or it'll be profitable for the entire year?

MARC PARENT: For the whole year.

ELIZABETH: For the whole… Okay, great.

MARC PARENT: So it's be profitable for the whole year.

ELIZABETH: Okay, great. Thank you.

MARC PARENT: You're welcome.

ANDREW ARNOVITZ: Operator, I'd like to now conclude the Q&A session for analysts and investors, and now open the lines to members of the media. I would thank members of the investment community for their participation and note that I will be available for calls after this conference.

OPERATOR: Certainly. So once again as a reminder, to register for a question, please press the 1 followed by the 4.

And our first question comes from the line of Ross Marowits with the Canadian Press. Please go ahead.

ROSS MAROWITS: Yes, hi. I'm wondering if you could say what the top emerging military markets that you're seeking? You mentioned obviously India, but can you sort of enumerate which ones they are and what you're seeking from them?

MARC PARENT: I think I'd point out India, for sure. Asia, countries in Asia, countries in the Middle East such as the UAE, as an example. Those are the ones that come to mind. And they're looking at modernizing their fleets… you know, defence forces across the whole gamut of their defence forces. I think... include South America in that as well. You know, and I think that's… they're all supported by strong GDP growth and it gives them the money to be able to modernize their forces. So we expect and we're actually seeing order opportunities that are coming out of those markets, and we expect more in the future.

ROSS MAROWITS: Are there countries that you are unable to go into, like China or others?

MARC PARENT: Yes, specially that would be the one that we can't go into, China.

ROSS MAROWITS: And how much would the additional revenue from these countries offset decreases in the U.S. and Germany and elsewhere?

MARC PARENT: It's a bit too early to tell. You know, it depends of the timing of, you know, when they actually ramp up their procurements specifically to ours. So it's a little early to tell to what extent it will compensate. I mean, today we do about a third of our business, military business, you know, with countries. I would tend to expect that will continue. But again, it's a bit early to tell because it's so dependent on the timing of when they put their orders through or put RFPs through.

ROSS MAROWITS: So if there's dramatic decreases in military budgets in the West, it's not going to have a large offsetting impact?

MARC PARENT: Well depends what large is. I mean, we already seen, you know, large cuts… if I talked about it, like for example, in Germany where they talk about base closings, but we're still able to grow in that environment. So, you know, I think we're talking hypothetically. Yes, of course it depends on the magnitude of cuts that will happen, but I think that in the end I'm pretty confident of, you know, the fact that, you know, when you train in the simulator you can do it at 10 per cent of the cost of a real aircraft. Simulation will become a strong enabler to being able to run things more cost efficiently. So, you know, I'm convinced that the impact on our business will not be proportional to any cuts that are made, certainly not on longer-term basis.

ROSS MAROWITS: Thank you.

MARC PARENT: You're welcome.

OPERATOR: And the next question comes from the line of Peter Hadekel with the Gazette. Please go ahead.

PETER HADEKEL: Yes, thank you. Good afternoon. I'm just wondering if you could talk a little bit about the new core markets initiative. If… you were saying you hope to achieve $120 million revenue next year. And would that put you then on equal footing with the civil and the military simulation business?

MARC PARENT: No. I think we'd be about halfway to our lowest… our smallest segment, which is training and services military, so which is… you know, in the just north of $250 million.

PETER HADEKEL: Okay. So the timeframe for achieving parity with the other two segments would be what?

MARC PARENT: We haven't really given one. And some of it, you know, we'll see how we're able to execute. We're convinced that we're able to get there, but we haven't really given a timeframe on it ourselves.

PETER HADEKEL: The initiative was announced I think back in '09. How would you describe the process since then? The take up is faster or slower than you expected?

MARC PARENT: Well I'm pretty happy with the progress that we've made. If you look, as we've said in 2009, we had zero. And next year, you know, we'll be making $120 million in this business, and we'll be profitable. So I think, you know, I'm pretty happy with the progress we've made. Of course we've made acquisitions partly to be able to achieve that.

If you look at both segments, health care and mining are both segments that are attractive. Mining, as I said in my remarks, I'm very happy about the progress that we're making there. So overall I think that we're making the progress that we'd anticipated. And we're on track.

PETER HADEKEL: You know, obviously there's technological similarities between the different industries, but if you look at health care and mining, you know, they're obviously also different from aerospace. So I'm just wondering, from a management perspective, you know, what challenges does that pose to you, you know, in terms of culture shifts at the... at your organization?

MARC PARENT: You know, it's interesting. I mean, first of all, I think… even though they're very different, and you're absolutely right, they share some common traits with our businesses. And one of the ones that I would point out is in both cases they're mission critical. Mission critical is the same as a factor as in aviation. Also the need for safety and efficiency is there as well, so at the high level those are things that cut across.

From a culture standpoint it's not as – it's interesting, it's not as different as you might imagine as it relates to the kind of work that we do. Because what we do is take our expertise in simulation-based modelling, simulation-based training, and what we really have to learn is the actual subject matter expertise. Of course, the human body's very different than an airplane except that they have common kind of systems, like the blood system, circulatory system interestingly has some similarities to a hydraulic system in an aircraft. But having said that, they're, you know, clearly very different.

But our being able to adapt, like for example, our engineers being able to adapt, what they really need is to get the subject matter expertise. And we get that from the people that we either acquire or that we partner with, and that gives that. So and I think, from a cultural shift, it's not as significant as you might expect.

PETER HADEKEL: Okay, great. Thank you.

ANDREW ARNOVITZ: Operator, that's all the time we have this afternoon for questions from members of the media. I would like to thank the members of the media for participating on this call, and as well as the investors earlier. And I would remind everyone that a transcript of the call can be found on CAE's website at CAE.com. Thank you very much.

OPERATOR: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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