



REMARKS FOR CAE'S SECOND-QUARTER FISCAL YEAR 2012

November 10, 2011

Time: 1:00 p.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 afternoon, everyone, and thank you for joining us today. 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, November 10, 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 afternoon 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. Following the conclusion of that Q&A period we will open the call to 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 highlights from the quarter and then Stephane will provide a bit more detail about our segmented results. I'll come back at the end to talk about the way forward.

We had good performance in the second quarter with strong demand in all regions for our Civil products and services, and we signed a number of important US and European defence contracts. Overall, we concluded the quarter with a healthy \$3.6 billion backlog, which includes a number of long term, recurring services agreements. We also saw our operating margins improve with the combined Civil segments reaching 20 percent and military at 15 percent. The quarter also marked a turning point for New Core Markets with our acquisition of METI in Healthcare, which gives the business segment greater visibility and materiality.

Looking specifically at **Civil**, we continued to experience a high level of activity for full-flight simulator sales and upgrades to existing simulators. We sold another eight full-flights, bringing us to 19 at the half year mark, and in Civil training, we signed new agreements expected to generate \$246 million in future training revenue. In business aviation we continued to see much of the same situation as in past quarters with demand for small-jet training continuing to lag the mid-sized and the more robust large-cabin aircraft training segments. All told, our combined Civil book-to-sales reached 1.59 times in the quarter.

We currently have 165 simulators deployed in 29 training locations on four continents, and from a market acceptance standpoint, our solutions-based approach is working well. To date, we have approximately 20 strategic relationships with airlines and OEMs involving joint ventures, long term service agreements, and other forms of cooperation that are testament to the value that CAE brings as a training solutions partner.

[PAUSE]

Looking now at **Defence**, we received orders for seven simulators for the United States military and a customer in the Middle East; two simulators for the US Navy; and a contract to perform upgrades to the Air Force's KC-135 tanker simulators. We also received a contract to perform upgrades for the German Air Force's Tornado simulators.



Taken together, these contracts demonstrate the validity of the kinds of platforms that CAE is best known for and also show the types of downstream opportunities that arise from the existing training infrastructure.

Our total Military orders in the quarter were \$206 million for a book-to-sales ratio of 1.02x, which adds to our solid military backlog of \$2.2 billion.

[PAUSE]

Turning now to our **New Core Markets** segment...

In CAE Healthcare we acquired METI, which brings us a step closer to fulfilling our vision to drive acceptance of simulation as the way to improve the way that doctors, nurses and other healthcare professionals are trained. We also acquired products and technology from Haptica to enhance our capabilities and broaden our surgical solutions portfolio. From a market standpoint, we continued to have good traction as we integrate our new businesses. We sold products in our range of surgical, patient and imaging solutions to customers like the Madigan and Ft. Bragg Womack Army Medical Centres in the US; New York University and Western Carolina University.

In **CAE Mining**, I continue to be impressed with our progress to leverage our core competencies and develop new solutions to address our customers' needs for safety and efficiency. Specifically, in the quarter we sold our geological modelling and mine planning systems and professional services to major customers in Mexico, Russia, and Brazil.

With that, I'll now ask **Stephane** to take you through the financials.



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

Thank you, Marc, and good afternoon everyone.

Revenue for the quarter was up 12 percent year-over-year at \$433.5 million and net income attributed to equity holders of the company was \$38.4 million or 15 cents per share. Excluding the special items associated with the acquisition and integration of METI, net income was \$41.1 million or 16 cents per share, which is up 5 percent. Operating profit in the quarter was \$63.9 million, and excluding the special items, it was \$72.3 million for a net operating margin of 16.7 percent.

Orders were strong during the quarter with \$563 million booked for a consolidated backlog of \$3.6 billion. Bookings came in at 1.3 times revenue.

We had strong cash flow performance with free cash flow of \$109.3 million in the quarter. We said last quarter that we normally see unfavourable movements in our non-cash working capital accounts at the start of the fiscal year – and we did in Q1. We also said that we expect a portion of this to reverse as the year progresses – and we saw in the second quarter, a \$67.3 million favourable change in non-cash working capital.

Net debt was \$618.8 million as at September 30, 2011 compared with \$520.5 million at the end of last quarter. The increase of \$98.3 million was mainly due to the issuance of two private debt placements during the quarter -- mostly in support of our METI acquisition. We raised \$150 million at an average rate of approximately 4.5% and an average term of 11.7 years. We believe this was a cost-effective opportunity to raise capital and it reflects the quality of CAE's financial position.

Income taxes were \$10.3 million representing an effective tax rate of 21%. The rate is lower than usual because we recognized this quarter, previously unrecognized tax assets resulting from net operating losses in the U.S. This was triggered by our acquisition of METI, and excluding that element, income taxes would have been \$13.5 million, for an effective tax rate of 28%, which is in line with our outlook.

Capital expenditures totalled \$46.7 million this quarter, including \$35.8 million in support of our growth initiatives and the balance for maintenance.



Now looking at our segmented financial performance...

In our combined **Civil segments**, second quarter revenue increased 22 percent year over year, reaching \$211.7 million. For the year to date, revenue grew by 21 percent. Our combined Civil operating income for the quarter was up 34 percent to \$42.3 million, which gave us an operating margin of 20 percent.

In **Simulation Products/Civil**, segment operating income increased 86 percent to \$14.7 million for an operating margin of 15.9 percent. We're seeing the benefit of higher volume and a favourable program mix.

In **Training and Services/Civil**, we had a good level of activity in all regions. The second quarter is seasonally slower for training because flight crews are normally flying during the busy summer travel months. Nonetheless, we saw utilization of 70 percent compared to 67 percent last year and trailing twelve month revenue per simulator was \$3.5 million compared to \$3.3 million last year. Our operating profit in training and services was up 17 percent to \$27.6 million for a margin of 23.2 percent.

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In our combined **Military** segments, second quarter revenue was 3 percent lower year over year, at \$201.5 million. On a year to date basis, our military revenue was up 5 percent. We generated 15 percent combined military segment operating margin in the second quarter, which is back in the range of our outlook for the year.

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In **New Core Markets**, second quarter revenue increased from \$8.1 million to \$20.3 million, reflecting the inclusion of METI in our quarterly results for five weeks. We had an operating loss of \$8.6 million in the quarter, which includes the \$8.4 million pre-tax charges related to the acquisition and integration of METI. Excluding these special items, our performance compares well to the loss of \$1.3 million last year.

With that, I will turn the call back over to you, Marc.



Marc Parent, President and Chief Executive Officer

Thanks, Stephane.

We had a good quarter and based on the market indicators specific to our business, we maintain our optimism about the way forward.

Our outlook for **Civil** remains positive as we see continued strong demand for our products and services across all regions. Our combined civil order backlog has increased nearly 50 percent from last year to its current \$1.5 billion.

Key indicators in our civil business show a robust market and the long term civil aerospace picture remains attractive. Air travel grew again in September with airline revenue passenger kilometres up 5.65%. Commercial aircraft order backlogs have reached nearly 9,000 aircraft, or about seven years at the current delivery rates and aircraft production is slated to go higher. We believe passenger growth, particularly in the emerging markets, and the re-fleeting opportunity in the mature markets will remain important drivers.

We've reached 20 percent operating margins in our combined Civil segments and we expect this strength to be sustained. In simulation products, the first half was highly active and assuming market conditions continue to be robust, we expect to conclude mid-30 simulator sales this fiscal year. The recent first quarter reflected the bottom for operating margins in our civil simulation products segment, and we now expect to maintain a combined Civil margin around the current 20 percent level.

[PAUSE]

In **defence**, we're pleased to have won some key contracts during the second quarter in a challenging environment. We recognize that the uncertainty caused by the US budget process and force structure adjustments in the US and Europe has not gone away. But, that being said, we still see a good number of programs in the order pipeline.

There are three important factors that give us confidence in our business -- one of which is our global diversification. In fact, one-third of our military revenue is generated in the US; a third in Europe; and one-third in the rest of the world, including high growth markets like India, Southeast Asia and the Middle East.



The largest Western defence markets have already experienced significant cuts to defence spending and are still rationalizing their budgets. The reverse is true; however, for the emerging markets, which are expected to see significant increases in defence spending to 2015 and beyond. The growth in these regions is driven by the desire to modernize forces and is supported by strong GDP growth.

A second reason why we're confident is that we've got a good position on platforms that have held up well in terms of force rationalization, and we believe they'll continue to have long legs. I'm referring to platforms like transport aircraft and helicopters, which serve defence operations and also humanitarian and nation-building roles.

A third and fundamental reason why we feel confident about CAE's defence business is because it's on the right side of the equation. We see an explicit desire by defence forces and governments to maintain mission readiness at a lower cost by moving more training hours from aircraft to simulators as a means of achieving recurring savings. We've seen some of this already by way of systems upgrades and additional procurements and I'm convinced we'll see a lot more over the long term. Taken together, I believe all of these factors help to distinguish CAE's defence business.

In summary, we're in a good position in context of the macro environment, and I'm pleased with our performance overall. We grew Military revenue in the first half and we remain confident that we'll grow in defence for the year as a whole. As in the past, orders tend to skew toward the fourth quarter but we have a solid pipeline and expect another good year of order bookings.

[PAUSE]

In **New Core Markets**, we're making good progress and we've moved from what I've described in the past as "option value" to something more tangible. We firmly believe the New Core Markets will become as material in size to CAE as any one of our other segments and we expect over \$120 million of revenue next fiscal year, which is already becoming more material. Also importantly, we expect New Core Markets to generate a profit next year.

To conclude, CAE is a unique company, which remains well positioned with its global diversification and balance between markets, products, and services. We continue to be confident about the way forward.



Thank you for your attention. We are 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.