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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the CAE Fourth Quarter Conference Call. Please be advised this call is being recorded. I would now like to turn the meeting over to Mr. Andrew Arnovitz. You may now proceed, Mr. Arnovitz.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

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 fiscal year 2017 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, May 19, 2016, 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; Stéphane Lefebvre, our Chief Financial Officer; and Sonya Branco, who becomes CAE's new CFO effective Monday, May 23, 2016.

After remarks from Marc and Stéphane, 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 & Chief Executive Officer

Thank you, Andrew, and good afternoon to everyone joining us on the call.

CAE had a strong performance in the fourth quarter and for the fiscal year and I'm especially pleased with the positive response we've had from customers to our training solutions in all three of our segments. We reported double-digit top and bottom line annual growth for the company overall and for the year we generated nearly $250 million of free cash flow. This provided us with great support for our three capital allocation priorities, mainly market led growth, increased shareholder returns, and maintenance of our solid financial position.

During the year we continued to invest in accretive opportunities by keeping pace with our customers' needs. We also increased our dividend and introduced a share repurchase plan. And in terms of financial position, we further strengthened an already solid balance sheet. We also saw CAE win its fair share of new business with its innovative training solutions. Annual order intake was up 18 percent this year to $2.8 billion and our backlog increased by over $1 billion to $6.4 billion.

Now looking specifically at each of our business segments, as anticipated, the company's growth was led by Civil, which saw higher demand for training in the fourth quarter drive the utilization rate of our training centres up to 76 percent. Underscoring the high degree of operating leverage in training, this translated into a civil operating margin of 19.1 percent for the quarter and 16.6 percent for the year, both figures exceeding prior year margins. Demand for commercial full-flight simulators was strong as well. We sold 20 more in the quarter to operators including Southwest Airlines and Lion Air, who ordered five each, and I'm proud to say that despite aggressive competition we've held our leading market share. We've set a new all-time industry record with 53 full-flight simulator sales for the year and total civil orders for the quarter was $523 million for a book-to-sales ratio of 1.33 times. The ratio for the year was 1.18 times and at the end of March our civil backlog was at a healthy $3.1 billion.

Turning to Defense, we continued to see good order momentum here too. During the quarter we were awarded a range of contracts, including an upgrade under the U.S. Air Force KC-135 Aircrew Training System program to link together refuelling aircraft simulators across the Air Force Training Centre Network. We also received an order for a range of upgrades for the U.S. Navy's P-8 Poseidon aircraft simulators. Both of these contracts are good examples of the types of recurring business we generate from the installed base of enduring platforms. In total, Defense received $331 million in orders during the quarter, representing a book-to-sales ratio of 1.13 times. The ratio for the last 12 months was 1.02 times, which marks the first time in the last four years where annual orders have exceeded revenue. I was also very pleased to see Defense conclude the fiscal year with a solid $3.3 billion backlog.

And in Healthcare we kept up our rhythm of new product releases during the quarter with a new female patient simulator called Athena and our brand new training centre management solution. Of notable interest was a collaboration we formed with the American Society of Anesthesiologists, or ASA, to bring to market an interactive screen-based simulation product that will be offered for the first time as part of the continuing medical education process. This is another step for CAE Healthcare into the professional practitioner segment, an example the emergence of simulation in a regulatory context.

With that, I'll now turn the call over to Stéphane, who'll provide a detailed look at our financial performance. I'll return at the end of the call to comment on our outlook. Stéphane?

Stéphane Lefebvre, Chief Financial Officer

Thank you, Mark, and good afternoon, everyone.

Consolidated revenue was up 14 percent over Q4 last year at $722.5 million and quarterly net income before restructuring of $11.6 million was $72.8 million or $0.27 per share, up 13 percent compared to Q4 last year. For the year revenue was up 12 percent at $2.5 billion and net income before restructuring and the tax item we had earlier in the year was $230.5 million or $0.86 per share, also up 13 percent compared to last year.

We also had a very good cash flow performance at $248 million from continuing operations for the year, which is 42 percent higher than last year. As well, annual net cash from continuing operating activities less cash used in investing activities was $241 million, which represents more than a twofold increase over the prior year. Strong free cash flow enabled us to reduce even further our net debt at the end of the year to $787 million for a net debt to total capital ratio of 28.9 percent. This compares to a net debt of $950 million and a net debt to total capital ratio of 36 percent a year earlier.

Growth and maintenance capital expenditures totalled $39.8 million this quarter and $117.8 million for the year and, in terms of our capital employed, ROCE was 10.6 percent this year, up from 10.4 percent last year. We expect relatively stable ongoing capital expenditure requirements in fiscal 2017 focusing on steady state maintenance and market (inaudible) investments driven by customer demand. In addition to this, we expect to invest approximately $100 million for a specific long-term training systems integration contract with the U.S. Army to train all of its fixed wing aviators. The operation is scheduled to be ready for trading in a year's time and is expected to be nicely accretive over the life of the program.

Income taxes this quarter were $19.3 million, representing an effective tax rate of 24 percent compared to 23 percent for the fourth quarter last year. The higher tax rate was mainly due to a change in the mix of income from various jurisdictions.

The company introduced a normal course issuer bid last February and as of the end of March CAE had repurchased and cancelled a total of 515,200 common shares at a weighted average price of $15.01 per share for a total consideration of $7.7 million.

Looking now at some of our business highlights, we saw the best results from the Civil segment where revenue increased 7 percent over Q4 last year to reach $393 million. Civil segment operating income increased 21 percent, three times the rate of revenue growth, to $75 million for margin of 19.1 percent. For the year Civil revenue was up 10 percent at $1.4 billion and segment operating income was up 13 percent at $237.4 million. This gave us a Civil margin for the year of 16.6 percent, ahead of the 16.3 percent margin we reported in fiscal 2015. Also in Civil, we recently closed the acquisition of Lockheed Martin Commercial Flight Training, an opportunistic and relatively small bolt-on investment that gives CAE the benefits of a larger installed base and range of useful assets including facilities, simulator parts and technology, as well as some highly talented individuals.

In Defense, revenue grew by 25 percent over Q4 last year to $293.7 million while operating income decreased by 4 percent to $38.1 million for an operating margin of 13 percent. For the year, Defense revenue was $970.1 million, up 13 percent and segment operating income was $119.8 million, up 4 percent representing a segment operating margin of 12.3 percent. Defense results in the quarter include a one-time adjustment related to government royalty obligations partially offset by some negative headwinds. Before these items, the Defense margin would have been closer to 11.4 percent for the quarter and approximately 12 percent for the year.

Moving to Healthcare, the solid pickup in the top line performance for both the quarter and the year is a good indication of the market's positive response to our new products. Fourth quarter revenue was $35.8 million compared to $29.3 million in Q4 last year while segment operating income was $3.5 million compared to $4.1 million in Q4 last year. We continue to invest in the larger potential to grow the segment of our business and so sales and marketing expenses were somewhat higher in the quarter. Annual Healthcare revenue reached $113.4 million, up 20 percent from $94.3 million last year and annual segment operating income was $7.2 million, up from $6.7 million.

Before I turn the call back over to Marc I'd like to say a few words to thank the members of the investment community for their support and good counsel over the years. I also want to thank Marc, I want to thank my finance staff, the executive management team, and CAE's board of directors for the extreme privilege to have served as your CFO. CAE is a Canadian gem and global leader that is well positioned for sustainable growth well into the future. Next week I officially start my new position with another Canadian gem, albeit in a very different kind of industry, and leave here with the confidence of knowing that you are in excellent hands with my successor, Sonya Branco, your new CFO.

With that, I'll ask Marc to discuss the way forward.

Marc Parent, President & Chief Executive Officer

Thanks, Stéphane, and I have to say I very much appreciate your kind words and professionalism. It's really been absolute pleasure to have you as part of my team and I really value the contribution you've made to help maintain CAE's solid financial position and the growth that we've had over the years. We'll miss you. I'm also very pleased to welcome Sonya Branco in her new role as our Chief Financial Officer. Her appointment, to me, is testament to the quality of CAE's executive succession plan. Sonya is a highly skilled and successful financial executive and already a strong leader within CAE. Just last week the Québec Chapter of Financial Executives International Canada recognized Sonya with the prestigious Aces of Finance award, which is conferred upon outstanding financial executives. We're really fortunate to have someone of Sonya's caliber to join the executive team. She has participated in our growth and putting us where we are today and to serve as CFO to provide continuity to CAE's excellent financial stewardship.

At our recent Investor Day at the end of March we highlighted CAE's six pillars of strength. They are the fundamentals that defines CAE's investment thesis and underpin our strategy; namely, CAE has the advantages of a high degree of recurring business, a strong competitive mode, ample headroom in large markets, underlying secular tailwinds, potential for superior returns, and what I always call CAE's secret sauce, our culture of innovation. These six strengths, together with CAE singular vision focused on being the training partner of choice, are the basis of our positive long-term view for sustainable growth. We're working from a solid position with a large backlog in Civil and Defense and a robust bid pipeline across all segments. Our unique comprehensive training solutions and global reach give us the opportunity to increase CAE's share of the overall training markets. And looking specifically at the year ahead, we expect to see growth in all business segments, primarily led by Civil.

Our assumptions per growth in Civil are based on the continued healthy growth rate of passenger traffic, which continues to add to the regulated training needs of the global active fleet, which is the principle driver of our civil business. As well, we assume we'll continue to make good inroads capturing more head room in the overall $3.3 billion annual Civil training market. As similar to last year, we expect higher demand to translate at the higher annual utilization of our Civil training network and, as a result, we expect Civil operating income to grow at a low double-digit rate. Contributing to our positive view for Civil, we've continued to implement our process improvement program, which is expected to conclude by the second half of this fiscal year and yield approximately $15 million to $20 million of annualized cost savings. Our new processes enables CAE to improve the way it sells, designs, builds, and delivers commercial full-flight simulators to gain even greater competitive advantage.

In Defense we've had good visibility with approximately 70 percent of our expected fiscal 2017 revenue are already in backlog and we're confident that we'll continue to win our fair share of our new business. We've got a high level of bid activity and more than $3 billion of bids and proposals currently submitted and pending with customers. In addition, we see an improving defense landscape. Governments in North America and Europe are reaching a positive infection point in defense spending, while customers in Asia and the Middle East continue to renew and upgrade their defenses. And here too in defense we have the benefit of ample headroom in a large and growing market. We estimate the total training systems integration market to be $9.5 billion annually and so far we don't see being market constrained at those levels. We continue to see positive trends towards increased use of simulation for mission rehearsal and governments are looking to industry outsourcing partners for their training systems. Our healthy backlog, bid pipeline, and market outlook continue to portend well for modest growth this fiscal year in the Defense segment.

And finally in Healthcare, we're making good progress on a number of avenues to unlock what we believe will become a much larger business in future. We've been releasing a steady stream of innovative products, which not only drives sales of new products but also have a positive halo effect on our portfolio of existing ones. We're also continuing to make in-roads with medical device manufacturers and scientific societies to advance the use of simulation in the professional segment of the market. We continue to be very positive about the long-term potential for growth in this area and for the year ahead we continue to anticipate a double-digit rate of growth.

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

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Thank you, Marc. Operator, we'll now ask you to open the lines if there are any questions from financial analysts and institutional investors.

QUESTION AND ANSWER SESSION

Operator

Certainly. And before we do, once again, as a reminder, to register for a question for the financial analysts, if you'd like to register a question it's the one followed by the four on your telephone keypad. You will hear a three-tone prompt acknowledging your request. If your question has been answered, to withdraw your registration is the one followed by the three. If you're using a speakerphone, please lift your handset before entering your request. One moment please for the first question. And we'll proceed with our first question from the line of Fadi Chamoun from BMO. Go right ahead.

Fadi Chamoun, BMO Capital Markets

Good afternoon and all the best, Stéphane, in your new role. We appreciated your help over the years.

Stéphane Lefebvre, Chief Financial Officer

Thank you, Fadi.

Fadi Chamoun, BMO Capital Markets

Quick question on the Civil side, so in terms of the guidance, the double-digit growth in EBIT, can you give us some colour about what kind of revenue growth you're expecting for this fiscal year to drive that kind of performance this year?

Marc Parent, President & Chief Executive Officer

I think I'll start. I think we're seeing the same kind of growth profile that we would see this year. I mean there continues to be to be the good rate of utilization in our training centres that's going to drive the majority of growth. Of course the 53 simulators that we sold this year will also help as they drive through our production and we get them out. In terms of revenue, I think we focus more of our guidance on the operating income, but clearly I think we would see probably, in my mind, revenue growth in line with low double digits as we've seen this year.

Fadi Chamoun, BMO Capital Markets

Okay. Okay. So revenue growth in the low double digits as well as EBIT in the low double digits; is that right then?

Marc Parent, President & Chief Executive Officer

Is that right, Stéphane?

Stéphane Lefebvre, Chief Financial Officer

I think that's what we see, Fadi. Sorry, we're really, I think we explained when we had the Investor Day one of the big growth engines for us will be the utilization of our service in our service business and you've seen that in the fourth quarter it's been very strong and so we see utilization continue being strong in this coming year. That's one of the big drivers of the growth that we see. The second driver will be, as we talked about a few times, it's also us generating more yield out of our training business, so us becoming wetter and offering more wet training. You've seen on the equipment side the number of full-flight that we've sold in fiscal 2016 and so we start off with quite a solid backlog for fiscal 2017. So the combination of a good backlog on the equipment side, continued growth in utilization that we see in our training service, and as well providing more wet training, the combination of all that brings us to the guidance we've given of growth in both top line and bottom line in Civil.

Fadi Chamoun, BMO Capital Markets

Okay. No, but the point I'm trying to make is, I mean we understand you have a little bit more sort of operating leverage possibility than your training network and ultimately we would suspect that EBIT grows at a faster pace than the top line in this case, so if you're growing revenues I guess low double digit one would expect that the EBIT would be growing a little bit, you know, stronger than that, probably mid-teens? Would that be a fair assessment?

Marc Parent, President & Chief Executive Officer

I see. Sorry, Fadi, I see what you mean. We were wondering what (inaudible)...

Stéphane Lefebvre, Chief Financial Officer

Well, when I look at it, in the end there's a range and we talk about low double digit. I think we'll stick with what we've got in the outlook and that's the one thing I don't want to get off track of what we've got in our press release and what is our output we're sticking with and that's the low double-digit percentage operating income growth.

Fadi Chamoun, BMO Capital Markets

Okay. That's great. The quick one also on the $100 million investment in the Defense, can you talk a little bit, I think you touched base a little bit on the Investor Day but can you remind us what kind of ROCE profile is associated with this investment, the timing of when you would sort of start to see that comes through on an annualized basis, and also if there is any working capital requirement that's going to be needed to sort of ramp up this project?

Stéphane Lefebvre, Chief Financial Officer

So we've given some indication of the amount of CapEx that we think we'll need to invest in fiscal year 2017 for that program of about $100 million and the plan really for us is to execute the entire building of the infrastructure, including we need some aircraft to deliver the service, so the plan is to get it all delivered in fiscal 2017 and be ready to start training in fiscal 2018. And I think, as we said at the Investor Day and I think I've said it again in my remarks, the centre will open up in fiscal 2018 and it will be, start to be accretive as we start operating the business in 2018. As far as the working cap is concerned, I think you can expect some investment in working cap, but not a huge lot. I think it's part, not different from any other service contracts that we have where you can plan on about a month or two of working cap investment, but that's pretty much it.

Fadi Chamoun, BMO Capital Markets

Okay. Thank you.

Operator

Thank you very much. We'll get to our next question on the line from Cameron Doerksen with National Bank Financial. Go right ahead.

Cameron Doerksen, National Bank Financial

Good afternoon and I echo Fadi's best wishes to Stéphane. I guess my question, just want to follow up on the commercial business, Marc, maybe if you're able to maybe take a stab at what do you think the full-flight simulator orders will be this year. And maybe related to that, can you talk about whether you've seen any changes in the competitive environment for equipment sales now that you've closed the acquisition of the Lockheed business?

Marc Parent, President & Chief Executive Officer

We just closed a very recently, so it's a bit early to talk about that. I mean I haven't seen change so far. You wouldn't expect it to see so far obviously. And we'll keep, we'll let you know. I think, clearly I think it's going to have some effect for sure and we'll see what happens. There's still a number of competitors there but clearly you have one less, so I think that we should help clearly.

In terms of numbers of simulators for the year, I think, look, I'm going to start at the same point I started this year to say that we started the year around 40 sims and that I think I would stick with that for the moment, and really because it's based on, you know, our basis for providing that outlook is really delivery of aircraft out of the OEMs, and sometimes we get multi-year sales. Like we've had a couple of this year. If you think of, you know, Southwest Airlines bought five at once and then we had another airline buy five at once. I mean that's not going to happen every year. So I would say we'll start with 40 and we'll update it as we go.

Cameron Doerksen, National Bank Financial

Okay. And just quickly following up on the Lockheed, is there any material restructuring cost required with that business?

Stéphane Lefebvre, Chief Financial Officer

Look, I think we're going to update you, Cameron, and the rest of the finance community, when we report our Q1 report. We just closed the deal at the beginning of May. I think that you—I mean like in any other acquisition I think you would expect some restructuring cost, but all-in you've seen the price that we paid for it, you know, I think we consider this as a small bolt-on acquisition. We're pleased with the deal that we've made and we're convinced that the enterprise value will get, you know, what we need out of it.

Cameron Doerksen, National Bank Financial

Okay. Thank you.

Operator

Thank you very much. We'll get to our next question on the line from Steve Arthur with RBC Capital Markets. Go right ahead.

Steve Arthur, RBC Capital Markets

Great. Thank you very much. Just want to follow-up with a couple of specifics on the Civil business again. Looking at that 19.1 percent margin number, obviously driven quite a bit higher by the utilization rate, but as well any sense of if there was also an impact there from the improvement in the manufacturing side of the business? Are those efficiency programs kicking in yet or is that a fiscal 2017 function?

Marc Parent, President & Chief Executive Officer

Very small, Steve. It's just starting to kick in. It's just starting to. I think we should see the bulk of that starting to kick in as we get into the second half of this year.

Steve Arthur, RBC Capital Markets

Okay. So if that gives us some idea of the leverage then to the utilization rate, just bigger picture looking ahead at utilization rates and margins over the next few years, if we've seen the leverage there presumably as time goes forward and not a huge increase in capacity in the training network, utilization ticks higher. Any sense of what the target margin levels would be and would we see as reasonable looking further out over, say, a three- to five-year timeframe?

Marc Parent, President & Chief Executive Officer

Higher. No, I'm not trying to be, I'm not trying to be glib, but clearly I mean, look, I'm not getting a target on that, but suffice to say, you know, what we've given for the year in terms of low double digit percentage operating income growth for the year, but clearly we've demonstrated that we're able to generate 19 percent, you know, that was always a question we get, can we get the 19 percent, well we've demonstrated this quarter a 76 percent utilization, which clearly says we can do that, so I think that north of 20 percent is in view, I see that for sure. Of course, you have to be in a quarter of high utilization but, look, I think the demand is strong. And, as you said I think at the beginning of your question, clearly the results in Civil clearly demonstrate where we've been saying for a while about the lever effect of increased utilization of our training centres and we would expect that to continue, especially as things get wetter, i.e. we do more of the actual training, which of course is our vision, because you're actually doing more, you know, more work with the existing simulators. So it's not just a question of the utilization itself, because if you get wetter then you're actually doing the courses, so you're adding value with the same asset.

Steve Arthur, RBC Capital Markets

Okay. So in stronger quarters with more wet training and utilization approaching 80s, you know, over time something starting with a two isn't an unreasonable thing to look for?

Marc Parent, President & Chief Executive Officer

No, for sure. Yeah.

Steve Arthur, RBC Capital Markets

Okay, thanks. I'll re-queue.

Operator

Thank you very much. And before proceeding to our next question, once again on the phones, if you'd like to ask a question from the financial side, it is the one four on your telephone. And our next question is from the line of Benoit Poirier with Desjardins Capital Markets. Go right ahead.

Benoit Poirier, Desjardins Capital Markets

Yeah, good morning and congratulations, Stéphane, for your new role. Just in terms of the seasonality on Civil, could you let us know whether we should see typical seasonality playing out for Civil in Fiscal 2017?

Stéphane Lefebvre, Chief Financial Officer

I think we will, Benoit, because, I mean typically you've seen that, and two reasons mainly for that. Number one is the time when the airlines are very busy pilots tend to train less and so you tend to see that in spring and summer time. That's one reason. And the other reason is you tend to see, you know, we always have a shutdown in our manufacturing plant in some weeks in summer and so it tends to put pressure a little bit in Q1, mainly in Q2, and then the business picks up in Q3 and Q4 usually. So I've seen that many years. That seasonal trend shouldn't change this year.

Benoit Poirier, Desjardins Capital Markets

Okay. And just related to the 20 percent Civil EBIT margin we just briefly discussed, just wondering if it's something you might achieve in fiscal 2018 or more for, let's say, a quarter with a high utilization rate?

Marc Parent, President & Chief Executive Officer

I think those kind of results would be necessarily achieved with a high utilization rates, so it would have to be kind of a winter quarter, because... I mean it will be driven, it will be driven by higher utilization and therefore higher profits in our training centre network for sure.

Benoit Poirier, Desjardins Capital Markets

Okay. And on the military side, I would assume the new investment, the $100 million investment, will be mostly growth CapEx. Just wondering when the contract will start to contribute on the results in fiscal 2018 what kind of impact we might see on revenue and margin on a yearly basis?

Stéphane Lefebvre, Chief Financial Officer

Oh, I can't get you a precise figure, Benoit, on the exact top line and bottom line of the contract but the plan for us is to get everything ready for training at the end of fiscal 2017 and ready to start operating the business in fiscal, the beginning of fiscal year 2018.

Benoit Poirier, Desjardins Capital Markets

Okay. Okay, perfect. And the last question for me, just in terms of tax rate, what should we be using going forward?

Stéphane Lefebvre, Chief Financial Officer

I think, you know, I have been using the 22 percent, 23 percent guidance for a little while. We finished the quarter at 24 percent. I looked at the past few quarters. Last year we had a 22 percent normalized tax rate. It looks like we keep going being in that range, so I think we're there, the same range that I have given in the past, 22 percent, 23 percent tax rate.

Benoit Poirier, Desjardins Capital Markets

Perfect. Thanks.

Operator

Thank you very much. And we'll get to our next question on the line for Ben Cherniavsky from Raymond James. Go right ahead.

Ben Cherniavsky, Raymond James

Good morning, guys. Could you just quantify, I couldn't see it in the MD&A, I apologize if it was in there, but what was the FX impact on the contribution on revenue and EBIT?

Stéphane Lefebvre, Chief Financial Officer

I think you've got it, Ben, at the beginning of the MD&A. Let me just make sure I get the figure right here. The translation of the revenue is $126 million and the net impact, the impact on net income is $11 million. That's from the translation of all of our foreign operations into Canadian dollars. I think you've got that at the beginning, the front end of the MD&A somewhere.

Ben Cherniavsky, Raymond James

Okay. I apologize for that.

Stéphane Lefebvre, Chief Financial Officer

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Ben Cherniavsky, Raymond James

Okay. I'll dig that up. And then some of the revaluation of certain contracts in the backlog and some of the changes there, could you just elaborate on that a little bit?

Stéphane Lefebvre, Chief Financial Officer

The backlog itself, if you look at each segment you will see the FX adjustment in our backlog and we report that every quarter as an adjustment to the total backlog. So you can—

Ben Cherniavsky, Raymond James

But what—I'm sorry, can you, maybe I'll just ask a different way, what is it that causes you to revalue the backlog if it's not FX, because that seems to be recorded separately?

Stéphane Lefebvre, Chief Financial Officer

I mean most of the time it is FX. You will have, in certain cases, it's been the case in Defense, when we acquired the Bombardier military aviation training facility, so the NFTC training outfit in Moose Jaw and Cold Lake, there is a backlog that comes with it and so we don't consider, we don't treat this as an order intake because we bought the business. So you would see, you'd see a positive adjustment in our backlog in Defense when we do an acquisition. But I mean most of the time it's either acquisition, FX, and in rare cases where we've had a cancellation of a contract then we'd take it out.

Ben Cherniavsky, Raymond James

Okay. And then on the Healthcare side, the margin compression year over year, you say in the MD&A it was a function mostly of higher SG&A. What exactly were you... What exactly accounted for that? Because you did get revenue increase as well.

Stéphane Lefebvre, Chief Financial Officer

We did. And I think we've put in the MD&A as well or I may have mentioned in my remarks but we've invested, especially in Q4 we've had more selling and marketing cost. I know that we, through a major selling event, a large conference over a number of days that was of high value for the business but of course was quite expensive and when you look at a business of the size of Healthcare these things tend to have a bigger impact on the margin percentage. So that's what's happened. What you're looking at is really continued growth in the business, so you see the kind of top line growth that the business is getting and of course the income will grow with it.

Operator

Thank you very much. And, before we proceed, once again on the phones it is the one four to ask a question. And our next question on the line is from Turan Quettawala from Scotiabank. Go ahead.

Turan Quettawala, Scotiabank

Yes, good afternoon and, Stéphane, congratulations on new role there. I guess my question is on the Defense side of the business. If you look at the last year here you've had some decent revenue growth and I know BMAT's been kind of, I guess, hurting the margin a little bit as well. I'm just wondering in terms of your guidance for next year how should we think about revenue and maybe some colour on whether margins will continue to get compressed here or not next year?

Marc Parent, President & Chief Executive Officer

I think we should, as we've said in our outlook that we expect to continue modest growth in Defense and I think that when we look at, Stéphane can help me out but I'm pretty confident of this, that when you look at the basket of orders that we've won and the backlog that we have the margins we see there are no different, again, as a range of what we've been seeing in the past. So our margin kind of outlook would be the same. So that should translate, you know, revenue growth and accompanied by earnings growth.

Stéphane Lefebvre, Chief Financial Officer

Yeah, the margin profile of the backlog isn't significantly different from what we've had in the past and we've generated 12 percent and so that's kind of what you can expect going forward.

Turan Quettawala, Scotiabank

Okay, thank you. And just one more clarification from me here on the process improvement program. Are you pretty much done on the restructuring side for that or is there more to come maybe on that side in Q1 or Q2?

Stéphane Lefebvre, Chief Financial Officer

There will be more to come, Turan, but we're within what we've said I think about a year ago, in Q1 of last year when we gave an indication of how much we think we would spend in restructuring cost and when the restructuring would finish and when of course the benefits would start kicking in, and so we're right in line. There's probably something around $5 million after tax left in our program to go in the first half of fiscal 2017 and, as we said, we'll start seeing some benefit. We quantify it at $15 million to $20 million on an annualized basis and we'll start seeing that towards the second half of fiscal 2017.

Turan Quettawala, Scotiabank

That's great. Thank you very much.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Operator, I think we'll use the time remaining to extend the Q&A session to members of the media. I want to thank the members of the investment community for their questions. We'll now open the line please for members of media.

Operator

Certainly. Once again, as a reminder for the press and media, it is the one four to ask a question. And we do have a question queued up on the line from Ross Marowits from The Canadian Press. Go right ahead.

Ross Marowits, The Canadian Press

Yes, I'm wondering if you could give a little bit more detail as to, ah, there's a lot of different parts but what is the core reason you think for the record results in 2016?

Marc Parent, President & Chief Executive Officer

Well, I think a lot it has to do with the large increase in utilization in our training centre network. That has a lot. So basically more customers training in our existing network or training centres and when that happens not only do you get a lot more revenue but because a lot of your costs already covered a disproportionate amount of that revenue drops to the bottom line. It doesn't explain all of it but it's a good part of it. And a lot of that growth comes out of the fact that there's a big demand for pilots, new pilots, and pilot training, and that's what's driving things. And I think those are the big reasons that we've seen.

And in terms of order intake, we've seen in both Civil and Military the markets themselves are growing. In the Defence, for example, we see governments looking to outsource more of the training they do to private enterprises. And we're seeing them use more simulation as a way to rehearse not only pilot training but the way they rehearse their missions. And finally in Healthcare, where we saw over 20 percent revenue growth, is people are being very receptive to the new products and services that we provide and seeing that as a very good way to train people to make sure that healthcare practitioners are well prepared to be able to conduct the jobs that they have. And I think that's going to have, sorry, it's going to have a disproportionate amount of benefit of patient safety by borrowing the best practices that come from the aviation world, which of course we're experts at.

Ross Marowits, The Canadian Press

Where in the world is this utilization growth coming from mainly?

Marc Parent, President & Chief Executive Officer

Really, across the world really. I mean lot of activity in Europe, lot of activity in North America, and quite still strong demands in Asia. So I think I've covered the world here. Well, actually, you know, South America has been softer because of all the issues specifically in Brazil, as you would imagine, but the rest of the world is pretty strong actually.

Ross Marowits, The Canadian Press

And finally, what are the risks that you see for not meeting your growth targets for 2017?

Marc Parent, President & Chief Executive Officer

Well, I think it would be usual risk that we cover in our financial disclosures, mainly things that we don't control usually. Things that you can never predict. You know, global, you know, think about stuff like, for example, a pandemic that will hurt passenger travel as an example, this kind of thing. Obviously you can't predict that.

So I would think it's mainly associated with things we have no control that would be the biggest risk. But of course (inaudible) and of course if you read our financial disclosure you'll see all the risks that we've identified, but I think for the purposes of this call I think it'd be too lengthy to go through all of that.

Ross Marowits, The Canadian Press

Thanks so much.

Marc Parent, President & Chief Executive Officer

You're welcome. Thanks, Ross.

Operator

Thank you very much. Mr. Arnovitz, we have no further questions on the line. I'll turn it back to you.

Andrew Arnovitz, Vice President, Strategy & Investor Relations

Okay. Great. I want to thank, again, members of the investment community for their time listening to our call today and for their questions and as well to the media for their participation. I would like to remind all participants that a transcript of today's call can be found on CAE's website at www.cae.com. Thank you.

Operator

Thank you very much. Ladies and gentlemen, this concludes the conference call for today.