



CAE'S 2017 ANNUAL MEETING OF SHAREHOLDERS

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

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ENGLISH copy

Thank you Mr. Chairman.

Bonjour à tous,

Good morning ladies and gentlemen,

CAE turned 70 this year and, as you have seen in the video, we have celebrated the anniversary here in Montreal as well as in more than a hundred CAE locations worldwide. You just witnessed some of the pride we feel in being part of this great company and amazing family—that, in some cases, spans three generations!

When Ken Patrick, an ex-Royal Canadian Air Force officer, started the CAE family in 1947, his goal was to, and I quote, "...take advantage of a war-trained team that was extremely innovative and very technology intensive."

He started with 18 employees working out of a hangar at the St-Hubert Airport, selling radar equipment, radios and TVs. A few years later, he and his team were already creating CAE's first simulators: a CF 100 flight simulator for the Royal Canadian Air Force, and on the civil side, the first Canadian-built commercial flight simulator, for Canadian Pacific Airlines.

A few of you may recognize the device pictured on the screen behind me. It's from the 1970s and it shows one of the 3D models of actual landscapes that we used to build which allowed pilots to train in simulators. A camera projected the landscape into the simulator cockpit to create the visual scene. Back then, this was considered high fidelity.

A few innovations later, by 1982, CAE had developed the world's first Level D simulator—a flight simulator so realistic that training on real aircraft was no longer necessary.

And the rest is history—a history rooted in innovation and setting the industry standard—a history that has made us the **training partner of choice** for a growing number of airlines, defence forces and healthcare professionals.

Every year, we train over 120,000 civil and defence crewmembers and work with more than 300 airlines and major business aircraft operators to increase the safety of air travel.

Our training network, the world's largest, now spans more than 65 training centres and flight academies around the globe. Today, when you board a commercial aircraft, chances are that its crew was trained by us or on CAE equipment designed and built by our dedicated employees here in Montreal.

In the Defence industry, we're a leading training systems integrator, delivering a wide spectrum of training to approximately 50 defence forces in over 35 countries. We help prepare these men and women for a broad range of missions.

We're also a leading provider of innovative healthcare training solutions that allow medical personnel to consistently deliver better patient care.

We can all be proud of CAE's noble mission to help make air travel **safer**, defence forces **mission ready** and medical personnel **save lives**.

Let's look now at our performance in fiscal 2017.

It was undoubtedly one of the best years in our seven-decade history. We generated \$2.7 billion in revenue, secured a record \$7.5 billion backlog and expanded our customer base around the globe.

In Civil Aviation, we achieved a record \$1.7 billion in orders and increased both our training centre utilization and our operating margins. We continued to lead the market with 50 full-flight simulators sold, and signed long-term training services contracts with Jet Airways in India, Vietnam Airlines and Korea Airports Corporation, among others.

To help bolster our competitive position, we completed two large-scale initiatives. One involved a process improvement program to significantly improve how we engineer, build, deploy and support our simulators. The other program served to enhance our ability to improve the customer experience by helping us recruit, onboard, develop and retain the best training instructors.

In Defence & Security, orders increased by 40% over the previous year to a record \$1.4 billion, with CAE securing major long-term training system integration contracts.

This included a contract to build the U.S. Army's new fixed-wing training center in Dothan, Alabama, which we commissioned ahead of schedule. We are very proud that in June, our first cohort of students graduated to become US Army Fixed-wing aviators.

We also won key contracts at home such as the Royal Canadian Air Force's Fixed Wing Search and Rescue program where CAE will provide a full training solution for the newly acquired Airbus C295 aircraft. And, our NATO Flying Training in Canada contract was extended to 2023 after our first full year of operation, which was the most productive in the program's 16-year history.

Other important defence contracts included a naval training centre for the UAE, and a contract to provide ground-based training equipment for the French Air Force's Initial Flight Training program.

These contracts speak to the ongoing success of our global defence business and Training Systems Integration strategy.

In Healthcare, we also demonstrated our innovation leadership and continued to position the business for long-term growth.

We delivered a total of 2,000 healthcare simulators in fiscal 2017, increasing the number in operation globally to 12,500 and we doubled our business with original equipment manufacturers of complex medical devices.

Overall for CAE, and beyond our strong financial results in fiscal 2017, we also significantly improved our health, safety and environmental performance. Our 8,500 employees continue to embed corporate social responsibility in everything they do. I invite you to read our interactive online Activity Report to find out how our employees are helping make the world a better, cleaner and safer place.

I'd now like to ask Sonya Branco, our Chief Financial Officer, to provide us with an overview of our financial results.

Sonya Branco, Vice President, Finance and CFO

Good morning ladies and gentlemen.

CAE's financial performance in fiscal 2017 was strong.

Our year-over-year consolidated revenue grew by 8% to \$2.7 billion. Annual net income before specific items was \$278.4 million, or \$1.03 per share, representing an EPS increase of 20% over the previous year. We received orders valued at \$3.2 billion for a record total backlog of \$7.5 billion.

Civil Aviation led our growth with year-over-year revenue increasing by 9% to \$1.6 billion and our segment operating income by 15% to \$273 million for an operating margin of 17.5%. We also booked orders valued at an all-time high of \$1.7 billion.

In Defence, we generated revenue of \$1 billion, up 7% compared to the prior year. Our segment operating income rose 1% to \$120 million for an operating margin of 11.6%. We received total orders of \$1.4 billion for a book-to-sales ratio of 1.33x, marking the second consecutive year that annual orders exceeded revenue.

In Healthcare, orders took longer to materialize from our sales pipeline, but we continued to make good progress to position the business. Revenue was down 2% to \$110.7 million, and segment operating income was \$6.6 million versus \$7.2 million the previous year.

Overall for CAE, our strong operational performance translated into very good cash flow, enabling us to remain focused on our three capital allocation priorities: market-led growth, increased shareholder returns and maintaining our solid financial position.

Free cash flow was up 32% to \$327.9 million, compared to \$247.7 million in the same period last year, for a cash conversion ratio of 118%. The higher free cash flow stemmed mainly from a lower investment in non-cash working capital and an increase in cash from continuing operating activities.

By achieving these operational and strategic milestones in fiscal 2017, CAE is well positioned for both the year ahead and the long term.

Let's briefly look at our fiscal 2018 first quarter results.

Our progress to date supports our full year outlook, which remains unchanged. We continue to enjoy a good demand for CAE's solutions in a strong market environment.

On a consolidated basis, our first-quarter revenue was up 7% to \$698.9 million and operating profit was up 10% to \$97.8 million, compared to Q1 last year. Net income attributable to equity holders from continuing operations was \$63.8 million or \$0.24 per share.

Free cash flow during the quarter was negative \$37.9 million. This is mainly due to a higher investment in non-cash working capital. We normally see a higher level of investment in non-cash working capital accounts during the first half of the fiscal year and a portion of this investment tends to reverse in the second half.

We used cash to fund growth and maintenance capital expenditures for \$49.1 million. We also distributed cash to shareholders, delivering \$21.0 million in cash dividends and repurchasing common shares under the Normal Course Issuer Bid for another \$2.7 million.

Our financial position continues to be strong with a net debt-to-total capital ratio of 27.5% and net debt of \$804.3 million at the end of June.

In summary, our sound financials and backlog of \$7.3 billion put CAE in a strong position to continue delivering growth.

I thank you for your attention, and I now turn the podium over to our CEO, Marc Parent.

Marc Parent, President and Chief Executive Officer

Thank you Sonya.

What will fuel CAE's growth in the future? Our six pillars of strength. They are the fundamentals that define CAE's investment thesis and underpin our strategy.

We benefit from a high degree of recurring business, we have a strong competitive moat, and we have significant headroom in large markets that are being driven by secular tailwinds. These factors, combined with our deep-rooted culture of innovation, give us the potential to generate superior returns.

Let's look at some of our key market drivers.

In Civil Aviation, as the world's leader in the training of airline pilots, we introduced at the Paris Air Show earlier this summer our first-ever *CAE Airline Pilot Demand Outlook*.

The industry is expecting a continued increase in travel, in fact, the International Air Transport Association is forecasting that passenger trips will grow by 4.2% annually over the next 10 years. Supporting this growth requires pilots --and lots of them. A compelling takeaway from our report is the need for 255,000 new airline pilots over the next 10 years to meet the demands of the industry's growth and to compensate for retirements.

Another important consideration, highly relevant for airlines and CAE, is that half of the pilots who will fly the world's commercial aircraft in the next 10 years have not yet begun to train!

This record demand will challenge current pilot recruitment channels and development programs. And as a thought leader in aviation training, we are working more closely than ever with the airline industry to create innovative pilot career pathways.

As an example, in the US, we launched the Gateway Select Program with JetBlue. In Europe, we are recruiting cadets for easyJet. We have many other cadet training programs with airlines in every part of the world. They include flydubai, Indigo, JetAirways, AirAsia, China Southern and China Eastern, Japan Airlines, Vietnam Airlines, as well as Ryanair.

We are also developing new training systems to accelerate the development of first officers into captains. With our longstanding partner, AirAsia, we've leveraged years of training innovation to create and validate a ground-breaking training system. It represents a step change in the way commercial pilots are trained. By using Big Data, it provides unprecedented insight into a pilot's performance and development needs.

Our offering enables unmatched flexibility to adapt and evolve our solutions to fit our customers' needs. To that point, I am very pleased with new strategic developments with airlines announced this morning, involving Singapore Airlines, China Southern Airlines and AirAsia. These developments strengthen CAE's position in China and the ASEAN region, the fastest growing commercial aviation markets in the world.

We signed a Memorandum of Understanding with **Singapore Airlines** to establish a joint venture to be operated out of the Singapore Airlines Training Centre, near Changi airport in Singapore. This marks an important evolution in our relationship with one of the world's premiere carriers. Once underway, this joint venture will serve the training needs for Singapore Airlines, and SIA Group Airlines, including: SIA Cargo, Silk Air and Scoot, as well as other operators in the ASEAN region.

We also concluded a transaction with **China Southern Airlines** whereby China Southern has acquired our share of the Zhuhai Flight Training Centre. The evolution of this relationship allows us the flexibility to address the broader aviation training market in China and the ASEAN region. As part of the transaction, China Southern will outsource to CAE, third-party airline training being conducted at the Zhuhai Training Centre. And in addition, we will continue to serve China Southern as their partner for training services support, ab-initio pilot training, and for their simulation equipment needs.

In response to reports published in the media, we have also confirmed that we are in advanced discussions with AirAsia to conclude a sale and purchase agreement for CAE to buy **AirAsia's** 50% share of the Asian Aviation Centre of Excellence joint venture. CAE's relationship with AirAsia began in 2004 and with this agreement, it would expand with a contract for all the training requirements of AirAsia and its affiliates – not only for pilots, but for flight attendants, engineering and ground operations. This would be in support of all the aircraft types they operate for an extended term.

These are indeed exciting times for CAE and our Civil business, as we look to grow our share of the large and growing global aviation training market.

In Defence & Security, for the first time in a decade, we see defence budgets on the rise. The US defense budget is projected to reach a historic high to respond to the emerging global geopolitical environment. Canada, the United Kingdom, Australia, and most NATO nations are following suit, projecting increases in defense with readiness as their number one priority.

Defence forces are faced with preparing to respond to short-term contingencies, as well as counter longer-term threats as potential adversaries modernize their forces. Funding for advanced technologies is increasing. Artificial intelligence, augmented reality, cyber warfare and big data analytics are central to this strategy, and CAE is leveraging all these technologies in our training solutions.

Our reputation as a technically-advanced Training Systems Integrator is growing with defence forces around the world. Our customers come to CAE to innovate and apply technology to increase the fidelity of their training. For example, earlier this summer we supported the Royal Australian Air Force in an exercise connecting fighter, transport and surveillance aircraft simulators to train in a complex, operational environment.

And we're leveraging our know-how across all defence domains. The naval training centre we are building in the UAE will deliver training to individual sailors as well as the entire ship's crew working as a team. It will also allow for joint-mission training across Air, Land and Sea.

Rising defense budgets with a focus on readiness, an emphasis on advanced technology, and secular trends, such as increased outsourcing, position CAE's Defense & Security business as a leader in a \$15B global market.

In Healthcare, science fiction has become reality as we see an exponential growth in the introduction of disruptive innovations. As revolutionary new products and procedures are being developed to save lives, healthcare professionals need advanced training to learn how to use them. And CAE is well positioned to supply the training.

In January, we launched a new ultrasound training simulator with Microsoft HoloLens that generates a real-time holographic image of the anatomy as the user scans a manikin with an ultrasound probe. The CAE VimedixAR is being described by industry experts as a unique learning experience with huge potential for improving patient safety.

This is a great example of what CAE can accomplish in healthcare. We became the first company in the world to bring a commercial application using the new Microsoft HoloLens to the medical simulation market. Microsoft said it was inspired to see how CAE was integrating HoloLens into our simulation portfolio.

And we are continuing to disrupt the market with new technologies that help train healthcare professionals to treat patients and save lives. We just launched CAE Juno, a newly designed clinical skills manikin specific to nursing, the largest healthcare education market. As access to clinical practice hours with live patients continues to diminish, CAE Juno will help prepare students and teams for today's ever-changing, more complex and fast-paced healthcare environments.

We're already seeing a positive response to CAE's suite of innovations, and we are confident this will eventually become a larger part of CAE's overall business.

All these advances in our 3 core businesses, would not be possible without our culture of innovation. Some of the concepts I discussed today, such as big data analytics, virtual reality and artificial intelligence, are being tackled by our employees through our "Innovation Challenges". Our employees use open innovation and crowd sourcing to find ideas that will fuel CAE's growth and bring value to our customers. We see them here discussing their ideas with our executives in a Dragon's Den or Shark Tank-style talk-show. The best part is that the best employee ideas make it all the way into our products and services.

Employee collaborations with universities and research centres are also driving the innovation into our solutions—collaborations that focus on user experience and on integrating emerging technologies such as biometrics, neuroscience and Big Data analysis to study behaviours and improve our training solutions.

Today CAE delivers many of the market's most innovative and comprehensive training solutions. We invest to stay ahead of the curve, differentiating our solutions by integrating the best existing and emerging technologies. We're truly an Industry 4.0 company!

And as we continue to leverage the power of the digital revolution, we believe that we'll unlock an even greater share of the training market, in civil aviation, defence & security and healthcare.

And as a testament to our confidence in CAE's outlook, and in addition to the share repurchase plan which we are continuing to make available, I'm pleased to announce that our Board of Directors has, for the seventh consecutive year, approved a 13% increase in our quarterly dividend—this time from 8 cents to 9 cents per share.

In closing, I want to thank our employees—more than a 100 of them are present here today—for their pivotal role in our success. Their passion, innovation and focus have allowed us to become the best at what we do—to build a brand that's trusted around the world.

You may have seen the tagline for our 70th anniversary: ***Thousands of stories. One CAE.*** This tagline could not be more fitting. There is real pride and passion here, which employees recently shared in an e-book of stories which we are showcasing outside the auditorium. Without our employees, CAE would simply not be CAE.

I would also like to thank our Board of Directors for their advice and support, and our shareholders for their trust.

Thank you.