REMARKS FOR CAE'S FOURTH QUARTER AND FULL FISCAL YEAR 2024

May 28, 2024

Time: 8:00 a.m. (ET)

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

Mr. Nick Leontidis, Chief Operating Officer

Mr. Andrew Arnovitz, Senior Vice President, Investor Relations and Enterprise Risk Management

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Good morning, 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 FY25 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, May 28, 2024, 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.sedarplus.ca and the U.S. Securities and Exchange commission on EDGAR at www.sec.gov.

With the divestiture of CAE's Healthcare business, all comparative figures discussed here, and in our financial results have been reclassified to reflect discontinued operations.

On the call with me this morning are Marc Parent, CAE's President and Chief Executive Officer, and Sonya Branco, our Chief Financial Officer. Nick Leontidis, CAE's newly appointed Chief Operating Officer, is also on hand for the question period.

After remarks from Marc and Sonya, we'll open the call to questions from financial analysts. At the conclusion of that segment, we'll open the lines 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 morning to everyone joining us on the call.

As you will have seen from our earnings release, fourth quarter results are unchanged from last week's pre-announcement, which was mainly intended to communicate the re-baselining of our Defense business and the appointment of Nick Leontidis, a proven CAE veteran, as our Chief Operating Officer. To provide additional context, last week we also offered an earnings preview and our preliminary fiscal 2025 outlook. This morning, Sonya and I will provide a bit more colour on our performance and our very strong financial position.

Last week, we took decisive action to establish a clear path for margin improvement in our Defense business. I certainly recognize that our Defense performance has significantly fallen short of expectations, and we understand and share investors' frustrations. The impairments and accelerated risk recognition on the Legacy Contracts announced last week are disappointing but necessary steps toward putting the overhang of these past issues behind us. These actions were made possible by renegotiating agreements with our customers and suppliers, adjusting the scope and timing for our mutual benefit. Ultimately, this enables us to address the programmatic risks that have been affecting our business. Alongside re-baselining the Defense business with the acceleration of risk recognition on Legacy Contracts, we executed a leadership reorganization and implemented targeted operational enhancements at both the segment and corporate levels. These initiatives are designed to fortify our execution capabilities and foster greater synergies between our Defense and Civil businesses. I fully expect these changes to enable greater focus through the simplification of our operating structure with our COO overseeing the five P&Ls that encompass CAE's entire business scope. This new structure and recent upskilling of talent in Defense will further enhance the execution and oversight of major Defense programs and facilitate the exploration and realization of synergies between our Civil and Defense operations.

Also, in the vein of further bolstering CAE's future, our fourth quarter and full-year results reflect continued strong growth in our core markets, robust order flow, and consistent cash generation. For CAE overall, we grew adjusted backlog by approximately 13% year over year with $1.6 billion in orders in the quarter for a 1.38 times book-to-sales ratio. And for the year, we booked over $4.9 billion in orders for 1.15 times book to sales. As of end of March, we had a record backlog of $12.2 billion. We also further strengthened our financial position having generated $418 million of free cash flow during the fiscal year and together with proceeds from the sale of Healthcare, we reduced leverage to below three times net debt to adjusted EBITDA, excluding Legacy Contracts.

In **Civil**, we booked orders in the fourth fiscal quarter for $832 million, including contracts for 7 full-flight simulators. This brings the total Civil order intake to a record $3.0 billion for the year, including 64 FFS sales, demonstrating the sustained high demand for pilot training solutions and our Flight Solutions software platform. Civil concluded the year with a record adjusted backlog of $6.4 billion. Notable contracts in the quarter include a multi-year commercial aviation training agreement with ITA Airways and a first-of-its-kind partnership in Canada, where CAE instructors will deliver initial training for NAV Canada Flight Service Specialists and Air Traffic Controllers. And testament to our progress in Flight Solutions, we announced yesterday the signing of European ultra-low-cost carrier Wizz Air as a new partner under a multi-year supply agreement. We will be supplying Wizz Air with CAE's Operations Control and Crew Management software and CAE's Recovery Manager solutions for operational and crew disruptions.

Average training centre utilization was strong at 78% for the fourth quarter and 76% for the year, up from 72% the year prior. In products, we delivered 17 Civil full-flight simulators in the quarter and 47 for the year, compared to 46 deliveries in the prior year. As disclosed last week, this is a bit lower than the approximately 50 that we had expected, with timing difference due to customer requests to postpone deliveries because their own facilities were not yet ready to receive the FFSs as originally planned. Taking the timing delays from last year into account, we expect to deliver more than 50 FFSs in fiscal 2025.

Turning to **Defense**, at the same time as we have been taking actions to re-baseline the business, we have continued to make headway with our transformation strategy. We reached $1.9 billion of annual adjusted order intake on an annual basis, involving training and simulation solutions for a 1.04 times book-to-sales ratio. This contributed to a $5.7 billion adjusted Defense backlog. In the quarter, we had orders totaling $718 million, including a transformative win involving a contract with General Atomics to support the Remotely Piloted Aircraft System (RPAS) program, by delivering aircrew and maintenance technician training, and supporting training devices and courseware to meet Canada’s RPAS requirements. This is a prime example of the kind of larger and more differentiated program that we are in position to address and that will ultimately drive the Defense transformation we have been expecting.

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

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

Thank you, Marc, and good morning, everyone.

Looking at our fourth quarter results, on a **consolidated basis, revenue** of $1.1 billion was down 6 percent compared to the fourth quarter last year. **Adjusted segment operating income** was $125.7 million, or $216.0 million excluding the impact of the Legacy Contracts, compared to $193.4 million last year. Quarterly **adjusted EPS** was 12 cents per share, or 37 cents excluding Legacy Contracts, compared to 33 cents in the fourth quarter last year.

We incurred **restructuring, integration and acquisition costs** of $55.0 million during the quarter, in connection with the previously announced restructuring program related to portfolio shaping actions, including the sale of Healthcare, and to the continued integration of AirCentre.

The AirCentre integration is progressing as planned and is expected to wind down by the end of June. The restructuring program is related to portfolio shaping actions and to streamline CAE's operating model and portfolio, optimize our cost structure and create efficiencies. Total restructuring, integration and acquisition costs incurred since the start of the restructuring program this quarter amounted to $39.3 million. And we expect to record approximately $10 million of additional restructuring expenses over the next two quarters in light of the organizational and operational changes announced last week, to re-baseline the Defense business, further strengthen our execution capabilities, and drive additional synergies between CAE's Defense and Civil Aviation businesses.

For the year, consolidated revenue was up 7 percent to $4.3 billion. **Adjusted segment operating income** was up 2% to $549.7 million, and annual **adjusted net income** was $276.8 million, or $0.87 per share, which is stable compared to $0.87 last year. Excluding Legacy Contracts, **adjusted segment operating income** was up 19% to $640.0 million, and annual **adjusted net income** was $355.3 million, or $1.12 per share, which is up 29% compared to last year.

Net finance expense this quarter amounted to $52.4 million, which is stable from the preceding quarter and up from $50.4 million in the fourth quarter last year. I expect our annual finance expense in fiscal 2025 to be similar to fiscal 2024 on lower interest expense on debt, offset by higher lease expense related to recently deployed training centres in our global training network in support of growth.

Income tax recovery this quarter was $80.6 million, representing an effective tax rate of 14%, compared to an effective tax rate of 24% in the fourth quarter last year. The adjusted effective tax rate, which is the income tax rate used to determine adjusted net income and adjusted EPS, was 47% this quarter compared to 23% in the fourth quarter of last year. The increase in the adjusted effective tax rate was mainly attributable to the derecognition of tax assets previously recorded in Europe, partially offset by the change in the mix of income from various jurisdictions. On the same basis, the adjusted effective income tax rate for the year was 17%. The annual effective income tax rate in fiscal 2025 is expected to be approximately 25%, considering the income expected from various jurisdictions and the implementation of global minimum tax policies.

With the closing of the sale of our Healthcare business, **net income from discontinued operations** was $20.5 million this quarter compared to $4.8 million in the fourth quarter last year. The increase compared to the fourth quarter of fiscal 2023 was mainly attributable to the after-tax gain on disposal of discontinued operations of $16.5 million in relation to the sale of the Healthcare business.

Net cash provided by operating activities was $215.2 million for the quarter compared to $180.6 million in the fourth quarter last year, and for the year, we generated $566.9 million from operating activities compared to $408.4 million last year. We had **free cash flow** in the quarter of $191.1 million and $418.2 million for the year, for an annual cash conversion rate of 151%. We continue to target an average 100% conversion rate going forward.

Uses of cash involved funding **capital expenditures** for $91.7 million in the fourth quarter and $329.8 million for the year, driven mainly by the expansion of our civil aviation training network in lockstep with secured customer demand. These opportunities translate to some of our best returns as our simulator assets ramp up within the first few years of their deployment. Commensurate with our ongoing success to capture market opportunities in training, I expect total CAPEX in fiscal 2025 to be $50 to $100 million higher than fiscal 2024. Approximately three-quarters of this relates to organic growth investments in simulator capacity to be deployed to our global network of primarily Civil Aviation training centres and backed by multiyear customer contracts.

Our **Net debt** position at the end of the quarter was $2.9 billion, for a net debt-to-adjusted EBITDA of 3.17 times. Excluding Legacy Contracts leverage was at 2.89 times at the end of the same period. We're prioritizing a balanced approach to capital allocation, including funding accretive growth, continuing to strengthen our financial position commensurate with our investment grade profile, and returning capital to shareholders. Given our progress in strengthening CAE's financial position, as we announced last week, we are re-establishing a normal course issuer bid as part of our capital management strategy. The NCIB is currently intended to be used opportunistically over time with excess free cash flow. Given our outlook and the cash generative nature of our highly recurring business, CAE's Board of Directors will also continue to evaluate the possibility of reintroducing a shareholder dividend. At the same time, I expect that we will maintain a very solid financial position, bolstering our balance sheet through ongoing deleveraging, consistent with our investment grade profile.

Now to briefly recap our segmented performance...

In Civil, fourth quarter revenue was up 6% year over year to $700.8 million and adjusted segment operating income was up 17% year over year to $191.4 million, for a record margin of 27.3%. For the year, Civil revenue was up 12% to $2.4 billion and adjusted segment operating income was up 13% to $548.9 million for an annual margin of 22.5%.

In **Defense**, as we disclosed last week, we accelerated the recognition of risks associated with our Legacy Contracts in the fourth quarter, following revised agreements on scope and timing with customers, suppliers and other stakeholders. These actions resulted in profit adjustments associated with the reassessment of our estimated costs.

Fourth quarter Defense revenue of $425.5 million was down 21% over Q4 last year. This includes a $54.3 million impact from the accelerated risk recognition on Legacy Contracts and the conclusion of certain services contracts we decided to no longer pursue. Adjusted segment operating loss was $65.7 million, and adjusted segment operating income excluding Legacy Contracts was $24.6 million, compared to an adjusted segment operating income of $30.5 million in the fourth quarter last year. For the year, Defense revenue was stable at $1.8 billion, and adjusted segment operating income was down 98% to $0.8 million. Adjusted segment operating income excluding Legacy Contracts was up 72% to $91.1 million.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya.

I am going to separately address the outlook for our two segments but before I offer any numbers, I'd like to mention that our combination of Civil and Defense businesses has significant strategic advantages. Let me be clear: our Defense performance hasn't met our expectations so far, but our strategy remains solid. Over the past two years, we've achieved some 20% growth in adjusted backlog and expanded our pipeline with bid opportunities that align well with our core strengths in training and simulation, offering attractive risk/return profiles. Our simulators and training products are very complementary for both civil and defence purposes. The synergies are strong in terms of technology, manufacturing, and as well as go-to-market approach. There is hardware and software commonality in the products, and increasingly, there is operational synergy in how we optimize training across the two businesses. I am very confident that Nick Leontidis will strengthen our execution capabilities and drive additional focus and synergies between our business segments.

For Civil, the secular demand picture for aviation training solutions remains vey compelling, underpinned by growth in air travel, demand for pilots, and the need for them to stay current with always advancing aviation technology and regulations. Our business is driven primarily by the regulated training required to maintain the pilots and crews who operate the global in-service fleet of commercial and business aircraft. As an additional secular driver, we expect a sustained high level of pilot movements from the growth and replacement of the active pilot population. According to our estimates, over half the commercial and business jet pilots who will be active in a decade from now, have yet to even begin their training.

With that background, I expect low double-digit percentage Civil annual adjusted segment operating income growth in fiscal 2025 and continued margin strengthening, with an annual adjusted segment operating income margin (aSOI) of approximately 23%. The expected increase in Civil margins reflects the ongoing ramp-up of newer training centres and recently deployed full-flight simulators, partially offset by the SaaS conversion underway in our Flight Operations Solutions software business. As in previous years, I expect annual Civil performance to be more heavily weighted to the second half.

In **Defense**, we are also in a secular growth market, as the sector enters an extended up-cycle marked by rising budgets across NATO and allied nations. Key trends include heightened focus on near-peer threats, greater government commitments to defence modernization and readiness amid geopolitical tensions, and a growing demand for the training and simulation solutions we provide. Our expertise in both civil aviation and defence positions us well to meet these needs.

Specific to CAE, we are seeing a consistent demand driver across regions for our training solutions: a shortage of uniformed personnel for defence, which has led militaries to rely on industry partners like CAE for training solutions to ensure readiness. This aligns perfectly with our core strengths, and our Defense transformation strategy over the past few years has focused on expanding our leadership position on integrated training and simulation solutions. This strategic focus has allowed us to streamline our project selection to ensure a better risk/return balance.

Moreover, we've negotiated favorable terms, such as cost-plus contracts for development work and tighter pricing bands on service contracts, while leveraging civil-like business models. These improved terms will positively impact our risk-adjusted returns as newer contracts ramp up. This approach has already resulted in significant backlog growth with larger, more profitable programs, and we anticipate even greater growth in fiscal 2025.

Our expectations for fiscal 2025 reflect the re-baselining of the business and the enhanced visibility this give us. We are extremely focused on acting on what we can control and will prove it through execution in the coming quarters. We expect annual revenue growth in the low- to mid-single-digit percentage range and annual Defense aSOI margin to increase to the 6- to 7-percent range, and like civil, be more heavily weighted to the second half. We have large multi-year programs currently in negotiation that should add significantly to our backlog, soon. Beyond our selection on transformational Defense contracts in Canada, we are well positioned over the next year on several similar strategic programs across the Indo-Pacific region, Europe, and in the US. In particular, the demand for aircrew training programs similar to Canada's FAcT and RPAS across the Five Eyes and NATO partners and allies continues to increase. These programs require the type of technologies and proficiency that are CAE's strengths. We intend to leverage our position on these generational programs in Canada to enable multi-domain training in secure synthetic environments across our global network.

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

Andrew Arnovitz, Senior Vice President, Investor Relations and Enterprise Risk Management

Operator, we would be pleased to take questions from financial analysts now.