REMARKS FOR CAE'S THIRD QUARTER FISCAL YEAR 2024

February 14, 2024

Time: 2:00 p.m.

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

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

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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 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, February 14, 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 expected divestiture of CAE's Healthcare business, subject to closing conditions, including customary regulatory approvals, all comparative figures discussed here, and our financial results, have been reclassified to reflect discontinued operations.

On the call with me this afternoon are Marc Parent, CAE's President and Chief Executive Officer, and Sonya Branco, our Chief Financial Officer.

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 afternoon to everyone joining us on the call.

Our performance in the third quarter reflects the continued strong demand for our Civil market solutions, and points to our ongoing progress to transform our Defense business. We generated strong free cash flow in the quarter, enabling us to further bolster our financial position in line with our leverage targets. We also made excellent progress to secure CAE's future with nearly $1.3 billion in total order intake, for an $11.7 billion backlog.

In **Civil**, we had strong financial performance that reflected the quarterly mix we anticipated, with demand for our commercial and business aviation training solutions continuing to be robust across all regions. Operationally, we delivered 13 full-flight simulators to customers during the quarter, and our average training centre utilization was 76%, which is up from 73% last year.

We booked $845 million of orders with customers worldwide for an impressive 1.36 times book-to-sales ratio, which is even more remarkable on revenue that's 20% higher than Q3 of last year. We also had strong order activity in our JVs this quarter, representing another approximate $135 million of training services orders which are not included in the order intake figure, but *are* reflected in the record $6.1 billion total Civil backlog.

We received orders for 20 full flight simulators in the quarter, bringing our tally for the first three quarters of the fiscal year to 57. Notable wins included penetrating more share of the existing market with long-term training services contracts with marquee airlines including, Air France KLM Group, and we renewed a flight services contract with Azul of Brazil. We continued to have very strong momentum in business aviation as well, with over $300 million of order intake in the quarter, driven primarily by training services agreements with U.S. based customers including, Solairus Aviation and Clay Lacy Aviation.

The continued high level of order activity this quarter across all Civil segments underscores our ability to win share in a large secular growth market with CAE's highly differentiated training and flight services solutions.

In **Defense**, our financial performance was consistent with our expectations at this point on our path toward being able to generate higher margins in the business. Defense performance was lower than the third quarter last year as we continued to retire risk on a group of distinct Legacy Contracts, which Sonya will describe in more detail in her section. We booked orders for $429 million for a 0.9 times book-to-sales ratio, giving us a $5.6 billion Defense backlog, which is up from $5.1 billion in Q3 last year. They include a maintenance contract with the U.S. Air Force for its F-16 training devices and the continuation of training services on the C-130H transport and KC-135 tanker platforms. Defense orders also included an option exercise for the U.S. Army for fixed-wing flight training and support services at the CAE Dothan Training Centre.

With that, I'll now turn the call over to Sonya who will provide additional details about our financial performance. Sonya?

<u>Sonya Branco, Executive Vice President, Finance, and Chief Financial Officer</u>

Thank you, Marc, and good afternoon, everyone.

Consolidated revenue of $1.09 billion was 13% higher compared to the third quarter last year while **adjusted segment operating income** was $145.1 million, compared to $156.8 million in the third quarter last year. Our quarterly **adjusted EPS** was 24 cents compared to 27 cents in the third quarter last year.

We incurred **restructuring, integration and acquisition costs** of $23.5 million during the quarter, relating to the AirCentre acquisition. Expenses related to the AirCentre integration, which is progressing as planned, are expected to wind down by mid fiscal 2025.

Net finance expense this quarter amounted to $52.4 million, which is up from $47.1 million in the preceding quarter and up from $47.7 million in the third quarter last year. This is mainly the result of higher finance expense on lease liabilities.

Income tax expense this quarter was $8.2 million, for an effective tax rate of 12%. The adjusted effective income tax rate was 15%, which is the basis for the adjusted EPS.

As Andrew indicated out the outset, Healthcare is now classified as a discontinued operation and our **net loss from discontinued operations** was $1.9 million this quarter compared to a net income from discontinued operations of $2.1 million in the third quarter of fiscal 2023. The decrease compared to the third quarter of fiscal 2023 was mainly attributable to transaction costs of $2.2 million incurred in the third quarter of fiscal 2024 in relation to the expected sale of the Healthcare business.

Net cash from operating activities this quarter was $220.8 million, compared to $252.4 million in the third quarter of fiscal 2023. **Free cash flow** was $190.0 million compared to $239.8 million in the third quarter last year. The decrease was mainly due to a lower contribution from non-cash working capital and higher payments to equity accounted investees to invest in Civil training network expansion in support of our long-term customer agreements. Free cash flow year-to-date was $227.1 million compared to $185.4 million year-to-date last year. The increase was mainly due to a lower investment in non-cash working capital and higher cash provided by operating activities, partially offset by some maintenance CAPEX and, again, higher investments in joint ventures to support growth. We continue to target a 100% conversion of adjusted net income to free cash flow for the year.

Capital expenditures totaled $85.6 million this quarter, with approximately 75 percent invested in growth, to specifically add capacity to our Civil global training network to deliver on the long-term training contracts in our backlog.

Our **Net debt** position at the end of the quarter was approximately $3.1 billion, for a net debt-to-adjusted EBITDA of 3.16 times at the end of the quarter. We expect to close the sale of our Healthcare business before the end of the fiscal year, subject to closing conditions, including customary regulatory approvals. We intend to apply a significant portion of the net proceeds of the transaction to reduce debt. As we have said in the past, the Healthcare sale transaction is a milestone toward the reinstatement of cash returns to shareholders and the Board is now actively evaluating options in terms of form, quantum and timing of such returns. 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.

Now turning to our segmented performance...

In Civil, third quarter revenue was up 20% to $622.1 million compared to the third quarter last year, and adjusted segment operating income was down 5% to $124.2 million vs. the third quarter last year, for a margin of 20.0%. This is right in line with our expectations for the quarter and our full-year outlook for Civil. As we expected, there were a few differences in the quarter compared to last year, mainly from the mix of simulation products revenue and flight services activity, which offset the higher training utilization and increased volume from recently deployed simulators in our network.

In **Defense**, revenue was up 4% to $472.4 million while adjusted segment operating income was down 18% to $20.9 million, giving us an adjusted segment operating income margin of 4.4%.

The Defense margin this quarter included the negative impact of the ongoing retirement of eight distinct legacy contracts that have completion dates mainly within our next two fiscal years. What these contracts have in common, and why we're monitoring them separately, is that they were all entered into prior to the COVID-19 pandemic and are firm fixed price in structure, with little or no provision for cost escalation. These contracts are only a small fraction of the business but have disproportionately impacted overall Defense profitability as they have been the most significantly impacted by execution difficulties and the broader economic headwinds we've discussed in past quarters, such as the compounding effects of inflationary pressures and disruptions to supply chain and labour. To be more precise, the execution of these eight legacy contracts had an approximate 2 percentage points negative impact on the Defense adjusted segment operating income margin in the third quarter.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya.

Looking ahead at each of our segments, in **Civil**, we expect to continue our above-market growth momentum for training and flight services solutions, underpinned by strong secular passenger traffic growth, continued success penetrating share in the training market, and a high level of demand for pilots and pilot training across all segments of aviation. For the current fiscal year, we continue to expect Civil to deliver adjusted segment operating income growth in the mid- to high-teens percentage range. For the year as a whole, we continue to expect the Civil adjusted segment operating income margin to be in the range of fiscal 2023, which naturally implies an especially strong margin for Civil in Q4. In addition to growing our share in training and expanding our position in digital flight services, we expect to maintain our leading share of full-flight simulator sales and to deliver approximately 50 for the year. We have considerable headroom for growth in the civil aviation market and our continued positive momentum underscores the strong demand for CAE's highly differentiated training and flight services solutions and our ability to win share within this large secular growth market.

Turning to **Defense**, we'll continue transforming our business by replenishing our backlog with more profitable work and by retiring the Legacy Contracts that Sonya highlighted. These two trendlines remain positive and we expect them to culminate in a substantially bigger and more profitable business. Since augmenting the scale and capabilities of the Defense business approximately two years ago, we've grown the Defense backlog by over 20 percent. This sets us up well for sustainable growth and includes the strategic and generational wins on Next-Gen platforms that we've talked about in recent quarters.

Still to come, and not yet in backlog, are the Canadian FAcT and RPAS programs, currently in contract negotiations and also generational in size. The progress we've been making to replenish and grow backlog with high quality, profitable programs is the best indication of what the future holds for CAE's Defense business. Together with a $9.5 billion pipeline of bids and proposals outstanding, we continue to see positive signs of the transformation underway.

As we look to the remainder of fiscal 2024, we expect Defense to keep winning high-quality profitable programs, and in the fourth quarter, we expect to further accelerate the retirement of risks associated with the Legacy Contracts, to the extent we can. Clearly, we want to get them behind us as soon as is reasonably possible and we're closely monitoring them as a separate group. We're highly focused on execution and expect to substantially reduce the negative impact from these Legacy Contracts over the next six to eight quarters as they are gradually retired. The extent to which the ongoing risk retirement on these programs might impact Defense margins in the coming quarters really depends on the actual timing of program close outs and our ability to mitigate these risks. Our dedicated teams are working to re-baseline some contracts, seek equitable adjustments on others, and to find program efficiencies overall.

For CAE overall, we continue to be highly encouraged by the demand backdrop we're seeing in all segments and the growth we expect by harnessing our global market and technology leadership, and the power of One CAE. These factors, combined with highly focused execution and a solid financial foundation, portend continued good growth momentum and an excellent future for CAE.

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

<u>Andrew Arnovitz, Senior Vice President, Investor Relations and Enterprise Risk Management</u>

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

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.