REMARKS FOR CAE'S FIRST QUARTER FISCAL YEAR 2025

August 14, 2024

Time: 8:00 a.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 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 and answers to questions, contain forward-looking statements. These forward-looking statements represent our expectations as of today, August 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 divestiture of CAE's Healthcare business in fiscal 2024, all comparative figures discussed here, and 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 Chief Operating Officer, is on hand for the question period.

After remarks from Marc and Sonya, we'll open the call to questions from financial analysts. 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.

Our performance in the first quarter reflects a continued healthy level of demand overall across our Civil market solutions, with some softness in commercial aviation training in certain regions compared to last year. Our results also demonstrate our ongoing progress to move our Defense business forward from the re-baselining last year, which set us on a clear path to margin improvement. Testimony to our strong position in secular growth markets, we booked nearly $1.2 billion in total orders this quarter, for a record $17.0 billion adjusted backlog.

In **Civil**, we delivered 8 full-flight simulators to customers during the quarter, and our average training centre utilization was down a percentage point from last year to 76%. We saw year-over-year growth in business aviation training, including the expected contributions from our more recent capacity additions like our new Savannah, Georgia training centre for Gulfstream pilots, which we inaugurated in June.

In commercial aviation training, utilization was three percentage points lower than last year on average, which is still robust, but it was lower still in the Americas, where we saw some incremental pressure on initial training and pilot churn as several airlines paused pilot hiring. This was mainly the result of the supply-side constraints on new narrowbody aircraft. For example, in the U.S. there was a nearly 80% reduction in pilot hiring among notable carriers in the month of June compared to last year. That being said, recurrent training is up year over year as the in-service fleet and pilot population continue to grow. Commercial training utilization was lower in Europe too, with seasonality being more pronounced than usual because of an extended summer flying season. This also relates to aircraft supply-side constraints and special events, namely the Euro Cup and the Paris Olympics, which altered normal travel behavior this season. Training demand in Asia and the Middle East has been tracking well and we're seeing solid growth there in line with our expectations.

We continued to demonstrate our ability to win our fair share in a large secular growth market with CAE's highly differentiated training and flight operations software solutions. We booked $771 million in orders with Civil customers worldwide for an impressive 1.31 times book-to-sales ratio, which is on revenue that's 9% higher than Q1 of last year. We also had strong order activity in our JVs this quarter, representing another approximate $103 million of training services orders which are not included in the adjusted order intake figure, but are reflected in our record $6.6 billion total Civil adjusted backlog. We received orders for 11 full-flight simulators in the quarter and signed long-term training services and next-generation flight operations and crew management software solutions contracts with commercial and business jet operators worldwide.

In **Defense**, our financial performance was in line with our expectations at this point on our path toward margin improvement this year, and I'm quite pleased with the progress our team has made to deliver on our commitments. We booked orders for $422 million for a 0.87 times book-to-sales ratio, giving us a $10.4 billion Defense adjusted backlog, which is up markedly from $5.4 billion in Q1 last year. Notably, included in adjusted backlog, but not Defense adjusted order intake, is CAE's share of the $11.2 billion, 25-year contract for Canada's Future Aircrew Training Program that was awarded to the CAE

SkyAlyne joint venture. We are now in the process of finalizing CAE's subcontract work under the JV for simulation-based training solutions that will be delivered by CAE.

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

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

Thank you, Marc, and good morning, everyone.

Consolidated revenue of $1.07 billion was 6% higher compared to the first quarter last year while **adjusted segment operating income** was $134.2 million, compared to $143.3 million in the first quarter last year. Our quarterly **adjusted EPS** was 21 cents compared to 24 cents in the first quarter last year.

We incurred **restructuring, integration and acquisition costs** of $25.6 million during the quarter. This is comprised of $10.8 million for the integration of AirCentre, which is expected to be completed in the second quarter, and $14.8 million in connection with the restructuring program to streamline CAE's operating model and portfolio, optimize our cost structure and create efficiencies. We expect to record approximately $20 million of additional restructuring expenses in the second quarter in light of the expanded scope of the organizational and operational changes that have been actioned. They are intended to further strengthen our execution capabilities and drive additional cost optimizations and synergies between CAE's Defense and Civil Aviation businesses. This primarily involves the removal of management layers and the consolidation of several shared services groups across the organization. We expect to fully achieve annual run rate cost savings of approximately $20 million by the end of next fiscal year.

Net finance expense this quarter amounted to $49.5 million, which is down from $52.4 million in the preceding quarter and down from $53.1 million in the first quarter last year. This is mainly the result of lower finance expense on long-term debt, partially offset by higher finance expense on lease liabilities in support of training network expansions.

Income tax expense this quarter was $8.3 million, for an effective tax rate of 14%. The adjusted effective income tax rate was 17%, which is the basis for the adjusted EPS.

Net cash from operating activities this quarter was negative $12.9 million, compared to negative $49.3 million in the first quarter of fiscal 2024. **Free cash flow** was negative $25.3 million compared to negative $110.3 million in the first quarter last year. The increase was mainly due to a lower investment in non-cash working capital and lower maintenance capital expenditures. Free cash flow performance in the quarter was in line with our expectations and outlook. We usually see a higher investment in non-cash working capital accounts in the first half of the year, and as in previous years, we expect a portion of this to reverse in the second half. We continue to target an average 100% conversion of adjusted net income to free cash flow for the year.

Capital expenditures totaled $92.6 million this quarter, with approximately 75 percent invested in growth, mainly to add capacity to our global training network to deliver on the long-term training contracts in our backlog. As a reflection of our agility and disciplined approach to investing, we have adjusted our total CAPEX outlook in fiscal 2025 to the low end of our previously indicated range of $50 to $100 million higher than fiscal 2024, which totaled $330 million.

Our **Net debt** position at the end of the quarter was approximately $3.1 billion, for a net debt-to-adjusted EBITDA of 3.41 times at the end of the quarter. Before the impact of Legacy Contracts, net debt-to-adjusted EBITDA was 3.11 times.

During the quarter, CAE repurchased and cancelled a total of 463,500 common shares under its normal course issuer bid (NCIB), which began on May 30, 2024, at a weighted average price of $25.21 per common share, for a total consideration of $11.7 million.

Now turning to our segmented performance...

In Civil, first quarter revenue was up 9% to $587.6 million compared to the first quarter last year, and adjusted segment operating income was down 11% to $106.4 million vs. the first quarter last year, for a margin of 18.1%. The two main differences in our financial performance this quarter compared to last year involve an approximate $10 million lower adjusted segment operating income contribution this quarter from Flight Operations Services – our software business – as we are now going through an expectedly more intensive period of SaaS conversions. The second main difference comes from the incrementally lower demand in the short-term for initial type training in the Americas, that Marc alluded to, and the extended summer flying season in Europe that has made the seasonal dip in training activity more pronounced than usual. We enjoy a highly recurring revenue profile and a significant degree of operating leverage in the training business, and we expect a meaningfully positive impact on margins as volumes increase in the second half of the fiscal year.

In **Defense**, revenue was up 3% to $484.9 million while adjusted segment operating income was up 14% to $27.8 million, giving us an adjusted segment operating income margin of 5.7%. This is right on plan and the team is executing well. On the Legacy Contracts, we are right on cost and schedule and anticipate being able to close out a couple of them in the near term.

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

Marc Parent, President and Chief Executive Officer

Thanks, Sonya.

For **Civil**, the secular demand picture for aviation training solutions remains very 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 certifications of pilots and crews who operate the global in-service fleet of commercial and business aircraft. It's notable that both Boeing and Airbus recently published their latest 20-year commercial aviation forecasts, and they project that the number of in-service commercial jets will approximately double over the next two decades. The demographic realities of an aging pilot population, mandatory age-based retirements, and the continued secular growth outlook for air travel are immutable and they really underlie our continued confidence in the long-term outlook for CAE.

As for the short-term, the airline industry is currently managing through what we believe represents the peak of narrowbody aircraft supply headwinds and we assume the industry will begin to benefit from some easing of these supply constraints and that we'll also see pilot hiring begin to resume in the second half of our fiscal year. We're already seeing an uptick in training bookings for the third and fourth quarters that are consistent with that view. As we think about what else underpins our expectations for a stronger second half of the fiscal year, it's important to consider that these factors have been affecting only a portion of our commercial aviation training subsegment and that we've taken initiatives to drive additional operational cost efficiencies to partially mitigate the effects of incrementally lower initial training demand in the short-term. At the same time, we expect the second half to benefit from seasonality and to show continued strong performance in business aviation training, higher profitability in Flight Operations Solutions, and higher volume and profitability from full-flight simulator deliveries.

Within that context, we expect approximately 10 percent Civil annual adjusted segment operating income growth in fiscal 2025, with an annual adjusted segment operating income margin between 22 and 23 percent, with ample room to grow beyond the current year on volume, efficiencies and mix. Our growth and margin expectations this year also account for the ongoing ramp-up of our newer training centres and recently deployed full-flight simulators, which are performing well.

In **Defense**, we're 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 a 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 that we provide. Our expertise in both civil aviation and defence positions us well to meet these needs.

We're 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. The Canadian FAcT and RPAS programs are prime examples, and we are well positioned over the next year on several similar strategic programs across the Indo-Pacific region, Europe, and in the US. 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.

Our expectations for fiscal 2025 reflect the re-baselining of the business and the enhanced visibility this has given us. We're highly focused on simplifying the organization and driving more operational excellence and will continue to prove it through execution in the coming quarters. We continue to expect annual revenue growth in the low- to mid-single-digit percentage range and annual Defense adjusted segment operating income margin to increase to the 6- to 7-percent range, and like Civil, be more heavily weighted to the second half.

As Sonya mentioned, our COO, Nick Leontidis is already having a great impact on the business and has identified even more opportunities than originally thought to further streamline our organization, remove duplication, and optimize CAE's cost structure. As COO, he now has purview over all five of CAE's divisions, which enabled us to remove management layers in both of our Civil and Defense businesses. We've also further streamlined support functions, engineering services, and our footprint to drive additional synergies across the enterprise.

Before opening the call to questions, on behalf of myself, CAE's Board of Directors, and the entire executive management committee, I wish to express my sincere appreciation to Sonya Branco, our outgoing CFO, for her numerous contributions to CAE's success over the last 17 years. I and we have benefitted greatly from Sonya's stewardship, her insightful mentorship of her colleagues, and her deep commitment to CAE. At the same time, I wish to welcome Constantino Malatesta, or Dino, to the role of interim CFO. Dino has worked closely with Sonya for many years, and he has a deep knowledge of CAE's business and an extensive background in finance that will provide continuity and stability at CAE. I have full confidence in his ability to oversee the Company's financial operations and strategy as we move forward with our search for the CFO role, for which we will consider both internal and external candidates.

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 now be pleased to take questions from financial analysts.