



CAE'S 2013 ANNUAL MEETING OF SHAREHOLDERS

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stéphane Lefebvre, Vice President, Finance, and Chief Financial Officer

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English copy



Marc Parent, President and Chief Executive Officer

Thank you Mr. Chairman.
Bonjour à tous,
Good morning ladies and gentlemen,

Fiscal 2013 was an eventful year. It was the first full year of the integration of our Oxford acquisition and, for the first time, we reached \$2 billion of revenues and \$4 billion of backlog.

As we seek to enter the next era in CAE's growth, I would like to share with you how we differentiate ourselves. A key tenet of our strategy, in this increasingly globally competitive world, is to be the **Partner of choice** for our customers. It is at the heart of our vision and it is even more important as we grow our company.

Our customers tell us:

- they want partners with whom they can build RELATIONSHIPS based on mutual benefit and trust;
- they want FLEXIBILITY and EFFICIENCY;
- they want SOLUTIONS TAILORED to their needs
- And finally, they want companies who are RESPONSIBLE at a social and environmental level.

At CAE, we continually strive, and it is indeed our vision, to be the **partner of choice** for our customers.

We believe our SERVICE and COMMITMENT, GLOBAL REACH, INNOVATION and TECHNOLOGY LEADERSHIP, PEOPLE and EXPERIENCE, as well as our REPUTATION and BRAND help make CAE that Partner of Choice.

CAE is built on a **culture of service and commitment**. It is this service and commitment that allows us to develop great relationships and trust with our customers.

As you can see on the screen behind me, we have approximately 70 partnerships and long-term agreements, a testimony to the relationship and trust we have developed with leading airlines and original equipment manufacturers.

We nurture these relationships. This year alone we celebrated three ten-year anniversaries:

- One for our joint venture training centre with Emirates Airlines in Dubai
- One for our joint venture with China Southern Airlines, the largest airline in China
- And one with Jet Blue.

For the past 10 years we have been operating its training centre, JetBlue University, which holds seven simulators. Lately, we expanded our relationship and signed a long-term service agreement to cover major upgrades and spares services on all of JetBlue's A320 and Embraer 190 simulators and training devices.

Another example of longstanding relationships is with Etihad Airways in Abu Dhabi. In 2005 Etihad purchased two simulators from CAE and, just last month it signed a contract with us for seven simulators along with a 10-year exclusive service agreement.

Overall we served more than 3,000 civil aviation customers this fiscal year with our full range of products and training services around the world.

And we are the partner of choice of defence forces around the world for a series of aircraft platforms, from transport and maritime patrol aircraft to tankers, helicopters and lead-in fighter jet trainers.

One such example is our relationship with Lockheed Martin on the C130J Super Hercules which has brought us 26 full-mission simulator sales since 1994.

Another great example involves the Seahawk helicopter. Over the past 10 years, we have sold 30 simulators for the Seahawk to the US Navy alone. And in FY13, thanks to this relationship, we were awarded a contract to build the Seahawk simulators for the Royal Australian Navy. This is the first of many export customers for the MH-60 Seahawk and, as part of the US Navy team on that platform, we expect to be developing simulators for many of these customers.

The second way we are Partners of Choice is through our Global Reach.

CAE has operations and training centres in more than 30 countries and customers in 190 countries. Our global reach is unmatched and it provides our customers with the flexibility and proximity they need to run their business.

In civil aviation training, we expanded our footprint with the acquisition of Oxford, which added seven training centres and four flight schools to our network. We also opened eight other training locations to serve our commercial aviation, business aviation and helicopter customers. Today we train more than 100,000 pilots in 49 training locations and 11 flight schools worldwide, making CAE by far the largest civil training network in the world.

In Defence, our global reach is also expanding. Today we offer services in more than 80 military bases worldwide. Recently, we started the construction of a new multi-purpose training centre in Brunei in partnership with the Brunei government.

The center will include the development of the region's largest helicopter training centre for the Sikorsky S-92 and S-70i Black Hawk helicopters. We will also be offering training for the Pilatus PC-7 trainer aircraft.

INNOVATION and technology leadership are also critical components to being a Partner of Choice.

Since inception, CAE has led the way in the evolution of simulation technology and training with a number of key strategic innovations. Over the past ten years alone we've invested \$1.2 billion in Research and Development, enabling us to offer leading-edge products to our customers. And we remain true to our commitment to innovation as we invested \$160 million in R&D in fiscal 2013.

Innovation truly is the lifeblood of our company. It has allowed us to remain the world leader for simulator sales with more than 70% market share again this year. We are also the world leader for developing the first simulator for new aircraft. Over the past five years alone we have won all the orders for new commercial aircraft simulators, a strong statement about CAE's technical credibility and dependability.

Again this year, we were awarded contracts to build the world's first simulators for three companies:

- Bombardier for the Global 7000 and 8000 business jets
- COMAC, of China, for the C919 airliner and
- AVIC, also of China, for its Medium-Sized Transport aircraft.

In Defence, we are supporting decision-making capabilities. We introduced last year an Unmanned Aerial System trainer and the CAE Dynamic Synthetic Environment. This will give our customers an even more realistic virtual world to train in while maintaining readiness at a lower cost, which is a key imperative in today's budgetary environment.

In Mining we sold our first turnkey training solution based on aviation standards and the way we train pilots in 2013. This includes two CAE Terra simulators and e-Learning courseware to Fresnillo, the world's largest silver producer.

In Healthcare we also sold 1,000 healthcare simulators just last year and launched our new VIMEDIX Women's Health simulator, bringing a new level of safety to pregnant women and their children. This revolutionary new simulator will speed the training of physicians who perform prenatal ultrasound examinations and help them assess the health of the foetus and diagnose abnormalities.

That's the same innovation that we brought to improve safety in our skies that will be now applied to improve patient safety in healthcare.

Our third reason for being a partner of choice is our PEOPLE and EXPERIENCE

Today, we have 8,000 men and women working around the world. They have diverse experiences and speak more than 100 languages. They live and breathe the same culture as our customers and that helps them understand their needs and serve them better.

We offer our customers the broadest expertise in our field. With our experience, we have developed the largest array of training equipment, services and integrated solutions on the largest range of aircraft types and defence platforms.

One such example is the new Air Mobility Training Centre in Trenton, Ontario, inaugurated a few months ago, which showcases our capabilities. Canadian Forces are training on our simulators for the Hercules, the transport aircraft bought by the Canadian government, and CAE is also providing 20 years of in-service support.

Finally, our REPUTATION and BRAND are key components of being the Partner of Choice.

Wherever you go in the world, the name CAE is regarded as the gold standard. We are the company that the aviation industry turns to to help ensure that everyone flying gets home safely. This is the result of more than 65 years of hard work, excellence in training and great customer relationships.

And CAE's benefit to society is not limited to helping make air travel safer, our products also help make our planet greener. For example, 6 million gallons of jet fuel are saved annually by training pilots in a full-flight simulator instead of a real aircraft. Since we operate 230 simulators in our network, the fuel we help save every year is equivalent to reducing the greenhouse gas emissions of more than 2 million cars.

Caring for our communities is a deeply rooted value at CAE. Every year, CAE employees support numerous causes and participate in activities that help make their communities better. Just last month our employees in Montreal participated in the Enbridge Ride to Conquer Cancer and raised nearly \$300,000 towards that great cause. Our employees in the UK, the US and Australia participated in marathons and activities to raise money for local charities, and in India our employees organized a medical camp and hired doctors to check all the children at a school.

In summary, our longstanding commitment to our customers has helped us to become leaders in all our markets. We are proud to be their Partner of Choice.



Over the years we have built deep relationships that span the globe which position us well for the future.

I will now invite Stéphane Lefebvre, our Chief Financial Officer, to review the financial results for fiscal 2013 and for the first quarter of fiscal 2014.

Stephane Lefebvre, Vice President, Finance and CFO

Thank you Marc.

Good morning, ladies and gentlemen.

Let us first look briefly at some financial highlights of fiscal 2013.

Our total revenue increased to a record \$2.1 billion and net income reached \$142 million for the year. We had a strong order intake and ended the year with a record backlog of \$4 billion.

In Civil, our revenue reached \$1.16 billion and we delivered \$195 million of operating income for an operating margin of 16.8%. We booked record orders with an expected value of \$1.4 billion.

In Defence, our military segments generated revenue of \$834 million with a combined segment operating income of \$113 million for an operating margin of 13.6%. We received total orders of \$770 million.

In New Core Markets, we targeted more than \$100 million of revenue and became profitable. Revenue was up 35% to \$112 million, with growth in both Healthcare and Mining businesses. Operating income was \$6.4 million.

Capital expenditures were \$156 million during the year, with \$121 million for growth and the balance for maintenance. We converted 83% of our net earnings into free cash flow, which was \$119 million.

At the beginning of the year, we communicated three capital allocation priorities: targeting investment in select growth opportunities; deleveraging our balance sheet post the Oxford acquisition; and, enhancing cash returns for our shareholders. Since then, we've continued to fund growth on a selective basis, our net debt is lower, and for the second time in as many years, we increased the dividend.

Overall, we achieved operational and strategic milestones in fiscal 2013 that position the company well for the year ahead and the long-term.

(PAUSE).

Let's now look at our first quarter results for fiscal 2014.

Revenue was \$530 million, or 15% higher than in the first quarter last year.

Net income attributable to equity holders was \$45.6 million or 18 cents per share. The quarter included a one-time tax benefit of \$11 million and severance costs of \$2.8 million after-tax, excluding which, earnings per share would have been three cents lower. Excluding restructuring, integration and acquisition costs last year, it was \$46.9 million or 18 cents per share.

In Civil, the operating margin was 12.5%, with revenues totalling \$302 million. The lower margin performance in Civil was caused mainly by a slower than expected ramp-up of recently deployed simulators and training centres, as well as the high number of already deployed simulators being relocated across our network.

Combined Civil orders during the quarter totalled \$314 million for a book-to-sales ratio of 1.04x and a trailing twelve months of 1.19 times.

Defence revenue was \$199 million, stable compared to last year, with a margin of 11.9%. This is a reflection of the late timing of orders booked in fiscal 2013. We expect volume to ramp up in the second half of the year.

During the quarter, we received orders valued at \$154 million with a book to sales ratio of 0.77x. For the last twelve months, the ratio was 0.95 times.

Our Healthcare and Mining businesses reached \$29.8 million in revenues. We continued to increase profitability with an operating profit of \$1.6 million as we continued to gain traction by penetrating global markets with our innovative products and services.

Income taxes this quarter were \$300,000 representing an effective tax rate of 1%, compared to 19% last year. The decrease in the effective tax rate from the first quarter last year was mainly due to a favorable decision by the Canadian Federal Court of Appeal as well as a change in the mix of income from various jurisdictions.

In terms of cash performance, we had a \$96.5 million improvement in free cash flow this quarter compared to first quarter last year, which put us at negative \$11.5 million. Most of this improvement comes from a lower investment in non-cash working capital. Our free cash flow is generally higher in the second half of the fiscal year and we expect that to be the case again this year.



Net debt was \$898 million, compared to \$813 million last quarter. Our net debt to total capitalization ratio remained stable at 42%.

Capital expenditures were \$29.9 million during the quarter, with \$22.7 million for growth initiatives and the balance for maintenance. This is down 13% from the expenditure level in Q1 last year.

In summary, despite a disappointing Civil margin performance this quarter, we maintained our leadership with strong full-flight simulator sales in Civil and higher orders in Military than last year. We have a solid backlog valued at \$3.7 billion and CAE is in a healthy financial position. We have strong cash flow, a solid balance sheet with investment grade profile and strong earnings potential.

Overall, we are well positioned for the future.

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

Marc Parent, President and Chief Executive Officer

Thanks Stephane,

Looking forward, the fundamentals of CAE's business are strong.

The secular growth in global air travel continues to drive demand for our training products and services. And the future is promising. Experts are forecasting that the number of passengers will increase 5% per year for the next 20 years; this effectively means the global fleet of aircraft will double. This will create a need to train 360,000 new pilots over the period. What hasn't changed is that safety is paramount. All this translates into an increased need for aviation training. And that is good for CAE.

A testimony to this increased demand is the sale we announced today of eight full-flight simulators to one customer, for a total year-to-date of 23. With this in hand, we now expect to make 40 sales by the end of the fiscal year, which would be an all-time record for the company.

The market has been consolidating and competition is fiercer than ever, but I'm pleased with our success in winning business. Our broad portfolio and unique approach is enabling us to maintain our leading share of the market. Price competition is a factor, but we are going to be disciplined and deliberate in our pursuit of market opportunities.

Our strategy involves being our customers' partner of choice and we are most successful when competing on the basis of differentiation with our broad solutions, offering superior technology and reliable long term service. At the

same time, we continue to address our cost base so that we can offer our customers the best possible value and continue to win our fair share.

(Pause)

In Defence, we have a book-to-sales ratio of 0.95X times for the last 12 months. This demonstrates resiliency in the face of US sequestration and wide-spread delays in procurement.

Winning business remains our priority and we have been active on all fronts to develop our pipeline. We currently have \$2.3 billion in submitted proposals and another \$780 million in process. This gives us confidence in our ability to grow our backlog going forward.

Longer term, the fundamentals remain attractive for CAE with a well-diversified business geographically, with a customer base of over 50 different national defence forces and strategic positions on enduring aircraft platforms.

Lately, we signed two strategic memorandums of understanding with original equipment manufacturers. The first with Lockheed Martin, which would have CAE become the preferred provider of Canadian F-35 training support, systems integration, operations and maintenance. This will give us a position on the latest fifth-generation fast jet program, should Canada ultimately select the F-35.

We also signed an MOU with General Atomics to pursue international opportunities for CAE to offer its simulation and training systems for the Predator family of remotely piloted vehicles. These aircraft systems are poised for long term growth and represent an important segment for our defence business.

We have a demonstrated capability in this space, as testified by today's contract announcement that CAE will be conducting Predator UAV training for the U.S. Air Force. This key win is further confirmation of our ability to win large competitive contracts of this nature in the world's largest defence market. The contract has an expected value of approximately \$100 million to be generated over a five-year period and it entrusts CAE to train the Air Force's total population of about 1,500 pilot and sensor operators of the Predator and Reaper remotely piloted aircraft.

Looking forward, we continue to see evidence of militaries increasing their use of simulation-based training. One of the reasons, which is very compelling, is cost reduction, especially when we are in an environment of budget constraints. For example, this year the U.S. Air Force is adding boom operator trainers to our KC-135 aircrew training program. Why? Because the U.S. Air Force estimates that it costs approximately \$20,000 to conduct a three-hour refuel training mission that



they can now accomplish in simulators for about \$1,000, while delivering more and higher quality training.

In Healthcare and Mining, we are continuing to see increased use of simulation. We expect to maintain our momentum with double-digit revenue and earnings growth.

(Pause)

In conclusion, CAE is well positioned for earnings growth in the period ahead with a leading position in growth markets and the strength of the best and most experienced professionals in the industry.

I wish to thank all members of our global family for their dedication to making our company the partner of choice for customers today and for the future.

I also thank members of our Board, especially our long-serving directors and our Chairman who are retiring. Thank you for your guidance and support over the last several years.

I want to make specific mention of Mr. Wilson who has been on our Board since 1997 and our Chairman since 1999 and thank him for his personal mentorship. His leadership and his continued advice have helped CAE become the leader it is today.

Finally, I want to thank you, our shareholders, for your confidence in our great company.

Thank you for your attention.

We are now ready to take questions from the floor.