



CAE'S 2014 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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Marc Parent, President and Chief Executive Officer

Merci monsieur Hankinson

Bonjour mesdames et messieurs

Good morning ladies and gentlemen

Nous venons de terminer un autre exercice avec un excellent rendement, y compris de solides bénéfices et un nouveau record de 5 milliards de dollars pour notre carnet de commandes total. Tous nos secteurs combinés montrent des revenus à la hausse. Nous avons été nommés la première entreprise de défense du Canada, nous avons vendu 48 simulateurs civils, un record dans l'industrie dans un marché très compétitif, et le prix de nos actions a augmenté de 18 % depuis l'an dernier. À la base de ces résultats se trouve notre la culture d'entreprise, axée sur le **client D'ABORD**. C'est le thème de notre rapport annuel et de la présente assemblée.

Comment faisons-nous cela? En étant **passionnés, innovants, concentrés, intégrés mondialement et surtout en ayant la confiance de nos clients.**

Lorsque j'ai commencé à travailler chez CAE il y a presque 10 ans, j'ai été vraiment impressionné par la **PASSION** que j'ai ressentie chez nos employés le premier jour en marchant dans notre usine. Nos employés ont notre entreprise et nos clients à cœur. Ils sont passionnés par leur travail et sont toujours prêts à en faire un peu plus.

Laissez-moi vous donner quelques exemples. Au cours du mois de décembre, nos équipes de Montréal et de Tampa ont travaillé sans relâche afin de livrer 35 simulateurs et dispositifs de formation à différents clients partout dans le monde. Cette énorme livraison constitue aussi un record pour CAE.

Chez CAE Santé, les équipes d'opérations, du service à la clientèle et de l'ingénierie ont travaillé main dans la main pour fabriquer un nombre record de 44 simulateurs de patients victimes de traumatismes Caesar en 30 jours.

Et un dernier exemple : un de nos instructeurs sur Bell 412 a créé, en deux mois seulement, un cours de formation au sol et sur simulateur pour un client du Moyen-Orient : le client avait communiqué avec nous en nous indiquant qu'il en avait besoin rapidement. D'autres avaient dit que cela prendrait plus d'un an... C'est cette passion et ce dévouement qui sont dans l'ADN de CAE.

But not only are we dedicated, we also **innovate**. During the last fiscal year, we invested \$150 million in R&D. This year, we launched a new flagship simulator, called the CAE 7000 XR Series; we designed it with our customers and we leveraged the latest advancements that our customers wanted to include like a redesigned instructor office, upset prevention and recovery training, training data analysis, as well as monitoring of systems using the Cloud.

We believe this new simulator will, once again, set a new standard in our industry. And our employees are at the heart of these innovations; through an employee program called innovation challenges, they come forward with hundreds of ideas and we implement many of them for our customers.

As well, we are the trusted simulation and training partner of OEMs. They come to us because they know we will deliver on the most complex programs – developing the world’s first simulators while the aircraft is still being developed. This year we started building the world’s first simulators for the Dassault Falcon 5X business jet and for the AgustaWestland AW169 helicopter. We have developed the first A350 simulator and it is now ready for training at Airbus’ training facility in Toulouse, and we are continuing the development of the first simulators for the Mitsubishi Regional Jet and the Bombardier CSeries.

Working closely with our partners and OEMs is one of our strengths. Testament to this is the announcement we made at the Farnborough Air Show last month. Our joint venture with Lufthansa Flight Training, called the Flight Training Alliance, was chosen by Bombardier as the exclusive authorized training provider for the CSeries.

We also innovate by offering our clients tailored solutions for their specific needs. We can offer them a full array of solutions, from the sale of a single simulator to full training solutions: training cadets, giving the type-rating in one of our simulators and even providing our clients with pilots.

This innovative approach has been much appreciated by our customers around the world.

FOCUS is also a key characteristic at CAE. We are the only pure play in the simulation and training business. We focus on building the best training tools in the industry. We have been developing and delivering simulators to customers since 1952. We made our first international sale in 1957 and, as of today, we have delivered more than two thousand simulators and training devices around the world.

In Healthcare, we launched the CAE Fidelis Maternal Fetal simulator: this is a new simulator with human-like vital signs and responses. It allows the practice of labor and delivery scenarios including emergencies. In the video behind me you can see clinicians of Montreal's CHUM hospital performing an emergency delivery scenario. More than 60 units of Fidelis were sold while we were still in pre-production. I am very proud of the societal benefits CAE brings with such a great product.

CAE is truly a **GLOBAL** company. Our civil aviation training network is by far the world's broadest: we offer training in 60 locations worldwide. In fiscal 2014 we added five new training centres:

- New Delhi
- Perth
- Seoul
- Singapore, and
- a second centre in Dubai.

In Defence, we expanded our customer base with contracts with the forces of Mexico, Poland and the Ministry of Home Affairs in Brunei. Today we serve the defence forces of more than 50 countries and our personnel is located on site at more than 80 military bases providing support services to our customers.

Overall, CAE has customers in 190 countries, operations and training centres in 35 countries and we have 8,000 employees around the world.

We achieved all this by being well **integrated**. Not only are we integrated by offering our clients the most comprehensive solutions but we often draw on the strengths of different businesses to offer highly unique solutions to our customers.

The recently built CAE Brunei Multi-Purpose training Centre is a showcase of this integration: we will offer flight training services to the Royal Brunei Armed Forces for the Black Hawk helicopter and PC-7 aircraft; we train offshore oil and gas operators on the S-92 helicopter. And we also have a contract to establish a comprehensive emergency and Crisis Management Centre of Excellence to support disaster preparedness in Brunei and the ASEAN nations.

And closer to home, I am very proud of the fact that we have a major contract with the Canadian Forces where we are responsible for the overall aircrew training capability for the Chinook and Hercules aircraft and we play a key role in preparing our Canadian Forces for mission readiness.

This program is actually a model for the international defence market in demonstrating the benefits and efficiencies that a training systems integrator such as CAE can deliver.

So, for all those reasons, CAE is a **TRUSTED** partner for our customers. We deliver on our promises, our technologies are leading-edge and we work closely with our customers to offer them tailored solutions. This trust has earned us longstanding relationships. Just in Civil we have more than 30 long-term partnerships with airlines and OEMs. We just celebrated a 20-year relationship with Emirates and signed long-term service contracts with Etihad, Qatar, Jazz, Caverton and ExecuJet Aviation.

In Defence, we also have many longstanding alliances and long-term partnerships, both with OEMs and with the defence forces of many countries.

(PAUSE)

C'est en faisant passer le client d'abord que nous sommes devenus un chef de file dans tous nos marchés, comme vous pouvez le constater à l'écran.

Je cède maintenant la parole à Stéphane Lefebvre, notre chef de la direction financière, qui passera en revue les résultats financiers de l'exercice 2014 et du premier trimestre de l'exercice 2015.

Stephane Lefebvre, Vice President, Finance and CFO

Merci Marc.

Mesdames et Messieurs, bonjour.

Regardons tout d'abord brièvement les points saillants de l'exercice 2014.

Les revenus consolidés se sont établis à 2,1 milliards \$, en hausse de 4 % par rapport à l'exercice 2013 et le résultat net se situe à 190 millions \$, ou 73 cents par action. Nous avons eu un carnet de commandes total record de 5 milliards \$.

Du côté Civil, nos revenus ont atteint 1,2 milliard \$ et nous avons obtenu un résultat opérationnel de 179,8 millions \$ pour une marge opérationnelle de 15,3 % pour l'exercice et 17,9 % pour le quatrième trimestre, ce qui est une amélioration significative par rapport à 12,5 % au premier trimestre de l'exercice. Nous avons enregistré des commandes d'une valeur prévue de 1,5 milliard \$.

Du côté Défense, nous avons généré des revenus de 822,0 millions \$ et un résultat opérationnel sectoriel combiné de 107,8 millions \$ pour une marge opérationnelle de 13,1 %. Nous avons reçu des commandes totalisant 757 millions \$.

Dans le secteur Nouveaux marchés principaux, les revenus sont en hausse de 4 % à 116,2 millions \$ et le résultat opérationnel est de 4,2 millions \$.

Nous avons obtenu un bon rendement au niveau des flux de trésorerie disponibles, soit 200,6 millions \$ générés à la fin de mars, en hausse de 117 millions \$ par rapport à l'exercice précédent. Cela représente une conversion du résultat net en flux de trésorerie disponibles de 105 %.

Les dépenses d'investissement se chiffrent à 157,4 millions \$ au cours de l'exercice, avec 111,3 millions \$ pour la croissance et le reste pour la maintenance.

In line with our capital allocation priorities, we continued to invest in market-led growth opportunities, with attractive return profiles, while increasing cash returns to shareholders through a dividend increase and deleveraging our balance sheet with a net debt to capital ratio of 36.6% as at the end of March.

Overall, we achieved operational and strategic milestones in fiscal 2014 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 2015.

Revenue was \$526 million, stable over the first quarter last year.

Net income from continuing operations attributable to equity holders was \$43.8 million or 17 cents per share. Operating profit was \$71.7 million, up 16% from \$61.6 million in the first quarter last year. Consolidated operating margin increased from 11.8% to 13.6%.

We concluded a strategic review of New Core Markets which reaffirmed our conviction in Healthcare and led to a decision to divest Mining. The Company will now focus capital and resources on its three remaining core businesses: Civil Simulation and Training; Defence and Security; and Healthcare.

In Civil, the operating margin was \$49.5 million or 16%, up 32% compared to last year, with revenues totalling \$309 million, up 2% compared to last year.

Civil orders during the quarter totalled \$365 million for a book-to-sales ratio of 1.18x and a trailing twelve months of 1.32 times.

Defence revenue was \$198 million, stable compared to last year, with a margin of 11.1%. The revenue and lower operating income are a reflection of the mix of programs in the quarter and persistent delays in government decision-making.

During the quarter, we received orders valued at \$149 million with a book to sales ratio of 0.75 times. For the last twelve months, the ratio was 0.92 times. In addition to those orders, we received another \$93 million in unfunded orders.

Our Healthcare business generated \$19.4 million in revenues for the quarter, stable with the same quarter last year. We continue to expand our reach through new innovative products and we signed new distribution agreements in France, India and South Korea.

Finally, Mining will continue to operate as usual and be reported as a discontinued operation until it is sold. The business recorded an operating loss in the quarter but most of this was triggered by the divestiture process.

Income taxes this quarter were \$11.6 million, representing an effective tax rate of 21%, compared to nil last year. Last year's exceptionally low rate was related to a one-time tax benefit.

In terms of cash performance, we had an \$8.8 million decrease in free cash flow this quarter compared to the first quarter last year, which puts us at negative \$20.9 million. The decrease was mainly due to higher working capital accounts. 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 \$902 million, compared to \$856 million last quarter. Our net debt to total capital ratio was 37.9%.

Capital expenditures were \$39.7 million during the quarter, with two-thirds for growth and the balance for maintenance.

En résumé, le résultat opérationnel est en hausse de 16 pour cent par rapport à l'exercice précédent grâce à l'excellent résultat du secteur Civil. Nous avons conservé notre leadership avec de solides ventes de simulateurs de vol commerciaux et sommes restés résilients dans le secteur Défense. Nous avons un carnet de commandes total solide d'une valeur de 4,9 milliards \$ et CAE est en bonne position financière. Nous avons un bon niveau de flux de trésorerie, un bilan solide avec un profil de crédit de qualité et un fort potentiel de croissance des profits.

Dans l'ensemble, nous sommes en bonne position pour l'avenir.

Merci de votre attention. Je repasse maintenant la parole à notre chef de la direction, Marc Parent.

Marc Parent, President and Chief Executive Officer

Merci Stéphane.

Les bases de CAE sont solides quand on regarde l'avenir.

La croissance constante du trafic aérien mondial continue à stimuler la demande pour nos solutions de formation. Au cours du premier semestre de l'exercice 2014, le trafic de passagers mondial a augmenté de près de six pour cent, et ce pourcentage est encore plus élevé dans les marchés émergents.

- Aux É.-U., la demande pour la formation de pilotes est due au renouvellement de la flotte des transporteurs régionaux et des grands transporteurs ainsi que par de la réglementation plus sévère.
- En Europe, la demande reprend avec le redressement économique.
- Au Moyen-Orient, nous continuons de voir un niveau élevé de croissance dans tous les secteurs de l'aviation.
- Dans toute l'Asie, un solide segment des transporteurs à bas tarif fait croître le trafic de façon constante. De plus, on voit un trafic aérien intérieur chinois robuste.

Another indication of growth in civil aviation is the order and delivery rates of aircraft. We have seen record orders over the past few years and aircraft manufacturers are delivering planes at record rates. Major commercial OEMs are currently delivering nearly 80 narrow body aircraft per month, which is up over 20% from just five years ago. In fact the combined backlog is in excess of 10,000 aircraft, and this represents more than eight years of future deliveries.

There truly has never been a better time for commercial aviation and CAE is in a great position to reap the benefits of this growth: we offer the largest array of training solutions and the broadest global reach. In addition to keeping pace with the market, we see potential for CAE to continue to move up-market with customers by offering comprehensive training solutions like outsourcings.

And we're off to a good start. We have signed important training contracts and we've announced 11 simulator sales in the first quarter. We see potential for about 40 simulator sales this year while maintaining our leading market share. For the year as a whole, we expect to see double-digit growth in Civil with even higher margins.

(Pause)

In Defence, we've gone through some challenging market conditions, and the business has proven to be resilient. As in previous years, we expect a stronger performance from Defence in the second half.

Like in Civil, we're executing a strategy to move our customers up-market, which means offering them a higher degree of full solutions.

Winning business remains our priority and we continue to develop our pipeline.

Longer term, the fundamentals remain attractive for CAE. We have:

- A solid backlog
- A well-diversified business geographically,
- A customer base of over 50 national defence forces,
- Strategic positions on enduring aircraft platforms, and
- We are continuing to see evidence of defence forces increasing their use of simulation-based training. In fact, the Commander of the Royal Canadian Air Force, Lieutenant-General Yvan Blondin, is one of the strongest supporters of simulation-based training. He recently was quoted as saying: “I could cut my costs by 30 percent if I had more access to simulators, there are things that I can do in a simulator that I cannot do in flight.”

Overall, this gives us confidence in the short-term resiliency and long-term growth potential of CAE in Defence.

(Pause)

In Healthcare, we remain excited about our long-term prospects. We have grown to become the world leader in healthcare simulation technology. More than 8,000 of our healthcare simulators are currently used in medical schools, nursing schools and hospitals to allow doctors and nurses to practice safely before doing the same procedures on people like you and me.

We have the right mix of subject-matter expertise, innovation and leadership to continue our growth in an expanding market. We expect double-digit growth and improved margins for the year.

(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 dedicated and experienced professionals.

Testimony to our confidence in our future, I am pleased to announce that our Board of Directors has approved a 1 cent increase to CAE's quarterly dividend to 7 cents per share. This is the fourth year in a row that we've increased the dividend.

(Pause)

In closing, I wish to thank our customers for their continued trust in CAE and our employees for their dedication.

I also thank members of our Board for their support.

Finally, I would like 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.

Nous pouvons maintenant passer à la période de questions.