



CAE'S 2016 ANNUAL MEETING OF SHAREHOLDERS

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

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

Wednesday, August 10, 2016

Montreal

ENGLISH copy

(VIDEO PLAYS)

Thank you Mr. Chairman.

Bonjour à tous,

Good morning Ladies and Gentlemen,

In less than a year, CAE will be 70 years old, and as you just saw in the video, at CAE, we are only getting started!

I am certain Ken Patrick, CAE's founder, would be proud to see the trajectory this company is on today.

In 1947, he set out to create a business that was both highly innovative and technology driven. Seven decades later, innovation absolutely remains at the heart of what we do. Technology too. Yet today, we are much more than a technology company.

We are a training services company with 8,000 passionate and skilled employees dedicated to training pilots, defence forces and healthcare professionals worldwide. A company that is single-mindedly shaping the future of training around the globe.

(PAUSE) (Our new vision)

In fiscal 2016, we translated the transformation under way at CAE into an ambitious, compelling and achievable vision: to be the recognized global training partner of choice to enhance safety, efficiency and readiness.

In the early 2000s 80% of our company was about selling simulators to airlines. While many people still think of us as a company that sells simulators to airlines, this accounts for only 20% of our business today. Not because this part of the business became smaller—in fact it's bigger than ever before—but because we've grown everything else around it. Another 20% of our company is products to Defence and Healthcare customers, and the rest, nearly 60% of our revenues, now comes from training services, principally from Civil and Defence.

Our strategic focus on comprehensive training solutions is driving sustainable growth in our core segments by giving us access to a much larger market. It is also enhancing our stability by increasing the mix of recurring business in each segment.

(PAUSE) (Solid progress)

When I look back at fiscal 2016, I have one word to describe our performance: solid.

We strengthened an already sound balance sheet, delivered double digit year-over-year increases in both revenue and net income, and grew our total backlog by over \$1 billion to \$6.4 billion. We also raised our shareholder dividend and introduced a share repurchase plan.

(PAUSE)

As the training partner of choice for a growing number of airlines, defence forces and healthcare organizations, we have **both the ability and the responsibility** to shape the future of training. Let's take a brief look at how we are doing that in each of our businesses.

(Civil Aviation)

In Civil Aviation, we are helping shape the future of training by delivering innovative technology and full-service cadet-to-captain training solutions to airlines and business aircraft operators the world over.

We spent the last decade building the world's largest training network. Every year, we train more than 120,000 pilots and work with more than 300 airlines and major business aircraft operators to increase the safety of air travel.

We have approximately 40 airline joint ventures or long-term training partnerships. In fiscal 2016, we reinforced these training "partner of choice" relationships by signing or renewing training service agreements with several airlines, including KLM Cityhopper, Air Europa, Global Jet Luxembourg and a large regional operator in the U.S. We also launched with JetBlue an innovative cadet training program called Gateway Select. It will allow a broader cross-section of people to become pilots by removing some of the barriers to pursuing this exciting career.

We set a new industry record by selling 53 full-flight simulators and qualified the world's first simulators equipped with advanced Upset Prevention and Recovery Training instructor stations.

And we qualified the world's first full-flight simulators of the Bombardier C Series and Airbus A350 – adding to the 150-plus models of civil aircraft we have simulated to date.

(PAUSE) (Defence and Security)

In Defence & Security, we are shaping the future of training by providing air, land, naval and public safety training solutions to more than 50 customers in some 35 countries.

We are now one of **the world's leading training systems integrators** in this market. We help military men and women return home safely by preparing them for a range of missions through our live-virtual-constructive training solutions.

We are also the prime contractor of NATO Flying Training in Canada, a world-renowned military pilot training program. In this new role, we provide classroom, simulator and live flying training support for the Royal Canadian Air Force and allied military pilots.

In fiscal 2016, we signed a long-term comprehensive training contract with the U.S. Army to introduce a modern, flexible flight training program for fixed-wing aviators—a great calling card for us worldwide. As part of this contract, construction is progressing well on our new Training Center in Alabama, and we have now taken delivery of the first aircraft.

Another new contract with the U.S. Air Force will see us provide an end-to-end aeromedical evacuation training system for transport and tanker aircraft. Our Defence and Healthcare businesses are teaming up on this one and we expect to see more synergies between our business segments like this in the future.

And in Europe, we are developing a high-fidelity Predator Mission Trainer for the Italian Air Force, further reinforcing our leading position in the growing market of training remotely piloted aircraft operators.

(PAUSE) (Healthcare)

We are also shaping the future of healthcare training to help improve patient safety and outcomes worldwide.

Our training solutions are helping healthcare professionals to hone their skills on patient simulators as opposed to real patients.

In fiscal 2016, we teamed up with well-respected national and international organizations to promote simulation-based learning across healthcare communities. This includes the American Society of Anesthesiologists and the International Nursing Association for Clinical Simulation and Learning.

We delivered 1,400 healthcare simulators in fiscal 2016, including the world's first integrated imaging and scenario-based simulator for the placement of heart pumps. This brings the number of CAE Healthcare simulators in operation globally to 10,500.

(PAUSE) (Activity Report)

Every day, our employees proudly deliver solutions that shape the future of training and **make the world a safer, better and cleaner place**. You will find several examples of this in our first online Activity Report.

For instance, you will learn how we are teaming up with Conair, a global leader in aerial firefighting equipment and services, to create the world's first wildfire training and simulation centre in British Columbia. With the risks of wildfires increasing worldwide, this centre has the potential to become a training hub for firefighting agencies in Canada and around the world.

You will also read about how our people are contributing to society and how we improved our employee health and safety outcomes in fiscal 2016. Last year, we also signed the United Nations Global Compact and committed to upholding its Ten Principles on universal human rights, labour, the environment and anti-corruption.

None of this would have been possible without the dedication and expertise of thousands of CAE employees who, together with our customers, are shaping the future of training in our three core businesses around the world.

I will now ask Sonya Branco, our Chief Financial Officer, to provide you with an overview of our financial results for fiscal 2016 and the first quarter of fiscal 2017.

Sonya Branco, Vice President, Finance and CFO

Thank you Marc.

Good morning, ladies and gentlemen.

Let us first look briefly at some financial highlights of fiscal 2016.

Our consolidated revenue was \$2.5 billion, up 12% from fiscal 2015 and net income attributable to equity holders from continuing operations was \$239 million, or 89 cents per share. We received orders valued at \$2.8 billion in the year, which contributed to a record total backlog of \$6.4 billion.

The Company's growth was led by Civil, where revenue reached \$1.4 billion, up 10%, and operating income rose 13% to \$237 million for an operating margin of 16.6% for the year. We booked orders valued at an all-time high of \$1.7 billion.

In Defence, we generated revenue of \$970 million, up 13% compared to last year. Our operating income rose 4% to \$120 million for an operating margin of 12.3%. We received total orders of \$986 million, which represented a book-to-sales ratio of 1.02x, which marked the first time in the last four years that annual orders exceeded revenue.

In Healthcare, we continued to show good progress to scale up our position in this nascent market. Revenue was up 20% to \$113 million, and operating income was \$7 million which is 7% higher than the previous year.

Our strong operational performance translated into very good cash flow, for the year. This enabled us to continue on our three capital allocation priorities—namely, market-led growth, increased shareholder returns, and the maintenance of our solid financial position.

Our net cash provided by continuing operating activities net of cash used in investing activities, was \$241 million, up 168% from the prior year. This enabled us to further strengthen our balance sheet, and so our net debt to total capital ratio was 28.9% as of March 31st 2016.

Overall, we achieved operational and strategic milestones in fiscal 2016 that position the company well for the year ahead and the long-term.

(PAUSE – Q1 FY17)

Let's now briefly look at our first quarter results for fiscal 2017.

We're off to a solid start. CAE had a good performance in the quarter with double-digit year-over-year revenue and operating income growth overall and in each of our Civil and Defence segments and robust order activity supporting our outlook for growth.

On a consolidated basis, our revenue for the first quarter was up 17% to \$651.6 million and segment operating income was up 13% to \$92.1 million. Net income before specific items was \$70.9 million or \$0.26 per share.

We also had good cash performance during the quarter with free cash flow of \$15.5 million. This is up \$76.7 million over the same quarter last year on improved non-cash working capital efficiency and higher cash generated from continuing operating activities.

Uses of cash included funding growth and maintenance capital expenditures of \$54.7 million and repaying \$74 million of debt which came due in June. We also distributed cash to shareholders with \$19 million in dividends and repurchased common shares under the Normal Course Issuer Bid, for another \$18.5 million.

I am pleased to report that our financial position continues to be strong with net debt of \$880.3 million at the end of June for a net debt-to-total capital ratio of 31.6%.

The Company is in a solid position, and with its new record order backlog of \$6.5 billion, it is well positioned to continue delivering growth.

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

Thank you Sonya.

The world around us is evolving at incredible speed – some call it the Fourth Industrial Revolution or Industry 4.0. Non-stop technological breakthroughs are disrupting industries and transforming systems at an unprecedented rate.

Take the aerospace industry. It has gone through numerous transformations, from aluminum to carbon, and now to digital. Aircraft today are highly dependent on software, advanced automation and navigation, and Big Data – an environment we have always worked in at CAE.

As the world leader in training and virtual reality for aviation training, we make it a priority to stay ahead of the curve and capitalize on existing and emerging technologies as differentiators to accelerate the realization of our training vision.

The Internet of Things, a world of connected technologies and devices, and Big Data, have ushered in an era of mass personalization – not only for business-to-consumer companies but also for business-to-business organizations like ours. Just to give you an example, we now have the capability to analyze individual behaviour in real time in the simulator and then use this Big Data to understand and customize the **training to each individual pilot**. At CAE, we are leveraging this capability to shape the future of training.

(PAUSE) (Innovation)

Innovation is one of our key drivers for our success. Our culture of Innovation is the secret sauce that fuels our leadership in shaping the future of training. To sustain our vibrant culture of innovation, we invest to ensure that not only our simulator technology but also our other differentiators in training – our instructors, courseware, and processes – remain the standard by which all competitors are measured.

A good example is the program we recently launched to reinforce the quality of our instructors and transform them into a powerful competitive advantage. We employ close to 2,000 flight instructors, comparable to our number of engineers.

With our Innovation Challenges program, we are also more focused than ever on leveraging the talent of our employees. Some of them are with us today and I would like to thank them for their valuable contributions.

(PAUSE) (Thought leadership)

Innovation is allowing us to maintain our position as a thought leader in the industry. CAE has always worked closely with regulatory bodies to help shape the way pilots are trained and improve safety.

And I am very excited about a new opportunity: We now have the capability to create learning programs that are adapted to an airline's specific culture and standard operating procedures. We call it adaptive training and it lies at the heart of the Next Generation Training System we recently launched.

We are pioneering the industry with this **breakthrough pilot training program** **which** will improve training quality and efficiency. By integrating untapped data-driven

insights into training we are able to tailor our training to each pilot's individual requirements. For example, if the data shows that a pilot has problems landing in crosswinds, the program will focus on that skill until the pilot masters it. Just last month at the Farnborough Air Show we announced that we reached a strategic milestone with the launch of the validation phase of our Next Generation Training System with our longstanding partner and launch customer, AirAsia. We are the first in the industry to be doing this and we see huge potential for it.

(L-V-C)

In Defence & Security, we are networking live real aircraft to virtual ones and to constructive or simulated worlds. This creates the next generation of mission training systems which allows aircrews to train in dangerous situations that would be impossible or impractical to reproduce in real life.

And we are strengthening synergies between our three core businesses to generate new opportunities and growth.

For instance, by applying the lessons learned by our civil aviation engineers when they connected our full-flight simulators to the Cloud, our healthcare engineers were recently able to connect Lucina, our childbirth simulator, to the Cloud. Our objective is to use Big Data to introduce adaptive learning into the healthcare sector as well.

It is also a good example of how our different markets are converging. We believe the next level of innovation will come from the **intersection of our sectors** – civil aviation and healthcare, defence and healthcare as well as civil and defence. This cross-sector collaboration will drive our future innovations at CAE.

(PAUSE – LOOKING AHEAD – SIX PILLARS OF STRENGTH)

Looking ahead, CAE's future is bright. At our investor day at the end of March, we highlighted CAE's 'six pillars of strength'. They are the fundamentals that define CAE's investment thesis and underpin our strategy.

Our first pillar is our **strong competitive moat**. It allows us to continue to maintain our leadership in competitive markets. Notwithstanding the range of competitors that we face globally – big and small – we continue to lead and earn our position as training partner of choice. Our sale of 53 full-flight simulators, an industry record, is a testament to that. In addition, earlier this year, we had the opportunity to acquire Lockheed Martin Commercial Flight Training and gained valuable customers and assets at a fair value.

Our second pillar: We are well-positioned and have **headroom to grow in large markets**. The training market is much larger than the simulator market – six times bigger in civil aviation and five times bigger in defence.

Our third pillar: CAE has the advantages of a **high degree of recurring business**. Our business is highly regulated, with pilots and other aircrew members required to regularly train on simulators to maintain their certifications.

Our businesses also benefit from **underlying secular tailwinds**. For instance, in civil aviation, we anticipate continued long-term global passenger traffic, on average, in the 4-5% range, just as we have seen over the last two decades. Supporting this rate of growth requires pilots and lots of them.

Over the next decade, we estimate that commercial airlines will require an average of 25,000 new pilots a year to meet the demands of the industry's growth and to compensate for retirements.

In Defence and Security, we foresee a continuing increase in the use of simulation-based training as systems become more sophisticated and complex. Simulation-based training is ideal to cost-effectively maintain readiness, and no company is more skilled at applying and delivering complex training solutions than CAE. In addition, many defence forces are looking to industry for a partner in outsourcing some of their training enterprise – and that aligns perfectly with our expertise and company vision.

In Healthcare, we see tailwinds arising from the rapid proliferation of less invasive but more complex medical procedures and devices. Also, students and interns have even less access than ever to real patients for learning. And the number of avoidable deaths attributed to medical errors is unfortunately growing. It's actually the third cause of death in the US after heart disease and cancer.

And as a result, it's no coincidence that CAE is in healthcare; healthcare professionals are explicitly borrowing best practices from civil aviation which have led to aviation being the safest mode of transportation. Healthcare professionals are leveraging simulation-based training to help train their professionals and improve patient safety.

Our fifth pillar is the **potential for superior returns**. Given our capacity and unique global offering, as well as our considerable headroom to increase market share

in training we believe our business can deliver sustainable growth over the long term at a rate that exceeds the underlying growth of our end markets.

Finally, anchoring all of this, our last pillar: our **culture of innovation**, which was the subject of most of my presentation today. I've always called it CAE's secret sauce.

Suffice it to say that this unique combination of strengths creates a compelling case for investing in CAE.

(PAUSE)

To sum it all up – these are exciting times. The prospects ahead of us are indeed promising, as we continue to shape the future of training in three growing markets around the world.

As a testament to our confidence in CAE's outlook for long-term sustainable growth and to our commitment to enhancing shareholder returns, I am pleased to have announced this morning that our Board of Directors has again approved an increase in CAE's quarterly dividend from 7.5 cents to 8 cents per share. This marks the sixth consecutive year that we've increased the dividend.

In closing, I want to take the time to truly thank our employees for the pivotal role they play in our success.

I would also like to thank our Board of Directors for their advice and support and our shareholders for their trust.

We would not be where we are today without your respective contributions.

Thank you.