

Conference call: CAE ACQUISITION OF OXFORD (Q & A only)

Time: 1 p.m. E.T.

Duration: 31 MINUTES

Date: MAY 16, 2012

OPERATOR: Our first question comes from the line of Steve Arthur with RBC Capital Markets. Please go ahead.

STEVE ARTHUR: Yes, thank you very much. First off, just a quick question on the margins of the Oxford business. If I do the rough math it looks like kind of 10 to 12-per-cent EBITDA margins. And I assume now that that's a blend of both the Parc and the Oxford pilot training businesses. Can you give us some sense of what that relative proportion is, how much of the revenue would come from Parc and how much from the pilot training?

STÉPHANE LEFEBVRE (Chief Financial Officer, CAE Inc.): Yes, I certainly can. Yeah, you're absolutely right. That will be the combined, blended EBITDA margin for the whole business. There's about half of Oxford's revenue that's derived from the service crew sourcing business, and the other half from the training business.

STEVE ARTHUR: Okay. So the pilot training margin then presumably is closer towards where CAE is now in your business there?

STÉPHANE LEFEBVRE: Well actually, if I look at Oxford's training business, if you derive the EBITDA margin using a 2 to 4-per-cent

margin from the pro-sourcing business, you get to a 22-per-cent EBITDA margin for the training business.

STEVE ARTHUR: Okay. So still well below where you are today.

STÉPHANE LEFEBVRE: So that's lower than ours... exactly.

STEVE ARTHUR: Okay. And I guess... the follow on to that then I guess is just in terms of where that goes over the next couple of years. Is it growing that business with a larger revenue base that gets you towards CAE margins or is it cost savings opportunities or some blend?

STÉPHANE LEFEBVRE: Well, I think at the end it'll be a blend. Of course, this is a business that is right in our core. It's in the sweet spot of what we do, so we see some meaningful synergies going forward. I guess there's different sources of synergies that you think of in terms of cost synergies mainly, but by repositioning the business, it may mean relocation of some assets in Oxford's portfolio, restructuring, folding the business within our cost structure. So you can expect some significant synergies from the acquisition.

STEVE ARTHUR: Okay. And the final question I guess just related to that, if you look at their similar fleet now, those 40 simulators, any comments or colour on the age and type of those simulators, and any major capital that you would see putting into that to improve?

STÉPHANE LEFEBVRE: Well the average age is about... I mean, the age of the fleet is older than ours. The average age is around 16 years. And I think what it means for us, you look at the level of capital that we put in our network, and looking at the kind of maintenance capex that we would expect from their business, I think probably in the near term it would mean that we were to invest a fair amount of maintenance capex in their business. So proportionally you can expect that it'll be higher than what CAE currently invests in its network, just to keep up with the... bringing the portfolio up to the same level or a similar level as the rest of our portfolio.

STEVE ARTHUR: Okay, thank you. That's helpful. I'll pass the line.

STÉPHANE LEFEBVRE: Thanks.

OPERATOR: The next question comes from the line of Cameron Doerksen with National Bank Financial. Please go ahead.

CAMERON DOERKSEN: Hey, good afternoon. You talked about the potential for accretion to earnings in fiscal 2014. Can you talk about what you expect as far as dilution of earnings in fiscal 2013? I mean, it doesn't sound to me like it's going to be overly dilutive to earnings, but maybe you can comment on that.

STÉPHANE LEFEBVRE: I certainly can. Well, as you know very well, all costs related to it as well as the restructuring now are incurred through expense to the P&L whereas it was part of the purchase specification before. So there's going to be some transaction restructuring costs that will be associated to the transaction, and that will be accounted for in Q1. I mean, there's going to be some left for the remaining couple of quarters, but the bulk of it will be in Q1. And it could range... could be in the range of \$18, \$20 million. That's as far as I can say for the cost itself.

As far as the... That means that once you leave aside the integration cost, we expect the operation of the business itself to be neutral to the earnings, to the EPS in fiscal '13.

CAMERON DOERKSEN: Okay. No, that's helpful. Can you maybe just talk about the customer base here? I mean, I guess the flight training business was, you know, formally a merger of SAS and GE commercial aircraft training, and so they have... it seems like there'd be a big exposure in Scandinavia and the U.K. So maybe you can just talk about what the airline customer base looks like?

MARC PARENT (President and Chief Executive Officer, CAE Inc.): Yeah. This is Marc. I can talk about it. A lot of the business is headquartered where the customers, a lot of our northern... in Northern Europe, those that are in Europe. So key customers there. I can point to

SAS, Norwegian, Thomas Cook, Jet2.com, Monarch. On the ab-initio business, do a lot of business with Jetstar, QantasLink, Tiger Airways, Transair, Flybe. And part... a lot of it's in Asia. Customer GECAS and Nippon Cargo, Air Japan, Asiana, Air China. And on the type, coming back, I think some of those airlines are also in the type-rating business because they have... you know, Oxford has a centre... a simulation centre in Hong Kong.

CAMERON DOERKSEN: Okay. And just maybe a final one for me. As far as the simulator fleet, how many are CAE-built simulators?

MARC PARENT: I think the ratio at Oxford is about 30 per cent Airbus, about 50 per cent Boeing and the rest is other manufacturers.

CAMERON DOERKSEN: No, but as far as who actually manufactured the simulator, how many are CAE built?

MARC PARENT: I'm sorry. Yeah, those are the types. Do we have that number...?

ANDREW ARNOVITZ (Vice President, Investor Relations, CAE Inc.): A little more than a quarter, Cameron, are CAE machines. Others are from others.

CAMERON DOERKSEN: Okay. Perfect. Thanks very much.

OPERATOR: Our next question comes from the line of Ben Cherniavsky with Raymond James. Please go ahead.

BEN CHERNIAVSKY: Morning, guys. Just a couple of questions, maybe on a little more granularity for the model. Can you give us the number – I know we can, you know, work out the EBITDA margins. What's depreciation going to be like, and will there be any amortization of intangibles in this transaction?

STÉPHANE LEFEBVRE: Well, depreciation you can assume about... existing depreciation, around 10 per cent of the revenue. That's the depreciation of the fixed asset...

BEN CHERNIAVSKY: Okay.

STÉPHANE LEFEBVRE: ... that are in the business. As far as the intangibles, look, there's about a third of the purchase price, I guess, will be the book value of the net asset. So there's about two-third of the enterprise value that will be allocated to goodwill and intangibles. As you know, we'll be... more detail coming up with the precise amount for intangibles and goodwill, but by remaining two-thirds, I guess you can assume that half will be goodwill, half would be amortized intangibles.

BEN CHERNIAVSKY: And the amortization is scheduled to be roughly... any idea on that?

STÉPHANE LEFEBVRE: You know, you can use what, 10, 12 years.

BEN CHERNIAVSKY: Ten, 12 years. Okay. And then on the tax rate, what would the... how would this affect your tax rate going forward?

STÉPHANE LEFEBVRE: I don't believe that it will affect our tax rate by a lot.

BEN CHERNIAVSKY: Okay.

STÉPHANE LEFEBVRE: I've got to look into it. I think it will not move the needle by a lot.

BEN CHERNIAVSKY: And then maybe just one on the end market there. You know, pretty exposed to Europe. What's the impact been on this operation's European business, you know, in the current environment? I mean, when we look at this number is this sort of cyclically depressed? Has it been very resilient? What can you tell us about that right now?

MARC PARENT: Well, I think... the first thing I think maybe to look at that is most of the exposure is from Northern Europe. That's the one thing I would tell you, and I think there's... I'm sure you'll know there's disparities between the fortunes of the various parts of Europe. But, you know, we have... you know, we know the region pretty well because we have a large part of our business that's in Europe as well, and I would tell you that, you know, we're confident in the market there. You have to remember there's still a very large installed base of operators flying in

Europe, and I think that, you know, we certainly are optimistic and realistic that we can get their business with the marquee customers that they have to at least the same level that we operate to in Europe.

BEN CHERNIAVSKY: Okay. Great. Thanks very much.

OPERATOR: The next question comes from the line of Benoît Poirier with Desjardins Capital Markets. Please go ahead.

MARC PARENT: Benoit?

BENOÎT POIRIER: Oh, sorry. Can you hear me well?

MARC PARENT: Yes, we can now.

BENOÎT POIRIER: Yeah, okay. Sorry. Just for the training portion, what is the utilization rate? And what's the revenue per simulator?

MARC PARENT: Well I'll take that one, Benoît. The utilization... Well, before I answer one thing you should take heed of though is that it's quite a bit different than ours, and I'll talk about it. But I mean the utilization is lower than ours. The right number, I don't have exactly. It's lower than ours. Revenue per cent is lower. You know, it's... exact number, it's higher than 2.2 there. Exact... to be exact so we'd get back to you.

But I mean the answer is it's very difficult to compare with the numbers that we provide typically because if you remember, when we talk about our revenue per cent, it's a combined number of commercial aviation training, which of course Oxford is. But ours has business aviation training.

You remember that's about 40 per cent of our civil business. It also has helicopter training as well. As well as, you know, our number has... it's quite geographically different because, of course, we're more broadly based from that point of view. So it's lower than ours both on the revenue per cent and utilization, but for your model I'd be careful about how you compare that.

BENOIT POIRIER: Okay. Perfect. And when you look at the synergies that will take place mostly over the next 12 to 15 months, could maybe, Marc or Stéphane, provide the main drivers behind, if it's driven by the revenue or the cost reduction initiatives?

MARC PARENT: Well, we think the number will be about, to be clear, we think what we're looking at right now – it's early days, but, you know, based on the due diligence we've done, and of course we know the business. A lot of is a plug and play with the kind of business that we have. So we feel comfortable that, you know, synergy in the range of \$15 million is what we're looking at now.

Mainly costs I would tell you right now. So it's the kind of examples, well, if you look at the documents we've provided in terms of the training footprint, you know, clearly there's consolidation opportunities. You know, we'll have to look at duplication within overhead structures, blending, and more, most importantly, applying of processes and the operational

know-how that we have in our business. As well as they have in their business such as, for example, Parc Aviation and the Oxford Aviation Academy, which I think, you know, is complementary for ours. And when I look at those \$15 million, we see those ramping up over the next 12 to 15 months. And a lot of the cost comes in early, but then you got to think there's customer contracts in there, and, you know, it takes maybe sometimes for them to run through.

BENOÎT POIRIER: Okay. And does the fact that GE no longer owns the business, will that change the relationship with GECAS, could it impact your revenues or profitability negatively or on the other side, the fact that GE is out of the ownership, it will lead for more opportunities from other leasing companies?

MARC PARENT: I don't think it'll affect it negatively. And certainly, you know, we'll seek out to reach out to GECAS, which, you know, being a leasing company needs pilots, needs those pilots to be trained, needs the crews to ferry airplanes, needs them to be... go sometimes with the airline. So we'll be reaching out to them as to all of the other customers to grow the business, for sure.

BENOÎT POIRIER: Okay. And maybe the last question if I may, when you look at the pilot sourcing, is there any opportunities to implement the model in other geographic regions for you?

MARC PARENT: Absolutely. It's about... I think the business today it's about 70 per cent Asia. And it's really... when you look at, as we've talked before and again in this call about, you know, the growth of civil aviation and the fact that 20,000 new pilots have to be created to sustain the growth of the business over the next, you know, certainly decades, there's certainly going to be... there's an acute need right now in Asia, which will continue, but our... our view and not only our view – I think it's shared by most people in the industry – is that that need will be worldwide.

As well there's opportunities in other sectors of the markets, you know, for example, business aviation training, which of course being who we are in business aviation training there's probably some synergies there that are revenue based.

BENOÎT POIRIER: Okay. So thanks. I'll get back in the queue. Thanks.

MARC PARENT: Thank you.

OPERATOR: Our next question comes from the line of David Tyerman with Canaccord Genuity. Please go ahead.

DAVID TYERMAN: Yes, good afternoon. First, just a simple question. Is there any kind of seasonality to the Parc business or the ab-initio? Is it pretty stable across the year?

MARC PARENT: Not that we know. We look... it's pretty steady.

DAVID TYERMAN: Okay. Second question, I just wanted to make sure I understood the kind of general math of what we're looking at for the income that you'll be getting. So it sounds like you're going to get about \$35 million of EBITDA. You're targeting synergies of \$15 million. And then the DNA on the fixed assets would be about \$28 million, then there'll be some more from intangibles. Is that the basic equation that I should be thinking about?

STÉPHANE LEFEBVRE: Yeah, I think you're on the right track.
Yes.

DAVID TYERMAN: Okay. So I do the math...

STÉPHANE LEFEBVRE: It's \$35 million this year.

DAVID TYERMAN: Yes.

STÉPHANE LEFEBVRE: It's \$35 million this year of EBITDA and you add the \$15. So it's \$50 million, and you remove the depreciation.

DAVID TYERMAN: Right.

STÉPHANE LEFEBVRE: You know, \$28 million. Call it \$28 million. Yeah.

DAVID TYERMAN: Sure. Okay. So if I do the math on that and tax it at 28 per cent, roughly your tax rate, and then divide that by the 314, I'm getting about a 5-per-cent return on investment. That sounds pretty low.

I'm wondering is it your feeling that you needed to pay that to get access to an opportunity or is there something I'm missing here?

STÉPHANE LEFEBVRE: Well if you look at the type of EBITDA multiple that we're paying, it's about nine times the last 12 months EBITDA. And if you add the kind of synergies that we see, you're down to, you know, 6-point-something times, 6.3 times, I think. So I think it's a pretty good multiple for us.

DAVID TYERMAN: Okay. Well I'm just thinking in return of investment capital because if you do the math on that, it's about 5 per cent, which sounds pretty low.

STÉPHANE LEFEBVRE: Yeah. Well, I don't know. As I said, this is a business that's got quite a large portfolio of assets, and that is bound to grow. The number that you're doing is... I mean, the math is accurate for the fiscal year '12 that we've just passed, but it's... you know, this is a business that will be growing. A large portion of that business is fixed costs, as you know, so the return on capital will ramp up over the near future.

MARC PARENT: Yeah, I think that – this is Marc. I think... as I said in the... what we're discussing, I think this is a great business for us to acquire in terms of the pilot sourcing business. At the same time when you look at pilot shortages that are already starting, that are becoming more pervasive in the industry, the rest of the business is exactly right in our

wheelhouse. So we know how to execute that well. We gain a network of customers, which we're not in today. Extra capacity. And it just completes the global footprint. So when we look at this acquisition, getting it after synergies that have multiple of, you know, as Stéphane said, about 6.3 on the kind of earnings that they're making, I think we're pretty confident we're doing a good deal here.

DAVID TYERMAN: Okay. Fair enough. And then just a question on debt to cap, it looks to me if I've done my math right you'll be around 45-per-cent debt to cap. Could you just give me your thoughts in terms of how you feel at that level? Is that a comfort level or is that pushing the limits?

STÉPHANE LEFEBVRE: No. Absolutely. We're very comfortable with the level we're now at with the financing that we've done. I think it's... you know, the market was good for us to enter into the credit facility that we got. It provides some cheap financing at this point. As I noted, it's only 145 basis points LIBOR. So it's quite cheap. And it maintains for us, even at 45 per cent, as you say, a very strong balance sheet.

What it does as well, it provides me some flexibility. The business generates a lot of cash flow, so it'll allow me to deleverage the debt hopefully and fairly quickly. So that for all these reasons we think that this was the right financing vehicle for this transaction at this point.

DAVID TYERMAN: Okay. And sorry, which LIBOR should I be looking at when I'm using this?

STÉPHANE LEFEBVRE: I think we use the 10-year LIBOR.

DAVID TYERMAN: Ten-year? Okay. Great. Thank you.

STÉPHANE LEFEBVRE: Thanks.

OPERATOR: The next question comes from the line of Konark Gupta with Cormark Securities. Please go ahead.

KONARK GUPTA: Good afternoon, gentlemen. I'm filling in for David Newman today. My question would be on... oh sorry, before I ask the question, first of all, at the very beginning of your prepared remarks I guess you mentioned Oxford and Parc together at 12 training facilities. But if you add Oxford's seven locations and Parc's four, it adds up to 11 only. So is there one missing there?

MARC PARENT: What are we missing? You're talking about on the ab-initio side?

KONARK GUPTA: Altogether. I think at the very beginning you said 12 facilities altogether.

MARC PARENT: It's 12. The numbers are 12 flight schools together when we add our eight and our four of those ab-initio flight schools...

KONARK GUPTA: Oh. Okay.

MARC PARENT: Yeah.

KONARK GUPTA: Okay, that's fair. And what is the size of the credit facility that you took for this thing?

STÉPHANE LEFEBVRE: I'm sorry, I missed that. Say that again?

KONARK GUPTA: What is the size of the loan that you took for this acquisition?

STÉPHANE LEFEBVRE: Oh, it's the whole acquisition was funded. So the whole \$300 million was financed with the facility.

KONARK GUPTA: So \$300 in your new facility and \$14 is what you assumed, right?

STÉPHANE LEFEBVRE: Correct. The net debt that was in the company.

KONARK GUPTA: Okay. And the acquisition has closed already, right?

STÉPHANE LEFEBVRE: It has, yes.

KONARK GUPTA: Okay. And can you briefly talk about the Parc business, the Parc Aviation business? Like, how does outsourcing your pilots and maintenance crew happen? You have your own pilots and maintenance crew or do you hire somebody from outside, and then you lease it out to airlines? And like what sort of fixed capacity and swing capacity you have on that side?

MARC PARENT: It's basic contract... the contract personnel that are working for us, and we have... on contract with us, and we provide them onto airlines and leasing companies.

KONARK GUPTA: So you don't have any employees on your payroll?

MARC PARENT: No, they're not on our payrolls. They're contracts.

KONARK GUPTA: Oh, okay. Okay. So is that the reason why it's usually lower margin business for you guys, like 2- to 4-per-cent EBITDA margin sounds very low.

MARC PARENT: Yeah, that and the fact that it's not a capital-intensive business, right?

KONARK GUPTA: Right. Okay.

MARC PARENT: It's basically managers' fees.

KONARK GUPTA: Okay. That's good. And do you intend to keep this business for long? Like, is that where you wanted to be in terms of your end-to-end suite or because of the margins you might, you know, look at spinning it out sometime?

MARC PARENT: I think it's very synergistic with the rest of our business. If you think about, for example, the link between flight schools, when people want... somebody wants to become a pilot, I mean, one of the

base attractions to going... to going a particular flight school, first of all brand is very important, and therefore I mean the brand that we're acquiring with Oxford is a very prestigious brand, very well known. But that... what you want to make sure is you're spending a lot of money and becoming a pilot is it's quite involved in terms of money, you want to have, you know, kind of an assurance that you'll be able to find employment fairly soon. So the fact that you have a sourcing business clearly, you know, the fact is you can provide line of sight to a job. So that's just one synergy to see with theirs, and so I think it's a good business for us.

And of course there's... these are the same customers that we sell training to and we sell simulators to, and that we train their cadets. So it's... I would call it more share of wallet to the same people.

KONARK GUPTA: Okay. So basically like it would add to your synergies too right here, despite the fact that's lower margin?

MARC PARENT: Correct.

KONARK GUPTA: Okay. And is Parc Aviation the only company or like, do you know any similar companies that do outsourcing or outsourcing business?

MARC PARENT: Yeah, there are. There's a couple of companies. I think one is Rishworth, is the second one. There's a company called CTC, I believe.

KONARK GUPTA: Okay. And are they based out of Europe or like, they're global in nature?

MARC PARENT: They're global in nature, but I think they're both headquartered in Europe, I believe. They're, yeah, both head – I think they're headquartered... I think I'm right there. And but they're global. Parc is the biggest.

KONARK GUPTA: Okay. Parc is the biggest, right. And is there any... like, you talked about seasonality. Obviously there's none, but what sort of cyclicalities do these businesses have, like the sourcing business? Like, the margins through cycles have remained fairly steady or has it fluctuated with like downturns and up when the things moved up?

MARC PARENT: It's pretty stable.

KONARK GUPTA: Through cycles?

MARC PARENT: Yeah.

KONARK GUPTA: Okay.

ANDREW ARNOVITZ: Operator, we'll take one more question from the investors before we open the line to media just so that we have enough time with the call that we've booked off. We will take the next question now, please.

OPERATOR: Okay, certainly. And our next question is from the line of Steve Riccio with Buyside Research. Please go ahead.

STEVE RICCIO: Yeah, hey, guys. I think you can tell there's I guess some concern, at least by people on this call, about the margins in the acquired businesses. And maybe we're just not looking out long enough. Could you just give us a sense, say, as global demand really starts to ramp up in three, four or five, 10 years where you think potentially the margins could grow to?

MARC PARENT: You mean in this business that we're acquiring?

STEVE RICCIO: In the acquired business, right. Correct.

MARC PARENT: Well I think that we would want to... I mean, there's different businesses here. There's pilot sourcing. I mean, clearly you're not going to get pilot sourcing to the level of margins that we are today. It's a new business. I mean, hopefully we would seek to seize opportunities to be able to do better there.

But in the rest of the business, I mean, you see where CAE's at in terms of our type-rating business, our simulator-based training business, and our ab-initio business together today we make, you know, north of 20-per-cent EBITDA, and we've said, you know, at the top of the cycle we certainly – sorry, not EBITDA, EBIT. And we said at the top of the market certainly we see 22 per cent. And there's no reason in my mind that we can't, you know, over time, and it won't take 10 years for sure, that we can reach the kind of margins that we make in the rest of our business.

STEVE RICCIO: Okay. So basically the non-sourcing business has the potential, as you said, to get to sort of CAE peak margins. No reason for that not to happen.

MARC PARENT: Correct. I mean, absolutely. The one thing I would tell you is when you compare... if you look some of our business is comprised of different regions obviously, and different customers. So, you know, we base over 20 EBIT now. So it's not 20 per cent everywhere in the market, but having said that, there's not a... huge... a lot of variability. So in general, yes, your statement is correct.

STEVE RICCIO: Okay. And so really the sourcing business, you know, wherever it's at right now, low to mid-single-digit type margins, there's some room there, but obviously not a whole lot of room, and is it possible that that business at some point can become sort of a double-digit margin business?

MARC PARENT: I wouldn't think so. You know, management fees that kind of thing in a low-asset intensive business. Can we increase it? Yeah, I think so. But I wouldn't expect double-digit. It's too early to say, to be honest right now. And we got to get... it's a new business for us. I'm just looking... I'm basing those questions on the dynamics of the business right now. Once we get in the business, talking to the management, details, and we know them a little bit from due diligence. They have very competent

management. So, you know, we'll be talking to them as how do we leverage the rest of CAE's customers, the rest of CAE's business to be able to get some, you know, volume-based benefits? So clearly we'll be looking to see how do we do better than that. But no promises right now.

STEVE RICCIO: Okay. Just one last question related to the crew sourcing. As far as like benefits, you know, retirement, health care, all that stuff, you guys are fully responsible for all of that?

MARC PARENT: Let me just check on that and see if we have the answer here. Yeah, I think it's an involved response, I think. But the answer is no, in short answer to you. But I think maybe we have to get back to you specifically. Andrew can get back to you on a response on that one. But basically we fold into the airlines' plans, basically.

STEVE RICCIO: Got it. So they're almost like a temp worker for the airlines and you wouldn't be on the hook for, you know, a good majority of those benefit costs?

MARC PARENT: Yeah. That's a good way of looking at it.

ANDREW ARNOVITZ: Okay. All right, great. Thanks, guys.

MARC PARENT: Thanks.

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