



Canada: CAE Product Development Programs Unveil Opportunities for U.S. Suppliers in the Aerospace Simulator Sector

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Summary¹

CAE Inc.'s continued success in winning large contracts and re-investing in research and development is unveiling short-term and long-term opportunities for U.S. innovators and suppliers in the aerospace flight training, simulator and related sectors. While CAE estimates that it will experience a 40% decline in civil simulator orders in the 2010 fiscal year, it is strengthening its resolve to maintain its leadership position through research and development programs, diversification, and the search for cost-effective suppliers. Its current backlog is approximately \$3 billion, and it plans to spend more than \$914 million on research and development over the next seven years. CAE is consistently seeking new partners and suppliers to offset potential costs and time delays and maintain their world leadership in simulation technology and flight training services. U.S. companies are well poised to take advantage of new supplier opportunities arising from CAE's success in winning new contracts, and its on-going research and development programs below.

Background Info on CAE

CAE is a world leader in providing simulation and modeling technologies and integrated training solutions for the civil aviation industry and defense forces around the globe. In fact, it has consistently captured approximately 70% of the world's market in the sale of civil aviation flight simulators. With annual revenues exceeding \$1.54 billion, CAE employs more than 6,500 people at more than 90 sites and 20 training locations around the world. CAE has the world's largest installed base of civil and military full-flight simulators and training devices. Through a global network of 29 civil aviation and military training centers, it trains more than 75,000 crewmembers yearly. More than 90% of CAE's annual revenues come from worldwide exports and international activities.

New Contracts

CAE is well positioned to grow in the midst of the current industry and world-wide economic slowdown. CAE's civil aviation simulation products are strongly affected by aircraft deliveries; a decline in civil aircraft deliveries is creating a decline in demand for its civil simulator products. However, even though CAE is anticipating only approximately 20 full-flight simulator orders in fiscal year 2010, it hopes that its backlog of \$2.71 million in civil simulation products will help mitigate the impact of the current decline in demand on production. Furthermore, CAE will be Bombardier's key supplier of simulation products and technology for the airframer's CSeries, its next generation regional commercial aircraft. CAE will deliver two main products, an engineering development simulator to provide comprehensive engineering and design services, and a CSeries full-flight training simulator prototype, with the hopes that this will translate into more simulators being sold to CSeries customers as Bombardier begins delivery of these aircraft in 2013. Moreover, CAE recently won simulation contracts worth hundreds of millions of dollars with defense departments worldwide. Some of these contracts are with the Canadian, Australian and Indian Governments, Eurocopter, Airbus Military and L-3 Communications.

Research and Development

CAE has a proven track record in successfully converting research and development technologies into innovative and high-selling products. In 2005, CAE launched a five year research and development initiative called Project Phoenix; this program improved the design and manufacturing process of CAE's product lines. Working in tandem with universities and other firms, CAE introduced a variety of key products, processes and technologies including a full-flight simulator series designed for narrow-bodies, business jets and very light jets, and a new a state-of-the-

¹ All figures in this report are in USD. The exchange rate used was September 9th, 2009 official Bank of Canada rate: 0.925069

art air-traffic control simulation program. In addition, CAE reduced its simulator build time from 18 months to approximately 1 year. New technologies are now being explored under the newly announced Project Falcon.

Announced in March 2009, Project Falcon is a \$661 million research and development program intended to leverage CAE's existing core technologies into other key aerospace markets over a five year period. For example, CAE's Augmented Visionics System (AVS) helps pilots take off and land safely when visibility outside of the cockpit is restricted; it was successfully tested in April 2009 and represents new ground-breaking technology in the aerospace simulation and modeling sector. Project Falcon will develop these technologies in partnership with research institutions and suppliers, and aims to introduce them successfully in the marketplace. Specific goals include simulation and modeling technologies for other aircraft such as helicopters, unmanned vehicles, as well as replacement models for current aircraft.

CAE is also investing US\$253 million over the next seven years in R&D in order to diversify and leverage its technology and expertise in other industry sectors such as health care (the global health care simulation and training market is estimated to reach \$1.32 billion by 2012), mining and energy.

Implications and Opportunities for U.S. Firms

With a strong presence in its current civil and military, and a proven track record to convert research and development technologies into innovative and highly marketable products, a partnership with CAE can provide U.S. suppliers with excellent opportunities. CAE is sometimes unable to find two or more suppliers for the various inputs whether data, parts or equipment. U.S. firms can provide cost competition to and help CAE reduce its vulnerability to sole-sourcing and potential schedule delays.

Additional Corporate Information on CAE

On August 12, 2009, CAE announced that its President and Chief Executive officer since August 2004, Robert E. Brown, will be stepping down as of September 30, 2009. Marc Parent, currently CAE's Executive Vice President and Chief Operating Officer, will become the new President and CEO of the company. Mr. Brown will stay on as an advisor until the end of December 2009.

For More Information

For further information about business opportunities with CAE Inc., please contact Ms. Gina Rebelo Bento at the U.S. Commercial Service in Montreal Canada via e-mail at: Gina.Bento@mail.doc.gov; phone: 1-514-398-9695 ext. 2260; fax: 1-514-398-0711; or visit our website: www.buyusa.gov/canada.

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