



# DSR STOCK CARD

10/09/2022

## CAE INC. (CAE.TO / CAE)

### Business Model

CAE Inc is a global company focused on delivering training for the civil aviation, defense, security, and healthcare markets. Multiple types of simulators and synthetic exercises may be sold to customers to serve as alternatives for live-training experiences. The company's training solutions are provided through products and services. CAE has many different training locations where clients can be trained and educated through a series of programs. Additionally, part of the revenues come from supplying aviation personnel on a lease, along with providing aviation support organizations. Roughly one-third of sales are from the United States, with the remainder split among several other nations.

### The Company in a Nutshell

- Throughout the years, CAE has developed a well-diversified business.
- 60% of CAE's revenues come from services and 40% come from products.
- 36% of its revenues come from the US, with 27% from Europe, and 36% from other countries.

### Investment Thesis

CAE has developed a close relationship with many of its customers. The switching costs for those customers is relatively high as CAE clearly understands their needs and can improve and modify its training and simulation solutions to evolve with its customers. This creates a high volume of recurring business. With over 200 locations across 35 countries, CAE can meet any international customers' demands. The company moved into an offensive mode since last fall and began acquiring competitors. It completed 9 acquisitions since the start of the pandemic in 2020. CAE is also well positioned to benefit from the growth of a sub-sector: Urban Air Mobility (UAM) as a transportation system that uses highly automated aircrafts that will operate and transport passengers or cargo at lower altitudes within urban and suburban areas.

## VALUATION \*DIVIDEND IS SUSPENDED\*

Dividend Growth Rate Years 1-10: 0.00%

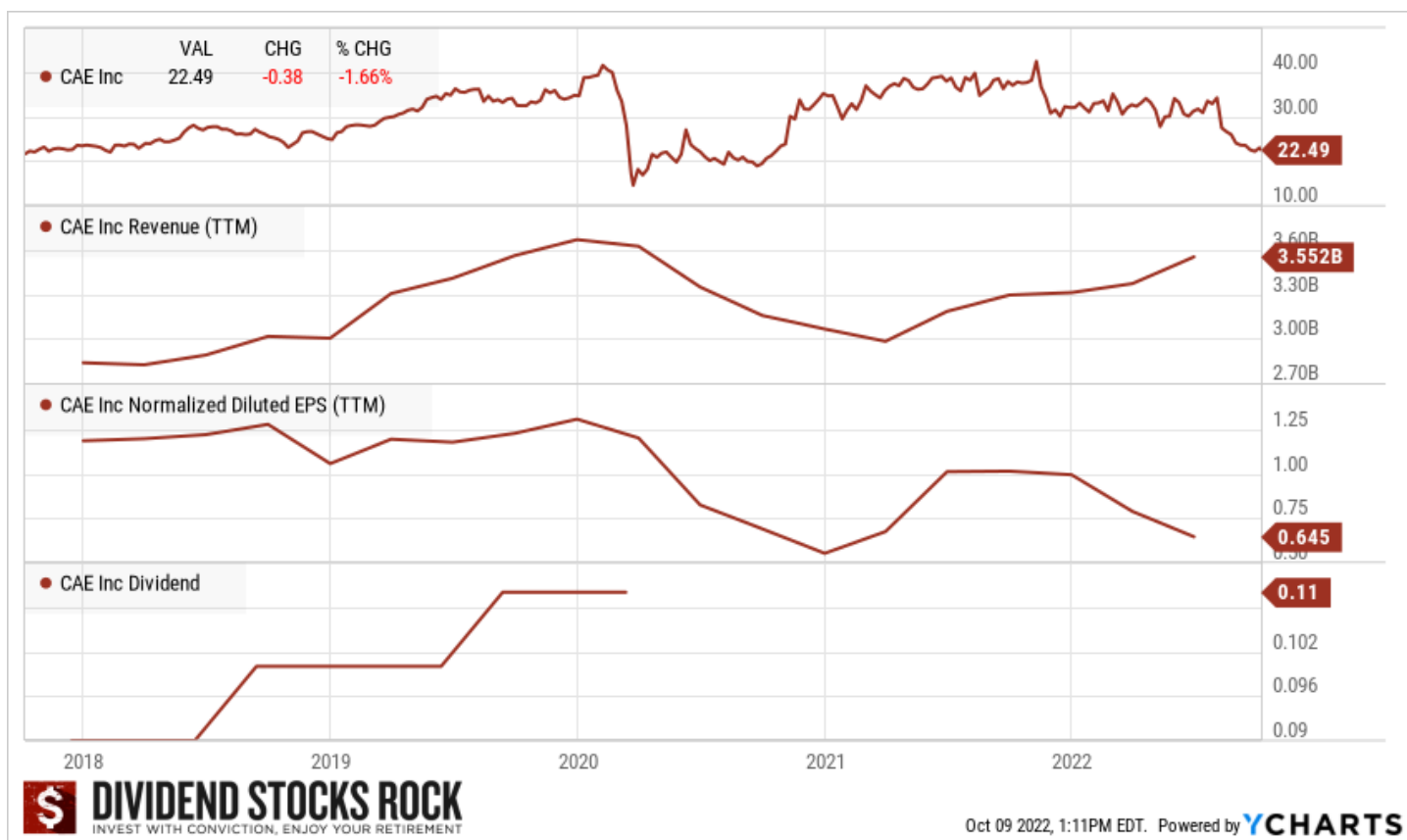
Terminal Dividend Growth Rate: 0.00%

	Discount Rate (Horizontal)		
Margin of Safety	8.00%	9.00%	10.00%
20% Premium	\$0.00	\$0.00	\$0.00
10% Premium	\$0.00	\$0.00	\$0.00
Intrinsic Value	\$0.00	<b>\$0.00</b>	\$0.00
10% Discount	\$0.00	\$0.00	\$0.00
20% Discount	\$0.00	\$0.00	\$0.00



# DSR STOCK CARD

10/09/2022



## Potential Risks

A potential recession could be a large source of concern for CAE. The company's order book suffered during the pandemic as the need for civil aviation training decreased. CAE is also dependent to a lesser extent on military spending. If governments reduce their spending, CAE will also feel the effects. The pandemic crisis had a significant effect on CAE as the company suspended its dividend and share buyback and hasn't yet reinstated its dividend. The company generates about 50% of its revenue from civil aviation training. CAE has made major acquisitions to increase its exposure to the military industry and to compensate for the lack of demand from civil aviation. In August, CAE reported a loss in its military segment. The company is facing major headwinds in the defense sector, namely supply chain pressures, labour shortages, and a slower defence contracting environment resulting in unfavourable contract profit adjustments in Defense.

## Dividend Growth Perspective

CAE suspended its dividend amid the COVID-19 crisis. It is a highly innovative company; while they faced critical challenges, they quickly shifted some of their resources to healthcare training in support of the COVID-19 pandemic response. They made a fair number of acquisitions in the past two years and should be well positioned for the future. We continue to believe the dividend will be restored once air traffic recovers to pre-pandemic levels.