



Assemblée annuelle des actionnaires Le 10 août 2018

Gilles Labbé, Président et chef de la direction (PART 1)

Merci Brian, et bonjour mesdames et messieurs.

Merci d’être parmi nous ce matin à l’occasion de l’assemblée annuelle des actionnaires d’Héroux-Devtek. En compagnie de Stéphane Arsenault, chef de la direction financière, nous passerons en revue l’exercice clos le 31 mars 2018 et nous commenterons les résultats du premier trimestre dévoilés plus tôt ce matin. Je discuterai également d’importants développements survenus au cours de la dernière année ainsi que de nos perspectives pour l’avenir.

Je vais commencer avec un survol de notre performance financière de l’année.

Au cours de l’exercice clos le 31 mars 2018, Héroux-Devtek a poursuivi l’exécution de sa stratégie commerciale visant à bâtir un avenir durable pour la Société. Nous avons fait de grands progrès en vue de notre prochaine phase

d'expansion par la conclusion d'ententes portant sur deux acquisitions stratégiques, soit CESA et Beaver. En date d'aujourd'hui CESA est toujours en instance d'approbation par les autorités réglementaires.

Les résultats financiers de l'exercice 2018 ont été relativement stable par rapport à l'an dernier, et en ligne avec nos prévisions. Nos ventes ont totalisé \$386,6 millions de dollars, soit un léger recul par rapport à l'exercice précédent. Pour sa part, le résultat opérationnel a atteint \$23,4 millions de dollars versus \$35,6 millions de dollars l'an dernier et le BAIIA ajusté a atteint \$56,9 millions de dollars, représentant une marge de 14,7%, comparé à \$61,4 millions de dollars et une marge de 15,1% pour la même période l'an dernier.

Le fait marquant financier de notre année fiscale 2018 est surtout axé sur nos flux de trésorerie. Les activités d'exploitation ont généré des flux de trésorerie de \$56,1 millions de dollars, qui ont produit de solides flux de trésorerie disponibles de \$50,8 millions de dollars, soit un niveau record pour la Société. Nous en sommes très fiers. Ces flux de trésorerie ont aidé Héroux-Devtek à améliorer une situation financière déjà très saine.

Stéphane vous donnera davantage de précisions sur nos résultats financiers dans quelques minutes. Pour l'instant, je partagerai avec vous certains faits marquants de l'évolution récente d'Héroux-Devtek en lien avec notre objectif de bâtir un avenir durable pour la Société.

In fiscal 2018, although we faced a few short-term headwinds, several important milestones for the future were achieved. These included the CESA and Beaver acquisitions, the progress on the Boeing 777 and 777X contract and several contract wins with major OEMs.

The most important development of the past year was the announcement of two acquisitions that will further enhance our leadership and international reach in the market for landing gear systems and related products, and that will act as building blocks toward our next expansion phase.

First, we reached an agreement to acquire the Spanish company CESA, a subsidiary of Airbus. CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. Its main product lines include actuation and hydraulic systems, and landing gear systems. CESA provides an integrated product and service offering that includes design and development, engineering, certification, component manufacturing and assembly, as well as fleet support for a wide range of customers and aircraft programs. It has annual sales of approximately \$149 million and about 340 employees. We expect the transaction to close during the second quarter of fiscal 2019.

The second acquisition we announced was of Michigan-based Beaver Aerospace & Defense, a vertically integrated manufacturer with a growing

portfolio of company-designed products. It designs and manufactures custom ball screws from a variety of materials based on customer and application requirements. It also designs, manufactures, assembles and tests electromechanical actuators. It has annual sales of approximately \$38 million and about 100 employees. We closed this transaction on July 2nd.

Another important milestone was our progress on the Boeing 777 and 777X contract, our most important manufacturing contract for landing gear. We had strong deliveries for this program, shipping 42 landing gear systems in fiscal 2018, bringing the total to 63 since the beginning of the program for Héroux-Devtek.

Furthermore, we expect to receive the approval for the final surface treatment process in the coming weeks. Once obtained, we will begin in-sourcing the related processing from our third-party suppliers and expect to have the whole process in-house by the end of fiscal 2019.

Once the surface treatment process is entirely internalized, we will effectively control our own destiny as we will have a greater ability to control costs, quality and delivery requirements. This in-house expertise will allow us to comprehensively leverage the investments we have made in our finishing and assembly facility in Strongsville, Ohio. We expect the effect of related margin enhancements to be fully realized in fiscal 2020.

In parallel, our team has also been manufacturing a new landing gear configuration for the 777X variant. We expect to deliver the first 777X complete shipset in the coming weeks, in line with the customer's schedule. This delivery will represent another significant milestone in our involvement with the 777 and 777X programs.

In the past few months we also signed several new contracts which are helping us to build a sustainable business.

In May 2018, we signed a 4-year agreement with AAR Corporation which will generate sales estimated at over \$65 million. This contract will allow us to recapture a portion of the business we previously had with the U.S. Air Force. This agreement reconfirms Héroux-Devtek's status as a world leader in the R&O market for defence aircraft landing gear and highlights the diversity of our activities in the global defence aerospace market.

Furthermore, at the Farnborough Airshow, we announced two contracts.

First, we were selected by Boeing to manufacture the main landing gear and side braces for the F/A 18 Super Hornet. First deliveries are expected in the third quarter of calendar 2020. The contract also includes spare parts and aftermarket services. We are very pleased to have been selected to build the

F/A-18 main landing gear and side braces. It attests to our growing relationship with Boeing and represents a significant win for our defence activities.

Second, we announced that we were awarded a 5-year contract by Lockheed Martin to manufacture the landing gear for the C-130J Hercules aircraft. This contract renewal covers the manufacture and assembly of landing gear and provision of spare parts and aftermarket services. We are proud to support Lockheed Martin by further contributing to a program which has the longest continuous military aircraft production run in history. We have been actively involved in this highly successful program for more than 30 years, which has allowed us to showcase our solid performance, high-quality products and on-time deliveries. This contract renewal is once again a testament to our leadership in the defence landing gear market.

In summary, this was a milestone year for Héroux-Devtek as we announced the largest acquisition in our history. CESA and Beaver are transformative acquisitions that will strengthen our position in the marketplace and build the foundation for our next expansion phase.

Furthermore, our largest manufacturing contract with Boeing is progressing well, we recently signed several contracts with large OEMs and we have a

strong financial position which will allow us to grow further in the years to come.

Mesdames et messieurs, je reviendrai dans quelques instants pour vous faire part de nos perspectives. J'invite maintenant Stéphane Arsenault à vous présenter nos résultats financiers.

Je passerai maintenant en revue nos principaux marchés afin de mettre en lumière les perspectives qui demeurent largement favorables dans l'industrie aérospatiale.

First, in the commercial aerospace sector, world traffic growth is expected to grow at an average rate of 4.7% over the next 20 years, which is nearly 2% more than the world GDP growth projected at 2.8%.

From approximately 24,400 aircraft in 2017, the fleet is expected to double to over 48,500 airplanes by 2037. Considering new capacity additions and the replacement of older equipment, over 42,700 aircraft should be delivered over the next 20 years.

This represents an average of more than 2,135 planes a year, which is significantly higher than the record combined level of approximately 1,600 aircraft that Boeing and Airbus expect to deliver in 2018.

Turning to the defence market:

In the U.S., our largest defence market, the new administration has indicated its intention to increase funding for the Department of Defense over the next several years. The initial fiscal 2019 President's Budget calls for a US\$686 billion budget, representing a 12.1% increase over fiscal 2018 funding.

In Canada, the new Defence policy calls for a rise in spending, from \$18.9 billion in the 2017 fiscal year to \$32.7 billion in the 2027 fiscal year. One of the main investments will be the replacement of our aging CF-18 fleet with up to 88 advanced fighters. Héroux-Devtek's diversification in this domain, with expertise and content on many existing fighter aircraft, puts us in a good position to benefit from this initiative.

Finally, Europe is also committing more funds to defence, as evidenced by a 4.8% overall spending increase by members of NATO for 2018, in an effort to reach a target of defence spending set at 2% of GDP.

Héroux-Devtek's operations on both sides of the Atlantic stand to benefit from this greater spending. We are in a good position given our extensive diversification on both longstanding, well-established programs, such as the

AW-101, Hawk, CH-47, C-130, P-3 and the C-27, and new programs like the Gripen, F-35, CH-53K, KF-X, KC-390 and the F-18.

Now let's take a look at how Héroux-Devtek is positioned to enter its next expansion phase.

Today, Héroux-Devtek has revenues of \$387 million, about 1,300 employees, a total of 13 installations in Canada, the U.S. and the U.K., and generates 34% of its business through proprietary products.

With the addition of CESA and Beaver, we will expand our reach in Europe and in North America. Pro-forma sales will be about \$575 million and we will have over 1,700 employees. Furthermore, we will grow from having 13 installations to 16, adding one in the U.S. and two in Spain.

Our product mix will also evolve with 42% of revenues being generated from proprietary products. These products are key to Héroux-Devtek's future sustainability because they not only usually provide higher margins than build-to-print programs, but also generate revenue for a longer period of time through aftermarket sales.

The CESA and Beaver acquisitions will also provide several strategic benefits. First, they will broaden our product portfolio by expanding into

complementary actuation and hydraulic system activities. They will further diversify our customer base with industry-leading OEMs, more particularly by providing a direct relationship with Airbus, which could offer more business opportunities. They also bring an important portfolio of intellectual property rights.

And finally, they will allow us to generate synergies from cross-selling opportunities. You can see on the screen that there is very little crossover among key customers, meaning Héroux-Devtek, CESA and Beaver are all gaining access to key opportunities. The acquisitions will also allow us to generate synergies from operating efficiencies in procurement and technology development.

In addition to these transformative acquisitions, Héroux-Devtek is also positioned for growth with its numerous development programs currently underway.

Many programs involving our proprietary products are on track and progressing according to customer requirements, including the CH-53K, Gripen E, KF-X, Falcon 6X, Legacy 500, EC-175 and F-35. These programs are very promising and should generate strong revenues in years to come.

Before I conclude, I just want to take a few minutes to show you the evolution of our stock price since 2009 and how we created value for you, our shareholders.

As you will notice on the screen, our stock price moved from \$4.00 in 2009 to over \$15.00 today; representing a compound annual growth rate of 16%. This return does not include the special dividend of \$5.00 per share paid in December 2012. We have had an amazing run and it is not over yet. The best is yet to come.

In summary, fiscal 2018 was a milestone year for us.

We have set the table for growth with the acquisitions of CESA and Beaver and the important contracts we have signed recently. The acquisitions will provide key cross-selling opportunities and an expanded product-offering rendering us better able to provide complete solutions to our customers.

We look forward to the coming year where we will focus on integrating our new businesses, leverage our past investments to execute on our existing programs and seek out new opportunities to create value.

Our strong reputation in the aerospace market, our core competencies in landing gear and related systems and the positive outlook in the industry will all help us in our next expansion phase.

Je profite de cette occasion pour remercier chaleureusement tous les employés d'Héroux-Devtek pour leur dévouement. Bâtir une entreprise solide et durable ne serait pas possible sans leur contribution.

Je remercie également nos partenaires d'affaires, clients et fournisseurs, pour leur soutien constant.

Et, merci à vous, actionnaires d'Héroux-Devtek, pour votre confiance envers notre entreprise et ses perspectives de croissance.

En dernier lieu, j'aimerais remercier le conseil d'administration pour leur appui et judicieux conseils dans une année charnière pour l'entreprise.

Nos équipes sont prêtes à se diriger vers la prochaine phase d'expansion avec enthousiasme.

Mesdames et messieurs, merci de votre attention. Il nous fera maintenant plaisir de répondre à vos questions.