Annual Shareholder Meeting
August 10, 2018

First, I will take a look at financial performance for the past fiscal year. I will then comment on the first-quarter results announced this morning.

For fiscal 2018, consolidated sales reached $386.6 million, down slightly from fiscal 2017. It should also be noted that variations in the exchange rate caused sales to dip by $2.4 million over the previous year.

Sales of defence products totalled $191.5 million, 2.2% lower than last year. This contraction is due to:

- A decrease in the US government's demand for spare parts, and
- Reduced sales for repair and overhaul services for the P-3 program.

These negatives were offset in part by higher manufacturing sales to civil customers.

Commercial sales for fiscal 2018 reached $195.1 million, down 7.4% from the previous year. This drop mainly reflects:

- Lower large commercial programs sales, including the scheduled ending of a Tier-2 contract
- Lower aftermarket customer requirements for regional aircraft

These negatives were countered in part by an increase in Boeing 777 deliveries.

Operating income stood at $23.4 million, or 6.0% of sales, compared with $35.6 million, or 8.7% of sales last year. This decrease is mainly attributable to non-recurring items totaling $6.9 million, associated with restructuring charges related to workforce adjustments and acquisition-related costs in fiscal 2018. In fiscal 2017, non-recurring items totaled $0.3 million.

Adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, which excludes non-recurring items, was $56.9 million, or 14.7% of sales, versus $61.4 million, or 15.1% of sales last year.

The decrease in adjusted EBITDA was due to:

- Lower sales in both the commercial and defence aerospace markets;

- A higher under-absorption of costs, including excess processing and finishing costs related to the Boeing 777 program. We expect these excess costs to normalize in the current year as we anticipate receiving the approval for the final surface treatment process in the coming weeks; and,
- A negative year-over-year foreign exchange impact of $0.6 million.

Net income was $13.7 million, or $0.38 per share, compared with $31.8 million, or $0.88 per share last year. This decrease was mainly due to the year-over-year impact of non-recurring items representing $16.0 million, including the $4.9 million impact related to the US Tax Reform in fiscal 2018.

Adjusted net income, which excludes the after-tax value of non-recurring items, totaled $24.2 million, or 67 cents per share, compared to $26.4 million, or 73 cents per share, last year.

Turning now to liquidity and capital resources.

In fiscal 2018, Héroux-Devtek generated $56.1 million of cash flows related to operating activities, in line with last year, with a record-free cash flow amounting to $50.8 million, as compared to $33.0 million in fiscal 2017.

This marked improvement in free cash flow reflects two main factors:

- A reduction in capital investments; and,

- The timing of certain customer funding for capitalized development costs.

In fact, over the past five years, we generated free cash flow every year except for the two years in which we carried out our capital investment plan for the Boeing 777, namely in 2015 and 2016. Fiscal 2018 free cash flow of $50.8 million represented 13.1% of our sales which demonstrates our ability to leverage past capital investments. We are thus prepared for our next expansion phase.

Given this free cash flow generation, Héroux-Devtek's already healthy financial position improved further as at March 31, 2018, with cash and cash equivalents of $93.2 million, while total long-term debt was $132.0 million, including the current portion, but excluding net deferred financing costs. This total includes an amount of $54.2 million drawn from our authorized Credit Facility of $200 million. As a result, the net debt position was $38.8 million at the end of the year, down from $92.3 million as at March 31, 2017.

Consequently, as at March 31, 2018, the net debt to adjusted EBITDA ratio was 0.7x as compared to 1.5x last year. An amount of $145.8 million was available against the Company's authorized credit facility of $200 million. Our Credit Facility includes an accordion feature which can increase it by $100 million, subject to the approval of the lenders.

Moving on to the first-quarter results.

Earlier this morning, we released our results for the first quarter of fiscal 2019, which ended June 30, 2018.

In the first quarter, consolidated sales totalled $85.8 million, compared with $86.9 million the previous year. This 1.3% variation can be explained by a decrease in sales of defence products and a $2.5 million negative impact of the exchange rate, offset in part by an increase in commercial sales.

Defence-sector sales decreased 8.1%, from $43.5 to $40.0 million, mainly due to a ramp-down of repair and overhaul activities for the United States Air Force and lower manufacturing requirements for certain civil customers. However, the new AAR contract will begin to mitigate a portion of this loss in the second quarter. These negative factors were partly offset by higher spares requirements for the US government.

Commercial sales rose from $43.3 to $45.8 million, 5.6% higher than last year, mainly due to higher large commercial programs sales mainly related to Boeing 777 and 777X deliveries. This increase was also the result of higher business jet sales, primarily related to higher deliveries for the Embraer

450/500 program. These positive factors were partly offset by lower engineering activities.

Operating income stood at $4.9 million, or 5.7% of sales, compared to $5.4 million, or 6.2% of sales last year. Adjusted operating income was $5.2 million, relatively stable as compared to last year. This quarter’s adjusted operating income excluded $0.4 million of acquisition-related costs.

Adjusted EBITDA, which excludes non-recurring items, was slightly higher than last year at $12.2 million, or 14.3% of sales, compared with $11.9 million, or 13.7% of sales, a year ago.

Net income was $3.6 million, or $0.10 per share, compared with $4.0 million, or $0.11 per share, a year ago. This decrease was mainly driven by acquisition-related costs and a higher effective tax rate.

Excluding non-recurring items net of taxes, adjusted net income reached $3.8 million, or $0.10 per share, versus $4.0 million, or $0.11 per share, last year.

Ladies and gentlemen, thank you for your attention. I will give the floor back to Gilles.