FINAL TRANSCRIPT

MDA Ltd.

First Quarter 2023 Earnings Conference Call

Event Date/Time: May 12, 2023 — 8:30 a.m. E.T.

Length: 41 minutes

CORPORATE PARTICIPANTS

Shereen Zahawi
MDA Ltd. — Senior Director, Investor Relations

Michael Greenley
MDA Ltd. — Chief Executive Officer

Vito Culmone
MDA Ltd. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Doug Taylor
Canaccord Genuity — Analyst

Ken Herbert
RBC Capital Markets — Analyst

Thanos Moschopoulos
BMO Capital Markets — Analyst

Kristine Liwag
Morgan Stanley — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to MDA's Conference Call and Webcast.

This call is being recorded on May 12, 2023, at 8:30 a.m. Eastern Time.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. (Operator Instructions)

I'd now like to turn the call over to Shereen Zahawi, Senior Director of Investor Relations at MDA.

Shereen Zahawi — Senior Director of Investor Relations, MDA Ltd.

Thank you, Operator. Good morning and welcome to MDA's Q1 2023 Earnings Call.

Mike Greenley, our CEO, and Vito Culmone, our CFO, will lead today's call and share some prepared remarks before taking your questions.

Before we begin, I would like to remind you that today's call will include estimates and other forward-looking information which may differ from actual results. Please review the cautionary language in today's press release and public filings regarding various factors, assumptions, and risks that could cause actual results to differ.

In addition, during this call, we will refer to certain non-IFRS financial measures. Although we believe these measures provide useful supplemental information about our financial performance, these measures do not have any standardized meaning under IFRS and our approach in calculating these measures may differ from that of other issuers, and therefore, may not be directly comparable. Please see the Company's quarterly report and other public filings for more information about these measures, including reconciliations to the nearest IFRS measures.

With that, it's my pleasure to turn the call over to Mike.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you, Shereen. Good morning and thank you to those joining us today to discuss our first quarter 2023 financial results.

We are off to a solid start in 2023. The team delivered another strong quarter performance in the first quarter with double-digit growth in revenue and EBITDA, as we convert our backlog and continue to meet customer commitments. I'd like to thank and acknowledge the hard work of our employees and their dedication and commitment which drove these impressive results.

With our backlog at a healthy level, following a strong year of contract awards in 2022, the team is laser-focused on execution. We continue to see a significant growth pipeline across our businesses and solid market demand and interest in space technology, with both government and commercial customers increasingly recognizing and funding civil and defense programs, which sets us up well given our diversified and differentiated technology portfolio and market exposure.

Today, we are reaffirming our full year 2023 revenue guidance of $750 million to $800 million, which represents robust year-over-year growth of approximately 20 percent at the midpoint of guidance. And our Adjusted EBITDA guidance of $145 million to $155 million, representing approximately 19 percent to 20 percent Adjusted EBITDA margin. For the full year, we expect capital expenditures to be $220 million to $240 million, primarily reflecting growth investments to support CHORUS, our next-generation earth observation constellation, and a number of other growth initiatives across our three business areas.

From a strategy perspective, we remain focused on executing on the priorities we've outlined for our three business areas to capitalize on the growth opportunities we see in our end markets.

In satellite systems, we are investing in new technologies and capabilities to accelerate our transition from analog to digital payloads and building up our high volume satellite manufacturing capacity to strengthen our position as more low earth orbit or LEO constellation opportunities come to market.

Notable wins there include the Globalstar Award where MDA was selected as a prime contractor for 17 LEO satellites to support satellite direct-to-handset functionality, and our work to support the U.S. Space Development Agency's LEO constellations. Both showcase our strategy in action.

In Robotics and Space operations, we are leveraging our global leadership in space robotics innovation and long history of success with Canadarm, twin (phon) follow-on space agency work, most notably securing the award to develop the Canadarm3 robotic arm, which is destined for NASA's Gateway, a lunar orbiting international space station. We're also engaging with a full slate of new and exciting commercial opportunities as they emerge to provide both proven technology solutions and on-orbit operational services.

In our Geointelligence business, we continue to see robust demand for our earth observation data and analytics and are advancing work on MDA's next-generation earth observation constellation, CHORUS, which will provide even greater imaging capabilities and actionable insights for our customers.

I'll now quickly step through the financial highlights for the quarter, give you a view on the industry, an update on MDA's three business areas, and then pass it to Vito for a deep dive on the financials.

For the first quarter, MDA delivered revenues of $202 million, up 57 percent year-over-year. Our backlog at quarter end stood at $1.2 billion, a healthy level for the Company driven by sizable awards in 2022. Adjusted EBITDA was $48.9 million, representing a solid EBITDA margin of 24 percent. We generated $46 million in operating cash flow which was reinvested in the business to drive current and future growth. We ended the quarter with a healthy balance sheet, which gives us the financial flexibility to run the business and invest in our strategic initiatives.

This was another strong quarter directly attributable to the dedication of our team, which has done a tremendous job of supporting our customers and capitalizing on market opportunities as they emerge.

I'd like to update on developments within the broader space market and the opportunity we see for MDA as we look ahead.

Following a strong 2022, which saw the global space market expand to US$424 billion, we saw a continued momentum in the first quarter.

Taking our customary tour around the world, there's a few items worth highlighting.

Starting in Canada, the Canadian Federal Government recently announced a series of new space investments and initiatives. In January 2023, the government announced strategic support for the development of domestic commercial space launch capabilities. That was followed up in March as part of Budget 2023 with two sizable commitments, $1.1 billion over 14 years, starting in 2023/24, to develop—to continue Canada's participation in the International Space Station; and $1.2 billion over 13 years, starting in '24/'25, to develop and contribute a lunar utility vehicle to assist astronauts on the moon.

These back-to-back commitments signal not only speed of the market opportunity before us, but the growing importance of the space economy on a national level. We look forward to working with the Canadian Space Agency and other organizations to realize these new missions.

South of the border, we saw meaningful increases in funding requests from both NASA and the Pentagon to fund space programs with a combined civil and defense space budgets now exceeding $60 billion. On the defense side, Pentagon's budget request for US$30 billion for the U.S. Space Force, represents a 14 percent year-over-year growth. This reinforces the increased recognition of the vital role that space plays in securing national defense interests. We are seeing greater integration of space-based capability as a routine component of defense and military budgets driven by geopolitical tensions and demand for space-based surveillance and detection systems.

In terms of space infrastructure, spacecraft launch activity continued to unfold at a record pace. In Q1 of this year, a total of 869 spacecrafts launched globally, an increase of approximately 40 percent versus the same period last year, with 94 percent of those spacecraft operated by commercial players and the majority comprised of communication satellites. The higher activity levels are driven primarily by growth in commercial low earth orbit constellations.

With the spring trade show season in full swing now, we have recently been busy presenting at Satellite 2023 in Washington and attending a record conference for the National Space Symposium in Colorado Springs. These industry events continue to demonstrate the robustness of the space industry, with significant new program starts and advancements across both government and commercial missions.

MDA continues to be in high demand with the customer mission community to discuss how we can provide advanced technology and services to future missions, in addition to discussing a wide range of broader partnership opportunities for future on-orbit activity.

The surge in lunar interest has been particularly active as of late, with a Canadian astronaut officially announced as part of the Artemis 2 mission to the moon in 2024. Engagement events in both Ottawa and Washington have increased in intensity as a result.

All of this activity bodes well for MDA in our future opportunity funnel, which we would characterize as very healthy.

Now I'll turn to our three business areas.

In Satellite Systems, our teams continue to advance multiple requests for communication satellite solutions and for a growing number of constellation projects, particularly in the low earth orbit segment of the market. Our opportunity funnel remains strong and we are seeing good activity levels from our customers.

In terms of notable programs, the team continues to make good progress on advancing the detailed design phase for the Globalstar program, following the successful completion of the preliminary design review for the LEO constellation earlier this year. Following a thorough competitive process, MDA was selected as the prime contractor to enhance Globalstar's LEO constellation through the addition of 17 satellites. This program award is aligned with our strategy to expand our offerings, move up the value chain, and to position our Company as a prime integrator for LEO constellations, providing advanced payload capabilities and systems engineering as well as high volume manufacturing.

Moving to our Geointelligence business, customer demand for our earth observation offering remains robust and we are seeing increased recognition of the role that commercial earth observation satellites can play to provide near real-time data and analytics to government and private enterprise. We continue to advance work on our next-generation earth observation constellation CHORUS, which will include a fourth generation,

MDA built C-band Synthetic Aperture Radar Satellite in addition to an X-band satellite. Following the conclusion of the mission critical design review in Q4 of last year, the team is currently advancing unit and subsystem level work, including development, test and deliveries building the ground segment subsystems and detailing constellation operation plans and processes. Work on the Canadian Surface

Combatant program, or CSC, one of our long-term government programs, continues to progress in line with the cadence we saw in the previous quarters.

MDA is responsible for the design and integration of the electronic warfare system for those ships, which comprises a suite of sensors, including laser warning and electronic systems technologies used to detect aerial threats to help protect the men and women of the Royal Canadian Navy.

Moving to our Robotics and Space Operations business, we are seeing good traction and activity levels on both government and commercial fronts. On the government side, we continue to advance the design work on Phase B of the Canadarm3 contract, which MDA was awarded in early 2022 that will see us completing the preliminary design review of Canadarm3's robotic system to be used aboard the NASA-led Lunar Gateway. The team is making good progress, successfully closing out the systems definition review in Q1.

The recent announcement from the Government of Canada to allocate incremental funding of $1.1 billion over 14 years to continue Canada's participation in the International Space Station means that Canadarm2 and Dextra, the robotic arms, which MDA built and Canada's contribution to the ISS, will continue to lend a helping hand in supporting multiple tasks and maintenance functions onboard the ISS.

In terms of future opportunities, Canada's $1.2 billion commitment to develop and contribute a lunar utility vehicle to assist astronauts on the moon as part of the country's contribution to NASA's Artemis program, in addition to providing Canadarm3 to NASA's Lunar Gateway, signals Canada's intent to support human lunar activity. Our team is looking forward to leveraging MDA's long and successful track record to play a meaningful role on all of these missions.

Shifting to operations. To support the anticipated revenue ramp-up, we added more than 800 new hires over the last year. Today, more than 2,700 highly skilled MDA staff are powering our growth and giving us the scope and scale to execute on the market opportunities we see emerging. We are also vigilant when it comes to our supply chain, keeping a close eye for potential business disruptions and, so far, these have been manageable. We continue to deploy a number of proactive measures that have served us well. These include: designing around known shortages, finding alternatives that are more readily available, ordering materials as early as possible, and building up inventory for some components. For new programs, we are ensuring that our supply chain organization has full visibility early in the process to ensure orders are placed promptly and monitored constantly to mitigate delay risk.

To recap, we are pleased with our performance this quarter. With momentum building across our operations, our team is energized and we remain laser-focused on our priorities. Strong focus on execution, converting opportunities in our funnel and expanding our leadership in core markets, while maintaining strong profitability and a healthy balance sheet to help us fund our growth initiatives.

With that, I'll hand it over to Vito to walk us through the detailed financials.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Thank you, Mike and good morning everyone.

Mike has alluded to Q1 was a strong quarter for MDA, and we're quite pleased with how the team is executing.

In the quarter, we saw strong revenue growth with revenues up 57 percent year-over-year, slightly ahead of our guidance for the quarter. Our Adjusted EBITDA margin of 24.2 percent exceeded our 19 percent to 20 percent guidance range. Backlog at the end of the quarter stood at a healthy $1.2 billion.

Total revenues for the first quarter were $201.9 million. This represents a $74 million increase over the same period last year. The year-over-year increase is driven by higher revenues across all of our businesses, with strong contributions from our Satellite Systems and Robotics and Space Operations business.

By business area, revenues in our Geointelligence business of $51.3 million represented an increase of $2.4 million or 5 percent compared to Q1 of 2022, and that reflected slightly higher work volume related to the CSC program.

In Robotics and Space Operations, we saw healthy year-over-year growth revenues, with revenues of $62.9 million in the latest quarter, and that represented a $20.5 million increase of 48 percent, versus Q1 of last year. This growth is largely attributable to higher work volume performed on the Canadarm3 program.

Revenues in Satellite Systems of $87.7 million in the first quarter were $50.6 million or 136 percent higher compared to the same quarter in 2022. The strong showing was driven by higher levels of activity on a number of programs, including the Globalstar program, which was awarded in Q1 of 2022.

Gross profit. As a reminder, gross profit represents our revenues, less our cost of revenue, which includes material, labour, allocated overhead, SR&ED credits and depreciation. For Q1 gross profit was $67.2 million, representing a $5.5 million or 9 percent increase over the same period last year.

Gross margin in Q1 of 2023 was 33 percent compared to 35 percent for the same period in 2022, after excluding the impact of ITCs recorded in Q1 of 2022 related to the resolution of historical claims. This is in line with our expectations as the Company's program mix evolves. As discussed in previous quarters, we do anticipate the mix of programs in 2023 to cause a slight drop in gross margins as we make our way through the year.

Q1 operating expenses of $40.7 million were in line with last year's metric of $38.4 million, reflecting disciplined cost control and a steady pace of R&D investment as we advance our development work on CHORUS, our next-generation earth observation constellation and other proprietary technology initiatives.

In the latest quarter, SG&A expenses represented 8 percent of revenues compared to 11 percent in Q1 of '22 due to higher overhead absorption.

Adjusted EBITDA in the latest quarter of $48.9 million compared to $44.5 million in Q1 of 2022 reflect, of course, higher work volumes across all of the businesses.

Adjusted EBITDA margin was 24.2 percent in Q1 of 2023 compared to 21.6 percent in the same period last year after excluding for that historical ITC claims resolution that I described earlier. The increase in Adjusted EBITDA margin reflects healthy operations and disciplined SG&A cost control.

Backlog, we ended the quarter with $1.2 million in backlog, a healthy level for the Company following a strong year of contract awards in 2022, and with approximately 85 percent of this year's revenue currently in backlog, we have good revenue visibility as our teams continue to execute.

Turning to capital expenditures. We remain focused on making the right investments in the business to support our strategic growth initiatives. In Q1 of 2023, we spent $41 million on gross capital expenditures, up from $37 million last year as we continue our development work on CHORUS and other growth initiatives. Growth CAPEX for the quarter was $36 million compared to $35 million in Q1 2022.

Cash from operations during the quarter was a very healthy $46 million compared to $15 million in Q1 of 2022. This year year-over-year increase was driven by higher net income and positive working capital contributions in Q1 of 2023 versus the prior quarter.

Free cash flow was $5 million in the latest quarter. Free cash flow after adjusting for our growth CAPEX was $42 million in Q1 of 2023.

Moving on to our balances. We ended the quarter with a strong financial position. Mike has alluded to this. Our net debt at the end of the quarter stood at $201 million. We have available liquidity of over $300 million, and our net debt to trailing 12 months Adjusted EBITDA ratio was 1.2 times. Very healthy balance sheet.

In summary, this was another strong quarter of execution directly attributable to our team's hard work and dedication.

Turning to outlook quickly. As Mike noted in his remarks, we're reaffirming our 2023 revenue target of $750 million to $800 million, which represents year-over-year growth of approximately 20 percent at the midpoint. We continue to expect full year Adjusted EBITDA to be $145 million to $155 million, representing approximately 19 percent to 20 percent Adjusted EBITDA margin. We are reaffirming our expectations that CAPEX will be $220 million to $240 million in 2023, preliminary reflecting growth investments to support CHORUS and the previously outlined growth initiatives across our three business areas.

In terms of Q2 of 2023, we expect revenue to grow by approximately 25 percent compared to prior year levels, as we continue to execute on our backlog.

With the number of large programs now in backlog, our book of business is strong. We remain focused on executing well on our customer commitments and leveraging our capabilities and technology to grow profitably in core and emerging markets in line with our long-term plan.

Mike, I think with that, I'll turn it back to you.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you, Vito.

With that, we'll open it up to questions.

Q & A

Operator

Thank you, sir. (Operator Instructions)

Your first question comes from the line of Doug Taylor from Canaccord Genuity. Please go ahead.

Doug Taylor — Analyst, Canaccord Genuity

Thanks. Good morning and congrats to a strong start to 2023. The quarter was ahead of guidance on the top line. Q2 guidance is also a bit ahead of expectations. You spoke to relatively smooth cadence in terms of the quarterly linearity over the course of the year last quarter. My question is, has there been any work pulled forward this year, or are you building in a degree of conservatism versus this current run rate and your expectations for the back half of the year?

Michael Greenley — Chief Executive Officer, MDA Ltd.

I think right now we're reeling it in and executing on the projects as we've indicated. There was a bit of activity on labour where you're dealing with materials and subcontracting activities that cause a bit of a burst earlier in the year at the moment. So we're just—it's just the first quarter so we'll let this kind of settle out here as we go through the first and second quarter, and then see what the rest of the year looks like.

Doug Taylor — Analyst, Canaccord Genuity

Fair enough. You've characterized this year as kind of a year of harvesting the backlog you've built last year. You've also got quite an opportunity funnel in a couple of different areas that you mentioned in your prepared remarks. Can you speak to your expectations on ability to start converting that into backlog replenishment towards the second half of this year as we start to think about your ability to demonstrate further growth in '24 and beyond?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. Certainly, that's going to be the—it's always going to be the goal and we're working hard on that in terms of the activity in our pipeline. The first part of that discussion, which is we absolutely are leveraging our backlog to have a solid predictable year. A very, very high percentage of our revenues for the year currently exists in backlog or recurring customer contracts. So we're, as you can tell from our tone, I think, we're very comfortable with the outlook for the year.

We are very busy on our pipeline, and look forward to future order opportunities, obviously. The pace of those is always based on customer behaviour in terms of with commercial customers when they get things organized to award and announce and with government customers taking opportunity through their processes. So, the timing is a customer controlled event but it would be our absolute objective as we go through the second half of the year to be working towards some – I forget your word – but, anyway, backlog regeneration or backlog continued buildup.

Doug Taylor — Analyst, Canaccord Genuity

Okay. Maybe one more question about that. You mentioned a number of Canadian space agencies or Canadian government programs and projects including the Lunar Rover for which the award's not yet been made. Can you speak a little bit more about your aspirations about your—I think you said meaningful (audio interference) - but where you expect MDA's place in those projects could or should be or aspirationally, and when you might expect some announcements towards—to that effect? Thank you.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Sure. Yes, that's fair. There's two things that I talked about there that was in the Budget '23. One was the sort of billion dollars on continued operation of the International Space Station. So, there, we have annual recurring revenue that we've been receiving for 20 years, typically, to be able to provide operations and maintenance support to the robotic systems on the International Space Station. So these conversations firm that up for the next decade.

So our teams will be busy working on proposals to extend our contractual frameworks. I would expect that to be a next year thing. I'd expect we'd work on proposals this year and then maybe next year get a top-up to counteract (phon) to keep us going for several more years in line with that commitment of Canada to the International Space Station.

On the Rover, that's a new concept. That's just been announced and so there's lots to learn about what does the scope of that look like, what are people thinking. Certainly, the Space Agency has committed to consulting with industry to get inputs and ideas, in addition to working with their international partners for inputs and ideas. So, that'll all be flushed out here in the coming months, both in terms of scope and in terms of timing, which we don't have any detailed information on.

The intent of MDA, to answer the last part of your question, or our ambition, our ambitions are always strong on large Canadian space programs, and so we would be looking to find a leadership role for ourselves in a program of that nature. That's our going-in ambition as we embark on learning more about it.

Doug Taylor — Analyst, Canaccord Genuity

I'll pass the line. Thanks.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thanks a lot.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Thanks Doug.

Operator

Your next question comes from the line of Ken Herbert from RBC. Please go ahead.

Ken Herbert — Analyst, RBC Capital Markets

Yes. Hi, good morning. Maybe Mike or Vito, was there anything unusual or any specific benefits as we think about the margins in the first quarter? It sounds like as you think about the progression of the second quarter and through the rest of the year that the margins may be compressed to get down to the guidance range. But with the top-line growth expected in the second quarter a little better than initially thought, how do margins sequentially move into the second quarter and was there anything unusual in the first quarter we should keep in mind?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Hi Ken. Good morning. Definitely nothing unusual, otherwise we would have called that out. So those margins in Q1 stand on their own quite cleanly. As we move forward, you're absolutely right. We're guiding to 19 percent to 20 percent on a full year basis. And that's really largely mix driven, program mix systems business particularly as CSC takes a larger percentage of business into the back half of the year. Still relatively small relative to our overall sort of revenue mix for 2023, but that would be the highest component of that.

I would also say that our operations continue to perform extremely well relative to our expectations. There's two components to that that I would draw out. The expectation is that maybe Q1 over performed relative to the back half of the year, but we'll need to obviously continue to monitor that.

That's in the area of two things. First of all, the overall cost performance and overall profitability really, really, really solid, and thank you to the teams for continuing to deliver on the commitments in line with our cost expectations. The second component I'll draw to is just overhead absorption. Given the robustness of the portfolio here, our utilization in Q1 was quite strong relative to perhaps our plan and our full year expectations.

So those would be big drivers of the EBITDA margin as our year continues. We expect those to moderate a little bit in addition to the mix impact.

Hopefully, I've given you some colour. But we look forward to the quarter in Q2 and providing a more robust update on EBITDA margins as we move forward. We're very pleased with Q1, and the full year outlook at this point.

Ken Herbert — Analyst, RBC Capital Markets

That's great. Thanks Vito. If I could, on your comment regarding cost performance, I'm guessing that's maybe largely supply chain but are there any other aspects on the cost side where you're seeing a benefit or can you provide anymore granularity around that?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes, no, that's prudent cost management. That's a great performance by our subcontractors. That's performance across all aspects of estimated cost of completion. FX's been a little bit favourable as well relative to our expectations. So, nothing other than just the DNA of this organization and the legacy built over several years, several decades is obviously the heritage but also strong performance on an operational perspective. We're midway through some of these large programs and we're very pleased with the performance and the outlook as we continue to complete these programs.

Ken Herbert — Analyst, RBC Capital Markets

Great. If I could just squeeze in one more. On the Globalstar, can you contract—can you provide an update on just where you are on that and maybe some of the next major milestones we should be thinking about as we go through the rest of '23?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. So we've completed preliminary designer view last year, we're in the detailed design now. It will come up to the final designer views on that just in terms of key milestones in '23.

Ken Herbert — Analyst, RBC Capital Markets

Thanks Mike.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Ken, in respect to, obviously, payments and whatnot, totally current now with Globalstar. So no issue whatsoever.

Ken Herbert — Analyst, RBC Capital Markets

Great. Thanks Vito. Nice quarter guys.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Thank you.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you.

Operator

Your next question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Please go ahead.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Hi. Good morning. I'll echo the congrats on the strong margin performance. Mike, could you expand on how the commercial pipeline for Satellite Systems has evolved over the past quarter? You mentioned that you're seeing a strong pipeline with new opportunities. How have things evolved just over the last few weeks in terms of how some of those opportunities are progressing?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. I think in terms of the pipeline in general over the quarter, we continue to talk about it as very healthy. I would say that we haven't lost anything out of that pipeline and we have added some new opportunities. There's been, I believe—well, at least a couple new LEO constellation opportunities have come into the conversation as we've gone through the last four to six months. So, that's good. It's keeping everybody quite busy.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Great. Regarding the CSC program, you mentioned it's ramping into the back half of the year. Just remind us, how long before that program reaches full run rate? Is that still another year or two out or when should we expect that?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. It would continue to ramp-up. It was—we have 23—so we have probably 18 to 20 months out before it's—it's sort of in it's stride heading towards production towards those first chip (phon) sets, which would happen into mid 2020. So that's correct.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Okay. Vito, on cash flow, obviously, a strong quarter this quarter. As we look out to the rest of the year, any expected working capital swings we should think of or should it align pretty closely with your EBITDA?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes. Thanos, thank you for the question. We generate strong cash from operations and if you look at Q1, the conversion rate on cash from operations pre-interest, vis-à-vis the EBITDA, was a very, very strong quality of earnings quarter. The SHRED (phon) addback was minimal at $7 million and our working capital contribution was only $7 million. So the strong operating cash flow in Q1 was largely driven just strictly by the quality of earnings.

As we look forward to the balance of the year, your question was specifically around working capital, I don't expect any major swings and/or requirements. In fact, anytime you're looking at working capital you can obviously have some swings intra-quarter or quarter-over-quarter but our working capital over the—on the trailing 12 month including Q1 - so the trailing 12 month through the end of March 2023 - basically, flat from a requirements or a use of our proceeds perspective. So you've got a business that's grown 50 percent in that time period on revenue, and with an EBITDA that's grown essentially 15 percent on a trailing 12 month basis, with a working capital that's essentially flat.

So I know that's a question we get a lot and I'm very pleased with that working capital performance and we expect that to continue looking out into the next 12 months. And that's driven by again, disciplined cash management and contractual sort of arrangements with our customers.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Okay, that's great. I'll pass the line. Thanks guys.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Thank you.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you.

Operator

Your next question comes from the line of Kristine Liwag from Morgan Stanley. Please go ahead.

Kristine Liwag — Analyst, Morgan Stanley

Hi everyone. Mike, Vito, I appreciate that booking can be lumpy quarter to quarter and it's helpful from your commentary that 85 percent of revenues for the full year are already in the backlog. For the remaining 15 percent that you need, can you update on the opportunity pipeline? Is there a large contract or are there a series of small ones that you're expecting?

Michael Greenley — Chief Executive Officer, MDA Ltd.

For that 15 percent that you're talking about, that typically comes from the Geointelligence business in terms of just the normal blocking and tackling that occurs through the years with recurring orders that come from customers or imagery and/or analytics products. So those have—often with in-year sales order and delivery cycle and that's where that comes from.

Kristine Liwag — Analyst, Morgan Stanley

I see. On CHORUS, can you provide more colour on where you are on the program and what milestones are coming up for the development effort? Given the macro backdrop, how much flexibility do you have to potentially moderate CAPEX spend if need be and where are the flex (phon) points we should watch out for?

Michael Greenley — Chief Executive Officer, MDA Ltd.

As it relates to CHORUS, we're passed our mission critical design view, like we said in Q4, which means we're in unit design and build now. It's kind of cool to be honest to go into the factory in Montreal right now and see the units, the pieces of CHORUS starting to come on to the assembly floor and, you know, starting to see things coming together. So that's pretty nifty.

Now we'll go in through the production cycle of that. In terms of through '23 and '24 it'll be continued production. That's an entirely internal project, obviously, to answer your question on pace of spend. So it's a discretionary investment that we're making and leaning into to get that project done. Our posture on that is full steam ahead. It is a highly important development in our business to get CHORUS completed and launched and our customer community is very excited about it. So we lean into it.

Vito Culmone — Chief Financial Officer, MDA Ltd.

The only thing I'd add to that, Kristine, is we're quickly approaching the halfway mark of our (inaudible) cost for CHORUS from a capital perspective, and as Mike has alluded to, that's priority number one from a capital perspective. And the profitability that that business drives and the rate of investment and the rate of return on this investment is very, very favourable from a value creation perspective. So priority number one for us.

Kristine Liwag — Analyst, Morgan Stanley

Great. If I could sneak a third one in. With the lunar lander or the lunar unit utility vehicle, it's a $1.2 billion contract over 13 years, is what the Canadian government had announced. With the leadership position that you're planning to take, does that mean you plan to bid as a prime in the entire $1.2 billion is addressable to you?

Michael Greenley — Chief Executive Officer, MDA Ltd.

I think we would need to learn a little bit more before I got too committal on that. It's generally our intent on programs of that magnitude in the Canadian market to take that position, yes. But I wouldn't want to go 100 percent on that until I learn a little bit more about exactly what this is going to look like. But that would be our typical intent.

Kristine Liwag — Analyst, Morgan Stanley

Thank you very much.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Thank you Kristine.

Operator

There are no further questions at this time. I'd now like to turn the call back over to Mr. Mike Greenley for any closing remarks.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Okay. Thank you for your time this morning. Thanks everybody. We look forward to updating you on our progress during the next earnings call in August. Thanks very much and have a great day. It's nice weather out there. See you.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Bye-bye.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Bye-bye.

Operator

Thank you so much presenters. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.