FINAL TRANSCRIPT

MDA Ltd.

Q2 2022 Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the MDA's conference call and webcast.

This call is being recorded on August 12, 2022, 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.

If anyone has difficulties hearing the conference, please press *, followed by the 0 for operator assistance at any time.

I would now like to turn the call over to Shereen Zahawi, Senior Director in Investor Relations at MDA.

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

Thank you, Operator. Good morning, and welcome to MDA's Q2 2022 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'd 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.

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

Mike Greenley — Chief Executive Officer, MDA Ltd.

Thank you, Shereen. Good morning, and thank you to those joining us today to discuss our second quarter 2022 financial results.

We are pleased with our team's performance this quarter. MDA delivered a strong performance, driven by steady conversion of our backlog and laser focus on operational execution to meet customer commitments, despite what continues to be a challenging macro environment.

We also continued to execute on our targeted growth strategies across our end markets and business areas and are seeing that bear fruit, including contract awards this quarter to support work on the US Space Development Agency's Tranche 1 Transport Layer LEO constellation, and an award from Axiom Space, which represents the first commercial sale of technology derived from Canadarm3. These awards are important strategic footholds for us as we expand our market share and engagement with existing and new customers.

Our book of business is strong and evident in our healthy backlog, which stood at $1.5 billion at quarter-end. And we continue to see a significant growth in our pipeline across our business. In the short term, however, store ramp-up on a handful of programs, primarily related to Telesat Lightspeed, the Canadian surface combatant in Canadarm3, has had a corresponding impact on our revenue profile. As a result, we are revising our 2022 revenue and adjusted EBITDA outlook to reflect these shifts.

While we are disappointed with the revised outlook, we remain highly confident that MDA is well positioned to execute on these programs, and that the future opportunity associated with these programs and advancements with our expanding pipeline remains compelling for MDA.

Vito will walk you through the outlook changes when he addresses the financials. But at a high level, we are reducing our guidance from $700 million to $800 million, to $630 million to $650 million of revenue, and our adjusted EBITDA from $140 million to $160 million, to $120 million to $130 million.

As we continue to move through the year, we still see revenues growing by approximately 30 percent to 35 percent year over year in 2022, and an expected adjusted EBITDA margin to remain at the previously communicated range of 19 percent to 20 percent. These are both very healthy metrics for MDA.

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

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

Our recent Globalstar award, where MDA was selected as a prime contractor for 17 LEO satellites and worked to support the US Space Development Agency's Transport Layer LEO constellation, showcase our strategy in action.

In Robotics & Space Operations, we are leveraging our global leadership in space robotics innovation and long history of success with Canadarm to win follow-on Space Agency work and engage with a full slate of new and exciting commercial opportunities as they emerge, to provide both proven technology solutions and on-orbit operational services.

As I mentioned, our recent award from Axiom Space, which is one of a number of commercial players constructing commercial space stations, is an important win as we start to commercialize the Canadarm3 technology.

And in our GeoIntelligence business, we continue to see robust demand for our Earth observation data and analytics and our 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 of the status of the industry, and an update on MDA's three business areas, and then pass it over to Vito for a deep dive on the financials.

For the second quarter, MDA delivered revenues of $155 million, up 22 percent, year over year. Our backlog at quarter-end stood at $1.5 billion, up 138 percent, year over year, driven by sizeable awards in the first half of the year.

Adjusted EBITDA was $34.7 million, representing a solid EBITDA margin of 22.4 percent.

We ended the quarter with a healthy balance sheet, which offers us the financial flexibility to run the business and invest in our growth initiatives.

This was a strong quarter for MDA and directly attributable to the dedication of our team, which has done a tremendous job of supporting our customers and capitalizing on new opportunities.

Vito will provide more context for MDA's underlying performance in his remarks.

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

Despite the macro challenges we are seeing globally, activity in the space sector remained robust in Q2. Taking our customary tour around the world, a few items worth highlighting include:

South of the border, the fiscal year 2023 Defense and national funding bills were approved, with year-over-year increases for both. In the case of the Defense bill, we are seeing higher levels of funding for space procurement and R&D. Funding levels for NASA were approved at $25.5 billion, representing a 6 percent increase over fiscal 2022 levels of $24 billion, and signalling the importance of civil space and its expanding role for the strategic future of the United States.

Closer to home, Canada announced its plan to modernize NORAD, the North American Aerospace Defence Command, the Canadian-US military command responsible for the shared monitoring defence of North American aerospace. The government of Canada is investing approximately $5 billion over six years, starting in ’22/’23 into this plan, with total funding projected to reach $39 billion over the next 20 years.

Spending will span a number of priorities, including modernizing surveillance systems comprising of over-the-horizon radar systems to provide early warning radar coverage; strengthening the Canadian Armed Forces’ current space base to surveillance capabilities; and enhancing space-based satellite communications in the Arctic, which are central to the Canadian Armed Forces’ ability to conduct all northern operations, including emergency responses and search-and-rescue.

Also, in a move that recognizes the growing importance of space domain to the Canadian military operations, the Department of National Defence announced the creation of a new division devoted entirely to space operations, the third Canadian Space Division, bringing Canada in line with other allied nations who’ve established similar space formations and commands.

On the emerging in-space servicing, assembly, and manufacturing, or ISAM sector, we saw DARPA, the research and development agency of the United States Department of Defense, recently award contracts under a new program to address in-space manufacturing needs as part of a larger effort to reduce the cost of space flight. While space manufacturing is still in its infancy, the recent awards will kick off proofs-of-concept activity to enable production of future space structures on orbit.

In terms of space infrastructure, spacecraft launch activity continued to unfold at a record pace. According to data from January to June of this year, more spacecraft launched during this period than the total active satellites launched in the first 52 years of the space age. Of the 1,022 identified spacecraft launched, 958 or 94 percent are backed by commercial firms, highlighting the expanding role of the commercial sector in space. The first half of 2022 saw a total of 72 successful launch missions, on pace to break last year's record of 135 successful orbital launches.

On the space exploration front, France was the largest country to sign on to the Artemis Accords, which align nations on a common set of principles for space exploration. Twenty-member group has doubled in size since it was unveiled in October 2020, and we are seeing interest from many nontraditional space-faring nations, which are now building their own national space programs.

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

Now I'll turn for a few minutes to our three business areas.

In Satellite Systems, we continued to see good activity levels, with our teams responding to multiple requests for communication satellite solutions and for a growing number of constellation projects, particularly in the low-Earth orbit segment of the market.

This quarter, we announced two awards from US-based defence primes to support space security and communication satellites. Our contract with Lockheed Martin will see us design and build antennas and antenna-control electronics for 42 lower-orbit satellites to be produced by Lockheed as part of the Space Development Agency Tranche 1 Transport Layer Program.

Our contract with York Space Systems will see MDA design and build antennas for satellites to be produced by York as part of a space security program.

Both awards are strategic for us, as they allow us to access a broader pool of opportunities south of the border.

The team also continues to make good progress ramping up on the Globalstar program and advancing the design work. We announced a $415 million award from Globalstar last quarter, where MDA was selected as the prime contractor to enhance Globalstar's LEO constellation. We view this as an important award for MDA, reflecting our strategy to expand our offerings, move up the value chain, and provide advanced payload capabilities and systems engineering, as well as high-volume manufacturing.

I also want to provide an update on the Telesat Lightspeed program. As Telesat disclosed on its earning call last week, the company is further revising the timeline for the project, with the start date yet to be confirmed. Recall, Telesat Lightspeed was initially scheduled to start in early 2022 and was delayed due to supply chain disruptions. We remain in active discussions with Telesat to support evolving program requirements and are confident in MDA's position to support the program.

However, as I noted earlier, given Telesat's revised timeline, we've elected to remove Telesat Lightspeed from our fiscal 2022 outlook. MDA is in a position to ramp up on the work once we receive the green light from Telesat at some point in the future.

Moving to our GeoIntelligence business. We continue to see good demand signals for our Earth observation offerings and an expanded role for commercial EO satellites to provide near real-time data and analytics to governments and commercial players.

We are also advancing work on our next-generation Earth observation constellation, CHORUS, which will include C-Band and X-Band synthetic aperture radar satellites, and are encouraged by the volume of inbound inquiries from customers interested in acquiring CHORUS data and analytics.

Work is also progressing on the Canadian Surface Combatant program, or CSC, one of our long-term government programs. However, the ramp-up in Q2 did not meet our expectations due to the slower pace of work awards received by MDA. Our teams are working closely with the customer community, currently focused on advancing deployment area design phase of the program.

In line with our strength in maritime demand awareness, during the quarter, we also announced that MDA is providing Global Fishing Watch, an international, nongovernmental organization committed to advancing the sustainability of our oceans, with access to RADARSAT-2 satellite radar archives. The archive represents a 14-year historical record of the Earth and includes more than 970,000 images.

Access to the archive will allow Global Fishing Watch to map illegal, unreported, and unregulated fishing patterns that will be used by international policy makers, conservationists, and researchers to more effectively fight these illegal practices. This is another example of how space-based technology is making life better on Earth.

Moving to our Robotics & Space Operations business. We are seeing good activity levels in both the government and commercial fronts. On the former, work is ramping up on the Phase B of the Canadarm3 contract, which MDA was awarded in Q1 and that will see us completing the preliminary design of Canadarm3's robotic system to be used onboard the NASA-led Lunar Gateway.

We continue to successfully build out the team and have started to award initial subcontracts for Canadarm3. The program did experience delays in onboarding some subcontractors as a result of security clearance requirements which resulted in slower-than-planned ramp-up during the quarter. These logistical issues have now been largely addressed.

During the quarter, we also announced our first commercial sale of space robotics technology derived from Canadarm3 to Axiom Space. MDA is delivering 32 external robotic interfaces for the Axiom Station, which is now under construction and on schedule to be the world's first commercial space station in orbit.

The technology includes commercial variants of Canadarm interfaces destined for the Artemis Gateway, as well as those that allow the existing Canadarm on the International Space Station to build and assemble the new Axiom Station. We view this as an exciting development for MDA that signifies a major shift in the commercial landscape for robotics as more nongovernment entities look to establish a foothold for a variety of activities, including in-space manufacturing, human space flight missions to LEO, and deep space exploration.

Shifting to operations. To support the anticipated revenue ramp-up, we added more than 500 new hires in the first half of this year. This is in addition to the 670 people hired in 2021. We're also keeping a close eye on our supply chain for potential business disruptions and, so far, those 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 risks.

To recap, I'd like to thank our team for delivering a strong quarter and for their dedication and commitment to our customers. While I'm disappointed with our revised outlook for the year, we remain confident in MDA's ability to support these programs by contributing our innovative and proven technology and expertise.

Going forward, our priorities remain unchanged: strong focus on execution; converting opportunities in our pipeline; 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. For my update, I'll walk you through our Q2 2022 financial results and provide more colour on our outlook.

Overall, Q2 was a strong quarter for MDA, and we're pleased with how the team is executing. In the quarter, we saw robust revenue growth with revenues up 22 percent year over year and in line with our expectations. Adjusted EBITDA margin of 22.4 percent exceeded our 19 percent to 20 percent guidance range. And backlog at the end of the quarter was strong at $1.5 billion.

As Mike noted, the Telesat Lightspeed program delays and slower ramp-up on some programs, primarily Canadian Surface Combatant and Canadarm3, has had an impact on our revenue profile this year. As a result, we are revising our revenue and EBITDA outlook to reflect these developments.

While certainly disappointing, as the revised outlook falls short of our ambitions and expectations for the year, as Mike said, we do believe that the opportunity set associated with these programs remain compelling for MDA, and that our growth pipeline is very healthy.

Let's dig in. Total revenues for the second quarter were $154.7 million. This represents a $28 million or 22 percent increase over the same period last year. The year-over-year increase is driven by higher revenues in our Robotics & Space Operations and Satellite Systems businesses.

By business area, revenues in our GeoIntelligence business of $47 million were largely in line with Q2 2021 levels, reflecting steady work and volume.

In Robotics & Space Operations, we saw a healthy year-over-year growth with revenue of $48.8 million in the last quarter, representing $13.2 million or 37 percent increase versus Q2 of last year. The growth is largely attributed to a higher volume of work performed on the Canadarm3 program.

Revenues in Satellite Systems of $58.9 million in the second quarter were $16 million or 37 percent higher compared to the same quarter in 2021. The strong showing was driven by higher work volume as new programs ramp up, including Globalstar program, which was awarded in Q1 of 2022.

Moving to gross profit. And as a reminder, gross profit represents our revenues, less cost of revenue, which includes material, labour, allocated overhead, SR&ED credits, and depreciation. For Q2, gross profit was $51.4 million, representing a $6.8 million or 15 percent increase over the same period last year.

Gross margin in Q2 2022 was 33.2 percent compared to 35.2 percent for the same period in 2021, as a result of MDA's evolving program mix, and is in line with our expectations. As discussed in previous quarters, we do anticipate the mix of programs throughout 2022 to cause a slight drop in gross margins, as we make our way through the balance of the year.

Operating expenses. Q2 operating expenses were $36.8 million compared to $33.5 million in Q2 of 2021. The higher expenses this year are primarily due to an increase in our development work on CHORUS, our next-generation Earth observation constellation and other proprietary technology initiatives. This increase in R&D expense was partially offset by a year-over-year decrease in share-based compensation due to vesting periods of certain tranches of awards ending in Q4 of 2021.

Turning to adjusted EBITDA. Adjusted EBITDA in the latest quarter was $34.7 million compared to $39.4 million in Q2 of 2021. Adjusted EBITDA margin was 22.4 percent in Q2 2022 compared to 31.1 percent in the same period last year. The decline in adjusted EBITDA margin is primarily attributable to the elimination of government grant income related to the Canada Emergency Wage Subsidy income in 2022.

In Q2 of 2022, no CEWS income was recognized compared to $4.8 million, which was recognized over the same period last year. Excluding the impact of CEWS income contribution, adjusted EBITDA in Q2 2022 was $34.7 million, in line with last year's metric of $34.6 million.

Adjusted EBITDA margin, excluding CEWS income, was 22.4 percent in Q2 2022 compared to 27.3 percent in Q2 of 2021. And the decline in margin is primarily attributable to higher R&D expenses on CHORUS and other technological developments incurred during the quarter.

In terms of backlog, we ended the year with $1.52 billion in backlog, representing an increase of 138 percent year over year and 76 percent on a year-to-date basis. The growth in backlog was driven by the addition of a number of sizable awards in the first half of this year.

Moving on to CapEx, we remain focused on making the right investments in the business to support our strategic growth initiatives. And in Q2 of 2022, we spent $55 million on capital expenditures, up from $17.2 million last year, as we ramp up our development on CHORUS and other growth initiatives.

We expect to see year-over-year growth in CapEx spend as we advance CHORUS and invest in initiatives to support our growing businesses, including expanding and modernizing our physical infrastructure.

Cash from operations during the quarter was a use of $5 million compared to cash generation of $31.8 million in Q2 of 2021. And the reduction in year-over-year operating cash flow was driven by higher working capital requirements as work ramps up on a number of new programs.

Balance sheet. Moving to our balance sheet, we ended the quarter with a strong financial position: net debt of $159.6 million; available liquidity of $414.8 million; and net debt to trailing 12-month adjusted EBITDA ratio of 1.2x.

We also successfully completed the redemption of our $150 million second lien notes and refinancing of our revolving credit facility to $600 million from $428 million prior. Refinancing of our debt facilities will meaningfully reduce annual interest costs and increase borrowing flexibility while preserving liquidity to fund the future growth.

Refinancing transaction triggered a nonrecurring financial expense of $21.1 million, which was recognized in Q2. Note that approximately $12 million of that amount represents non-cash charges.

As a result of the redemption and refinancing transactions, we expect to see a meaningful reduction in our annual interest costs in the range of $8 million to $9 million per annum based on current rates.

In summary, the team executed well this quarter, and we're starting to see positive inflection in our top line as we execute on our backlog.

Let me now turn to our outlook. We continue to execute on our growth strategies across the business areas. We're investing in R&D, manufacturing, product development, and scaling the business to ensure we're well positioned to capitalize on the growth we're seeing in our end markets.

Underlying customer spend and market activity remain robust. And while our growth pipeline is significant and our book of business remains healthy, in the short term, slower customer ramp-up on a handful of programs has had an impact on our 2022 revenue profile.

As a result, we're revising our 2022 revenue target to $630 million to $650 million from $750 million to $800 million previously. The revised revenue target represents year-over-year growth of approximately 30 percent to 35 percent, reflecting continued execution on our backlog.

Our 2022 adjusted EBITDA target is revised to $120 million to $130 million from the previously $140 million to $160 million, representing an adjusted EBITDA margin of 19 percent to 20 percent. The adjusted EBITDA forecast excludes the $16.8 million amount reported in Q1 2022 related to the resolution of the historical ITC claims.

We expect Q3 2022 revenues to grow by approximately 40 percent to 50 percent compared to Q3 2021 levels. We expect capital expenditures in 2022 to be $180 million to $200 million, unchanged from our prior outlook, primarily comprised of growth investments to support CHORUS and the previously outlined growth initiatives across our business areas.

With a number of large programs now in our 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. While we're still in the early innings of this journey, we've made tangible progress against our plan over the last year.

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

Mike Greenley

Thank you, Vito. With that, we will open it up to questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be pooled in the order they are received. If you wish to decline from the polling process, please press the *, followed by the 2. If you're using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

First question comes from Colin Canfield of Barclays. Please go ahead.

Colin Canfield — Barclays Corporate & Investment Bank

Hey. Good morning, guys. Can you talk a little bit about how you think about the level of Telesat Lightspeed within your backlog and kind of a trade-off that you think about capital decisions around kind of ramping LEO constellations and the investment you're making? Thanks.

Mike Greenley

Yeah. No problem. Telesat Lightspeed is not in our backlog. So backlog is contracted work that is underway. So we've had very small, light amounts of early phases of Telesat Lightspeed that we've executed on. But there's no big overhang in our backlog from Telesat Lightspeed. Right now, we're just waiting for the—like we say, we'll wait for the future for any sort of future big go signal.

In terms of us making decisions around capital investments as it relates to LEO constellations, some projects, once contracted, have some investments around them related to scaling up facilities, technology, or equipment related to them. And in other cases, we will have capital investments made on the technology side against next-generation technologies that can benefit a range of LEO constellations in the pipeline.

So we're looking at the roadmaps of solutions that we have the chance to deliver and investing in the technology solutions that will position us properly for success across a number of different constellation opportunities for both the technology solutions in the satellite systems themselves as well as the advanced manufacturing technologies to produce those systems.

Colin Canfield

Got it. And then maybe if you could just remind us on the dynamics around your growth CapEx reimbursement and whether that's contingent upon any sort of kind of legislation from the Canadian Government, the comp that we think about in kind of US'S Defense's Section 134 of tax R&D? So maybe if you could kind of just talk us through the longevity of that agreement and any other things that we should consider.

Vito Culmone

Yeah. I'm not familiar with the legislation you're referring to there as it relates to the US. But in terms of our capital expenditure profile, a high degree of visibility to the nature of the spend. As we said, as it relates to 2022, guidance is $180 million to $220 million, largely predicated on CHORUS or largely weighted to CHORUS.

We all know the Earth observation business, the Geo business, just in addition to add to what Mike has alluded to in respect to how we prioritize investment, clearly, there's a financial long-term ROI lens to that. And we feel extremely confident that the investment in CHORUS will be accretive to shareholder value over the several years to follow for this organization.

In terms of R&D and taxes, obviously, R&D, SR&ED, the nature of the work that we do lends itself nicely to those continued claims, if you will. We have good understanding of the Canadian framework for that. And of course, we position ourselves well against them working closely with, of course, CRA and the policies that they put forth.

Colin Canfield

Got it. Thanks for the colour.

Vito Culmone

Yeah. No problem. Thank you.

Operator

Thank you. The next question comes from Ken Herbert of RBC. Please go ahead.

Ken Herbert — RBC Capital Markets

Yeah. Hi. Good morning, Mike and Vito.

Mike Greenley

Good morning, Ken.

Ken Herbert

Hey. Just to start off, for the $125 million to $135 million in the guidance reduction for the year, can you parse out how much of that was exactly Telesat relative to maybe the other flagship programs?

Vito Culmone

Yeah, Ken. Approximately half of that, the majority of that, was Telesat, a significant amount of that. And I'd say the balance of that was split equally between C3 and CSC.

Ken Herbert

Okay. And I think, Mike, you made some comments earlier that you don't see any of this sort of impacting the long-term economics or opportunity at any of these programs. But I guess there's a lot of uncertainty now around Telesat. But how do we think about the implications of this as we maybe start to think about 2023? And how much should we maybe look to—or how would you characterize now the outlook into 2023 as it relates specifically to the flagship programs?

Mike Greenley

I think in general for '23, it's early to give any sort of specific guidance around '23. We're in the midst of working on our annual operating plan at the moment. And obviously, we have a lot of big fish in the pond here to make sure that we profile correctly for 2023. So we're working that through now.

I would suggest that, from a directional perspective, that we would expect meaningful growth, obviously, to continue into 2023.

In terms of these programs, we're doing well on these programs. Obviously, there's been some slips. We had to get through some delays in the orders on CSC, and we've had some subcontracting challenges on Canadarm3 that we're now past. So as that work continues, the future of those programs look the same. They're obviously—it's not obvious to you, sorry, they look the same. We've got a great strong opportunity there.

On Telesat, it is one constellation in a pipeline of many. It's one that we've talked about a lot for sure. And right now, we just have to let Telesat finish its business and decide when and where and how to move out. And we'll be ready for them when they come.

In the meanwhile, we'll continue to advance our position with our entire pipeline, which would include other LEO constellation opportunities as well. So there's a good strong portfolio there to support meaningful growth as we head into 2023.

Ken Herbert

Great. Well, thank you for that. I'll keep it there and pass it back. Thank you.

Mike Greenley

Great. Thank you.

Operator

Thank you. The next question comes from Thanos Moschopoulos from BMO. Please go ahead.

Mike Greenley

Morning, Thanos.

Thanos Moschopoulos — BMO Capital Markets

Hi. Good morning. Hey, Mike. Regarding Canadarm3, just remind us how far the current contracts takes you before uniques on the next phase.

Mike Greenley

Yeah. So we had picked up Phase B of Canadarm3, that $270 million order in about March, I guess, of this year. And it's got about an 18-month profile on it to get through the Phase B activity, which gets us past the preliminary design of the Canadarm3 system and sets up the next phase of the program, which of course is Phase C, as we continue through the alphabet. So, yeah, 18 months from March.

Thanos Moschopoulos

Okay. Next, more broadly regarding, I guess, the blockchain, you're a fixed-price business for the most part. There's been inflationary pressure. So to what extent have you been able to manage that versus is that going to maybe put some gross margin pressure on contracts versus initial expectations?

Mike Greenley

Yeah. Right now, we're managing that. And we talk to the different things that we do. We are looking at our designs and, in some cases, if we have elements of designs that are going to be challenging, we've designed around them. In other cases, especially in the area of electronic components and the like where we've got longer lead times, we're incorporating those into our schedules as we bid them.

Most that we've mentioned in the past probably that a lot of our firm fixed-price work is broken down into chunks. Like we just talked a little bit about Canadarm3 there where we have an 18-month chunk, so, often, like two- to three-year chunks of work. And so we're able to incorporate the latest forecasts and schedules into the phases of the project that we're being contracted for. And so far, that's managing well, basically.

Vito Culmone

In addition, Mike, obviously, to the extent that we have subcontractors—

Mike Greenley

Now true.

Vito Culmone

—there's a bit of a flow-through on the fixed-price.

Mike Greenley

Yeah. Subcontractors are firm fixed to us.

Vito Culmone

Yeah.

Mike Greenley

So a lot of that risk is contained also in our subcontracts. Very good point.

Thanos Moschopoulos

Right. Right. And last one for me is just you highlighted Canada's spending on NORAD. Just can you provide some colour and context in terms of the potential opportunity from beyond that front?

Mike Greenley

Yeah. So that project will include, in the public remarks about that, some solid satellite-based capabilities. Some of that relates to Earth observation activity in an element of the defence plan called DESSP. Some of that relates to space-based communication and an element of the defence plan called ESCP-P, which brings a satellite-based communication to the north. And so those are very large, but probably publicly announced programs.

We would expect there'd be strong potential for other space-based elements in that sort of larger $40 billion over a 20-year profile; other additional space-based opportunities would emerge.

Thanos Moschopoulos

Okay. Great. I'll pass the line. Thanks.

Mike Greenley

Okay. Thanks.

Operator

Thank you. Once again, ladies and gentlemen, if you do have a question, please press *, 1 at this time.

The next question comes from Kristine Liwag, Morgan Stanley. Please go ahead.

Kristine Liwag — Morgan Stanley

Hey. Good morning, guys.

Mike Greenley

Morning, Kristine.

Kristine Liwag

On Globalstar, it sounds like Globalstar now plans to seek an extension in payment deadlines for the 17 satellites on order while they pursue broader financing. How does this impact you guys? And when would you receive payment from Globalstar?

Mike Greenley

Right now, Globalstar continues to work on their financing. And so, right now, we just continue to work with them as they get their financing put in place. So we've received no specific updates on the schedule for that. We just know that they're working on it and we answer any questions related to it that we're required to. It remains a work in progress.

Kristine Liwag

I see. Thanks, Mike. And then between the Telesat delays and the Globalstar payment extension, it sounds like constellation providers are having a tougher time meeting commitments in current market conditions. Are you seeing this trend manifest with other customers as well? And how do you think about your balance sheet to be able to sustain some of these delays and the timing of when you would have to invest?

Vito Culmone

Yeah. Kristine, in regards to the balance sheet, we're in great shape; existing debt at the end of the quarter, net debt, just under $160 million, or $150 million; our covenants, obviously. So we have a tremendous amount of liquidity and flexibility with obviously the refinancings that we've performed.

You're absolutely right in terms of perhaps a little leaning on vendor financing, if you will. One of the advantages, obviously, for us is being in Canada, obviously, EDC is a tremendous source of financing for these non-Canadian operators who are looking for financing. And we work closely with EDC on that regard. But no concerns at all in regards to balance sheet and flexibility here over the next 18 months, 24 months.

Kristine Liwag

Thanks. And if I could add a last one. When you look about the slower ramp of the Canadarm3 and CSC, is this just a slight delay for this year? And then do we expect to see pickup next year where your next-year guide for these programs are intact and then we're adding on what's delayed from this year? Or is there a broader slower ramp through the program where it's going to be lower for next year and things actually shift to the right?

How do we think about those programs especially in (phon) two budget programs for you guys? How should we think about the shape of their ramp?

Mike Greenley

Yeah. We're working through that right now. So as we have just sort of realized these impacts that we've just disclosed, we're working through the profile of these programs. Like I say, on the Canadarm3 thing, we've worked through the issues that we had with subcontracting. And so now we're looking at what does that new profile look like.

So we'll be doing that as we update our annual operating plan for next year over the next couple of months. And when we come back in Q4, we'll be able to characterize that a bit better.

Kristine Liwag

Great. Thank you.

Vito Culmone

I think, Kristine, when you sort of back up and you look at the C3 program from a value perspective and all of the attributes to it in the years to come, these shifts are, I'll say, immaterial and/or insignificant over a reasonable period of time.

I think, obviously, the onus of obligation is on us to ensure that as management, we're forecasting and taking some of these factors into play, obviously, and we obviously are looking all that and incorporating that as we continue to upgrade, obviously, our forecasting capabilities.

Mike Greenley

Absolutely.

Kristine Liwag

Great. Thanks for the added colour, Vito.

Vito Culmone

Yeah. You're welcome.

Operator

Thank you. The next question comes from Ken Herbert, RBC. Please go ahead.

Ken Herbert

Yeah. Hey. Vito, maybe just on the guidance reduction associated with the EBITDA, I mean, it's in the range of sort of the 18 percent to 20 percent. But can you just provide any more colour or detail on how the EBITDA, relative to the major programs and the guidance reduction, was anything disproportionate one way or the other?

Vito Culmone

No. It was very much in line. Like if you take the $120 million, obviously, off of your, I guess, $630 million, I think that's 19 percent and if you take that, obviously. So it tracks 100 percent with, obviously, the reduction in revenue.

We're very, very pleased with our year-to-date EBITDA performance tracking a little higher than obviously even what we've guided to in 19 percent to 20 percent. So we feel really quite confident, quite frankly, with the EBITDA guidance. And we're very, very pleased with the overall cadence of our operating spend, but also the performance of the programs overall.

Ken Herbert

Okay. Very helpful. And maybe, Mike, just one for you. You've booked a significant amount of nice new business over the last six to nine months. As you look back over the last year, how was that tracking relative to your projections? And as we think out in a couple of years, is the new business wins ahead or in line with expectations relative to the longer-term expectations?

Mike Greenley

I would say, over the last period of time, our bookings have been in line with our expectations, except for Telesat, obviously, which we would have expected to see a kickoff in the first half of the year. And now we have to wait for Telesat to see when they're going to go.

Other than that, though, things have been in line with our expectations. And we've gotten wins, such as the Globalstar contract, which have been some solid new efforts compared to our original sort of expectations back at the time of IPO.

So, the pipeline absolutely continues to advance and proves to be a fruitful place for new business.

Ken Herbert

Great. All right. Well, thank you.

Operator

Thank you. There are no further questions at this time. I will turn the call back to Mr. Greenley for closing remarks.

Mike Greenley

Okay. Well, thanks very much, everyone, for your time this morning. We look forward to updating you on our progress during the next earnings call in November. Have a great day. Thanks very much.

Operator

Ladies and gentlemen, this does conclude your conference call for today. We thank you for your participation and ask that you please disconnect your lines.