FINAL TRANSCRIPT

MDA Ltd.

Second Quarter 2023 Earnings Conference Call

Event Date/Time: August 11, 2023 — 11:00 a.m. E.T.

Length: 56 minutes

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PRESENTATION

Operator

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

This call is being recorded on August 11, 2023, at 11:00 a.m. Eastern Time.

Following the presentation, we will conduct a question-and-answer session. (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 Q2 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 second quarter 2023 financial results.

The team delivered another strong quarter in Q2 with double digit revenue and Adjusted EBITDA growth. Solid profitability and robust operating cash flow generation. As we wrap up the first half of the year, we are off to a solid start. I'd like to thank and acknowledge the entire MDA team for their hard work and dedication which helped drive these impressive results.

As we look across our end markets, we continue to see healthy demand trends, driving an expanded opportunity funnel in the space sector, boding well for MDA and our future growth. This morning, we announced that MDA has been selected as the prime satellite contractor for Telesat Lightspeed. Telesat's low-earth orbit satellite constellation valued at approximately CAD$2.1 billion, MDA's contract includes the design, manufacture, assembly and test of 198 satellites, and options for Telesat to purchase up to 100 additional satellites.

We're excited to partner with Telesat to leverage the world leading talent and technology of both teams, to bring the Telesat Lightspeed mission to life. This award, our second as prime satellite contractor in the past 18-months, following the Globalstar award early last year, showcases our ability to leverage MDA strategic investments in our new digital satellite product portfolio, and the advanced manufacturing capability to deliver significant cost and schedule benefits to the Telesat Lightspeed program.

As a result of the strong execution through 2023, and the addition of the Telesat Lightspeed program, we are raising our guidance for 2023. We now expect full year 2023 revenues to be $785 million to $810 million, an increase of approximately 25 percent year-over-year at the midpoint of guidance. We are also increasing our Adjusted EBITDA guidance to $155 million to $165 million representing approximately 19 percent to 20 percent Adjusted EBITDA margin.

For the full year, we expect capital expenditures to be $200 million to $220 million primarily reflecting growth investments across our business areas. In line with our long-term strategic plan, we continue to invest in the business to meet current and future growth, leveraging our strong operating cash flow to fund CHORUS, our next generation Earth observation constellation, as well as other growth initiatives in our satellite systems and robotics businesses.

In satellite systems, we are continuing to make investments in new technologies and capabilities to accelerate our transition from analog to digital payloads and building up our high-volume satellite manufacturing capability as more low-earth orbit or LEO constellation opportunities come to market. The Telesat award is another tangible example of how we are strengthening and securing MDA's position at the heart of the rapidly growing LEO constellation and satellite systems market.

Other notable wins there include the Globalstar award, where MDA was selected as a prime contractor, and is now executing the development of 17 LEO satellites to support satellite direct to handset functionality. As well as our multiple projects and repeat orders supporting the U.S. space development agencies, LEO constellations.

In Robotics and 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. 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 are 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 our three business areas, and then pass it to Vito for a deep dive on the financials.

For the second quarter, MDA delivered revenues of $196 million, up 27 percent year-over-year. Adjusted EBITDA was $40 million up 16 percent year-over-year and Adjusted EBITDA margin was 20.6 percent. We generated $39 million in operating cash flow, which was reinvested in the business to drive current and future growth.

Our backlog at quarter-end stood at $1.1 billion, a healthy level for the Company, driven by sizable awards in 2022. That $1.1 billion backlog figure does not include the Telesat Lightspeed award, which was announced post quarter-end. 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 where our team has done a tremendous job of supporting our customers and capitalizing on market opportunities as they emerge.

Next, I'd like to update you on developments within the broader space market. Taking our customary tour around the world, a few items worth highlighting. South of the border, we continue to seek activity levels from NASA, to advance civil programs, including those related to Artemis and lunar exploration.

On the defense side, the space development agency is progressing multiple LEO constellations, including the transport, and tracking layers, building the foundation for an enhanced space infrastructure to secure national interests, and resulting in repeat orders for core technology suppliers like MDA.

Closer to home, the Canadian Space Agency recently announced new funding to support advanced research and development in space and helped build a successful space ecosystem here in

Canada. These initiatives build on the government of Canada's earlier announcement this year to commit $2.3 billion in funding to continue Canada's participation in the International Space Station and to develop and contribute a lunar utility vehicle to support astronauts on the moon.

Globally, we are seeing more countries express an active interest in Space Exploration. Argentina, Ecuador, India, Spain, and the Czech Republic were the latest countries to sign on to NASA's Artemis Accords signaling their national commitment to safe, long-term, and ethical space exploration. These latest entries bring the group size to 28 nations now. The Accords, which was unveiled in October 2020, to align nations on a common set of principles for space exploration, has more than tripled in size since 2020, with interest from any nontraditional space bearing 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 to our three business areas.

In satellite systems, we are seeing good momentum in this market with our teams working to advance multiple requests for communication satellite solutions and 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 level from our customers.

In Q2, we announced an award from L3Harris Technologies as part of the Space Development Agency's Tranche 1 Tracking Layer program. Our contract with L3Harris will see MDA design and build 14 flight sets of Ka-band steerable antennas and control electronics for L3Harris as part of SDA's LEO constellation.

The antennas and control electronics will be designed, built, assembled, and tested, at MDA's state of the art high volume satellite production facility in Montreal. This latest win builds on our earlier work with L3Harris and is aligned with our strategy of growing our presence south of the border with U.S. based customers and ensuring we are well positioned to secure follow-on opportunities on future SDA LEO constellations, supporting space security and communication satellites.

As I noted previously, subsequent to quarter-end, we announced an expanded role on the Telesat Lightspeed program. The approximately $2.1 billion contract will see MDA act as prime satellite contractor, responsible for the design, manufacture, assembly, and test, of 198 satellites, again, at MDA's high volume selling manufacturing facilities in Montreal.

Additionally, with this contract, Telesat becomes the anchor customer for MDA's new and industry-leading digital satellite product. The fully integrated portfolio includes a complete range of modular digital products and components for space-based communication solutions, coupled with advanced high volume manufacturing capability capable of delivering two satellites a day in full rate production, helping dramatically to reduce production costs and schedules for our customers.

Moving to other notable programs. The team continues to make good progress on advancing the detailed design phase for the Globalstar program, currently performing unit level and subsystem critical design reviews, to be followed by satellite critical design review. For the Globalstar Program, MDA was selected as the satellite 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 and positions MDA as 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 offerings remains robust and we are seeing increased recognition of the role that commercial EO satellites can play to provide near real time data analytics to governments and private enterprise.

During the quarter, we made two announcements related to our Geointelligence business. MDA was awarded a two-year contract with up to three optional years, with the government of Canada that help counter illegal, unregulated, and unreported fishing in the Indo-Pacific region. By utilizing our Maritime Insights platform, we are able to leverage MDA's world renowned RADARSAT-2 synthetic-aperture radar and combine them with multiple satellite data sources to track and identify IUU fishing activity, including dark vessel detection, creating a powerful asset for combating illegal fishing.

In Q2, we also announced that we are teaming with Thoth Technology, to create a sovereign, made in Canada, deep space radar surveillance, and space domain awareness capability. MDA's commercial data services will be integrated with Thoth's ground-based radar technology to provide unprecedented levels of sovereign monitoring and deep space over Canada. Providing both detection and characterization of space objects. This type of collaboration is a natural fit for MDA.

We also continue to advance work on our next generation Earth observation Constellation CHORUS, which will include a fourth-generation MDA built C band SAR satellite in addition to the XBAND satellite.

During the quarter, we conducted the payload critical design review and the team continued to advance unit and subsystem level work for the platform, payload, and bus avionics, as well as building the ground segment subsystems and detailing constellation operation plans, and processes. We are also seeing good response from the customer engagement as existing and new customers gain a better appreciation of the enhanced functionality and features that CHORUS brings. We are looking forward to hosting our global customer community at the MDA Earth Insights event in October, where we'll discuss our latest technology developments and product plans.

In terms of other notable programs, work on the Canadian Surface Combatant Program or CSC, one of our long-term government programs, continues to progress in line with our expectations. Recall that MDA is responsible for the design and integration of the electronic warfare system for the ships, which comprises a suite of sensors, including laser warning and electronic system technologies, used to detect aerial threats to help protect the men and women of the Royal Canadian Navy.

Moving to our Robotics & Space Operations business, we continue to see good traction and activity levels on both government and commercial fronts. On the government side, we're advancing the design work of Phase B of the Canadarm3 contract, which MDA was awarded in early 2022. That will see us completing the preliminary design of Canadarm3's robotic system to be used aboard the NASA led lunar gateway. The team is making good progress towards the preliminary design review milestone, and we are also progressing bids for the next phases of work, including detailed design, manufacture integration, and test. Bids for these follow-on phases will be submitted in Q3, which provide continuity of work and growth through the development phase.

On the commercial side, we are exploring a number of opportunities to incorporate our robotic technology on applications to support space exploration and mobility, and are encouraged by the level of customer activity in this market. The opportunities we are seeing reflect an emerging shift in the robotics commercial landscape as more non-government entities look to establish a foothold and hub in low earth orbit for a variety of activities.

Shifting to operations, we continue our hiring efforts to support the anticipated revenue ramp up. Over the last year we have added more than 800 new hires, with more than 2800 high skilled MDA staff, we have the human capital to help propel our growth and give us the scale to execute on the market opportunities we see emerging. We also remain 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 risks.

To recap, we're pleased with our performance this quarter. With momentum building across our operations, our team is energized, and we remain laser focused on our priorities. A strong focus on execution, converting the opportunities in our funnel to orders 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.

I'd like to start by echoing Mike's remarks regarding the recent Telesat Lightspeed contract award. This is a strategic program for Telesat in Canada, and we're very excited to be supporting Telesat in making this constellation a reality. Congratulations to the entire MDA and Telesat teams for all your efforts to bring this across the finish line.

For my update today, I'll walk you through our Q2 2023 financial results and provide more color on our outlook update. Overall, as Mike has said, Q2 was a strong quarter for MDA, we're pleased with how the team is executing. In the quarter, we saw strong revenue growth with revenues up 27 percent year-over-year, slightly ahead of our guidance for the quarter.

Adjusted EBITDA margin of 20. 6 percent exceeded our 19 percent to 20 percent guidance range and backlog at the end of the quarter stood at a healthy $1.1 billion. Total revenues for the second quarter were $196 million, this represents a $41 million or 27 percent increase over the same period last year. The year-over-year increase is driven by higher revenues across our businesses with strong contributions from our Satellite Systems and Robotic & Space Operations businesses.

By business area, revenues in our Geointelligence business of $47.9 million represents an increase of just under $1 million or 2 percent compared to Q2 2022 and was driven by slightly higher volumes of work.

In Robotics & Space operations, we saw healthy year-over-year growth with revenues of $58.7 million in the latest quarter, representing $9.9 million or 20 percent increase versus Q2 of last year. The growth is largely attributable to a higher volume of work performed on the Canada3 program.

In revenues in Satellite Systems of $89.4 million in the third quarter were $30.5 million or 52 percent higher compared to the same quarter in 2022. The strong showing was driven by higher work volume as new programs ramp-up, including the Globalstar program, which was awarded in Q1 of 2022.

Moving to gross profit, and as a reminder, gross profit represents our revenues less the cost of revenue, which includes materials, labors, allocated overhead, shred credits, and depreciation. For Q2, gross profit was $61.3 million representing a $9.9 million or 19 percent increase over the same period last year. Gross margins in Q2, 2022 was 31.3 percent compared to 33.2 percent for the same period in 2022, as a result of MDA's evolving program mix and in line with our expectation. As discussed in previous quarters we do anticipate the mix of the programs in 2023, it's caused a slight dip in gross margins as we make our way throughout the remaining part of the year.

Q2 operating expenses of $40 million were $5.2 million or 14 percent higher than last year's metric of $36.8 million reflecting an expansion of our SG&A functions as our work volume grows, 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.

Turning to Adjusted EBITDA. Adjusted EBITDA in the latest quarter was $40.4 million compared to $34.7 million in Q2 of 2022, and this was driven by higher gross profit as we continue to execute on our backlog. Adjusted EBITDA margin was 20.6 percent in Q2, 2023 compared to 22. 4 percent in the same period last year. The slight decline in Adjusted EBITDA margin is consistent with the variance in our gross margin year-over-year.

As noted, we ended the quarter with $1.1 million in backlog representing a decrease of 20 percent on a year-to-date basis. The decrease in backlog was driven by strong execution on key programs, including the aforementioned Canadarm 3 in Globalstar. As Mike has noted earlier, the $1.1 billion backlog figure clearly does not include the recent Telesat award, which will be added to act backlog in the forthcoming quarter Q3 2023.

Moving to CAPEX. Real privilege, we remain focused on making the right investments in the business to support our strategic growth initiatives. In Q2 of 2023, we spent $45.7 million on gross capital expenditures, this was down slightly from $55 million last year, due primarily to timing of payments on certain CAPEX programs, primarily related to our new headquarters in Brampton, while investments in CHORUS remain, on track.

Growth CAPEX was $41 million in the latest quarter compared to $52 million in Q2 of 2022. Consistent with our plan, we expect to see year-over-year growth in CAPEX spend. As we advance CHORUS and invest in initiatives to support our growing business, including expanded and modernizing our physical infrastructure.

Cash from operations during the quarter was a generation of just under $39 million compared to cash usage of $5 million in Q2 of 2022. The year-over-year increase was driven by positive working capital contributions and higher Adjusted EBITDA versus the prior quarter.

It's really important to note that on a last 12-month basis, we converted approximately 80 percent of our Adjusted EBITDA into operating cash flow, that's a big number with the later helping fund of growth investments. Free cash flow was a use of $6.8 million in the latest quarter. Free cash flow after adjusting our growth CAPEX investments was positive $34 million in Q2 2023.

Cash from financing activities in the quarter was a usage of $22 million which reflects the repayments made to our revolving credit facility during the quarter compared to a generation of $9 million in Q2 2022 when the Company refinanced its credit facilities.

Our balance sheet, we ended the quarter with a strong financial position. Net debt was $209.7 million, available liquidity of over $330 million, and net debt to trailing 12-month Adjusted EBITDA ratio of 1.2x.

In summary, the team executed well this quarter, and we are seeing positive inflection in our top line as we execute on our backlog.

Turning briefly to outlook, for fiscal 2023, we are raising our financial outlook, and this reflects strong execution in the first half, and to a lesser extent, contributions from the recently announced Telesat Lightspeed program. We now expect full year revenues to be $785 million to $810 million, representing robust year-over-year growth of approximately 25 percent at the midpoint of guidance. For the full year, we now expect that Adjusted EBITDA to be $155 million to $165 million, representing approximately 19 percent to 20 percent Adjusted EBITDA margin.

We now expect capital expenditures to be $200 million to $220 million in 2023, primarily comprising of growth investments to support CHORUS, and the previously outlined growth initiatives across our three business areas.

In terms of Q3 2023, we expect revenues to grow by approximately 10 percent to 15 percent compared to Q3 2022 levels as we continue to execute on our backlog. With the announcement of the Telesat Lightspeed award and a number of large programs in our backlog, our book of business is strong. We remain focused on executing well on our customer commitments and leveraging our expansive capabilities and technology to grow profitably and capitalize on emerging opportunities in our end markets.

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

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thanks, Vito.

I think with that Operator, we can open it up to questions.

Q & A

Operator

Thank you. (Operator Instructions) Your first question Ken Herbert with RBC Capital Markets. Please go ahead.

Kenneth Herbert — Analyst, RBC Capital Markets

Hey, good morning. Really nice quarter, and congrats on the Telesat contract. Mike or Vito, maybe just two questions on that. First, how do we think about the revenue recognition on that contract, either in the second half of this year and then what it could potentially imply for 2024? Then also, it sounds like initial investments are not significant, but how do we think about the required investments to support Telesat in particular on the satellite side?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Maybe I'll take the second one first, Mike. I think in terms of the revenue recognition, I think it'll be really helpful for Mike, perhaps, to take, the community through a typical program, from a stages perspective. Mike, he'll do that in a second.

Ken, in terms of capital, we've been investing significantly along the way. As we look at this program, there's no outages versus our current plan—on our current expectations, as we look at our strategic plan. More specifically, in terms of 2024 CAPEX, we consistently have been saying that we expect 2024 CAPEX to be in line with 2023. This announcement and program does not change that in any way, shape, or form.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Then in terms of the revenue profile side, on any project, you tend to ramp-up slowly before you get into full steam. The early phases of a project will require us to be able to start to engage the supply chain. We have a number of engineering design activities that we have to go through. You'll always hear us going through our phases of design in terms of getting through and signing off on our requirements reviews, and our preliminary designs, and our critical designs and then moving out in production.

You'll see us, just like any other program, you'll see us go through all of those same phases. We ramp up a bit slow and go through these design phases—requirements and design phases to make sure we have everything right. Gradually engaging our supply chain as we build up that ramp, and then we get into, full rates of production, and implementation after that.

You've seen us just sort of lift guidance a titch for 2023, and that includes consideration of what we see happening on Lightspeed as part of that. Certainly, as we start 2024, we'll make sure we're issuing guidance going into that year. I can only reemphasize the characterization of slower ramp ups and then we get into full-steam production in that sort of '25, '26 period. You heard Telesat say, either we're going to have satellites being launched in '26 towards full operational capability in '27. That's where you start to get the big ramp, the big production levels in '25, '26, '27. Does that make sense, Ken?

Kenneth Herbert — Analyst, RBC Capital Markets

Yes. That makes perfect sense. I appreciate that. If I could then, just on the second half margins, you kept the 19 percent to 20 percent Adjusted EBITDA in the guidance. Is there anything unique going on, or does that really just reflect sort of ongoing mix headwinds as you obviously continue to see better growth in satellite systems in the back half of the year?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yeah, nothing unique going on at all, Ken. We've been very, very pleased with the performance of our programs. I wouldn't even call them necessarily headwinds because I think all business areas contribute, in a meaningful way. Other than, maybe periodic, revenue recognition and cost and occurrences on a quarter-over-quarter basis, but very, very pleased with the performance here to date. We expect the back half to be equally strong.

Again, as Mike has alluded to, we'll take all the information, a lot of moving pieces with the businesses and the program is all very, very healthy. Corporate incorporate that into continued revised outlooks as we look into 2024 and give the market the best view of our business. But at this point, very, very pleased.

Kenneth Herbert — Analyst, RBC Capital Markets

Thanks. I'll pass it back here.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thanks a lot.

Operator

Your next question comes from Doug Taylor with Canaccord Genuity. Please go ahead.

Doug Taylor — Analyst, Canaccord Genuity

Yes, thanks. Good morning. I'll echo the congratulations on the Telesat win. I'm going to continue what I assume is going to be a barrage of questions on how we should factor that into our financial models. You mentioned there the design phase and then the implementation phase being, sort of 2023 balance in 2024 and then production and '25, '26. Can you potentially help us think about what percentage of the revenue would come from these phases to help us kind build that inappropriately?

Vito Culmone — Chief Financial Officer, MDA Ltd.

I think for now, probably not. I think for now, we could just say we got what's going in '23 in our guidance there. I think it's important to let us play out a little bit the rest of the year. Give some meaningful guidance for '24 as we enter '24. There's a few more, a lot of stuff going on in the business. It'd be nice to be able to play out a few more months before we start to characterize what '24 would look like, in its entirety, not just from a one program perspective.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Doug, I'll just add there. We clearly recognize, when you get a program of this size, the market's requirements to get a bit of a breakdown and know what that looks like. Heck, everything that Mike just described, I will say, and again, we'll defer guidance, obviously, until later in this calendar year into the new year with respect to 2024. As we've consistently said in the marketplace, we're a significant growth company, both top line and bottom line here in the near future. We expect double digit growth, outpacing the market growth here, in 2024, and we'll come back and give some further visibility to that as we move forward.

Doug Taylor — Analyst, Canaccord Genuity

Okay. We'll stay tuned for that. In terms of the margin profile of that contract, is there any reason to think that we're the course of the entire program that wouldn't meet the current margin profile of the business, as a whole. Should we be expecting the different phases to carry a different margin profile?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Maybe I can't speak to the different phases right now, although the way we do revenue recognition, I'd be surprised if there were lumpiness in—from a program perspective. But to the more important part of, I think, your question, Doug, which is how do we see this factoring into our overall profitability. Very, very consistent with our current levels of profitability in both sats systems, and we expect that to be the case as we roll through the next few years.

Doug Taylor — Analyst, Canaccord Genuity

Maybe one more question on this program before I pass the line. Telesat and its disclosure talks about a number of different financing arrangements supporting this program, including some vendor financing that they reference. I just wanted to ask, to what extent, that's some arrangement between MDA and Telesat, if at all? Or they're referring to something else?

Michael Greenley — Chief Executive Officer, MDA Ltd.

No MDA. They're referring to other vendors. MDA has no vendor financing. No.

Doug Taylor — Analyst, Canaccord Genuity

Okay. Thanks for clarifying. I'll pass the line.

Operator

Your next question comes from Konark Gupta with Scotia Capital. Please go ahead.

Konark Gupta — Analyst, Scotia Capital

Thanks, Operator. Good morning, everyone, and I echo the congratulations on the big win. My first question is just a kind of follow-up on the Telesat. I understand it's a big contract. You guys had been in discussion historically as well. What's your confidence level in Telesat's ability to bring this Lightspeed project to reality, despite all the hiccups they are seeing?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. We're very confident in this—we obviously believe in the technical solution as the satellite prime now. We're very, very pleased that our software defined digital satellite product has been selected here by Telesat as the foundation for this constellation. We obviously believe in the technology that we're putting to market here, it brings tremendous technological and operational advantage to Telesat, which is, for them, created the savings that they needed to be able to have a fully funded program.

We believe in the funding sources that they have and we're very confident as we move forward.

Konark Gupta — Analyst, Scotia Capital

Yeah. That's great color, Mike, thanks. Then my second one is on CHORUS. Can you remind us where is that program right now in terms of investments to date and what are the next milestones with respect to capital spending left on that program?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes, we're about—we're a little bit probably, a little bit past the midpoint. Just a bit past the midpoint of the spend on CHORUS. I mentioned in my remarks, the big user community conference, coming up in October, where the global user community RADARSAT-2 and a lot of the future user community, of course, will all be together. We hope to make some updates to the community at that time in terms of some, some things we haven't talked about on the project and share some additional news. But we're—the project doing well. It's right in line with expectations and we're a little bit halfway through the spin.

Konark Gupta — Analyst, Scotia Capital

That's it for me. Thanks for the answers.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Okay, thank you.

Operator

Your next question comes from Sid Dilawari (phon) with Cormark. Please go ahead.

Siddhant Dilawari — Analyst, Cormark

Hey, guys, congrats on the Telesat program again. Firstly, just following along the same theme on the question regarding Telesat. On the Telesat call this morning, they stated that they have secured the funding for 156 satellites. That's approximately $1.65 billion of revenue. Can you maybe just clarify in terms of what your confidence level is for the rest of the program given that it's contingent on the cash flows that they'll derive from the program itself.

Michael Greenley — Chief Executive Officer, MDA Ltd.

The program itself, and or even just their own operations, I would imagine. Telesat is a strong operating business. As you would have heard from their results, we're aware of all their sources of financing that they talked about in their discussion, and we're very confident in it. We're confident in their ability to fund from operations, and or raise additional capital.

Certainly, the interest in the project I would expect to be increased now that we are moving out with a fully funded project to get us to initial operations. I would imagine Telesat will have all kinds of new conversations out there in their communities. Both with customers that will fund operations and with potential future investors.

Siddhant Dilawari — Analyst, Cormark

Got it. Then just in terms of backlog growth for Q3, how much can we expect in terms of growth from the Telesat program, maybe just a rough number or any guidance in terms of the ramp. Again, I know you mentioned that the design phase is typically a slower ramp. I guess the first 12 to 24 months will be somewhat of a slower ramp. Just wondering how we should think about backlog for Q3.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yeah. No, we expect the—all are substantially—all of the 2.1 to go into our backlog here in Q3.

Siddhant Dilawari — Analyst, Cormark

Okay. Then just last one for me. Any updates on the CSA program? Apologies if I missed that in your prepared remarks.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes, just that it continues along according to our expectations. The program itself is still cleaning up some—some work progresses like normal and there's still some cleanup work here and there on the overall requirements and approach to the project, as they continue to finalize their design. The ship level preliminary design was completed earlier in the year. Now they're working through into the critical design at the ship level. That still causes some churn on some of the subsystems. For us, we keep ticking along doing all of our work, as we expected to in support of the ongoing projects and the ongoing decisions that still need to be made as part of the design phase.

Siddhant Dilawari — Analyst, Cormark

Okay. That's very helpful. Thanks guys. I'll pass the line.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Okay, thank you.

Operator

Your next question comes from Thanos Moschopoulos with BMO Capital Markets. Please go ahead.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Hi. Good morning. Congrats as well on the Telesat win, clearly a landmark win. Mike sounds like your technology played a key role in terms of elevating your role from a subcontractor to a prime on this. You kind of alluded to it, can you maybe expand and maybe provide some color on how this positions you as well for, other, legal opportunities that you're seeing in the pipeline?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. For sure. The big technology shift is from analog to digital in the—from a beam forming technology perspective. Then our approach to all of this has been to come forward with a software defined digital satellite design. This is us now having satellite as a product. A software configurable, digital satellite as a product, with Telesat, as the anchor customer for that product. An incredible opportunity to have an anchor customer for a new product at these volumes. It's beautiful in terms of our ability to be able to take this out into the market.

By having a digital satellite product now, the same technological solution, same technology solution, this product can be promoted, and we do promote it and bid it into multiple customers that are interested in next generation communication satellites. Us moving into a more productized environment really helps us scale. It's a different mode of operations for us as we can pick up multiple Constellation customers, and be able to scale more effectively, because we are delivering from a common-based product into the market. It's a good shift for us, in terms of scaling up to the next level of satellite systems business.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Great. Question for Vito, should the cash flow profile of the contract be comparable to typical project, or are there any nuances to call out here?

Vito Culmone — Chief Financial Officer, MDA Ltd.

No nuances whatsoever. Thank you for the question, Thanos, because I go out of my way to talk about our EBITDA—excuse me, our conversion of cash operating—operating cash flow off of our EBITDA numbers. As this business grows, that percentage is just going to continue to expand. Strict, great working capital management, contracts, milestones, how are all those are lined up. We don't expect any anomalies whatsoever as we proceed through the Telesat program.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Finally, when we look at the dollar amount, what proportion might represent subcontract work? Or maybe that's it differently, would there be a disproportionately high level as the contract work now you're the prime as we think about translating that into our EBITDA forecasts?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes. To be honest, it's a bit premature to give direction on that. Right now, we have a very solid design, and we have optionality that we have to work through over the next several months in terms of selecting and finalizing vendors in our supply chain, and also finalizing make buy decisions in terms of areas where we might make something versus buy from other. We're now, we have a fully kicked off project here. The team will be very, very focused on finalizing these sources of supply for the various elements. All of our contracts and pricing, we're very, very confident in, but we have optionality, in terms of how we do these things, which would affect the mix of what you're asking. It's probably maybe a quarter or two early to be able to give any information on that.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Keep it up. I'll pass the line. Thank you.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Sure, thanks.

Operator

Your next question comes from Kristine Liwag with Morgan Stanley. Please go ahead.

Kristine Liwag — Analyst, Morgan Stanley

Hey, Mike, Vito, echoing everyone, congratulations to the Telesat contract. Maybe following it—following up a little bit deeper on the contract structure. With uncertain macro environment and also inflation being unpredictable. Can you discuss Telesat in terms of its contract structure? Are there aspects of this, that is cost plus where you can pass through cost to our customers to manage some of your risk. Also, being prime on a fairly, large contract like this, how do you think about execution risk and what are you doing differently to make sure you can mitigate any potential charges in the future?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. I think that in the overall structure of these things is largely perm fixed price contract for us with Telesat. As it is with most of our customers, certainly, our customers appreciate our ability to be able to estimate accurately and deliver against firm fixed prices. That's a key element of our business, as you know.

In terms of how we manage that, it's the normal way that we always manage it in terms of making sure we've got realistic and up to date estimates that our suppliers to us are firm fixed, and that we've incorporated in any of our internal cost escalation in our thinking, based on current experiences in the market.

In terms of the execution risk side of it, it's very important to pay attention to this notion of a product. The modularity of this, really, really is going to help us in terms of, execution risk, in terms of how we're organizing that business area now to be able to build the modular components of the digital satellite as products, and not just for this program, but for other programs as well. We're very comfortable that we've got a pretty slick strategy here for moving out, on this that not only we'll be able to execute well on Telesat, but also be able to scale into, other orders hopefully as they come in for this product.

Kristine Liwag — Analyst, Morgan Stanley

Thanks, Mike. Maybe Vito as a follow-up, you mentioned that the cash profile for this program is similar to other contracts. When we think about working capital requirements, CAPEX requirements, and balancing that with the customer cash milestones. Does that mean that this year and next year, you'll be, a positive cash impact from the program. Is that what—I just want to clarify what you meant by that statement?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes. In terms of the program itself, yeah, from a working capital perspective, we expect to be totally cash flow positive, as we move really through the entire program. That's the way these things are structured. We don't get excited about quarter-over-quarter, but over reasonable periods of time, that's the objective. To your question around this program and balance of this year in 2024, that would be definitely my expectation.

In terms of CAPEX, I take us back to our earlier comment in the call. We expect 2020 sort of for CAPEX to be at the levels of 2023. Some of that CAPEX definitely will be related to continuing to expand SaaS systems capabilities, across the board. That's very consistent with, where we started, the conversations, even pre-Telesat programming. Hopefully, that's helpful for you, Kristine.

Kristine Liwag — Analyst, Morgan Stanley

Great. If I could sneak a third one, you guys mentioned picking up, future consolation customers with this new satellite off bring. Does that mean you could have another contract on top of the Telesat, LEO, contract at the same time? How much of a commonality could there be in terms of manufacturing? How many potential customers could you have with this type of consolation project? Because, ultimately, if you get even more volume, that could potentially give you more economies of scale. Just want to understand that opportunity set a little bit better.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes, sure. We definitely, that's our position in the market. This has been a strategy for us, and we've invested in and are very much intentionally moving forward in accordance with our strategy. It's a very comfortable space here at the moment. Being satellite prime with Globalstar has been great. Now, we're stepping up to a larger scale with a new digital satellite with Telesat. This product is being offered into multiple customers in the market.

We would hope to sign multiple of them up, that would be great. The commonality question could be as high as 80 percent in some cases with other customers. You get into some pretty good efficiencies there and the ability to, to scale, as we move forward, which, to your point, can drive some, has the potential to drive some economies in the future. We'll see how it goes.

Kristine Liwag — Analyst, Morgan Stanley

Great. Thanks guys.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you.

Operator

(Operator Instructions) Your next question comes from Jason Gursky with Citigroup. Please go ahead.

Jason Gursky - Analyst, Citigroup

Hey. Good morning, Mike. Congrats, you won the war of attrition on this one. Keep going.

Michael Greenley — Chief Executive Officer, MDA Ltd.

No way. No way. It's pure excellence coming up the middle here. What are you saying?

Jason Gursky - Analyst, Citigroup

I know it's been a long road on this one. Congrats on that. Just a quick couple of quick questions for you. You've got CHORUS, Globalstar, Telesat, all in the mix here, going on now. I'm just kind of curious, what the labor situation looks like for you all, up there and, and the ability to, to onboard all the talent that you're going to need to execute these programs.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. It's obviously, like anything in the market right now, everybody's in the war for talent. We're all trying to hire the best talent. We've done very, very well. We've hired hundreds of people over the last period of time. In the last 12 months, we've hired about 800 people across the Company. We're up at about 2800 people now in the business and we continue to hire engineers and technical staff on a monthly basis and a consistent profile.

We're going to continue leaning into that. With the Lightspeed project and with other projects around this new digital satellite, we'll have to hire hunters of folks. The hiring business is still in full swing in Montreal and our satellite manufacturing facilities. We're absolutely doing great. The team is doing excellent in both talent acquisition and the direct hiring managers in our satellite systems business. We expect to be able to keep up with it.

Jason Gursky - Analyst, Citigroup

You just mentioned Montreal in your remarks there, just kind of curious on the capacity side of things. Again, CHORUS, Globalstar, Telesat, you're going to be doing a lot of work there. I'm just kind of curious, you've mentioned '24 CAPEX is flat. What about '25? Do we need to continue to invest in the business to take on all of this volume?

Michael Greenley — Chief Executive Officer, MDA Ltd.

I'll say that we will continue to invest in the business for sure, but that was already in our plan. There is—we have plans to expand the Montreal facility you'll probably remember that with Globalstar, we added an additional building. We've got another building across the street. We have a plan right now to expand the historical Montreal facility for expanded manufacturing for this digital satellite product line and for the Telesat production.

We will expand as we need to, to be able to move up to this new growth. I think that the overall levels of CAPEX, Vito can talk to it, but is still consistent with our plan. But Vito might want to characterize that a bit more.

Vito Culmone — Chief Financial Officer, MDA Ltd.

I'll add there, Jason is, by time 2025 rolls around, the revenue will be substantially higher. The EBITDA will be meaningfully higher, and the operating cash flow will also be significantly higher. I think as we look at all these things, there's the absolute what do you think your CAPEX is going to be, and it's too early for us to put a marker on 2025. Then there's the relative component of what does it mean from a free cash flow generation and leverage and all the rest of it.

As I look at our plan out to 2025, I'm incredibly comfortable with what that balance sheet, cash flow profile. But most importantly, what it enables us also to do, as Mike has said, is leaning in and doing the right thing for this Company, its customers, and shareholders for the foreseeable future. Stay tuned a little bit on that, but we'll be just fine.

Jason Gursky - Analyst, Citigroup

Yes. That sounds to me like the CAPEX as a percentage of revenue comes down, but the dollar numbers may not move up.

Michael Greenley — Chief Executive Officer, MDA Ltd.

I agree. I agree. Yes.

Jason Gursky - Analyst, Citigroup

Alright that makes good sense. Then, Mike, on the digital payload, can you just talk a little bit about where we are in the development of it? The maturation of that technology, because this is obviously key to your ability to execute on Telesat and then win for their business. I just—I think it's going to be important for us all on the outside to kind of get an understanding, baseline, where we are now. Then maybe get some updates over time as you guys retire risk around the development of that.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. For us—yes, for us, we have a solid design, the design elements that are in there, in terms of some of the key enabling technologies, from some of our suppliers there are in flight. Then the next generation of some of those technologies, which we might use, are definitely in mature phases of development at the moment. We're basing our solutions around capabilities that have been proven and designs that are mature.

Jason Gursky - Analyst, Citigroup

Okay. It sounds like there's a lot of suppliers that are involved here.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Sorry. Say that again?

Jason Gursky - Analyst, Citigroup

It sound like there are lot of suppliers.

Michael Greenley — Chief Executive Officer, MDA Ltd.

There will be? There are in some cases, there are multiple alternatives for those suppliers, yes.

Jason Gursky - Analyst, Citigroup

Right. Okay. That hopefully reduces risk, around the development of this.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. Any other options that reduces risk, that's part of the next phase, is to finalize make buy and finalize sourcing, to be able to get the best combinations of, like you say, risk reduction in addition to price.

Jason Gursky - Analyst, Citigroup

Okay. Then last one for me, when do you expect the contract with Telesat to be definitized, meaning kind of signed? I think it's—I think I saw the announcement today that they expect things to get signed here in short order, but I just want to make sure we all kind of understand when that thing gets signed?

Michael Greenley — Chief Executive Officer, MDA Ltd.

I signed one yesterday before we put out a press release. We're working now.

Jason Gursky - Analyst, Citigroup

Okay. We're completely definitized in your off to the races, there's nothing more to do on that.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes. We have a contract. Absolutely. That was like the whole thing on Telesat, we said we wouldn't talk about Telesat again until we had a contract. Now we have a contract, we're talking about Telesat. That's it.

Jason Gursky - Analyst, Citigroup

Okay, great. Congrats, everybody.

Operator

There are no further questions at this time. Please proceed.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you, Operator. Thanks everybody for your time this morning. We certainly look forward to updating everyone on our progress. There's lots to make progress on, and we will continue to make progress. We'll do this again in November and report on another quarter and where we are with all these things. Thanks very much for your time.

Operator

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