FINAL TRANSCRIPT

MDA Ltd.

Q3 2022 Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to MDA's Q3 2022 Conference Call and Webcast.

This call is being recorded on November 11, 2022, at 8:30 a.m. Eastern Time.

I would like to turn the call over to Shereen Zahawi, Senior Director of Investor Relations at MDA. Please go ahead.

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

Thank you, Operator.

Good morning and welcome to MDA's Q3 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 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 third quarter 2022 financial results.

Before I get into the business results, I'd just like to take a minute to recognize that today is Remembrance Day, and to remember that we live freely and have the opportunity to be able to discuss our business activity because of the sacrifices of those who have served and those who are serving to protect our freedoms.

Here at MDA, this was another quarter with strong performance and execution by our team, and I would like to thank our employees for their dedication and commitment to delivering for our customers as we approach the end of a meaningful growth year at MDA. We remain laser-focused on executing on our growth strategies and across our end markets, and we were pleased to announce a number of new wins this quarter, including contract awards to support York Space Systems, and Airbus OneWeb satellites by providing Ka-Band's durable antennas for U.S. government programs.

We also secured our second commercial sale to Axiom Space, a robotic product derived from Canadarm3, the new generation of robotic technologies we are developing for NASA's Artemis program. These awards demonstrate the momentum in our business and our ability to gain traction with new customers and in new markets, by leveraging our innovative technologies.

Our backlog at quarter-end stood at $1.4 billion, a healthy level for the Company, and we continue to see a significant growth pipeline across our businesses. The majority of our programs are ramping up in line with our expectations, and the team's execution has been strong and steady.

Today, we are reaffirming our full-year 2022 revenue guidance of $630 million to $650 million and raising our Adjusted EBITDA guidance to $130 million to $135 million, from the $120 million to $130 million previously. We see revenues growing by approximately 30 percent to 35 percent year-over-year in 2022 and expect Adjusted EBITDA margins to remain at the previously communicated range of 19 percent to 20 percent, both very healthy metrics for MDA. We are also narrowing our capital expenditure range to $180 million to $195 million, from the previous $180 million to $220 million range, as we continue to invest in initiatives to drive future growth.

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

In Satellite Systems, we are investing in new technologies and capabilities to accelerate our transition from analogue to digital payloads and building up our high-volume satellite manufacturing capability to strengthen our position as more Low Earth Orbit, or LEO constellation opportunities come to market. Our Globalstar award, where MDA was selected as a prime contractor for 17 LEO satellites to support satellite direct-to-handset functionality, and work to support the U.S. Space Development Agency's LEO constellations, showcase our strategy in action.

In Robotics and Space Operations, we are leveraging our global leadership in space robotics innovation and long history of success with Canadarm, 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 awards from Axiom Space, which is one of a number of commercial players constructing a commercial space station, is an important win as we start to commercialize the Canadarm3 robotic technology.

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, and update on MDA's three business areas, and then pass it to Vito for a deep dive on the financials.

For the third quarter, MDA delivered revenues of $172 million, up 55 percent year-over-year. Our backlog at quarter-end stood at $1.4 billion, up 70 percent year-over-year, driven by sizable awards in the first half of the year. Adjusted EBITDA was $38.8 million, representing a solid EBITDA margin of 22.6 percent.

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

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 Q3. Taking our customary tour around the world, a few items worth highlighting include increased adoption of satellite constellations and mobile communications. During the quarter, we saw a number of mobile network operators and cell phone manufacturers announce partnerships with satellite operators in a push to enable messaging and emergency SOS functionality in geographic areas not typically reachable by traditional cell signals.

In September, Globalstar disclosed that it will be utilizing its network, including the recently announced enhancement via the 17 additional LEO satellites that MDA is working on, to support new satellite-enabled services for certain of Apple's products. We also saw similar announcements from T-Mobile and Starlink, which are working to add coverage for T-Mobile customers across the U.S., and in October, AT&T confirmed that it is working with AST SpaceMobile to utilize the latter's satellite network to provide coverage in hard-to-reach areas of the U.S. The increased interest in satellite-to-cell offerings is an exciting development for the industry and has the potential to enhance connectivity for customers in remote areas around the globe.

Across the pond, we saw the U.K. Space Agency take steps with its space strategy, including its commitments to deliver capabilities to track objects in space and reduce debris. This fall, the Agency awarded contracts to two U.K.-based companies, Astroscale and ClearSpace, to design missions to remove existing pieces of space debris from Low Earth Orbit. The two selected companies are working with a consortium of industry partners, including MDA U.K., which is supporting both missions.

South of the border, we saw the Federal Communications Commission adopt a new rule that will shorten the time for satellite operators to de-orbit Low Earth Orbit satellites, from 25 years to five years. The rule is intended to address growing debris in LEO and replaces a long-standing guideline that called for de-orbiting satellites up to 25 years after the end of their mission. These developments highlight work underway to safeguard space activities and make them more sustainable as our reliance on space technology increases.

In terms of space infrastructure, spacecraft launch activity continued to unfold at a record pace. In Q3 of this year, a total of 808 spacecraft launched globally, more than triple the number we saw in Q3 2021, with 91 percent of those spacecraft operated by commercial players, and the majority comprised of communication satellites. From January to September of this year, a total of 2,000 spacecraft has launched, representing a 30 percent increase over the same period in 2021, and surpassing the total number of spacecraft launched in the Full Year 2021. The higher activity levels are driven primarily by growth in the commercial Low Earth Orbit, or LEO constellation market.

On the space exploration front, Saudi Arabia was the latest country to sign on to NASA's Artemis Accords, signalling their national commitment to safe, long-term, and ethical space exploration. The latest entry brings the group size to 21 nations. The Accords, which was unveiled in October 2020 to align nations on a common set of principles for space exploration, has doubled in size over the last two years, with interest from many non-traditional 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 spend a few minutes and turn to our three business areas. In Satellite Systems, our opportunity funnel remains strong, and we continue to see good activity levels. Our teams are advancing multiple requests for communication satellite solutions for a growing number of constellation projects, particularly in the Low Earth Orbit segment of the market. This quarter, we announced two awards from U.S.-based customers, to support space security and communication satellites in line with our strategy of growing our presence south of the border.

Our contract with York Space Systems will see MDA design and build Ka-Band's durable antennas for satellites to be produced by York. The Airbus OneWeb satellites contract involves the design and build of Ka-Band's durable antennas which will be integrated into the portfolio of Arrow commercial small satellites manufactured by Airbus OneWeb. The antennas will be built, assembled, and tested at MDA's state-of-the-art high-volume satellite production facility in Montreal.

The team also continues to make good progress ramping up on the Globalstar program and advancing the design work. We announced the $415 million award from Globalstar in Q1 of 2022, 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.

Moving to our Geointelligence business, customer demand from our Earth observation offerings remains robust, and we are seeing increased recognition of the role that commercial Earth observation satellites can play to provide near real-time data and analytics to governments and private enterprise. We continue to advance work on our next generation Earth observation constellation, CHORUS, which will include C-band and X-band star satellites and are actively engaged in preliminary discussions with customers interested in acquiring CHORUS data and analytics.

Work on the Canadian Surface Combatant Program, or CSC, one of our long-term government programs, continues to progress in line with the cadence we saw in the previous quarter. The next significant milestone is the preliminary design review for the vessels, which begins to finalize the overall configuration of the ship. This is expected to be completed by the end of the year.

Our teams are working closely with the customer to advance work ahead of the preliminary design reviews. 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 and Space Operations business, we are seeing good traction and activity levels on both the government and commercial fronts. On the government side, we continue to ramp up work on Phase B of the Canadarm3 contract, which MDA was awarded in Q1, that will see us completing the preliminary design of Canadarm3's robotic systems to be used aboard the NASA-led Lunar Gateway. Following some subcontractor on-boarding delays in Q2, program activity is ramping up, in line with our expectations, and the team is making good progress in bringing on subcontractors and working towards the system design agreement milestone expected in the first half of 2023.

During the quarter, we also announced our second commercial sale of space robotics technology derived from Canadarm3 to Axiom Space. MDA is delivering 62 payload interface pairs for Axiom Space's Axiom Station. The interfaces will provide mechanical, electrical, and data connections for payloads that are externally mounted on the Axiom Station, to perform activities including scientific research, Earth observation, communications, and a host of other applications.

The Axiom Station, which is now under construction, will initially be attached to the International Space Station and subsequently separate from the ISS when the ISS partners decommission it at the end of the decade. This is another exciting development for MDA that reinforces an emerging shift in the commercial landscape for robotics as more non-government entities look to establish a foothold and hub in Low Earth Orbit 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 700 new hires in the first nine months of 2022. 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, 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 alternates 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 monitor it constantly to mitigate delay risks.

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

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

Vito Culmone — Chief Financial Officer, MDA Ltd.

Thank you, Mike and good morning everyone.

For my update, I'll walk through our Q3 2022 financial results and provide some more colour on our outlook update.

Overall, Q3 was a strong quarter for MDA and we're pleased with how the team is executing. In the quarter, we saw strong revenue growth, with revenues up 55 percent year-over-year, slightly ahead of our guidance for the quarter. Adjusted EBITDA margin of 22.6 percent exceeded our 19 percent to 20 percent guidance range. Backlog at the end of the quarter stood at a healthy $1.4 billion.

Total revenues for the third quarter were $172 million. This represents a $61 million or a 55 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 and Space Operations businesses.

By business area, revenues in our Geointelligence business, up $45.5 million, represent an increase of $4.8 million or 12 percent compared to Q3 2022, driven by higher volumes in our EO business and modest ramp-up on the CSC program.

In Robotics and Space Operations, we saw healthy year-over-year growth, with revenues of $54.6 million in the latest quarter, representing $21.5 million or 65 percent increase versus Q3 of last year. The growth is largely attributable to a higher volume of work performed on the Canadarm3 program.

Revenues in Satellite Systems of $71.9 million in the third quarter were $34.4 million or 92 percent higher compared to the same quarter in 2021. The strong showing here was driven by higher work volume as new programs ramped up, including the Globalstar program, which was awarded in Q1 of 2022.

Moving on to gross profit, and as a reminder, gross profit represents our revenue less our cost of revenue which includes material, labour, allocated overhead, SHRED credits, and depreciation. For Q3, gross profit was $56.4 million, representing a $17 million or 43 percent increase over the same period last year.

Gross margin in Q3 2022 was 32.8 percent, and that compares to 35.4 percent for the same period in 2021. That's a result of MDA's evolving program mix, and in line with our expectations. As discussed on previous quarters, we do anticipate the mix of the programs in 2022 to cause a slight drop in gross margins as we make our way throughout the year.

Q3 operating expenses of $38.6 million were in line with last year's metric of $38.8 million, reflecting good cost control and a steady pace of R&D investment as we advance our development work on CHORUS, our next generation Earth observation constellation, and other proprietary technology initiatives.

Adjusted EBITDA in the latest quarter was $38.8 million compared to $31.8 million in Q3 2021, reflecting higher work volumes across the business.

Adjusted EBITDA margin was 22.6 percent in Q3 2022 compared with 28.6 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 Q3 of 2022, there was no CEWS income recognized, compared to $9.1 million which was recognized over the same period last year. If you exclude the impact of CEWS' income contribution, Adjusted EBITDA in Q3 of 2022 was $38.8 million compared to $22.7 million in Q3 of 2021. Adjusted EBITDA margin excluding CEWS income was 22.6 percent in Q3 2022 compared to 20.4 percent in Q3 2021, again reflecting strong execution and operating performance.

We ended the quarter with $1.4 billion in backlog, representing an increase of 70 percent year-over-year and 63 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, including Canadarm3 and Globalstar.

Moving on to CAPEX, we remain focused on making the right investments in the business to support our strategic growth initiatives. In Q3 of 2022, we spent $40.9 million on gross capital expenditures, up from $30.3 million last year, as we ramp up our development of CHORUS and other growth initiatives. Growth CAPEX was $35 million in the latest quarter, up from $26 million in Q3 of 2021. 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 expanding and modernizing our physical infrastructure.

Cash from operations during the quarter was a generation of $7 million compared to cash usage of $0.05 million in Q3 of 2021. The year-over-year increase was driven by higher net income and the timing of working capital requirements in Q3 2022 versus the prior quarter. Free cash flow was negative $34 million in the latest quarter. Free cash flow, after adjusting out growth CAPEX investments, was $1 million in Q3 2022. Finally, cash from financing activities was a generation of $23.5 million, compared to a usage of $2.2 million in Q3 of 2021.

Moving on to our balance sheet, we ended the quarter with a strong financial position, with net debt of $194.6 million, available liquidity of over $383 million, and net debt to trailing 12 months Adjusted EBITDA ratio of 1.3x. In summary, the team executed well this quarter and we’re seeing positive inflection in our top line as we execute on our backlog.

Turning to outlook, as Mike noted, we are updating our 2022 outlook to reflect greater visibility and solid operating performance. We are reaffirming our 2022 revenue target of $630 million to $650 million, which represents year-over-year growth of approximately 30 percent to 35 percent. We are raising our 2022 Adjusted EBITDA target to $130 million to $135 million, up from $120 million to $130 million previously, to reflect continued strong execution and operating performance.

The Adjusted EBITDA forecast excludes the $16.8 million amount reported in Q1 of 2022 related to the resolution of historical ITC claims. We're also narrowing our 2022 capital expenditure range, to $180 million to $195 million from the prior guidance of $180 million to $220 million.

CAPEX is primarily comprised of growth investments to support CHORUS, and the previously outlined growth initiatives across our business areas. With a large number of programs now in backlog, our book of business is strong. We remain focused on executing well on our customer commitments and leveraging our capabilities and technology to grow profitably in core and emerging markets, in line with our long-term plan.

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

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you, Vito.

With that, we will open it up for questions.

Q & A

Operator

Thank you, sir.

First will be Doug Taylor at Canaccord Genuity. Please go ahead.

Doug Taylor — Analyst, Canaccord Genuity

Yes, thank you. Good morning.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Good morning, Doug.

Doug Taylor — Analyst, Canaccord Genuity

Telesat provided an update that they now expect to reach some sort of conclusion with respect to financing and supply chain by the end of this year. I thought I'd get you to refresh your own views on the prospects for that program.

Then as a hypothetical, assuming that their updated timetable is correct, could you maybe speak to what 2023 would look like for Lightspeed for MDA, assuming that they do conclude the financing by the end of the year?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Okay, Doug, thanks.

As you know, we've taken Lightspeed out of our sort of forecast, moving forward. We continue to work it as an opportunity in our pipeline. Certainly, in our observation of the community, Lightspeed continues to advance its efforts to arrange its financing and get its contracts in place, as they indicated in their earnings call, as you said.

We will continue to watch that. I'd say that we've been here before, so we continue to watch their current status, and we will reach on (phon) as that program continues to advance, but it is like many other opportunities in our pipeline that we continue to bid on and wait for contract award to be able to talk about it. Does that make sense?

Doug Taylor — Analyst, Canaccord Genuity

Yes, it does make sense, thank you.

The implications are for a pretty significant step-down in margins in Q4 from the Q3 level. Just wanted to ask, is that simply related to the mix of programs that you're expecting to roll through your P&L in Q4? Is there some inflationary pressure or otherwise that you're seeing that's being factored in there?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Hi, Doug, it's Vito.

No, nothing systemic. You've got to remember, Q4 we do have some of the seasonal shutdowns, so in addition to the program mix that you're referencing, where some of those lower margin programs have a higher proportion of our overall volume in Q4, you're absolutely right with that. The second factor I would just cite there is, typically Q4 we have lower absorption rates, a lower overhead absorption rate. That impacts the margin as well. But overall, feeling very, very positive about our operating performance.

Doug Taylor — Analyst, Canaccord Genuity

All right, one last one for me.

Vito, maybe I could get you to refresh us on where you stand now with the spending on each of the key growth CAPEX initiatives, CHORUS, build-out in Montreal, and other items. That'd be helpful. Thank you.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes, you would've seen, Doug, we've updated our guidance there to narrow it to the full year here, from $180 million to $195 million. Substantially all of that is what we call growth CAPEX. One of the wonderful things in this business is that, as we make our way through these growth CAPEX initiatives that we truly believe have long-term value creation opportunities for our organization, the maintenance CAPEX is relatively modest. As you look at our full year CAPEX requirements, those are largely growth CAPEX.

The biggest component of our 2022 is in fact CHORUS. No substantive changes there. Our growth CAPEX is focused primarily on CHORUS, supporting the satellite initiatives in Montreal, with substantial growth, and RSS with Robotics. No changes overall in the strategic initiatives that those quoted CAPEX expenditures are supporting.

Doug Taylor — Analyst, Canaccord Genuity

The change there, is that simply CAPEX getting pushed into a different period, or is there some savings that you found, relative...? [Multiple speakers]. Go ahead.

Vito Culmone — Chief Financial Officer, MDA Ltd.

No, yes, just normal timing-related items. No substantive changes overall in program anticipated spend.

Doug Taylor — Analyst, Canaccord Genuity

Okay. I'll pass the line. Thank you.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you.

Operator

Thank you.

The next question will be from Thanos Moschopoulos at BMO Capital Markets. Please go ahead, sir.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Hi, good morning.

Mike, we're obviously in a tougher financing climate than was the case three or six months ago. Just curious, as you look at the opportunities in your funnel, to what extent is that or is that not having an impact—do most of the commercial opportunities involve customers that have financing in place, or is there some kind of lingering uncertainty, I guess, notwithstanding the whole Telesat discussion?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes, I think the pipeline for us is very, very solid and stable. We have a good mix of government customers, commercial customers that have no financing issues, they've got all the money that they would need. Then, a couple commercial customers out there that are raising their financing, like the Telesat conversation. We definitely see a mix across the pipeline, but we're very encouraged by what we're seeing across the board and have a very robust pipeline, is the way we describe it.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Okay. Great.

Just want to get your perspective—obviously, interesting development with Globalstar and Apple, just curious in terms of your thoughts as to whether, inevitably, over time, we might start to see consumer mobile devices using satellite connectivity for non-emergency applications, or whether there might be some costs or technical hurdles that the industry will have to overcome before we get to that point in the coming years?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Yes, I think that, like any other advances that we've seen in communication technology over the years, the market starts small and work on technology solutions and try to advance them. If you look at the announcements from the different players that have spoken up about that over the last quarter, we see people starting to talk about emergency services in a number of the different groups, and then some folks looking at trying to push their technology to do more. I think it will just emerge over time as people gain confidence each step of the way.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Okay. Great.

One last one for Vito. Obviously, noncash working capital was a bit of a drag on cash flow the last couple of quarters. How do we think about that dynamic in the near-term?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes, Thanos, we're really pleased with how our working capital, over the course of the last several quarters, has developed. I think what you're seeing in Q3 obviously reflects the Globalstar receivable. That's extended into Q4, and we expect that to come back into line as they continue to pursue their financing options, which is progressing well from what we understand.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Okay. Great. I'll pass the line, thanks.

Vito Culmone — Chief Financial Officer, MDA Ltd.

Thank you.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you.

Operator

Thank you.

The next question will be from Kristine Liwag at Morgan Stanley. Please go ahead.

Kristine Liwag — Analyst, Morgan Stanley

Hey, thanks. Vito, thanks for the colour on the Globalstar cash.

But taking a broader cash question, EBITDA stepped in the quarter, but operating cash is still pretty light. Can you provide more colour on how we should think about revenue recognition and operating cash generation, and what are milestones for cash we could follow?

Then also, how do you think about having cash on the balance sheet versus available liquidity?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Yes, thank you, Kristine.

Well, first of all, maybe I'll take the second one first. We have ample liquidity, and with the great efforts of our Treasury group, we obviously minimize cash on balance sheet, because we can turn around on 24 hours' notice and grab further cash from our revolver requirement. That's really an interest minimization mechanic, that's what you're seeing there, and accrues to the bottom line. No issue there, with respect to "cash on the balance sheet" versus available liquidity. That's all just active Treasury cash management.

In respect to your first point, our cash operations are tracking very much in line with our expectations and will continue to do. The one item I've already referenced too is, of course, the Globalstar financing, that we've agreed to revise the vendor financing terms there. To that end, I should make a note, as part of that, we agreed to a couple of instalment payments here in the early part of the quarter, the first one which has been made by Globalstar, so we appreciate that.

No substantive changes to our guidance there, Kristine. I think, when we look at operating cash flow, we've guided to sort of a 60 percent conversion. The timing differences that you see working away from Adjusted EBITDA to cash from operations, primarily working capital is one of those, and on a year-over-year basis, we don't anticipate working capital requirements as we increase the revenue in this business. The other one is ITC. The ITC is one can bump around with some volatility from quarter-over-quarter and that's obviously substantively a noncash item.

Overall, we've guided to a 60 percent conversion there on the operating cash flow, and we'll stick with that for the next little bit. I expect that number to grow as our business grows.

Kristine Liwag — Analyst, Morgan Stanley

Thank you.

With the capital markets kind of a little bit more volatile, would you guys choose, going forward, to have a higher cash balance on the balance sheet?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Well, like I said, Kristine, I think it's really, really important that you recall that, yes, the liquidity is available to us on 24 hours' notice, so when I think about the available liquidity to us, which is almost $400 million right now, we're very, very comfortable with that. Quarterly leverage at the end of the quarter, 1.3x, as we make our way through 2023, and we'll provide guidance in 2023 with our Q4 call, both on the revenue and the capital side. We're incredibly comfortable with the available liquidity that we currently have in the business, not only at this point in time, but as we make our way through 2023 as well.

Kristine Liwag — Analyst, Morgan Stanley

Thanks, Vito.

Maybe if I could add another one. Mike, you highlighted in your prepared remarks, look, the environment for space is pretty robust. You do have a few players having a lot more activity in the U.S., with the government, international, and also with the new commercial players. With this backdrop, do we expect book-to-bill to exceed 1x in the fourth quarter? Then also, is a backlog of book-to-bill above 1x also what we should expect for 2023?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Sorry, I missed your question about the fourth quarter. I apologize. Could you repeat that?

Kristine Liwag — Analyst, Morgan Stanley

Book-to-bill for 4Q and for 2023, will they both exceed 1x?

Michael Greenley — Chief Executive Officer, MDA Ltd.

Okay. When we look at backlog and we think about that, we definitely think about it on an annual basis. We're chasing some bigger fish and when we catch them, we build a backlog with a bigger catch. We won't look at that on a monthly or quarterly basis in our thoughts. You're seeing us right now with a $1.4 billion backlog on a $600 million year, so greater than 2x, certainly, that's how we would view our 2022 year.

As we go forward and into '23, as Vito said, when we do our Q4 results, we'll talk about the year and sort of what our thinking is at the time, but with an active pipeline, I would expect us to keep going up that backlog hopper moving forward.

Kristine Liwag — Analyst, Morgan Stanley

Great. Thank you, guys.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Okay.

Operator

Thank you.

Your next question will be from Mark Neville at Scotiabank. Please go ahead.

Mark Neville — Analyst, Scotiabank

Hey, good morning.

Just to be clear, does all that Globalstar cash come back in Q4, that's tied in working cap?

Vito Culmone — Chief Financial Officer, MDA Ltd.

Mark, that's the expectation, then in December we'll settle up.

Mark Neville — Analyst, Scotiabank

Okay.

I guess just on the liquidity discussion, the $400 million (inaudible), that's fully available. Is there any tests or sort of anything that at some point would perhaps change what's available?

Vito Culmone — Chief Financial Officer, MDA Ltd.

No, not at all. I mean, obviously we've got covenants, but we're well within the boundaries of those covenants. That number that I described reflects all those considerations.

Mark Neville — Analyst, Scotiabank

Right, okay. Thanks.

On some of the CSC contracts, I'm not fully clear how quickly it's ramping, but if there was delays on the final design, is there a risk to MDA where work need to stop or significantly slow?

Michael Greenley — Chief Executive Officer, MDA Ltd.

I don't think so. I think it's a long steady road as these projects start up. I think that what you're seeing in CSC is throughout the year of 2022, at the top level, at the ship level, there's been a lot more studies and considerations going on as they've been working on the resolution of what they call the requirements reconciliation phase and starting to then gradually get into the preliminary designs. We just gradually ramp up with it as it gradually ramps up; it's just taking longer, as at the ship level, they're doing more considered reviews.

Our plans and expectations, we just constantly adjust those based on the ramp-up that we're seeing in the project. We'll reflect that in any guidance or thinking that we have about the future.

Mark Neville — Analyst, Scotiabank

Okay.

I guess final question, I don't want to spend too much time on Telesat, but if they were to obtain financing, would there be any risk that you would need to re-bid anything, or would there be material changes to the contract that you signed?

Michael Greenley — Chief Executive Officer, MDA Ltd.

I think that as we go, we always—when you go through these processes, each member of the supply chain is keeping their quotes and estimates into Telesat up to date as we go through the process. If and when Telesat got to the point where all their financing was arranged and it was time to turn on all those contracts at full steam, then that would be based on all the updated bids and quotes that we've all submitted.

Mark Neville — Analyst, Scotiabank

Got it. Thanks for the time. Appreciate it.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Okay. Thanks.

Operator

Thank you.

At this time, we have no further questions registered. Please proceed with your closing remarks.

Michael Greenley — Chief Executive Officer, MDA Ltd.

Thank you very much for your time this morning.

As a team, we look forward to updating you on our progress during our next earnings call. Have a great day and stay safe. Thank you.

Operator

Thank you, sir.

Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending, and at this time we do ask that you please disconnect your lines. Have a good weekend.