FINAL TRANSCRIPT

# MDA Ltd.

## Third Quarter 2023 Earnings Conference Call

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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 November 8, 2023, at 8:30 a.m. Eastern Time.

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

I would now like to turn the conference 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 Third Quarter 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 folks, and thank you to those joining us today to discuss our third quarter 2023 financial results.

We delivered another solid quarter in Q3 with double-digit revenue and Adjusted EBITDA growth, solid profitability and record backlog, results which showcased the team's continued strong execution and the momentum we are seeing in our business and our end markets.

Q3 was a busy quarter for MDA. In August, we announced we've been awarded a $2.1 billion contract from Telesat to act as the prime satellite contractor on the Telesat Lightspeed LEO Constellation, our second prime satellite contract in 18 months and a testament to MDA's innovative technology and advanced manufacturer in capabilities in this market.

Shortly after, we announced the acquisition of the digital payload division of SatixFy Communications as we continue to invest in our digital satellite technology and talent. That acquisition was completed last week and I look forward to spending time with that team coming up soon.

We also unveiled our new software-defined digital satellite product line at the World Satellite Business Week conference in September as the market continues to transform from analogue to digital satellites with Telesat being an anchor customer for this new product line.

And subsequent to quarter end, we announced the selection of SpaceX as our launch partner from CHORUS, our next-generation earth observation constellation, and confirmed our launch window for Q4 2025.

Of course, none of this would have been possible without the hard work and dedication of the entire MDA team who I'd like to thank and acknowledge.

As a result of the strong execution year-to-date, we are updating our guidance for the full year. We now expect 2023 revenues to be in the $790 million to $810 million range, an increase of approximately 25 percent year-over-year at the midpoint of guidance. We are also increasing our Adjusted EBITDA guidance to $165 million to $175 million, representing approximately 20 percent to 21 percent Adjusted EBITDA margin.

For the full year, we expect capital expenditures to be in the $200 million to $210 million range, 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 across our business areas. In Satellite Systems, we are continuing to make investments in new technologies and capabilities to accelerate our transition from analogue to digital payloads and build up our high-volume satellite manufacturing capacity as more low earth orbit or LEO constellation opportunities come to market. The Telesat Lightspeed award is a great example of how we are strengthening and securing MDA's position at the heart of the rapidly growing LEO constellation and Satellite Systems market. MDA's contract includes the design, manufacture, assembly and test of 198 satellites with options for Telesat to purchase up to 100 additional satellites.

The recently completed acquisition of SatixFy Space Systems U.K. helps advance MDA's new digital satellite product offering, adding complementary digital payload expertise and capacity to meet growing customer demand.

In Robotics and Space Operations, we are leveraging our global leadership in space robotics innovation and long history of success with Canadarm 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 in the market 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 the CHORUS earth observation constellation, 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, spend a few minutes giving you a view on the industry, provide an update on MDA's three business areas, and then pass it over to Vito for a deep dive into the financials.

For the third quarter, MDA delivered revenues of $205 million, up 19 percent year-over-year. Adjusted EBITDA was $43 million, up 10 percent year-over-year, and Adjusted EBITDA margin was 20.9 percent. Our backlog at quarter end stood at $3.1 billion, a record level for the company, driven by the sizable Telesat Lightspeed award.

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.

Next, I'd like to update you on developments within the broader space market, which is continuing to expand, mature and gain momentum.

A few items worth highlighting. Starting closer to home, the Government of Canada announced in October $1 billion of funding over 15 years for the RADARSAT plus portfolio, an initiative aimed at ensuring continuous, efficient and sustainable access to critical and high-quality earth observation data for Canada. The latest funding announcement builds on the momentum we saw earlier in the year when Canada announced $2.3 billion of investments for two space initiatives, continuing Canada's participation in the International Space Station, and developing and contributing a lunar utility vehicle to assist astronauts on the moon. These commitments signal not only the speed of the market opportunity before us, but the growing importance of the space economy on a national level.

In September, the world watched as a historical seven-year mission of OSIRIS-Rex successfully returned to earth, touching down in the Utah desert with physical samples of the asteroid Bennu, thanks in part to an MDA-built laser altimeter. Over the course of six months, the OSIRIS-Rex laser altimeter mapped and measured the surface of the asteroid, producing a highly accurate 3D map. That 3D map provided scientists critical insight into Bennu's surface, enabling them to pinpoint an ideal spot on the asteroid's rocky terrain from which to collect a sample. The successful completion of this mission is a serious point of pride for all of us at MDA.

On August 23, India became the first country to land a spacecraft near the Moon’s south pole, an uncharted territory that scientists believe could hold vital reserves of frozen water. With this landing, India also becomes the fourth country to ever achieve a soft landing on the moon after United States, Russia and China. One of the major goals of India's mission is to hunt for water-based ice, which could support human habitation on the moon in the future.

India is just one of a number of countries with lunar and space exploration ambitions. According to a recent report from Space Market Analytics from Euroconsult, the number of space exploration missions are projected to exceed 750 in the next decade, more than tripling from the 236 missions we saw in the previous 10 years. Global government spending for space exploration is expected to grow from $26 billion in 2023 to approximately $33 billion by just 2032, as governments around the world support ambitious space exploration plans.

South of the border, both NASA and the U.S. Department of Defense Space Development Agency or SDA, continue to advance civil and defense space programs, including Artemis, NASA's lunar exploration program to send humans back to the moon, and SDA’s multiple LEO constellations, which will create a new ecosystem of satellites designed to enhance space infrastructure and help protect national interest and which is resulting in repeat orders for core technology suppliers like MDA.

Globally, we continue to see increased interest in space exploration, with Germany being the latest country to sign on to NASA's Artemis accords, signalling its commitment to safe, long-term and ethical space exploration. The latest entry brings the group size to 29 nations with interest from many nontraditional space faring nations, which are now building their own national space programs.

In terms of space infrastructure, spacecraft launch activity continued to unfold at a record pace. In the first half of 2023, a total of 1,666 spacecraft launched globally, an increase of approximately 40 percent versus the same period last year, with 93 percent of those spacecraft operated by commercial players and the majority comprised of communication satellite launches. The higher activity levels are driven primarily by growth in commercial LEO constellations.

All of this activity bodes well for MDA and our future pipeline opportunity set, which we estimate today at approximately $17 billion in cumulative pipeline over the next five years, a level that we would characterize as very robust for the Company.

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 LEO constellation projects. We are seeing good activity levels from customers and our opportunity funnel remains strong.

As I noted earlier, in August, we announced an expanded role in the Telesat Lightspeed program where MDA is acting as the prime satellite contractor for the 198 satellite constellation, responsible for the design, manufacture, assembly and test of the satellites. Over the last few months, our teams have been busy engaging with our supplier base and progressing early design work, system requirements analysis, and subcontractor tendering, planning and preparation.

Additionally with this contract, Telesat becomes the anchor customer for MDA's new and industry-leading digital satellite product line. The fully integrated portfolio includes a complete range of modular digital products and components for space-based communications solutions, coupled with advanced high-volume manufacturing capability, capable of delivering two satellites a day, helping dramatically to reduce production cost and schedule for customers. As an example, Telesat has indicated that MDA's new software-defined satellite product was a significant factor in their ability to bring down the cost of Lightspeed constellation by approximately $2 billion when compared to the original constellation design.

We also recently completed the acquisition of the digital payload division of SatixFy Communications and I'd like to extend a warm welcome to our new team members. The team, which is based in the U.K., has been integrated into MDA U.K. and brings with it strong capabilities and expertise in digital payload technology. The team will be collaborating closely with our Satellite Systems business in Montreal and will help us expand our footprint in the U.K. market and add strategic in-country capability to produce satellite payloads.

Moving to other notable programs, we continue to make good progress on the Globalstar program. The team recently completed the satellite critical design review and is currently progressing towards a spacecraft integration readiness review in Q1 of 2024. For the Globalstar program, MDA was selected as the satellite prime contractor to enhance Globalstar's LEO constellation through the addition of 17 satellites, which support SOS features and direct-to-device communication for Globalstar's customer, Apple.

Moving to our Geointelligence business, customer demand for our earth observation offerings remain 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 CHORUS constellation, which will include a fourth-generation MDA-built C-band synthetic aperture radar satellite in addition to the X-band satellite, which we're purchasing.

The team continues 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 operations plans and processes.

Subsequent to quarter end, we announced at our Earth Insights customer event in October the selection of SpaceX as our large partner for CHORUS with a launch window set for Q4 2025. The event, which brings together our global customer community for our earth observation business was a great opportunity to feature the enhanced capabilities of CHORUS and help existing and new customers gain a better appreciation of the technology that's coming. We are pleased with the response from customers and continue to engage in active discussions with both new and existing customers on how CHORUS can help address their earth observation data and analytics needs.

In terms of other notable programs, work on the Canadian Surface Combatant, or CSC program, one of our long-term government programs, is progressing in line with our expectations. The team continues to meet our technical milestones and complete capability testing as required. 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 threats to help protect the men and women of the Royal Canadian Navy.

Moving to our Robotics and Space Operations business, we continue to see good traction and activity levels on both government and commercial fronts. On the government side, we continue to progress the design work on Phase B of the Canadarm3 contract, which MDA was awarded in early 2022. That will see us completing the preliminary design of Canadarm3 robotic system to be used aboard the NASA-led Lunar Gateway. The team is making good progress towards the preliminary design review milestones, and during the quarter we submitted an updated bid for the next phases of work on Canadarm3, including advanced detailed design and manufacture, integration and test.

In Q3, we also received follow-on contracts for the Canadarm3 external robotics interfaces, including the final construction and delivery of the interfaces. This latest award builds on the design work completed by MDA during the earlier phases of the program. With these new contract awards, the external robotic interfaces become the first Canadarm3 hardware components to go into production, a major milestone for the Canadarm3 program and Canada space program.

The team is also working with the Canadian Space Agency on bids for follow-on services contracts to provide engineering support for the International Space Station robotics, including Canadarm2 as part of Canada's commitment to support the ISS until its retirement in 2030.

On the commercial side, we're 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 area.

Shifting to operations, we continue our hiring efforts to support the anticipated revenue ramp up. Over the last year, we have added more than 840 new hires. With more than 2,900 highly skilled MDA staff, we have the people and the talent to help propel our growth and give us the scale to execute on the market opportunities we see emerging.

The team is busy planning and preparing for the move to our new global headquarters and Space Robotics Centre of Excellence in Brampton, Ontario, expected to begin in the first quarter of 2024. This purpose-built facility will feature state-of-the-art labs, manufacturing, R&D, and assembly integration and test facilities. The Centre of Excellence will also house multiple space robotics mission control centres, enabling MDA to provide critical on-orbit operations capabilities to commercial and government customers worldwide.

We also remain vigilant when it comes to our supply chain, keeping a close eye for potential business disruptions, and so far, these have all 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 our orders are placed promptly and monitored constantly to mitigate any 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 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 today, I'll walk you through our Q3 2023 financial results and also provide additional colour on our outlook update.

As Mike has noted, 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 19 percent year-over-year, slightly ahead of our guidance for the quarter. In terms of Adjusted EBITDA, Adjusted EBITDA margin of 20.9 percent exceeded our 19 percent to 20 percent guidance range, and backlog at the end of the quarter stood at a record $3.1 billion.

Total revenues for the quarter were $204.7 million and this represents a $32.7 million or a 19 percent increase over the same period last year, and the year-over-year increases were driven by higher revenues across our businesses with strong contributions from our Satellite Systems and our Robotics and Space Operations businesses, in particular.

By business area, revenues in our Geointelligence business of $48.4 million represents an increase of $2.9 million or 6.4 percent compared to Q3 2022 and this was driven by slightly higher volumes of work.

In Robotics and Space Operations, we saw healthy year-over-year growth with revenues of $61.9 million in the latest quarter, and that represented a $7.3 million increase or 13.4 percent versus Q3 of last year. The growth is largely attributable to higher volume of work performed on the Canadarm3 program.

Revenues in Sat Systems of $94.4 million in the third quarter were $22.5 million or 31.3 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 to us in Q1 of 2022.

Moving to gross profit, and as a reminder, gross profit represents our revenues less cost of revenues, which includes materials, labours, allocated overhead, SRED credits and depreciation. For Q3 gross profit was $57.7 million, representing a $1.3 million or 2.3 percent increase over the same period last year. Gross margins in Q3 2023 was 28.2 percent and this compares to 32.8 percent for the same period in 2022 as a result of MDA's evolving program mix and in line with our expectations. As discussed in previous quarters, we do anticipate the mix of programs in 2023 to cause a slight drop in gross margins as we make our way throughout the year and we're seeing that here.

Q3 operating expenses of $42 million were $3.4 million or 8.8 percent higher than last year's metric of $38.6 million. and this reflects 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.

Adjusted EBITDA. Adjusted EBITDA in the latest quarter was $42.8 million compared to $38.8 million in Q3 of 2022, driven by higher gross profit as we continue to execute on our backlog. Adjusted EBITDA margin was 20.9 percent in Q3 2023, compares to 22.6 percent in the same period last year. The year-over-year change in Adjusted EBITDA margin was largely in line with the variance in gross margin over the same period.

As noted, we ended the quarter with $3.1 billion in backlog and this represents an increase of 123 percent on a year-to-date basis and 118 percent versus the same period last year. The increase in backlog was driven by new order bookings, including the recently announced Telesat Lightspeed constellation contract award, partially offset by continued conversion of our backlog into revenue.

In terms of CAPEX, we remain focused on making the right investments in the business to support our strategic growth initiatives. In Q3 2023, we spent $49.4 million on gross capital expenditures. This was up slightly from $40.9 million last year. Growth CAPEX was $44 million in the latest quarter compared to $35 million in Q3 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 expanding and modernizing our physical infrastructure.

Cash from operations during the quarter was a usage of $30 million compared to a cash generation of $7 million in Q3 of 2022. The year-over-year decrease was driven by higher working capital requirements in Q3 2023 as a result of the timing of certain milestone payments versus the same period last year.

On a trailing 12 months basis, it's important to note that our operating cash flow totalled $95 million, helping fund our growth investments.

Free cash flow in the quarter was a use of $79.4 million in the latest quarter. Cash from financing activities was an inflow of $53.5 million, which primarily reflects the borrowings made on our revolving credit facility during the quarter compared to $23.5 million in Q3 of 2022.

In terms of balance sheet, we ended the quarter with a healthy financial position, as Mike has noted. Net debt at the end of the quarter stood at $290.4 million. Available liquidity was $275 million—remains elevated at $275 million, and net debt to trailing 12 months Adjusted EBITDA ratio was 1.7x.

In summary, this was another strong quarter of execution from the team and in line with our guidance, and we're seeing positive inflection in our revenue and profitability as we convert our backlog.

Turning briefly to outlook, for fiscal 2023 we're raising our financial outlook to reflect strong execution to-date. We're narrowing our full year revenue guidance to $790 million to $810 million, and this was from $785 million to $810 million previously. This represents robust year-over-year growth of approximately 25 percent at the midpoint of guidance. We are raising our 2023 Adjusted EBITDA guidance to $165 million to $170 million from $155 million to $165 million previously and this represents approximately 20 percent to 21 percent Adjusted EBITDA margin.

We're also narrowing our 2023 capital expenditures range to $200 million to $210 million from $200 million to $220 million previously, comprising primarily of growth investments to support CHORUS and the previously outlined growth initiatives across our three business areas.

With strong execution year-to-date, we look forward to wrapping up another successful year here for MDA. Our backlog sets us up well for 2024 as our teams ramp up and advance our work on a number of technologically exciting and strategic programs across our entire business.

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

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

All right. Thank you, Vito.

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

## Q & A

**Operator**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator instructions).

Our first question comes from Doug Taylor from Canaccord Genuity. Please go ahead. Your line is open.

**Doug Taylor** — Analyst, Canaccord Genuity

Thank you and good morning everyone. Congratulations on another strong quarter of execution.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Thanks Doug.

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

Thanks Doug.

**Doug Taylor** — Analyst, Canaccord Genuity

Telesat earlier this week spoke to the strong progress in moving the Lightspeed program forward with ramping and working with supply chain and such; you've echoed that today. My question is, I wonder if with the benefit of a couple more months of planning now behind us, are you willing to share anything incremental about the model implications we can anticipate for 2024 or any other timeline that you could potentially help us with?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

I think probably not a lot right now. It's very similar to how we've talked about it before. Like I agree with our remarks, of course, and I agree with Telesat's remarks. We're very much in sync. We're executing on the plan. The teams are working really well together, so it's a very positive story. But there's a lot of work to do to ramp up. It is a long gradual ramp up. We tried to characterize that through '24 that it's a steady ramp up through '24 as we solve everything and start to incrementally activate the supply chain. With the follow-on years being a bit bigger of a burst as we then get into really receipt of a lot of materials and get into production towards those first 2026 launches. The '24 is a ramping year for the year and then a very heavy, busy '25 and '26.

**Doug Taylor** — Analyst, Canaccord Genuity

Maybe sticking with the Satellite Systems business, it seems like the Globalstar program continues to move along nicely. Could you remind us as to when we should expect to reach peak revenue throughput related to that program in the years ahead?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

I'll let Vito talk if he's got anything there. I remember when we first talked about this program and it hasn't changed. It's very much a steady program. It's sort of a three-year burst with like steady years throughout the three years on that one. So there's not really a peak. It's just like three solid steady years that are similar in nature.

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

I just echo those comments, Mike. Doug, Globalstar's progressing extremely, extremely well. We expect steady revenue through 2024 in relation to 2023, if you will. There's always some revenue recognition timing-related matters from a subcontractor perspective, but pretty well in line, I'd say. And just to echo back to the question around Telesat and what Mike articulated, clearly, we'll be looking forward with our year-end results and providing more robust 2024 guidance, if you will, formal guidance. That project and the initiatives there that Mike described are going exceedingly well and the developments over the next couple of months as the teams continue to dialogue will provide a little bit more insight into maybe 2024 revenue specifics. But no activity has transpired over the last couple of months that take us away from some of the commentary that we provided when we announced the program. It's all progressing in line with our expectations to more slightly positive.

**Doug Taylor** — Analyst, Canaccord Genuity

We'll look forward to more detail next quarter.

Last question for me. Given you now book a ride for CHORUS on SpaceX, can we infer increased confidence in the remaining technical and production milestones required there as you look to de-risk the build of that constellation?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Yes, absolutely. That is the case. That's why we would make those announcements at this time, is that we're past all of our critical design reviews, we're in unit production. Next year, we'll transition from unit production into satellite production. We can see all that. Based on our schedules, we've made all these calls with SpaceX in our launch window. So hat's what we're confident in, for sure.

**Doug Taylor** — Analyst, Canaccord Genuity

I'll pass the line. Thank you.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Okay. Thanks Doug.

**Operator**

Thank you. Our next question comes from Ken Herbert from RBC Capital. Please go ahead. Your line is open.

**Ken Herbert** — Analyst, RBC Capital Markets

Good morning, Mike, Vito and Shereen. Nice quarter again. Maybe just to start, Mike, if we look at the potential of the Telesat exercises more of the options on the Lightspeed program, can you just talk about where you stand with capacity on the digital satellite side? Would you need to incrementally add capacity, or how should we think about that over the next couple of years?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Yes. It's a big topic. Everyone wants to talk about this topic. It's a good topic. Because we do have a very active pipeline and people need to have the right frame of mind in talking with us about our capacity.

You've heard us talk about the transition that we're making and we're making a transition to the new digital satellite product, which has strong overlap across multiple opportunities in a growing pipeline.

And that we're then modifying both of our engineering processes around more of a product-based framework as a result and we're modifying our operations and production facilities around the product line. That's the transition that we're making in the business is to this product and to this product's production. That's one significant transition of what we're doing it and it's going well.

The result of that is that we can then produce two satellites a day. We keep saying that number, that this will allow us to produce two satellites a day. I, of course, go around and tell people, helping people with the math, whereby two satellites a day is 400 satellites a year, and on a five-year block, that would be 2,000 satellites in a five-year block, if you do the math. And Telesat's ordered 200 of those 2,000 over the next five years. If we got a top up for another 100 from them, then that will be fine. That fits in the capacity that we're establishing in the business. If somebody else came along and ordered another chunk, then that's fine, too. It fits in with that capacity.

We're making this one transition to give ourselves this capacity., and then I get to stare down the sales team to say, "Okay, you sold 200 of 2,000. We've got to go get 1,800 more," and everybody smiles back.

But that's what we're working on. So, definitely, we have the capacity to be able to receive those types of top-up or follow-on orders.

**Ken Herbert** — Analyst, RBC Capital Markets

That's very helpful. Just as you think about that transition, clearly more of a product-based approach and I can appreciate probably the most recent acquisition fits into this, but what are the risks inherent in that transition, or how should we think about maybe where there could be either positive or negative surprises as part of this transition over the next few quarters?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Yes. I think that in any transition, well, in all of our growth, we've always said when everyone says, what would your big worries be, we always talk about talent. We've hired a lot in the last few years. We continue to hire and hire well. Strong engineers are coming into the company, strong manufacturing techs are coming into the company. People are attracted by space and so we are able to hire well. But we massively continue to focus on that because human talent is what gets us here and keeps us here. And so that's a big area of focus.

As you mentioned, the acquisition in the U.K. brings in some talent, also brings in a new team and location. We can tuck a few more people in and around them as we go forward into the future as well. So it gives us a couple of different areas where we can add talent to the business. So we'll pay attention to that.

Other big things that we focus on, the transition to the more advanced manufacturing is an incremental step, really. We've been doing this for several years now as we've gone through our role in constellations over the last number of years, through O3B and Iridium NEXT and then the OneWeb constellations—certainly that transition to OneWeb, which was very much a robotics-based manufacturing and test transition as we produced over 2,000 satellites for the first generation of the OneWeb constellation. Did I say satellites? I meant at antennas. Two thousand antennas for the first generation. That's got our chops all tuned up to be able to do this stuff and now we're transitioning all those skills with support of outside experts into the full satellite advanced manufacturing production. So that's more of an incremental step.

One of the key things at the moment that we need to pay attention to and I mentioned in my remarks, is our continued focus on our supply chain. We're now out in the market buying very high volumes. So us making the right choices there and us making sure that our supply chain can scale with us is also a very important laser-focused item for us.

**Ken Herbert** — Analyst, RBC Capital Markets

Great, Mike. Appreciate all the colour. I'll pass it back there.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Okay. Thank you.

**Operator**

Thank you. Our next question comes from Konark Gupta from Scotiabank. Please go ahead. Your line is open.

**Konark Gupta** — Analyst, Scotia Capital

Thanks, Operator, and congrats on a good quarter. Just wanted to ask about margins first. You're still trending about 20 percent margin so far this year. I know you've been talking about 18 percent to 20 percent margins long term. Was there anything specific in the quarter that helped the margins in terms of mix? Your Q4 implied guidance kind of suggests 18 percent margin, so is that mix shifting into Q4 more than you anticipated? What's really happening in these two quarters?

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

Hi Konark, it's Vito. No, we just continue to see great execution. I mean, obviously mix contributes as Satellite in particular business is a bigger component, but they're executing very well and the absorption of the overhead as we scale up in the application to the programs continues to be ahead of our expectations. So it's overall just continued good execution.

You're right in regards to what we're implying there for Q4. Q4, typically, you do have some seasonal effects there that in addition; we don't expect any significant quarter-over-quarter mix-related issues, Q3 and Q4. That's more maybe just reflecting some seasonality that we typically see in Q4, although if you have cast your eye to prior year, you also see healthy margins there as well. So we'll continue to refine our guidance and continue to execute towards it. But the credit goes to the entire operations team.

And also as our revenue grows, clearly, an objective is to continue to make the proper and appropriate long-term investments in our SG&A and our R&D, but the expectation, of course, is that we'll get some operational efficiencies as a percentage of revenue through that. That also helps margins as we go forward.

You haven't heard us talk about 18 percent for a long time, but maybe 19 percent to 20 percent, 21 percent as we move forward here. We'll give refined guidance as we move into February, but very pleased with our margin performance. Thank you for asking the question.

**Konark Gupta** — Analyst, Scotia Capital

That's great, Vito. Thanks so much. Then with respect to growth outlook, I know you guys will be providing full year guidance in the next three months or so. But just kind of like conceptually thinking about what do you have in your backlog. So for '23, I think you have about 98 percent of planned revenue in backlog. Is there any comparable number, like, without getting into too much detail? What's the high level sort of secured revenue in '24 that's in the backlog right now?

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

Yes. Maybe we'll just—I think that gets us into 2024 February perspective a little bit. But clearly, as you see us moving and evolving from a backlog perspective, as we provide guidance there's a more significant component of firm in our backlog as we move forward. TBD on Lightspeed based on what we described earlier around the pace of the ramp and whatnot, but from a perspective of predictability and whatnot as we move forward and develop a larger revenue base, we're meaningfully de-risking the short-term sort of view on the revenue side of things.

We'll give you a little bit more colour, Konark, as we move forward with our guidance. I think it's a fair question in February to sort of say how much of our 2024 guidance is actually in backlog. But we'll take it one step at a time and just hold off there until we do that.

**Konark Gupta** — Analyst, Scotia Capital

I appreciate that. Then just a quick follow-up on CHORUS, maybe perhaps more for Mike. The Earth Insights event, Mike, it's a first for me, for sure. What is the discussion like there with customers? I'm like you're talking to existing customers as well as new customers. What exactly are they doing? Are they looking at the technology and do you start discussing the contract opportunities with them? Or is it just like more like showing or showcasing what you have as a product for now and then maybe you get eventually the contracts or the orders in the next couple of years?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Yes. It's really all of those things, in addition to the customers talking about what they're doing in their communities with RADARSAT-2 data and our Maritime Insight platform software applications, in addition to what they would like to be able to do with CHORUS. It's a bit of us talking about where we are and where we're going. It's a bit of us introducing new capabilities that we might have added or tweaked on RADARSAT-2 and/or are about to introduce on CHORUS. And then there's like fireside chats and panel discussions with customers community for them to be able to talk about what they're doing and where they're going and what they're seeing in the market. It's a very collaborative kind of community team-building thing that occurs.

During the time, there is one-on-one conversations that do occur off to the side with key customers. Everybody can request one-on-one conversations to get a little bit more sort of personal about where they want to go, what they're buying, what they'd like to buy, that kind of stuff. So you do end up with some of the side sales conversations as well during that session.

**Konark Gupta** — Analyst, Scotia Capital

That's great colour. Thank you so much. I appreciate the time and comments.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Thank you.

**Operator**

Thank you. Our next question comes from David McFadgen from Cormark. Please go ahead. Your line is open.

**David McFadgen** — Analyst, Cormark Securities

All right. Thank you. A couple of questions. What quarter do you expect the CHORUS CAPEX to end?

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

CAPEX for CHORUS, essentially we'll be through the back of it as we conclude 2024 with maybe one exception. One of the items related to launch costs, you're seeing us start to make some prepayments on launch to SpaceX and that's going to actually sit in our prepaid accounts until we actually launch and then it flips into it. It will essentially be largely funded, I'll say through 2024. Technically, we'll have a little bit of, call it those launch costs flipping from prepaid into capital in 2025, but we essentially break the back of it through the 2024 from a cash flow perspective.

**David McFadgen** — Analyst, Cormark Securities

Okay. Then when you report your fourth quarter results, do you expect to issue '24 guidance then, I guess?

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

That's correct.

**David McFadgen** — Analyst, Cormark Securities

Okay.

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

Across all the metrics, obviously, revenue margin, capital, all those, consistent with how we're doing it today, yes.

**David McFadgen** — Analyst, Cormark Securities

Okay. Then maybe you could give us a couple of updates? On the Canada Lunar Utility Vehicle program, $1.2 billion, I thought that the Canadian government might announce the award of this contract this year or maybe '24. Can you give us an update on that?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

I don't think we've got an exact schedule from them on that. They're definitely working that through. What they've done from the Canadian Space Agency perspective is they've just announced an Industry Day. It's in the December 6 timeframe, I think, is what's stuck in my head, that first week of

December—to be able to provide an industry update on their thinking around all their programs, which would include anticipated schedules. So we'll be looking for an update in that first week of December.

**David McFadgen** — Analyst, Cormark Securities

Okay. Then would they also be giving an update on the RADARSAT Constellation Mission replacement? The billion dollar contract there.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

I expect for sure they're going to talk about it. They've just made that announcement in the last couple of weeks. They were pretty clear that the billion dollars that they announced had a couple of components there. One was to put another satellite into the RADARSAT Constellation Mission to give it some more resiliency while starting the early phases of the RADARSAT Constellation Mission replacement program. We know that, but then for sure, that would be an opportunity for them post the big announcement to give more information at that Industry Day in December.

**David McFadgen** — Analyst, Cormark Securities

Okay. Do you have an idea regarding the billion dollars, the breakdown between satellite costs versus just annual maintenance and operations?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Not at this time, no. It's pretty early days here. We just got a big announcement. We'll see how this all plays out. Understand the requirements, understand what they're thinking..

**David McFadgen** — Analyst, Cormark Securities

Okay. Then I was wondering if you can give us an update on the potential of $4 billion contract coming out of NASA. I know you partnered with Lockheed Martin and GM on that one. I think they were supposed to announce some awards in November. I was wondering if you can give us an update on that?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Yes, they were supposed to announce in November, you're right. But as that approached, they indicated that they're going to switch that to March. They need some more time to think that through, so they move their November to March.

**David McFadgen** — Analyst, Cormark Securities

Okay. Then I believe you held or you're going to hold sort of CHORUS unveiling for future clients, talk about the capabilities. I don't know if you did that or not, but I was wondering if you can give us an update on that.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Yes. That was that Earth Insights conference that we were just talking about a few minutes ago in October there. We had—I forget the number—60, 70 folks come in for that from around the world, all over the world, that are RADARSAT-2 customers and/or potential CHORUS customers. Everyone got together around that. Really good discussions on that. When we would explain CHORUS to that crowd, they're all synthetic aperture radar users, so I stood up and did my executive hand waving and talked about launch dates and then as soon as I sit down, it goes real technical or real fast in that crowd because they all live in that world. So yes, they got right into it and get through all the detailed capabilities of that constellation, the capabilities of the satellites, the impact of the orbital path, the ground station concepts and what all that means in terms of operational performance for people.

Really good sessions, a lot of excitement and enthusiasm around those conversations.

**David McFadgen** — Analyst, Cormark Securities

Okay. Then lastly, you've been awarded the prime contractor role for two satellite constellations. I don't know if you can disclose this, but I'm just kind of wondering in your sales funnel, how many other contracts are you chasing where you'd be prime contractor on a satellite constellation build?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Yes. More than one, that's for sure. I think these days that in the Satellite Systems business, you have two large buckets of opportunity. One is in our merchant supplier business where we continue to have like a robust relationship with the market to provide antennas, electronics and payloads. Then the other is in the full systems prime role.

Those opportunities themselves, the full systems prime role split into two sub buckets; one is a group of opportunities where we could be the satellite prime, and then another is the opportunities are we can be the payload prime, where someone else is going to do the full satellite integration. But we would be the payload prime for the digital payload. That's kind of how the pipeline breaks down. We've got a bunch of merchant supplier work and then a bunch of prime work. The prime work is either satellite prime, of which there are several, and then there are payload primes of which there are several.

**David McFadgen** — Analyst, Cormark Securities

Okay. All right, thank you.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Okay. Thank you.

**Operator**

Thank you. Our next question comes from Stephen Machielsen with BMO Capital Markets. Please go ahead. Your line is open.

**Stephen Machielsen** — Analyst, BMO Capital Markets

Hey guys, so you noted that the Satellite Systems pipeline remains strong. Just to clarify, has the pipeline continued to strengthen with new opportunities in the recent months, or would you just say that it's more at a sustained strong level?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

No. There would be more opportunities in the recent months.

We've had a strong pipeline for several years. We've moved things out of pipeline into backlog, such as like $2 billion worth in the Lightspeed example. Then that's been replaced and expanded by other opportunities. It’s an active healthy pipeline.

**Stephen Machielsen** — Analyst, BMO Capital Markets

Okay. Now with the Canadian Surface Combatant program, can you remind us when you expect that to hit full revenue run rate?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Let me think. Probably as we go through '25 for sure, because there's a '26, I think, is a current year of like steel cutting on those ships, and so they're going to need stuff in a couple of years after that. There'll be some ramping in '24 and then '25, for sure, you get into more of a full production picture.

**Stephen Machielsen** — Analyst, BMO Capital Markets

Okay. Thanks for the colour on that. Final question. There have been more awards with the LEO 2 programs in the States and I understand you guys have roles with providing antennas on that. Any updates on discussions with some of the prime contractors for this new phase and future phases?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

It's a really robust thing for us. The really cool thing in general for LEO constellations is the opportunity for repeat and follow-on business. The whole SDA community and the different tranches is definitely turning out to be such an opportunity. And so we continue to have repeat opportunities to bid; that leads to repeat orders for sure.

We're in continuing discussions across all the primes and all the various tranches that are out there for bid in terms of opportunities for ourselves. With their success we hope for our success, and we would expect to see announcements in the future of more continued follow-on orders for our antennas into that market.

**Stephen Machielsen** — Analyst, BMO Capital Markets

Okay. So just to be clear, for the latest tranche that was awarded, those are still out for bid or have they been awarded?

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

There was just an announcement there on Tranche 2, I think, that Lockheed Martin and Northrop Grumman, between the two of them just received about US$1.5 billion of orders for Tranche 2 satellites. Announcements have not been made yet about in their supply chain for various things, and so that would be an opportunity potentially for us in the future to be able to announce some success there. So we'll see how that goes over the next few weeks..

**Stephen Machielsen** — Analyst, BMO Capital Markets

Got you. Appreciate the colour. I'll pass the line now.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Okay.

**Operator**

Thank you. (Operator instructions).

Our next question comes from Kristine Liwag with Morgan Stanley. Please go ahead. Your line is open.

**Kristine Liwag** — Analyst, Morgan Stanley

Hey, good morning guys.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Hey Kristine.

**Kristine Liwag** — Analyst, Morgan Stanley

Free cash flow burn came in a little higher than expectation. Vito, you mentioned that this was related to timing of milestone payments. To what degree did they reverse in 4Q? Where do you expect free cash flow to net out for the full year?

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

Kristine, hi. Yes, you're right. We had a larger than—when you look at the quarters, the historical quarters here, the last several quarters swing than you would have otherwise seen, but very much in line with expectations for us, so there's no surprises with how our cash flow is moving.

One of the important things to think about at the end of—is to examine our working capital and look at our working capital at the end of Q3, notwithstanding the $50 million-plus swing, if you will, in the quarter. At the end of Q3, we're essentially at a net working capital position of, call it just under $30 million usage. That's quite normative for us to be in that sort of plus or minus 30 range. So I think what you're seeing there was just a bit of a swing into more of a normative position for us through the end of the quarter and we're very much in our normal sort of range as we move forward.

One of the things that when you look at that Q3 balance that I just described is—maybe just to call out some of the one-timers that are in our cumulative working capital, we have been making some prepayments to SatixFy in respect to the chips and whatnot. As at the end of the quarter there's roughly CA$30 million-ish that sits there with respect to that. That's obviously reflected in the cash flows cumulatively through Q3. Also you're starting to see us make some payments, prepayments to SpaceX on launch.

In relation to Q4, your question on Q4, I would expect free cash flow from an operating cash flow perspective to be roughly flattish, plus or minus maybe 10-ish. We'll have some additional SpaceX-related payments going through in Q4 as well.

**Kristine Liwag** — Analyst, Morgan Stanley

Thank you, Vito. Very helpful. Maybe taking a step back on cash, right? Look, it’s clear that the growth ahead of the company is visible and that's a testament to the strong wins your team is able to get and the significant orders, but is 4Q free cash flow maybe still under pressure? I mean full year 2023 would now be potentially the third year of a negative free cash flow for the company? I know you provide more guidance next quarter for next year, but just taking a step back and giving a higher view, how do you think about funding for growth? Because it seems like CAPEX to support these programs are going to come online and the prepayments that you mentioned, I'm not sure to what degree they start reversing in 2024. How are you going to fund this growth? You're still well below your debt covenants, so there is room there, but how high of a leverage are you comfortable with?

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

That's a terrific question. I just need to emphasize that everything that's transpiring is in line with our expectations and what we've given guidance to the market on. Leverage at the end of the quarter, 1.7. We will cross the 2 leverage likely in Q4, again, very much in line with expectations. Your comment around negative free cash flow, absolutely accurate as it relates to 2023, as we predicted, and that is largely in line with obviously the growth CAPEX that we are funding. Twenty twenty-four will be a same or similar year in that regard, if you will, with respect to growth CAPEX. And again, we'll refine guidance, but that's consistent with what we've described all the way through.

In terms of comfort from a leverage perspective, I would say that 3 is sort of the mark for us. We sort of see that. Obviously, our covenants are well in excess of that and the liquidity and the availability is well in excess of that, but we understand the nature of the business. We have strong operating cash flow as we move forward into these years. As we make our way through 2024, I think largely that growth CAPEX is meaningfully, I'll say, behind us a little bit; we'll still have some in 2025, but CHORUS, as I've articulated, will be largely behind us.

We feel uber confident and comfortable with how it's progressing. It all starts with obviously a strong revenue and EBITDA margin profile, and once you've got that operating cash flow as a backbone, it gives you a little bit of obviously play there when it comes to the balance sheet. But don't make any mistake about it. We obviously will be very prudent and run a conservative balance sheet as we move forward.

**Kristine Liwag** — Analyst, Morgan Stanley

Great. Thank you very much for all the colour.

**Vito Culmone** — Chief Financial Officer, MDA Ltd.

You’re very welcome.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

Thanks.

**Operator**

Thank you. This is the end of the question-and-answer session. I will turn the conference back to the speakers for closing comments.

**Michael Greenley** — Chief Executive Officer, MDA Ltd.

All right. Thanks very much. Thanks everyone for your time this morning. As we've discussed multiple times through this call, we look forward to updating you on our progress at our next earnings call at the end of February where we can also talk a little bit about what we're seeing for 2024. Thanks for the time and we'll talk to you all then.

**Operator**

Thank you. This does conclude today’s conference call. Thank you all for attending. You may now disconnect your lines.