MDA Space Ltd.

MDA Space Limited Conference Call and Webcast

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to MDA Space Limited Conference Call and Webcast.

This call is being recorded on August 8, 2024, at 8:30 AM Eastern time.

Following the presentation, we will conduct a question-and-answer session for analysts. Instructions will be provided at the time for you to queue up for questions. If anyone has difficulties hearing the conference, please press star zero for Operator assistance at any time.

I'd now like to turn the conference over to Ms. Shereen Zahawi, Senior Director of Investor Relations at MDA. Please go ahead.

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

Thank you, Operator. Good morning, and welcome to MDA Space second quarter 2024 earnings call.

Mike Greenley, our CEO, and Janet McEachern, our interim 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.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Thank you, Shereen.

Good morning, everyone, and thank you to those joining us today to discuss our second quarter 2024 financial results.

Q2 was a strong quarter for MDA Space from both an execution perspective and a momentum perspective that we are seeing in our end markets. The team delivered solid performance as we continue to convert our backlog, execute on our customer commitments, and grow our book of business.

Our Q2 revenues totaled $242 million, up 23% year-over-year, and our backlog stood at a record $4.6 billion at quarter-end, up 318% versus Q2 2023.

Adjusted EBITDA in the quarter was $49 million, up 21% versus last year, and Adjusted EBITDA margin was a solid 20%.

Operating cashflow was strong at $109 million, and we ended the quarter with a healthy balance sheet as our leverage ratio declined sequentially.

Given the strong year-to-date performance, we are updating our full year 2024 financial outlook. We are raising our guidance for revenue and narrowing our guidance for Adjusted EBITDA and CapEx.

Additionally, given the favourable operating cashflow dynamics, we also expect to be free cashflow positive in 2024, one year ahead of our plan. That's the first time I got to say that out loud. That's fun. I'm going to say that again. We also expect to be free cashflow positive in 2024, one year ahead of plan. That's fun to say.

In terms of business activity, we secured a number of contract awards in the quarter, with notable ones including a $1 billion contract from the Canadian Space Agency, or CSA, for the next phases of the Canadarm3 program that will see MDA Space finalizing the design and carrying out the construction of the robotic system and the ground control segment.

We also received a $250 million contract extension from the CSA to continue supporting robotic operations on the International Space Station until its planned retirement in 2030. None of this, of course, would be possible without the hard work and dedication of the entire MDA Space team, who I'd like to thank and acknowledge.

In early July, we shared that Vito Culmone, CFO of MDA Space, has departed the Company to pursue another career opportunity. I'd like to extend my sincere thanks to Vito for his contributions over the past three years. The entire MDA Space team and the Board wish him well.

I'd also like to welcome Janet McEachern, our VP Finance and Interim CFO, who will be replacing Vito until we announce a permanent replacement. As Vice President Finance, leading our corporate finance functions at MDA Space, Janet has a deep understanding of our business, and I look forward to working with her as we search for a permanent CFO.

The search process is well underway, and I am pleased with the caliber of candidates we are speaking with and confident that we can bring in the right individual for the role.

I'll now give you a view of the industry, an update on our three MDA Space business areas, and then I'll pass it over to Janet for a deep dive on the financials.

As we have seen in previous quarters, the broader space market continues to expand, mature, and gain momentum. There are a few items worth highlighting.

Starting in Canada, the Department of National Defense announced, in late May, the establishment of the Canadian Commercial Integration Cell, a new space operations, information sharing structure, and framework that enables secure discussions and data sharing between the Canadian Armed Forces and industry partners that operate satellites, with MDA Space and Telesat being the first two members.

We commend the Government of Canada for taking this important step to facilitate real-time collaboration between government and the commercial space industry at a speed and level that the emerging space domain demands.

This follows on the heels of an announcement in April that the Canadian government is establishing a National Space Council, which will take a whole-of-government approach to support space exploration, space utilization, technology development, research, and security.

The new Space Council will be comprised of more than 20 federal government departments and agencies, is designed to enable greater coherence and collaboration to address issues that span commercial, civil, and space domains.

We look forward to engaging with the National Space Council and exploring new ways for the Canadian commercial space sector to meet the full spectrum of growing government needs for space services, infrastructure, and data.

Globally, we continue to see increased interest in space exploration, with Armenia, Peru, Lithuania, and Slovakia being the latest countries to sign on to NASA's Artemis Accords, signaling their commitment to safe, long-term, and ethical space exploration.

The latest entries bring the group size to 43 nations, as we continue to see interest from many non-traditional space-faring nations, which are now building their own national space programs, a development that bodes well for the broader space market.

Now, I'll turn to our three business areas. In satellite systems, we are seeing good momentum in this market with our teams working to advance multiple requests for communication satellite solutions and a growing number of constellation projects. We are also seeing good activity levels from customers and our opportunity funnel remains strong.

On the operational front, our teams were busy in Q2, advancing work on a number of programs. On the Telesat Lightspeed program, we continue to make good progress on ramp-up activities in the quarter, including progressing early design work and system requirements analysis. We've also finalized the selection and onboarding of most of the suppliers for this program, with approximately 75% of the suppliers under contract as of the end of June, and that number being closer to about 90% today, setting the stage for work volumes to accelerate in the second half of 2024, consistent with our full-year plan.

We are also making good progress on the engineering and program procurement activities for the new non-geostationary orbit, or NGSO, satellite constellation we announced in Q4 2023 with an unnamed customer. We were awarded $180 million authorization to proceed contract, which has since been expanded to close to $300 million over the past week.

The full constellation, valued at a minimum of $750 million, is expected to include a minimum of 36 MDA software-defined digital satellites, our MDA AURORA product. The definitive contract for the full constellation, for which MDA will be the prime contractor, is expected this year.

We also continue to advance work on the Globalstar program. In Q2, the team progressed flight hardware production and FlatSat testing of the satellite bus and payload systems.

Additionally, following the completion of the satellite critical design review in 2023, the team is currently progressing towards a spacecraft integration readiness review to take place this quarter. As you know, MDA Space is 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 on certain Apple products.

Moving to our geointelligence business, customer demand for our Earth observation offerings remains robust, and we are seeing increased recognition of the role that commercial Earth observation satellites can play to provide near real-time data and analytics to governments and private enterprise.

In Q2, we received a contract from the National Research Council of Canada to support the development, construction, and integration of radio telescope technology for the Square Kilometer Array Observatory, an international space exploration and astronomy project that seeks to further our understanding of the formation and evolution of the universe.

MDA Space will develop the project's correlator beamformer, a powerful data processing engine that will collect and process large volumes of cosmic signals received by the telescopes, giving scientists rapid access to vast quantities of new data and insight about the universe.

We also continue to advance work on MBA CHORUS, our next-generation Earth observation constellation. Our team is currently advancing the flight model 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.

We also recently unveiled a new Vessel Detection Onboard Processing, or VDOP, demonstration system to be added to CHORUS. The new VDOP direct satellite-to-ship service offers defense and intelligence organizations rapid access to the data and insights they need to support critical and time-sensitive maritime defense and security missions, including counter-piracy, narcotics, smuggling, illegal fishing, and human trafficking.

In terms of other notable programs, work on the Canadian Surface Combatant program, or CSC, 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.

Moving to our Robotics & Space Operations business, we continue to see good traction and activity levels on both government and commercial fronts.

On the government side, we continue to progress the design work of Phase B of the Canadarm3 contract, which we were awarded in early 2022, and that will see us completing the preliminary design of Canadarm3's robotic system to be used aboard the NASA-led Lunar Gateway. In Q2, the team completed the initial set of preliminary design review milestones, with PDR full completion expected in Q3.

As I noted in my previous remarks, in Q2 we also announced that MDA Space has been awarded a $1 billion contract from the CSA for the next phases of the Canadarm3 program, which includes funding for Phase C, the final design phase, and Phase D, the phase for construction, assembly, integration and test of the full robotic system, as well as the ground segment for command and control.

MDA Space will support commissioning of the Canadarm3 robotic system once in orbit from our new mission control facility at our global headquarters and Space Robotics Center of Excellence in Brampton, Ontario. The contract will also include planning and personnel training in preparation for on-orbit mission operations. We expect work volume on Phase C to ramp up over the balance of 2024.

In Q2, we also received a $250 million contract extension from the Canadian Space Agency to provide ongoing recurring engineering support to the International Space Station Robotics, which includes Canadarm2 as part of Canada's commitment to support the ISS from 2025 until its planned retirement in 2030.

As part of the contract, MDA Space will now fulfill robotics flight controller duties to support mission operations on the ISS. MDA Space has been working alongside the Canadian Space Agency and its international partners since 2001.

On the commercial side, we continue to explore opportunities to incorporate our robotic technology on applications to support space exploration and mobility.

During the quarter, we announced that MDA Space has joined Starlab Space, LLC, a global joint venture between Voyager Space, Airbus, and Mitsubishi Corporation as a strategic partner and equity owner in Starlab Space. Starlab is designing, building, and will operate the Starlab Commercial Space Station.

MDA Space joins the Starlab team to provide the full range of external robotics, robotic interfaces, and robotic mission operations to the station, including our recently launched full suite of scalable and modular robotic solutions, MDA SKYMAKER, which can be tailored to support a diverse range of missions. This partnership serves as another validation of the capability and value that MDA SKYMAKER offers to the emerging commercial space exploration and infrastructure market.

Shifting to operations of the business, we continue our hiring efforts to support the anticipated revenue ramp-up. Approximately 900 new hires have been brought on over the last 12 months.

With more than 3,000 highly skilled MDA Space staff today, 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.

I am also pleased to share that in Q2, we ratified a number of collective bargaining agreements associated with our operations in Brampton, as well as members of CSN associated with our operations in Quebec. We're pleased to have these new collective agreements now in place to support our growth in the years ahead.

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 pipeline to backlog, 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 Janet to walk us through the detailed financials.

Janet McEachern — Interim Chief Financial Officer, MTD Space Ltd.

Thank you, Mike, and good morning, everyone.

For my update, I will walk you through our Q2 financial results and provide more colour on our 2024 outlook.

Overall, Q2 was a strong quarter for MDA Space, and we are pleased with how the team is executing.

In the quarter, we saw solid revenue growth and profitability and record backlog at quarter-end, which all bode well for our performance in 2024.

Total revenues for the second quarter were $242 million. This represents a $46 million or 23.5% increase over the same period last year. The year-over-year increase is driven by higher work volumes across our three business areas, with strong contributions in quarter from the Robotics & Space Operations and Satellite Systems businesses.

By business area, revenue and Satellite Systems of $108.8 million in the second quarter of 2024 were $19.4 million or 21.7% higher compared to the same quarter in 2023. The strong showing was driven by higher contributions from new programs, including Telesat Lightspeed in Q2 2024.

In Robotics & Space Operations, we saw solid year-over-year growth with revenues of $78.3 million in the latest quarter, representing $19.6 million or 33.4% increase versus Q2 of last year. The growth is largely attributable to a high volume of work performed on the Canadarm3 program.

Revenues in our geointelligence business of $54.9 million in the latest quarter represents an increase of $7 million or 14.6% year-over-year, reflecting higher work volume on the CSC program.

Moving to gross profit. As a reminder, gross profit represents our revenue, less cost of revenue, which includes materials, labour, subcontractor costs, allocated overhead, shred credit, and depreciation.

For Q2 2024, gross profit was $66.2 million, representing a $4.9 million or 8% increase over the same period last year, driven by higher work volumes in the current quarter. Gross margin in the latest quarter was 27.4%, which is in line with our expectations and compares to 31.3% for the same period in 2023. The year-over-year change in gross margin is driven by evolving program mix and higher depreciation expense as new assets come into service.

Q2 operating expenses of $44.1 million were slightly above last year's metric of $42 million, primarily reflecting an expansion of our SG&A function as work volumes grow.

Adjusted EBITDA in the latest quarter was $48.7 million compared to $40.4 million in Q2 2023, representing an increase of $8.3 million or 20.5% year-over-year driven by higher volume of work and steady operating expenses.

Adjusted EBITDA margin of 20.1% in Q2 2024 is consistent with the Company's full year margin guidance of 19% to 20% and compares to Adjusted EBITDA margin of 20.6% reported in the second quarter of 2023.

Our adjusted net income in Q2 2024 was $23.4 million compared to $21.9 million reported in the same period in Q2 2023. The year-over-year increase of $1.5 million or 6.8% was driven by higher operating income in the latest quarter.

Moving to backlog, we ended the quarter with $4.6 billion in backlog, representing an increase of 318% year-over-year. The growth in backlog is driven by new order bookings, including the $1 billion award for phases CD of the Canadarm3 program announced in Q2 2024, and $2.4 billion Telesat Lightspeed LEO Constellation Award announced in Q3 2023, partially offset by continued conversion of our backlogs into revenue.

Moving to CapEx, we remain focused on making the right investments in the business to support our strategic growth initiatives. In Q2 2024, we spent $38.9 million on capital expenditures compared to $45.7 million last year as we continue to invest in CHORUS and other growth initiatives.

Growth CapEx in the latest quarter was $32.8 million, which compares to $43.7 million in Q2 2023.

During the quarter, we made an $11.7 million payment related to the acquisition at SatixFy Space Systems UK Limited, the digital payload division of SatixFy Communication Limited, which closed in Q4 of 2023. We also made a $9.2 million payment related to the Company's equity investment in Starlab Space, LLC.

Cash from operations during the quarter generated $149 million compared to cash generation of $38.9 million in Q2 2023. The year-over-year increase was driven by positive working capital contributions primarily related to the Telesat Lightspeed Program.

We generated free cash flow of $110 million in the latest quarter compared to negative $6.8 million in Q2 2023. Free cash flow, after adjusting outgrowth CapEx investments, was positive $142.9 million in Q2 2024 compared to $36.9 million reported in the same period last year. We expect to see positive working capital contributions throughout Q3 and Q4 of this year as we continue to ramp up activity on the Telesat Lightspeed Program.

Moving to our balance sheet. We ended the quarter with a strong financial position and net debt of $352.3 million, available liquidity of $293.5 million and net debt to trailing 12 months, Adjusted EBITDA ratio of 2.0 times.

During the latest quarter, we made a $70 million repayment to our revolving credit facility, which is consistent with our plan to leverage the flexibility provided by that facility.

In summary, this was a solid quarter and our business continues to perform in line with our expectations. We are encouraged and energized by the positive momentum we are seeing across our businesses.

Let me now turn to our outlook. As Mike noted, we are updating our financial outlook and are well positioned to capitalize on strong customer demand and robust market activity.

For fiscal 2024, we are raising our full year revenue guidance to $1.02 billion to $1.06 billion from $950 million to $1.05 billion previously, representing robust year-over-year growth of approximately 30% at the midpoint of guidance compared to 2023 levels. We continue to expect revenue growth to accelerate in the second half of 2024 as we ramp up work volumes on a number of programs.

We are narrowing our 2024 Adjusted EBITDA guidance to $200 million to $210 million from $190 million to $210 million previously, representing approximately 19% to 20% Adjusted EBITDA margin.

We are narrowing our 2024 capital expenditures range to $200 million to $220 million from $210 million to $230 million previously, comprising primarily of growth investments to support CHORUS and the previously outlined growth initiatives across our three business areas.

Additionally, as a result of favourable working capital contributions related primarily to the Telesat Lightspeed program, we now expect to generate free cash flow and continue to deleverage our balance sheet in 2024.

Turning to Q3 2024, we expect revenues to be $270 million to $280 million as we continue to execute on our backlog.

With strong operational performance and a record backlog, we are well-positioned for 2024 and beyond and look forward to delivering another successful year.

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

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Thank you, Janet.

With that Operator, we will open it up to questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session for analysts. Should you have a question, please press star, followed by the one on your telephone keypad. Should you wish to cancel your request, please press star, followed by the two. If you're using a speakerphone, please lift the handset before pressing any keys. Your first question comes from the line of Konark Gupta from Scotiabank. Please go ahead.

Konark Gupta — Analyst, Scotiabank

Thanks, and good morning. Congrats on the quarter. I wanted to ask Janet, perhaps on the working capital, it seems like it was a pretty strong contributor this quarter. I think you guys pointed out the Telesat contract and it seems like you're expecting working cap to be positive in Q3 and Q4. Can you help us understand the movement and the cash flows from the contract versus the revenue? It seems like you're getting, obviously, cash in first and the revenue bill is ramping up over a period of time gradually. When do we see the equilibrium between the cash flow and the revenue on the Telesat contract? Thanks.

Janet McEachern — Interim Chief Financial Officer, MTD Space Ltd.

I think, as we've mentioned previously in calls, the cash and revenue don't always follow one another. You're absolutely right that we do expect some positive cash flow from that program this year. Obviously, our revenue will ramp up and it's based on labour and—delivering on labour subcontract costs and equipment that would need to be delivered in years. I think you will see some positive cash contributions, but that does not align to our revenue that's in our forecast for this year. As the out years go on, you'll start to see those converge a little bit more, but nothing driving any large swings over the period that we see in front of us.

Konark Gupta — Analyst, Scotiabank

That's helpful. Thanks. On the CHORUS, can you update us where you stand today with respect to the capital deployment on that project? In terms of development, are we on track for late 2025 launch, and any update on customer distribution there as well? Thanks.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. CHORUS is going well. The project is on track. We are on schedule. We are on track in terms of our spending. We previously indicated that the majority of our spend would be completed as we get through '24. That remains true. We will still have some spend in '25 and—of course, expenditures associated with launch costs and the like, so that will still occur. We're completely on track. The customer conversations are going excellent. We were talking to literally dozens of potential customers around the world, some of whom are existing customers of RADARSAT-2, some of whom are new customers that will come into CHORUS. The team has a bit of a ladder system in terms of signing up customers, starting with a letter of intent in terms of people indicating their intent to procure from CHORUS, and then moving right up to actual committed purchase orders of CHORUS data. The business development teams are working literally dozens of customers through that ladder of progress, both for the data, and then some customers will need to upgrade their ground stations to receive—those customers that want to receive direct data from the CHORUS constellation directly to their ground station, there'll be some ground station upgrade contracts. All of those are in full swing. The team is very busy, and as we expected, it's—that part of the process is heating up. Once we announced a potential launch date a little less than a year ago, that throws the switch for everybody starting to work with us to make sure that everyone's ready to receive service. It's going well.

Konark Gupta — Analyst, Scotiabank

Great. That's good to hear. Thanks. I'll pass the line.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Thank you.

Operator

Thank you. Your next question comes from the line of Doug Taylor from Canaccord Genuity. Please go ahead.

Doug Taylor — Analyst, Canaccord Genuity

Yes, thank you. Good morning and congratulations on a fantastic quarter and upgraded outlook. Mike, I get a lot of questions about the de-risking of the Lightspeed program, not only regarding financing of the program, but also the ability to deliver technically, ramp up the facility, and do all that against budget. The question is, with 90% of the supply chain now under contract and payments starting to flow from Telesat, would you say the program has been substantially de-risked here? Or, what do you see as the main hurdles or milestones we should think about going forward as you execute against that?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. From our perspective, we have a contract that you've mentioned. We're absolutely executing under that contract. Our suppliers are now largely all under contract. As we mentioned, and as our results show, we are being paid. Cash is flowing and we are executing on the project well. The focus therefore is absolutely on technical execution of the work, which the teams are laser focused on. As we go through the fall, the Q3, Q4 period, we will get past our preliminary design review on the project and get all that signed off. That's the next key milestone that we're working on. That definitely remains the focus. It's all going well, but it is absolutely the focus. The MDA AURORA digital satellite product is a world-leading edge digital satellite product. The teams really have everything in hand and it's just good hard work.

In terms of the facility expansion that we are putting into our Montreal satellite systems facility to ensure that the MDA AURORA production can ramp up to our target of at least two satellites per day, that is all progressing. We have absolutely broken ground on that. There's all kinds of construction vehicles all over the place and temporary parking and all those things. As the expansion progresses, all the long-lead items of things like steel and the like have all been on order and will start to come in as we go through the next few months. The current goal is to have the structure, the exterior structure of the building completed prior to winter and have it sealed in so that the construction crews can work on the insides of the building as they go through the winter and the first half of 2025. Everything is progressing technically on the satellites and from a facility perspective, according to schedule.

Doug Taylor — Analyst, Canaccord Genuity

It kind of brings me to my next question which is a follow-up on Konark's as well. You've reduced your CapEx budget for this year a little.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes.

Doug Taylor — Analyst, Canaccord Genuity

Is that savings related to CHORUS or otherwise? Are there things moving out to next year? Perhaps you can speak to, CHORUS or otherwise, the overall directionality and magnitude of the CapEx holiday you might see next year or if not, just the degree to which you still have growth CapEx in the forecast as you work through either the Montreal build or just support your other programs.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, no problem. There's a little bit of stuff that slipped from '24 to '25. That's why you see us doing a bit of a reduction. Nothing to do with CHORUS. CHORUS is absolutely continuing to be on track and spend at the planned pace. Some of it relates to Montreal, the facility expansion, in terms of just exactly when things happen and when you pay for them. In terms of—as all the—you're starting a large construction project, so based on when materials are coming in and when you have to pay for them, estimates were made of what would happen in Q4, some of that's going to be Q1 payments. Those adjustments are being made here as people can see the end of the year.

In terms of the overall level of CapEx spend, as we're floating around this 200 million-ish a year range, we continue to be at that level. We still have growth CapEx to expend in 2025 for sure as our last year of the big growth CapEx thing, and then it starts to drop down markedly according to current business plans in 2026. Recognizing, of course, that as the business continues to grow at what we've been seeing here, at least as for this 25% to 30%, at least annual increase pace, our EBITDA continues to really grow as well. We continue to demonstrate conversion of Adjusted EBITDA at the 75% to 85% level into operating cashflow, which gives us the tools to now start to be able to live in this new free cashflow world that we're living in and manage this in a new way.

Doug Taylor — Analyst, Canaccord Genuity

Just to put a finer point on that, you'd expect a similar amount of CapEx next year despite CHORUS ramping down as largely the Montreal facility expenditures increase to offset and then an actual decrease in absolute terms in '26 and beyond. Is that a fair assumption?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, that is true. There are some additional expenses next year. Even though we're not like building CHORUS as much, we do have some launch expenses and things like that, that get moved around. In addition, we continue to invest in commercial robotics in the MDA SKYMAKER product, and there are some investments around MDA AURORA, our digital satellite product. Yes, it will what you said, but I'm just rounding out the reasons in terms of what the money's being spent on, but yes.

Doug Taylor — Analyst, Canaccord Genuity

Okay. Thank you for clarifying and I'll pass on.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Thanks, Doug.

Operator

Thank you. Your next question comes from the line of Ken Herbert from RBC Capital Markets. Please go ahead.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Morning, Ken.

Ken Herbert — Analyst, RBC Capital Markets

Yes. Hey, good morning, Mike. Maybe just to start, you're obviously exiting the first half with I think really good cash generation. Can you put a finer point on positive free cash this year? Does it imply—sounds like working capital will continue to be a source of cash into the second half. How much could we see in the second half or where do you think free cash generation looks exiting '24?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. We will be free cash flow positive, like I said. We're trying to just generally hold that as the statement at the moment. There's obviously large programs in play here with some big milestones. There's a bit of movement and swings there. You've seen us put the breadcrumbs out there in terms of what's going on. We've given guidance for revenue. We know we're doing 19% to 20% of revenue as Adjusted EBITDA. We know we convert Adjusted EBITDA to operating cash flow at that 75% to 85% level. We use that operating cash flow to pay for our investments, which we slightly downgraded a bit, and then otherwise we'll use it for paying off debt. We will go through those things as we go through the year with continued free cash flow and then continued decreases in our leverage ratios as we go through the year. We program all of our projects, as you guys know, and we keep talking about, but now we're really proving it, that we shape and configure our programs to be cash flow neutral to cash flow positive. We always do that, and you're seeing the results of that as now much larger projects follow that same pattern. We'll leave the year free cash flow positive. We expect '25 to be at least cash flow neutral in our forecast. We will be carrying this position as we go through the next year.

Ken Herbert — Analyst, RBC Capital Markets

Perfect. That's very helpful, Mike. Maybe if I could, just to comment further on the contract you've got with the unnamed customer...

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes.

Ken Herbert — Analyst, RBC Capital Markets

…the authorization to proceed. It sounds like that's increased to $300 million under contract now in the third quarter, and you remain, sounds incrementally more confident in getting the full $750 million under contract this calendar year. Can you provide a little bit more colour on that and what's driving the confidence and how we should think about that from a timing standpoint?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, you've got the story there. That's exactly the story. We have an unnamed customer. That unnamed customer is fully financed. We are proceeding with a project for at least 36 satellites for at least $750 million. Like we said, we've been given an authorization to proceed at pace on the execution of that project. In our world, we're just executing on that constellation project. It's just that contractually, we're working under an authorization to proceed, and then when that has run out of steam, then it just gets extended, which we've just seen in terms of this transition from around $180 million to now around $300 million. In the background, that fully funded customer is just doing some commercial activity to get themselves organized, which will all make sense someday, to be able to award the full definitive contract. That doesn't slow us down and we continue to execute on the project.

Obviously, when you have at least—around $300 million of authorization to move on at least $750 million thing, that's a bit unnatural. You've got a very large portion, close to half of the contract under an authorization to proceed. You're basically just executing on this thing while you're waiting for the definitive contract to be put in place. We are fully confident. These authorizations to proceed cover labour, so our labour to do the work, in addition to provide us commercial coverage for ordering long lead items and engaging suppliers. We are basically executing on a normal project. It's just that we're doing it in these steps.

Ken Herbert — Analyst, RBC Capital Markets

Perfect. Thanks, Mike. I'll pass it back there.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Okay. Thanks, Ken.

Operator

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

Thanos Moschopoulos — Analyst, BMO Capital Markets

Hi, good morning.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Hey, Thanos.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Hey, Mike. With the cash flow having been pulled forward a bit, just to be clear, where do you now expect the leverage ratio at the peak before it starts to come down?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

It has peaked. The peak is behind us now. You would have seen us at whatever it was, 2.4, 2.6 or something like that in Q1. You would have seen Janet just talk about 2.0 in Q2, and it will continue to decline as we go through the year. Our previous discussions with you folks, saying like, it could get up in the high 2s this year and then come down through '25 and be free cashflow positive in the second half of '25, all that's just been accelerated a year as we've just done—the teams have done a great job at execution and the cash is coming in. We're past our peak. We will continue to decline now.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Great to hear. Regarding the pipeline for commercial satellite projects, how has that evolved over the past quarter or so? Would you say it's consistent? Are some things moving closer to decision or what are you seeing in recent months?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. Phrases that we would always use would be a robust or strong pipeline of opportunity for commercial satellite constellations. That remains the case. Our pipeline, I would say has expanded in the last quarter in terms of having new opportunities come into the conversation. The teams are highly engaged in bid activity. These pursuits require you to quote, receive feedback, quote again, what about this, what about that, quote again. It's a very iterative process. It's very active. That's good. As a result of that, customers are getting—sorry, potential customers are getting clear views on what we could do for them and what we could deliver and what the prices and schedules of all that could be. They have what I would call—a number of customers would have decision ready or decision grade levels of information, and it's really just on their side. It's on their schedules in terms of, are these projects that they're comfortable moving ahead with in '24 or are we going to wait and see them move ahead in '25? Yes, things continue to progress. It's expanding. A number of bids are maturing and there will be opportunities as we go through the next six to eight months to see potential new orders.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Great. Finally, with respect to the ICEYE satellite you'll be leasing for CHORUS, is that also on track and is the plan to launch that around the same time?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, absolutely. It's on track and it would potentially be a simultaneous launch. Potentially we'd put them both up on the same launch actually, but the teams are working through all of that and we'll see how that plays out. Yes, everything's on track there.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Great, I'll pass the line. Thanks, Mike.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Okay. Thanks a lot.

Operator

Thank you. Your next question comes from the line of Jason Gursky from Citi. Please go ahead.

Jason Gursky — Analyst, Citigroup

Hi. Good morning, everybody.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Hey Jason.

Jason Gursky — Analyst, Citigroup

I guess it's required today to ask a question about cash flow. I think I'm going to do the same if that's okay.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Sure.

Jason Gursky — Analyst, Citigroup

I just want to confirm that 75% to 85% conversion that you talked about. Just wondering if, a, that's a change and things are a little bit more robust than what you've been projecting in the past. Mike, I know that sometimes the cash flow profile on these programs can look a little bit like a bathtub where you get a bunch of cash up front, and then you go through a period of deploying that cash into the supply chain and then you hit a bunch of milestones towards the end and you get more cash. I'm just curious whether the shape of what you're signing up looks any different.

Second, I wanted to just—and then third, I guess, would be confirmed that we all heard you right, that, yes, you're generating some cash in '24, but the expectation for '25 is maybe neutral from a free cashflow perspective.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. On the last question, the answer is yes. On our conversion of Adjusted EBITDA into operating cash flow, there may be, I think in my words there, a little bit of slightly elevated enthusiasm. Potentially in the past, we might've talked about 65% to 75% conversion of Adjusted EBITDA into operating cash, and I was just using a 75% to 85% number there. We are seeing a bit of an ability for ourselves to consistently do a bit better there in terms of our conversion of Adjusted EBITDA into operating cash. You're correct in picking up on that. There's a bit more enthusiasm there.

In terms of the shape of the spend profiles on these large programs, yes, for sure. You'll often get a fair amount of cash up front to make sure that you can activate your supply chain and your subcontractors, and make sure that everybody has the cash they need to get going and that we have the cash that we need to make progress and milestone payments as those subcontractors execute on their work. Over time, like you say, you go down the curve into the bathtub a little bit. That's normal project profile over a three-to-four-year project, and then you'll get, like you said, more at the end as you get towards completing big milestones and launch.

For us, the good thing is that we have multiple, very large objects in the business. You've got things like Globalstar and Telesat and Canadarm3 and Canadarm2 continuing operations and the like. When you balance out these multiple things and these multiple curves, you end up with your last statement, which is that we're in a situation where we're free cashflow positive this year and our current forecast for next year is, we'd say, we will be at least cashflow neutral. It might tick up a bit as we get closer, but we do not expect any declines here. That's the situation.

Jason Gursky — Analyst, Citigroup

Right. Okay. That makes good sense. The shift from free cashflow positive in '24 to neutral in '25, is that because you're going to see CapEx tick up, or is it just because you're starting to dip your toe into that bathtub a little bit and working capital isn't as robust? Just curious what the…

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

I think you're starting to dip your toe into that just a little bit, and it's also us being conservative. We're saying, well, we just want people to make sure that there's no expectation that there's some big negative thing coming here. There's not. That we're going to be at least cashflow neutral in '25, and then as we get close to the end of the year, of course, and get kicking off '25 and start to give guidance for the year, we'll give people some good insights in terms of exactly what we're seeing. It's going to depend on timing and other projects starts. Projects that are brought in a lot of cash this year will be using that cash next year, while other projects start and start to bring in new cash. We talked, in some of the questions a few minutes ago, about the pipeline and will we see some new stats in Q4? Are we going to see some new stats in Q1 or Q2? It really just depends on how that plays out and we'll get a clear picture of that as we go through the year. It'll be at least cashflow neutral in '25, and there is a chance, based on new stats, that it could be positive.

Jason Gursky — Analyst, Citigroup

Yes, okay. That makes good sense. Thanks. Last one from me. On CHORUS, you're probably dealing with a lot of government customers here. I think in the past, they've been a little bit hesitant to sign a definitized contract ahead of the asset actually being in space and producing some data. Can you talk a little bit about whether, a, that's still the case, whether we're going to see a bunch of LOIs ahead of launch and then these contracts get definitized after the assets are up in space. Your current expectations around revenue generation on the constellation, do we—first quarter after launch, are we going to see a significant step up in revenue for the geospatial business? Or, does it take multiple quarters, a couple of years, just the shape of that revenue ramp looks like once you get CHORUS up and running? Thanks.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, sure. Yes, no, that's cool. You're right. Most of our customers are defense and intelligence customers around the world. That involves multiple countries, some of which are current RADARSAT-2 customers, some of which are now coming on board as new customers for CHORUS. That is the nature of the customer.

In terms of their willingness to sign contracts pre-launch, it depends on the country, for sure. Some people will just sell, as you indicated, will sign LOIs, letters of interest or intent, but then not sign a definitive contract until there's a fully commissioned satellite in orbit or constellation in orbit. Others will be willing to sign up front and potentially even put some money down up front. The reason they would do that would be for preferential access. They want to secure priority rights to imagery and service in certain regions of the world that they care about, and so they're willing to secure that ahead of other customers. Some nations are in active discussions with us about that, while others are just at the letter of intent stage and they'll take a bit of time before they commit.

Sorry, what was your other question? There was something else that you were talking about.

Jason Gursky — Analyst, Citigroup

It was just the shape of the onboarding of revenue and what that looks like after…

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, the revenue. I would expect revenues through '26 to stay similar to current levels. There'll be a whole shakeout period here where we've got a strong customer base. They're getting service from RADARSAT-2. A number of people have been increasing slightly, just minor upticks in their RADARSAT-2 usage, knowing that they can continue right into CHORUS. That's been nice and strong. There'll be a shakeout period there in terms of all of that. We've got to get through commissioning and stuff in '26, and get everything operational and all of that. I think there might be a very small little lift in '26, especially as we convert some people's ground stations to receive data from CHORUS, but then it'll ramp up in '27. We start to see things increase '27, '28 as people have full confidence in the service, as government customers, like you said, get fully under contract. That's what I think will happen.

Jason Gursky — Analyst, Citigroup

Great. Thanks, guys. Appreciate it.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Okay. Thanks, Jason.

Operator

Thank you. Your next question comes from the line of David Mcfadgen from Cormark Securities, please go ahead.

David Mcfadgen — Cormark Securities

Oh, great. Thank you.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Hi, David.

David Mcfadgen — Cormark Securities

Hi. A couple of questions. Just on the guidance, first of all. I look at the revenue guidance you moved it up a bit. Is the primary reason for that the fact that you were able to convert the ATP contract from $180 million to $300 million? Is that the primary driver?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

No. I think it's just that everything combined. It's like what we're seeing on Lightspeed, it's what we're seeing with Canadarm3 being signed. A little bit about what we're seeing on that ATP, but really that's executing according to our plan for the year. It's really just that some of these new larger contracts are kicking in, that it needs to go up a bit. To be honest, we raised it a bit because you've seen what we've delivered in Q1 and Q2, you've heard what we've guided for in Q3. If we didn't raise it, you would have an expectation of a decline in Q4, which is absolutely not the case. We had to raise it so that you could clearly see that we will continue to climb the hill.

David Mcfadgen — Cormark Securities

Okay. And then just on the working capital obviously there's a big working capital inflow in the second quarter. I imagine that's probably due to Lightspeed. Is that correct?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Primarily, yes.

David Mcfadgen — Cormark Securities

Yes, okay. Given Telesat said they're going to spend a billion dollars this year, shouldn't we expect that the working capital inflow for the entirety of 2024 will be larger than what you experienced in Q2?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

I think, yes, overall. Yes, for sure. Yes, I think that it'll keep ticking up. I think Q3 will be a big one and then Q4 will be solid. Yes, for sure, it's going to be solid. Yes.

David Mcfadgen — Cormark Securities

Okay. I think it would be helpful for everybody on the call and the investors too, I don't know if you can, to give us maybe a range on the working capital inflow you expect this year from Lightspeed. I think that would be helpful. Just on backlog, clearly, it's grown substantially here. Do you expect to continue to grow your backlog through 2024 so that when you report fourth quarter it'll be higher than what it is right now?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes.

David Mcfadgen — Cormark Securities

Okay. All right.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, we do.

David Mcfadgen — Cormark Securities

That's pretty awesome.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes, we do.

David Mcfadgen — Cormark Securities

Okay.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. We'll do our best. We're going to do it. We're going to—it's going to be bigger. Yes.

David Mcfadgen — Cormark Securities

Okay. When you say that, or you have that confidence, are you expecting another big constellation order or, I don't know if you can comment on that.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Well, I think in terms of the things that we currently talk about, like the minimum thing is this unnamed customer and converting that to a definitized contract. Right now, we've only got the authorization to proceed in backlog. With the numbers that I was just throwing around there, talking about lifting that up to around $300 million in the last week, that takes that $4.6 billion number at the end of Q2 and starts to send it up a little bit towards $4.8 million, and then you get the rest of that definitized contract, then you probably got backlog that starts with a five. That's for sure just the basic thing right there in terms of things we're already talking about. As I indicated, there is a solid pipeline, people are actively quoting, other things can happen but as a minimum, just finishing that task that we're all talking about and watching there, which we fully expect to do, would cause us to finish the year with a backlog that probably starts with a five.

David Mcfadgen — Cormark Securities

Okay. Very bullish. Okay. That's it for me. Thank you.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Okay. Thank you.

Operator

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

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Hi, Kristine.

Unidentified Speaker — Analyst, Morgan Stanley

Hi, this is Justin (phon) on for Kristine.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Thank you.

Unidentified Speaker — Analyst, Morgan Stanley

Thanks for taking the question.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Oh, okay. There you go.

Unidentified Speaker — Analyst, Morgan Stanley

Just staying on this working capital contribution from Telesat and the new free cashflow expectations, can we just spend a second on how this materialized? Did something change in the terms or did you hit a milestone earlier than expected?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. I think for us in terms of like setting expectations, everything we've done in the last 10 quarters to make sure that we're absolutely saying what we're going to do and doing what we say has been like a really strong theme for us. When we get these large contracts coming in, we've been quite cautious and making sure that we're creating expectations that for sure we can meet and then we've absolutely met those expectations. In terms of signing up on the MDA AURORA product, a large supply chain and subcontractor base to execute on this new digital satellite products, there's a lot of moving parts. Our ability to negotiate all those subcontracts, get them in place, and start cash moving in relation to that progress, it's big numbers in terms of taking on things of this size. The teams have just done an extraordinary job, basically, and they've got everything under control, everything is in place according to what would have been our best expectations, and therefore cash is moving at a pace that is higher than we would have otherwise indicated and is extremely positive just because they've done a great job. That's really it.

As we continue to execute on more of these \$1 billion, \$2 billion constellation projects and—that supply chain is now more established because we're now working around a new product, a digital satellite product in MDA AURORA. All of this will become more predictable, more confident, and you will see less large swings like you've just seen, which is like, oh my gosh, like everything's absolutely working exactly as best as we could have expected, and so now we will tell you all about that because it now has occurred. We'll be able to see that a lot better now because we're working around a standard product for multiple customers around an established supply chain.

Unidentified Speaker — Analyst, Morgan Stanley

Got it. That's helpful. Just maybe to clarify the suggestion for positive working capital in the back half of this year, is that also driven by similar dynamics on the Telesat program?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes. Yes. It's just all execution on that and some other programs are all executing, but certainly Telesat is the largest one. Yes.

Unidentified Speaker — Analyst, Morgan Stanley

Okay, great. Maybe just one more on actually the Starlab partnership. Does this investment maybe preclude you in any way from contributing robotics offerings to other potential commercial space stations? Is there any exclusivity built in there? Maybe you just talk about are you fielding demand from other offerings at this point?

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Yes and no. No, there is no exclusivity. And yes, we are talking to all commercial space stations and commercial on-orbit servicing and commercial active debris removal and commercial on-orbit assembly and commercial lunar rover and infrastructure projects. There are a wide range of commercial opportunities for MDA SKYMAKER commercial robotics in the market.

Unidentified Speaker — Analyst, Morgan Stanley

Great. Thank you.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Okay. Thank you.

Operator

Thank you. Once again, should you have a question, please press star, followed by the one on your telephone keypad. There are no further questions at this time. I will now hand the call back to Mr. Mike Greenley for any closing remarks.

Mike Greenley — Chief Executive Officer, MDA Space Ltd.

Thank you, Operator.

Thanks everyone for your time this morning. We certainly appreciate that. We look forward to updating you on our progress during our next earnings call in November.

Have a great day. Thanks very much.

Operator

Thank you. This concludes today's call. Thank you for participating. You may all disconnect.