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Michael Bolitho
Director of Treasury and Risk Management

Daniel S. Goldberg
President and Chief Executive Officer

Andrew Browne
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LightShed Partners

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JP Morgan

Arun Seshadri
Credit Suisse

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Michael McCaffery
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Tim Daggett
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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the conference call to report the fourth quarter 2021 financial results for Telesat.

Our speakers today will be Dan Goldberg, President and Chief Executive Officer of Telesat, and Andrew Browne, Chief Financial Officer of Telesat.

I would now like to turn the meeting over to Mr. Michael Bolitho, Director of Treasury and Risk Management.

Please go ahead, Mr. Bolitho.

Michael Bolitho, Director of Treasury and Risk Management

Thank you, and good morning.

This morning we filed an Annual Report on Form 20-F with the SEC. Our remarks today may contain forward-looking statements. There are risks that Telesat's actual results may differ materially from the results contemplated by the forward-looking statements as a result of known and unknown risks, risk factors, and uncertainties, which are discussed in Telesat's Annual Report filed with the SEC on Form 20-F. Telesat assumes no responsibility to update or revise these forward-looking statements.

I will now turn the call over to Dan Goldberg, Telesat's President and Chief Executive Officer.

Daniel S. Goldberg, President and Chief Executive Officer

Good. Thanks, Michael. Good morning, everyone.

This morning I'll discuss our fourth quarter and full year financial results and give an update on the business. I'll then hand over to Andrew who will speak to the numbers in more detail, and then we'll open the call up to questions.

Looking first at the full year numbers and adjusting for foreign exchange rate changes. Revenue and Adjusted EBITDA were both down 4 percent relative to the prior year, and our Adjusted EBITDA margin remained stable at 79.6 percent. The revenue and Adjusted EBITDA decrease was primarily due to a reduction of service for one of our North American direct-to-home customers, the reduction and non-renewal of some services in the enterprise segment, including as a result of the full year impact of contract restructurings in 2020 for a mobility customer as a result of COVID-19, and lower consulting revenue as well. The revenue decline was partially offset by an increase in revenue from short-term services provided to another satellite operator in 2021 which didn't occur in 2020, as well as increased services provided to customers in the mobility market as it began to recover from the impact of COVID-19.

Looking at our fourth quarter numbers and adjusting for FX, revenue was down 5 percent relative to Q4 2020, Adjusted EBITDA was down 7 percent, and our Adjusted EBITDA margin was 77.5 percent versus the 79.5 percent in Q4 2020. The revenue and adjusted revenue—I'm sorry, the revenue and Adjusted EBITDA reductions were primarily due to lower equipment sales to certain government customers, the reduction or non-renewal of certain services in the enterprise segment, and a reduction of services for one of Telesat's North American direct-to-home customers.

Turning to some key metrics, backlog at the end of 2021, excluding backlog associated with Telesat Lightspeed, was $2.1 billion and fleet utilization was 80 percent.

Looking at how our revenues broke down on an application basis in 2021, broadcast was 51 percent of total revenue; enterprise services, 47 percent; and consulting and other, 2 percent, and on a geographic basis for the year, North America accounted for 83 percent of revenue; Latin America, 7 percent; EMEA, 5 percent; and Asia, 5 percent as well.

Beyond the numbers, 2021 was an eventful year for Telesat, including becoming publicly traded, clearing the C-band spectrum we've used in the U.S., and receiving payment for the first portion of the US$344 million allocated to Telesat in the FCC's C-band clearing proceeding, and making substantial progress on Telesat Lightspeed.

With respect to Telesat Lightspeed, last year, we announced a $1.44 billion and a separate $400 million investment in the program by the Government of Canada and the Government of Quebec, respectively, which brings to over $4 billion the amount of financing we've lined up for Lightspeed to date. We also concluded an agreement with the Government of Ontario to use Telesat Lightspeed to help bridge the Digital Divide, which, along with our Government of Canada agreement previously announced, contributes to the over $750 million in contractual backlog we had in place for Telesat Lightspeed at the end of last year, and again, that backlog is incremental to the backlog that I mentioned earlier where we ended last year.

Lastly, we did a huge amount of work with the supply chain for Lightspeed, advancing the key technologies underpinning the high-performing satellites and systems that are key to its operation.

As we noted last quarter, Thales Alenia Space, who we've been working with on Telesat Lightspeed, informed us late last year that the global supply chain issues out there will delay the construction and in-service date of the Lightspeed Constellation. These issues are also putting up with cost pressures on the program. We're working through these issues with Thales now, and we expect to share an updated business plan in the near term with the export credit agencies with whom we've been in discussions to provide financing for the program that will allow us to get those discussions moving again. Although these supply chain issues have been unwelcome, we remain enthusiastic about the prospects for Telesat Lightspeed, and are focused on completing the financing and commencing the full-scale construction of the program in the near term.

Before summing up and handing it over to Andrew, I wanted to note that I've spoken to a number of our debt investors over the past few months, including addressing a range of questions about Telesat Lightspeed. Reflecting on those discussions, we thought it was important to reiterate a few points on our call here this morning sort of in the affirmative just so we're all aligned on how we're thinking about the world.

First, it's our plan, in the main, to operate our GEO business and our LEO business, Telesat Lightspeed, as an integrated business, which is to say the same management team, same sales team, technical and operations teams, and the same corporate support functions like finance, legal, human resources, IT and the like. The fact that LEO is being financed in a separate credit silo has been solely a function of the borrowing covenants that exist in our current credit facilities, not the fact that we think about it as a separate business.

Second, Telesat Canada, our restricted entity, owns 100 percent of the equity of our LEO subsidiary, and we have no plans at this time to move that subsidiary out from under Telesat Canada.

Third, we expect our GEO activities will continue to generate significant cash, and we intend to use that cash in a way that strengthens the business, which could include paying down current debt and otherwise managing our leverage profile.

These are all points that we've made in the past, but we thought it would be useful to reiterate those points given some of the questions we've been hearing from folks. We're going to be presenting at quite a few investor conferences over the course of this year and engaging with the market more broadly on what's happening at Telesat, including our expectations on Telesat Lightspeed, so those will all be good opportunities to continue to drive these points home and share our enthusiasm more broadly about our future prospects.

With that, I'll hand it over to Andrew, and then I look forward to addressing questions.

Andrew Browne, Chief Financial Officer

Thank you, Dan. Good morning, everyone.

I would now like to focus on highlights from this morning's press release and filings.

In 2021, Telesat reported revenues of $758 million, Adjusted EBITDA of $603 million, and generated cash from operations of $296 million, and with over $1.4 billion of cash on the balance sheet at year-end.

For the Full Year 2021 and compared to the same period in 2020, revenues decreased by $62 million to $758 million, operating expenses increased by $53 million to $234 million, and Adjusted EBITDA decreased by $50 million to $603 million. The Adjusted EBITDA margin was 79.6 percent, unchanged compared to 2020.

Between 2020 and ‘21, changes in the U.S. dollar exchange rate had a negative impact of $30 million on revenues, a positive impact of $6 million on operating expenses, and a negative impact of $25 million on Adjusted EBITDA. When adjusted for the changes in foreign exchange rates, revenues decreased by $32 million for 2021 compared to 2020, operating expenses increased by $59 million, and Adjusted EBITDA decreased by $30 million. Excluding the impact of foreign exchange, the revenue decrease was primarily due to a reduction of service for one of Telesat's North American direct-to-home customers and reduction or the non-renewal of certain services in the enterprise segment.

The revenue decline was partially offset by an increase in revenues associated with short-term services provided for a satellite operator in 2021 which had not occurred in 2020, as well as increased services provided to customers in the mobility market as it began to recover from the impacts of COVID-19.

The increase in operating expenses was principally due to higher non-cash share-based compensation, combined with higher wages due to the hiring of additional employees, all primarily to support Telesat Lightspeed program. This was partially offset by higher capitalized engineering costs.

Comparing the fourth quarter of 2021 with the same period in 2020, revenues decreased by $14 million to $187 million, operating expenses increased by $40 million, and Adjusted EBITDA decreased by $15 million to $145 million.

In other operating gains, we reported $108 million, primarily as a result of the recognition of Phase I accelerated clearing payments for the repurposing of the U.S. C-band spectrum.

The gains and losses on financial instruments reflect changes in the fair values of our interest rate swaps and the prepayment option on our senior and senior secured notes. For the Full Year 2021, we recognized a loss of $19 million related to financial instruments.

We also reported a gain on foreign exchange of $20 million for the fourth quarter and a gain of $28 million for the full year.

Booking of tax expense for the year was $83 million higher than 2020. In 2020, Telesat was able to recognize a deferred tax asset and significantly reduce its tax expenses whereas no similar recognition occurred in 2021. The balance of the increase in 2021 was primarily due to an increase in operating income and decrease in interest expense.

For 2021, the cash inflows from operating activities were $296 million and the cash outflows used in investing activities was $273 million. Virtually all of the capital expenditures related to a lower Orbit constellation, Telesat Lightspeed, offset by the partial receipt of C-band.

Turning to guidance, as you will also have noted in our earnings release this morning, we are providing preliminary 2022 guidance. Our guidance reflects a Canadian dollar to U.S. dollar exchange rate of 1.3. For 2022, Telesat expects the full year revenues to be between $720 million and $740 million. As you are aware, the term of our Anik F3 contract with Dish ends at the end of next month, and our guidance reflects a range of potential outcomes surrounding that contract.

Also in 2022, we expect to recognize a significant hardware sale and the provision of related services to DARPA, the U.S. government agency, under a contract we announced in 2020. While we expect this activity to make a meaningful revenue contribution and the opportunity is considered very valuable in positioning Telesat Lightspeed with government customers, and however, the expense associated with this contract is expected to be more or less equivalent to the revenue contribution.

Telesat expects its Adjusted EBITDA to be between $525 million to $545 million in 2022.

In 2022, operating expenses are forecast to increase as a result of the additional cost of sales related to the government opportunity, as mentioned, and the ongoing impact of hiring for our Telesat Lightspeed program.

With respect to capital expenditures, and as Dan noted, we are continuing to work at this time to finalize our financing and contracts with our key suppliers. For now, we expect our 2022 cash flows used in investing activities to be in the range of US$100 million to US$120 million, including capital expenditures to further advance our Lightspeed program, and once we have greater visibility around the construction and financing of our program, we will provide a further update on our anticipated capital expenditures for the year, which, of course, could increase substantially.

To meet our expected cash requirements for the next 12 months, including interest payments and capital expenditures, we have approximately $1.5 billion of cash and short-term investments at the end of December, as well as approximately US$200 million of borrowings available from the revolving credit facility.

Approximately $979 million in cash was held in our unrestricted subsidiaries. In addition, we continue to generate a significant amount of cash from our ongoing operating activities.

At the end of the quarter, leverage as calculated under the terms of the amended senior secured credit facilities was 5.7 times. Telesat has complied with all the covenants in our credit agreement and indentures.

A reconciliation between our financial statements and financial covenant calculations is also provided in the report that we have filed this morning.

As we have said, Telesat Canada has structured its investment in Lightspeed through unrestricted subsidiaries. To date, Telesat Canada has invested $1.1 billion in cash into these unrestricted subsidiaries to form the development of our Lightspeed project.

You will also note that our Form 20-F now provides condensed consolidated financial information, and, in particular, a Note 37 on the financial statement. The non-guaranteed subsidiaries shown in the note are essentially the unrestricted subsidiaries with minor differences.

I can say that concludes our prepared remarks for this call, and now very happy for us to answer any questions, and we'll like to turn back to the Operator.

QUESTION AND ANSWER SESSION

Operator

Thank you.

The first question is from Walter Piecyk from LightShed. Please go ahead.

Walter Piecyk, LightShed Partners

Thanks.

Dan, I think we can all appreciate that it's going to be an integrated offering between the GEO and the LEO to come, but obviously, it's going to be a few years before we see the LEO revenue, so I would just suggest that, to the extent that you can, break out expenses that are incremental that otherwise wouldn't be there for LEO. Same thing on Capex. I mean, even the—I realize that Capex, you're going to have to ramp up to the billions, but even the $100 million to $200 million of Capex kind of what's incremental in anticipation of the LEO I think would be helpful to kind of understand what's going in the business, so just maybe kind of thoughts on that for going forward.

Then, in terms of the different outcomes for Dish, you said it's embedded within the guidance, but how should we think about this conceptually? What's the worst case scenario? Is the worst case scenario even possible? I mean, the worst case scenario would require Dish to basically go send people to someone's home, I would think, and change the direction of their dish, which seems unlikely, so can you kind of walk us through, conceptually, what are some of the possible outcomes there?

Daniel S. Goldberg, President and Chief Executive Officer

Yes, and Walter, thanks—and I just want to comment on your thoughts.

We will give a whole lot more insight on Capex; what's for LEO, what's for GEO. Same on the expense side, and I know my finance colleagues can speak to this better than I can, but I know in the filing we made with the SEC today, we've now broken out the—essentially, the financials for the restricted group from the financials from the unrestricted group, which is a pretty good proxy for GEO and LEO, so folks have been asking for that for a while, which we always thought was reasonable, so we've done that, but no, we take your point, and that's how we plan to talk about the business, basically.

Walter Piecyk, LightShed Partners

Before you get to my second question, was the reason, then, for those comments—the prepared comments to send a message to the debt holders that, effectively, as LEO grows, that that debt will not be stranded with the GEO business at a high leverage ratio? Is that how we can interpret that?

Daniel S. Goldberg, President and Chief Executive Officer

I mean, what we're trying to say is, chill. I get the same questions from investors every other day. Why'd you finance Lightspeed in the separate group? What are you going to—and we keep telling everyone, we've got no plans to dividend out Lightspeed. We've got no plans to run it as a separate business. We've got no plans to violate our covenants and funnelling cash out that we're not allowed to. We keep saying those things, but I don't know. I fault myself. I haven't been sufficiently clear, so we thought we'd be, I don't know, kind of affirmatively emphatic.

That's what it is, and look, we announced, I thought, a good contract with a longstanding customer, Anuvu, earlier in the quarter, or maybe Anuvu announced it. I'm looking at John. Yes, they announced it. We didn't announce it, but they were emphatic. Hey, we did this meaningful deal on Telstar 19V. It's for a bunch of capacity that serves the Caribbean, but we think about it as a bridge to Lightspeed, and for me, I don't know, it just perfectly reinforces what we've been trying to say to everyone, which is this just works. Doing Lightspeed is good for folks in GEO.

The fact that we're a current GEO operator is good for our prospects on Lightspeed, so anyway, I'm going to keep making the points, but honestly, I wish I'd get the questions a little bit less, but anyway, that—you asked the question, Walter, why we go out of our way to hammer those points home. It's because we keep getting these questions, and some folks have asked us, be explicit, so we're being explicit. I don't know how to be more explicit. In Canada, there are two official languages. We can do it in French as well if that would help.

Walter Piecyk, LightShed Partners

I think the more you talk to equity holders, the focus may turn to—towards to LEO and the NPV opportunity if the...

Daniel S. Goldberg, President and Chief Executive Officer

Yes, and that's the other thing I tried to say, which is...

Walter Piecyk, LightShed Partners

(Inaudible) accept that.

Daniel S. Goldberg, President and Chief Executive Officer

No, I want to be clear on that too. We've been told, rightly so, you guys got to get out there more and tell us what's going on with your Lightspeed plans, and we agree, so we're signed up for more investor conferences than I care to do, but we're doing them anyway, so we're going to be out there a lot.

Now, we need to finish with our lenders, and I'll talk about that. We need to finish with our contractors on Lightspeed, and then we're going to be able to say more, but look, we posted an investor deck on our website from a non-deal roadshow we did toward the end of last year. We're giving people, I think, some pretty good building blocks so that they can think about Lightspeed. We said what the TAM is. We've said the amount of that TAM that we think that we can capture. We've told people directionally what the total Capex is on the Constellation. We've said what we think our EBITDA contribution margin's going to be, so I'm no financial analyst, but that's a lot, you would think, to help people...

Walter Piecyk, LightShed Partners

(Inaudible) basic algebra, yes, to come up with a revenue number.

Daniel S. Goldberg, President and Chief Executive Officer

Yes. I mean, and it's not to say we're not going to...

Walter Piecyk, LightShed Partners

(Inaudible) hard for people.

Daniel S. Goldberg, President and Chief Executive Officer

It's not to say we're not going to give a whole lot more when this thing's nailed down a little bit more, but we've tried to give people some information so that they can start to appreciate, candidly, why we are so enthusiastic about Lightspeed.

So anyways, but back to your question, Dish, range of outcomes. I mean, range of outcomes is they don't renew, they fully renew.

Here's what we think right now, and this contract's up in about six weeks time, so my own feeling is it's looking like a partial renewal, and this satellite's got about three years of life left on it, so it's feeling like a partial renewal, and then—and we're not done, but that's what it feels like, and—but even with the partial renewal, I mean, you saw even at the upper ends of our guidance, revenue is still down, the biggest driver of revenue and EBITDA being down this year.

If you look at our guidance, it's still the impact of the fact that that Dish contract is coming to an end, so it feels right now like we'll get a partial renewal, and we've been busy in the market looking to sell the rest of the capacity and we're feeling pretty good about that right now, and we've only said it's attractive capacity, so that's—yes, but—and as Andrew said in his remarks, our guidance kind of embraces those outcomes at kind of the low end of the range. There's no Dish renewal, but it—I don't know, our own guess is it's a partial renewal, and then we'll—I hope things go well, have the rest of that capacity under contract, certainly, by the end of this year, so anyway...

Walter Piecyk, LightShed Partners

(Inaudible).

Daniel S. Goldberg, President and Chief Executive Officer

Look, I'm sorry, Walter, I just want to—just that's what it feels like to us right now, so—but that—that's our best feel right now for where it's going to land.

Walter Piecyk, LightShed Partners

Right, and without anything announced with DirecTV as of yet, it doesn't sound like anything should change as negotiations substantially (inaudible).

Daniel S. Goldberg, President and Chief Executive Officer

Look, I mean, we've said this before. We never saw a potential Dish/DirecTV combination as any kind of factor influencing whether they would renew Anik F3 or not. That, for us, was always about just how important those kind of foreign language broadcast channels, which is a lot of what they do with that satellite, how valuable it is for them to continue with those activities, so, no, we don't—DirecTV/Dish combination for us was never going to be a factor for that renewal.

Walter Piecyk, LightShed Partners

Just one other, if I may. OneWeb is in a bit of a rough spot right now, but if there's a scramble for launch locations elsewhere, do you think that, potentially, has any impact on the timing of Lightspeed, or is it really just supply chain with Tellus at this moment?

Daniel S. Goldberg, President and Chief Executive Officer

The latter. We feel like we're good on the launch side. The things that have delayed our program, yes, I mean, it's pretty simple. It's the delays that Tellus shared with us kind of late last year. That's what's caused us to have these few months of delay here.

Walter Piecyk, LightShed Partners

Okay. Thank you.

Daniel S. Goldberg, President and Chief Executive Officer

Okay, thanks.

Operator

Thank you.

The next question is from Mike Pace from JP Morgan. Please go ahead.

Mike Pace, JP Morgan

Hi. Good morning. Thanks for taking the questions.

Dan, I appreciate the commentary on the structure and ownership, unrestricted subs, restricted group, things like that, I guess, but to ask something a little bit more specific, would you expect there to be any requirements in any pending debt documents for LEO funding that would require the ownership structure to remain in place, or is this just how you want—how you envision running the two businesses or businesses together, or is it both?

Daniel S. Goldberg, President and Chief Executive Officer

Oh, Chris, our General Counsel's here. Chris, you're closer to that than I am. Do you want to talk to that?

Chris DiFrancesco, Vice President, General Counsel, and Secretary

I think that we certainly expect covenants with respect to the way that Telesat Canada and the LEO subsidiary are going to deal with each other, for sure. In terms of covenants with respect to ownership, we don't know right now. It's a little bit early. We haven't gotten to that level of detail negotiating with the ECAs and the other lenders, so it's unclear.

Mike Pace, JP Morgan

Okay, appreciate that, and then back to Dish, and I realize, look, revenue and EBITDA guidances ranges of $20 million or so, and it sounds like it—the majority or all of that is related to Dish. I guess, just to be clear, that's versus—the Dish renewal's versus—there's a $20 million range versus your expectations, or a $20 million range or potential $20 million lower from what you were getting in prior periods, just to put a little bit more specificity on it?

Daniel S. Goldberg, President and Chief Executive Officer

I didn't totally follow that, Mike. I can tell you if there was no Dish renewal, we’re still in the range. We've built the range to deal with that outcome. Look, we haven't given the biggest range in the world either. It's $20 million, so it—I mean, it—I mean, but that reinforces, I think, what we've always said about our business, which is so predictable. We've got so much backlog. We know our customers. I mean, for the most part, we can call this stuff. Even with a big swinger out there like this Dish renewal, we still feel confident about giving a guidance range that's as narrow as it is. So, to be clear—I'll try to be clear, if there was no Dish renewal, then we’re still within the range. Yes, more at the bottom end, obviously, so yes, I hope that answers your question.

Mike Pace, JP Morgan

Yes, no, it kind of does, but just to add a little bit to it, is that—if there was no Dish renewal, is that because you can repurpose the satellite for other uses, and can you repurpose that satellite for enterprise, I guess, as well? I forget which of the Dish satellites are (multiple speakers).

Daniel S. Goldberg, President and Chief Executive Officer

Yes. No, the entire satellite can be repurposed for, yes, other applications. It's a good Ku-band satellite with great coverage over kind of North America, good coverage over the Caribbean, so yes—no, and we've talked about this before. It's what has always made us feel—look, we'd like a Dish renewal, but we've always felt confident that if we didn't get one, that there'd be, yes, meaningful demand for the capacity. Now, it might take us a little bit more time to fill it up and there's rates and all of that, but yes, yes, we always felt comfortable, and if we end up with a partial renewal, then we’ll be getting, obviously, some capacity back, as it's only a partial renewal, and we’re bullish about our ability to resell that capacity, and reasonably timely too.

Mike Pace, JP Morgan

But Anik F3 could be used for enterprise services, not just DTH services?

Daniel S. Goldberg, President and Chief Executive Officer

Yes, 100 percent.

Mike Pace, JP Morgan

Got it. Okay, and then just a—oh, sorry, and then just to ask a little bit more from a prior question, and this is something we get quite often, is—and I haven't had time to read through the entire 20-F yet this morning, but just getting back to what the LEO EBITDA drag was in 2021, and rounding is encouraged here, can you just help us out? I mean, I see an OpEx number for non-guarantor subs. Is that basically the number, and then within—embedded within the guidance also for 2022, can you help us understand what type of LEO EBITDA drag is incorporated into that?

Daniel S. Goldberg, President and Chief Executive Officer

Yes, I'll let Andrew talk about—I mean, just to be clear, we don't think about it as a drag. We think about it as smart investments in our future growth, which we think is going to…

Mike Pace, JP Morgan

Understood.

Daniel S. Goldberg, President and Chief Executive Officer

…benefit all of our stakeholders, but anyway, Michael Bolitho, do you want to...

Michael Bolitho, Director of Treasury and Risk Management

Okay, so yes, Mike, so in the non-guarantor notes, substantially, the operating expenses are the LEO subsidiaries. The incremental drag on that is—we sort of think it's about—Adjusted EBITDA is down at the midpoint in our guidance about $75 million, and of that $75 million, the additional LEO drag would be on the order of 15 percent of that.

Daniel S. Goldberg, President and Chief Executive Officer

Yes. Let's not do this drag thing. Don't buy any of Mike's...

Michael Bolitho, Director of Treasury and Risk Management

Yes, we are spending for our future.

Daniel S. Goldberg, President and Chief Executive Officer

Yes, we are. We're investing. I mean, we understand why you're asking the question, but just for everyone's benefit, yes, we're—we husband our money pretty carefully. We don't invest it in a—we hope, in a dumb way, so anyway, but we take your point, Mike.

Mike Pace, JP Morgan

Dan, fair enough. From now on, I'll say LEO investment. How about that?

Daniel S. Goldberg, President and Chief Executive Officer

Thanks, Mike.

Mike Pace, JP Morgan

Got it. Sorry, just one more quick one. It might not be easy for you, but I guess as it relates to the Thales agreement, there's supply chain timing issues, and then you talked about potential incremental cost. Is there a way to quantify—I guess you have two choices, right; pay more for the same constellation or make the existing project or constellation a little bit smaller and then maybe spend similar amounts, so can you quantify the potential increase in cost on the same constellation, and then if you have to do something on—a little bit on a smaller scale side of things, what are the implications there for the business plan and revenue and things like that?

Daniel S. Goldberg, President and Chief Executive Officer

Yes. No, that's a great question, and if you—when you work through the 20-F, which is voluminous, yes, that's kind of how we lay it out, which is, yes, it's a tube of toothpaste. If costs are going up, and we're—we are hearing from Thales that there are cost pressures. God, I mean, you see it everywhere, but there are supply chain issues which are causing delays, and there are inflationary pressures just across the entire economy right now, and we're getting bitten by kind of both of those things right now, and that's exactly how we kind of frame it in the 20-F, which is it means if we still are focused on launching—we've talked about Lightspeed is 298 satellites and the costs are going up, then we either need to raise more money or we need to de-scope the constellation and bring Capex down so it fits within the same spending envelope that we had before those cost pressures emerged, but—so you framed it exactly right. That's how we talk about it in the 20-F, and yet, it's still a wee bit too early for us to say which direction we're going to go here, but I will note, we've got a lot of scope if we want to to kind of downsize the number of satellites.

The Lightspeed with 298 satellites is—provides 15 terabytes of capacity and is kind of all singing and all dancing and is an immensely advanced and powerful constellation, but I note it was also the case that we were launching first—our launch cadence was kind of—we're first putting up 78 satellites in polar, and then we're putting up another 110 satellites in inclined orbits, they more equatorial orbits, and then we're going to supplement that—the 188 satellites combined. Then we're going to supplement it with another 110, I guess, to make the math right, to get to 298, but it was our plan once the polar in those first inclined satellites were up, so that's the 188, we were going to have global coverage with those 188 satellites. We were going to already start turning on the customers, including all these Government of Canada customers and start generating revenue and EBITDA and the like, and then the next 110 were going to come, so all to say that even with 100 less satellites, for instance, we still have terabytes and terabytes of capacity in a very capable global constellation that we feel good about, so anyway, but we're thinking about which way we go right now, and just sitting here on Friday, March 18, we'd just rather not put a pin in it right now.

I do think that by the end of next quarter, so end of June, we'll have a real good sense for what's the constellation going to look like, where we are, I think, with the ECAs, and we're going to be able to, yes, be much more definitive about that.

So anyway, but it was—you—that's the right question to ask, and yes, and that's how we're thinking about it right now.

Mike Pace, JP Morgan

Great. Thank you.

Daniel S. Goldberg, President and Chief Executive Officer

Thank you.

Operator

Thank you.

The next question is from Arun Seshadri from Credit Suisse. Please go ahead.

Arun Seshadri, Credit Suisse

Hi, guys. Thanks for taking my question.

Just going back to for a second on the Thales question, I think you said before that by the—by early February, you were supposed to hear a more sort of exact timeline from them updating you from sort of the general guidance they gave you late last year. Did that specifically happen, or are you still waiting? I guess that's the first question.

Secondly, what has changed from—in your communication with them, I guess, from late last year to today, maybe even qualitatively to provide us—and obviously, we understand that the supply chain issues, and specifically, but qualitatively, what materially has changed relative to your funding the plan and sort of the details related to that?

Daniel S. Goldberg, President and Chief Executive Officer

Yes. No, so things, I would say, are unfolding kind of like we expected, which is to say we have heard from Thales, and I think we've got—so, on schedule, it's more or less coming in like we had sort of indicated before. In terms of when we'll enter kind of global commercial service, it feels like we're going to be about a year late. We thought we were going to be, before we hit these supply chain issues, 2025 for global service. It now feels like we're a year behind that, so it feels like 2026, I think, will be—if things unfold the way we think they will right now, we'll be launching in 2025 and entering service in 2026. It's not what we wanted, but that's what that feels like right now.

I will say, we're not the only guys getting delayed right now when I look at—and we're getting delayed, in part, for a lot of the same issues, supply chain issues. I've heard at least one other LEO constellation is backed up because of supply chain issues. Other LEO constellations, they've moved to the right just because they've moved to the right, and in OneWeb’s case, they've now got this launch issue, which I'm sure is going to be kind of schedule impacting for them in terms of when they can enter service, so anyway—so we have heard from Thales.

I mean, God, we speak to Thales 20 times a week, it feels like, and so that's what it feels like from a schedule perspective. From a cost perspective, we've got, I would say, something that's preliminary right now, but we're expecting to get something more definitive from them we're hoping by the end of next month, and so, yes, the pace of communications and the pace at which we're receiving information, yes, it's kind of consistent with the timeline that we had talked about before.

Arun Seshadri, Credit Suisse

Great. That's helpful, Dan. Thank you, and then as far as the—the second question I had was more in terms of—you've got, obviously, some cash in the restricted sub, in the GEO sub right now; debt that trades at extremely discounted levels, and you have basically cash that—sounds like you're still relatively confident in getting the LEO project in totality fully funded.

So, I guess the—two questions come up. One, what is preventing you from reducing debt by buying debt back at a discount and actually making the debt structure thereby more sustainable on the GEO side, and second, do you—related to that, do you think the shortfall in your funding capability is so large that it freezes you from doing anything opportunistic to reduce your debt balances?

Daniel S. Goldberg, President and Chief Executive Officer

Well, I'll start with the second question, which is no, and look, I mean, we know that we're subject to a whole range of covenants. It precludes our ability, to a point, to move money from the restricted group to the unrestricted group, so we know that we're going to have cash building up there. All to say, even if we needed to find other money, more financing for Lightspeed, we can only do so much. You guys probably know it better than I do in terms of what can come out of the restricted subs, so, no, I think we're going to be generating a lot of cash in GEO. It's going to be building up in the restricted group, and so I don't think that we're going to be constrained in terms of our ability, if we think it's the right thing to do, to reduce debt over time, so that's the second question.

The first question, what’s stopped us from doing it to date? I mean, you can't be in the market buying your debt or securities if you've got, looking at our General Counsel, material non-public information, and so until we put out our numbers and gave our guidance and whatnot, we were precluded from being in the market buying that debt, which we also see as trading at levels that look kind of crazy low to us, and so, yes, that's what had precluded us, and for sure, could be a very attractive, accretive opportunity for Telesat to use some of that cash that is in the restricted group to take advantage of what might be an attractive opportunity in the market.

Arun Seshadri, Credit Suisse

Got it. Thank you for those comments, Dan, and to your point, is the—I think in prior years, you haven't given point guidance necessarily, so the fact that you’re sort of hinting that giving point guidance and sort of encapsulating DISH there could be related to that—to what you just said, right?

Daniel S. Goldberg, President and Chief Executive Officer

I'm not familiar with the term point guidance. I mean, because our equity wasn't public, the only guidance we ever gave was Capex guidance, but I think we were always clear, once the equity became public, like other publicly-traded companies—it's not our favourite thing to do, but we felt like we had to give some guidance on revenue, Adjusted EBITDA, and Capex, so that's why we did that.

Arun Seshadri, Credit Suisse

Understood. Understood. Thank you very much.

Daniel S. Goldberg, President and Chief Executive Officer

Good. Thank you.

Operator

Thank you.

The next question is from Harry Woo from Ares. Please go ahead.

Harry Woo, Ares Management Corporation

Hi, guys. Thanks for taking the questions.

I guess a couple just questions on the forecast. Can you just quantify how much of that revenue in 2022 is coming from the government contract you talked about?

Daniel S. Goldberg, President and Chief Executive Officer

Yes, easily. We actually disclosed it. We issued a press release announcing—so the government contract that we refer to—and we think it's a great contract for Telesat. I mean, it's not very accretive from a cash flow perspective, but we won an opportunity back in kind of late 2020 where we're building two satellites for DARPA. What does DARPA stand for; Defense Advanced Research Projects Agency. It's basically the Pentagon's internal research group, so we announced that we're building two satellites for them, LEO, that have inter-satellite links, optical links, so that we can demonstrate and they can start getting comfortable with optical inter-satellite links, which is a key feature of the Telesat Lightspeed Constellation. So, anyway, we announced that back on October 14, 2020, and said that—I'm looking at this press release now, the Phase II base contract represents an $18.3 million program. That's a U.S. dollar number, so yes, I mean, we've been vastly more specific. We were required to disclose this. I think that's part of U.S. Government requirements. When you win a contract like this, you have to tell everyone kind of what you're getting paid, so it's a good contract for us.

As far as I know, it's coming along well. I think we're doing what we need to do. We're excited to get those satellites up there and start demonstrating the power of optical inter-satellite links, but to win that contract, yes, we did it aggressively, and so we don't think we're going to lose money. We hope we'll make a little bit of money, but it's—there's a revenue contribution, but there's almost equal expense associated with it, so it's kind of margin dilutive, and when you go back and you look at—gee, I forget what the numbers are, at the midpoint of our guidance, revenue’s down by X percent, but at the midpoint of our Adjusted EBITDA guidance, Adjusted EBITDA is down even more, I think part of that's because we're a fixed-cost base business, and for—like when we lose money on the DISH renewal, yes, I mean, that's almost dollar-to-dollar at the EBITDA line, so you expect to have a bigger impact in terms of percentage of decline in EBITDA, but another big, big contributor to the margin erosion and whatnot that we're expecting for this year, it's that U.S. Government contract. Great to have US$18 million of topline contribution, but we're getting that in expense as well.

Harry Woo, Ares Management Corporation

Okay, perfect. Okay, then my second question is just—can you just quantify the DISH revenue from Anik F2 in 2021, just so we have a sense of what the range of outcomes on that is?

Daniel S. Goldberg, President and Chief Executive Officer

Yes. At the high level, we've said for these DTH contracts that we have—I'm not necessarily talking about DISH and this F3 in particular, although kind of fits the mold. I think, Michael, we've said order of magnitude, guys, CA$70 million kind of topline, with almost all of that going to EBITDA, so that'll get you pretty close to what we would have recognized in 2021 and what the run rate will be for the first part of this year, right, because that contract doesn't come up until the end of next month.

Harry Woo, Ares Management Corporation

Right, and then, I guess my next question is just on the Capex side of the equation. You guys bumped up the satellite program purchases on the LEO side pretty materially this quarter. I think it was $182 million in the quarter. What was that related to, and is that kind of included in the overall Capex plans, or is that—because obviously, you guys haven't started with Tellus or any of these other type contractors. I’m just curious if that's part of the overall $5 billion spend that is going to increase, so just—could you just talk about that spend this quarter?

Daniel S. Goldberg, President and Chief Executive Officer

I just want to be clear. When you're talking about this quarter, you mean Q4?

Harry Woo, Ares Management Corporation

Yes. In Q4, it looked like the—like purchases for satellite...

Daniel S. Goldberg, President and Chief Executive Officer

Yes. No. I mean I'll give Mike a shot on what that was and Andrew, but it was a big prepayment for launch services, and so, yes, it's absolutely a part of that overall US$5 billion Capex number that we've talked about before.

Harry Woo, Ares Management Corporation

Perfect. Okay, and then last question, I'll just follow up on Arun's question, so you guys mentioned, obviously, the restrictions around MNPI (phon) and not being been able to go in the market to buy bonds at such discounts. Now that numbers are out, is there—are there restrictions in terms of the credit docs or anything else that would restrict you from going out and buying those bonds at $0.50 on the dollar?

Daniel S. Goldberg, President and Chief Executive Officer

No. My understanding is if we buy debt, we need to cancel it, but no, we're at liberty to do that if we think that's a good idea.

Harry Woo, Ares Management Corporation

Okay, great.

Operator

Thank you.

The next question is from Michael McCaffery from Shenkman Capital. Please go ahead.

Michael McCaffery, Shenkman Capital Management

Thanks for taking the question.

Maybe I could just follow up on Harry's question. I guess, given your prior comment, Dan, that you think the debt levels are at—I forget your exact adjective, but you said that they were at crazy levels, and the comments you've led the conference call with as far as bondholders not understanding the story or not believing the story or not listening to comments you've made before, I guess why would you not—you said if it makes sense, you'd be looking to buy bonds back at these current discounts. I guess why would you not? Is there some reason to keep as much cash in the restricted group as you do right now and not take advantage of these current levels?

Daniel S. Goldberg, President and Chief Executive Officer

How would I answer that? I don't know, Mike, I guess we just say that probably not obvious that we'd be explicitly telegraphing everyone in the market exactly what we're going to do. We're not in the business of—I mean, our day job is running a satellite company, not being out in the market buying securities, but when we talk to people whose day job is being out in the market buying securities, usually they're not advertising what their next move's going to be, so, I don't know, it just doesn't seem obvious to us right now that we need to be super explicit about whether we go left or we go right, but no, I mean, we have cash that's building up. It's not lost on us that there could be an attractive opportunity there, but yes, that's just kind of how we think about it.

Michael McCaffery, Shenkman Capital Management

Just one follow-up to that. As you're finalizing discussions with the export credit agencies, does that play in—does that put any restrictions on using cash on hand or doing anything as it relates to the bond levels. I guess related to that, has the deterioration in your bond levels at the restricted group, has that caused any additional hurdles as it relates to finalizing the export credit financing?

Daniel S. Goldberg, President and Chief Executive Officer

I would say no, there's certainly nothing about our discussions with the ECAs that would constrain our ability to make use of cash in the restricted group to do any range of things, including repurchasing our debt, and then, no, I don't think that, where our debt is trading, the ECA lenders will be solely collateralized into Telesat Lightspeed, but as we've said before, we don't like where the debt is trading. I mean, we think that sends messages about Telesat that—yes, that don't align with reality.

You see debt trading at those kinds of levels, and you think the Company is under some extraordinary financial duress, and it's certainly not how we're thinking about it. You look at our—how the business has held up, you look at the cash flows, you look at the predictability of our revenues, yes, we don't get it, so it might not chill or undermine, and I don't think it will, the outcome of our discussions with the ECAs, but we still don't—it doesn't mean, oh, so who cares? We don't like it, and so—but I don't—but to answer your question, no, we don't think that where the restricted debt trades is going to have a bad collateral impact on getting there with the export credit agencies.

Michael McCaffery, Shenkman Capital Management

Okay, great. Thank you.

Daniel S. Goldberg, President and Chief Executive Officer

Thank you.

Michael Bolitho, Director of Treasury and Risk Management

Operator, we have time for one quick question and then we need to wrap up.

Operator

Certainly.

The last question will be from Tim Daggett from RBC. Please go ahead.

Tim Daggett, RBC Capital Markets

Hey. Thanks for taking the question.

I believe in the covenants, there's—on the revolver, if it's 35 percent drawn, then the covenants come into play. Is there any plan or reason to have to draw on that revolver, I guess would be about $70 million, so is there any plan to draw on that and then the covenants would potentially kick in?

Michael Bolitho, Director of Treasury and Risk Management

Based on what we know at the moment, no.

Tim Daggett, RBC Capital Markets

Okay, great. Thank you.

Daniel S. Goldberg, President and Chief Executive Officer

Okay. All right. Well, listen, we appreciate everyone's time this morning, and we look forward to chatting again when we issue our first quarter numbers. So, thank you very much.

Michael Bolitho, Director of Treasury and Risk Management

Thank you. Bye, bye.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.
