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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the conference call to report the First Quarter 2022 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 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 our quarterly report on Form 6-K with the SEC and on SEDAR. 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 and uncertainties. For a discussion of known risks, see Telesat's annual and quarterly reports filed with the SEC. 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 Goldberg, President and Chief Executive Officer

Thank you, Michael. Good morning, everyone.

This morning I'll share some thoughts on the quarter, and I'll give an update on the business. I'll then hand over to Andrew who will speak to the numbers in detail and then we'll open the call up to questions. In the past, I think there has probably been too much overlap in what Andrew, and I had each shared in terms of financial performance, so I'm really going to try to focus my comments on the key developments in the quarter and the key objectives we're working on.

As noted in the earnings release, we're off to a good start for the year. As you know we had a key contract with the DISH Network on our Anik F3 satellite that came up for renewal at the end of last month. As I suggested would likely be the case on our Q4 earnings call in March, we ended up getting a partial renewal. DISH will need a little more than half the capacity they had previously been taking, although at a rate that's lower than what they had been paying. The renewal is for two years with an option to extend for an additional year beyond that.

Separately, we entered into a contract with another long-time customer for almost all of the capacity that DISH didn't renew, capacity that will be used for broadband connectivity for the cruise market. With the DISH renewal and the separate agreement for cruise services, we're well-positioned to deliver on our guidance for the year.

Taking a step back and looking at the market for satellite services more broadly, it appears to us that the level of activity and the demand for services is somewhat stronger than what we saw at this time last year, with a pricing environment that we'd describe as broadly stable.

With COVID restrictions easing, we've seen more demand in the aero and maritime markets, and it appears also that higher energy prices may be leading to a bit of an uptick in activity in that market as well. With an 84 percent capacity utilization rate at the end of last quarter, however, one of our challenges tends to be finding available capacity on the fleet to satisfy some of the opportunities we're seeing out there.

Shifting gears, in March and April we purchased Telesat unsecured notes with an aggregate face value of US$60 million, something we believe will be accretive to the Company and signals our confidence in our future prospects. Consistent with our covenants, the notes that we purchased will be cancelled. We've been authorized by our Board to purchase up to an incremental US$100 million face value of additional Telesat debt.

Finally, turning to Telesat Lightspeed, last month we shared the current Lightspeed business plan with the export credit agencies, and now we're fully reengaged with them to secure their commitments for the program. The plan is for 188 satellites, plus 10 in-orbit spares, which keeps us within the same Capex envelope we were working with previously, not withstanding the cost increases we've seen from supply chain shortages and other inflationary pressures.

On our last call, I said we expected to have a much better sense of where things sit with the ECA by the end of June, and we're still focused on that timeframe. We remain enthusiastic about the prospects for Telesat Lightspeed and remain heavily focused on competing the financing and commencing the full scale construction of the program.

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

Andrew Browne, Chief Financial Officer

Thank you Dan and good morning everyone.

I would now like to focus on highlights from this morning's press release and filings. In the first quarter of 2022, Telesat reported revenues of $186 million, Adjusted EBITDA of $146 million, and generated cash from operations of $43 million, with over $1.5 billion of cash on the balance sheet at quarter end.

For the first quarter of 2022 compared to the same period in 2021, revenues decreased by $5 million to $186 million, operating expenses increased by $24 million to $64 million, and Adjusted EBITDA decreased by $6 million to $146 million. The Adjusted EBITDA margin of 78.4 percent compared to 79.8 percent in 2021.

Between 2021 and 2022, changes in the U.S. dollar exchange rate had a minimal impact on revenue, operating expenses, and Adjusted EBITDA. The revenue decrease was primarily due to a reduction of service from one of Telesat's North America's direct-to-home customers; some reductions, terminations on contract renewals of certain services; and a decrease in equipment sales to Canadian government customers. This was partially offset by increased services provided to customers in the mobility market, as it continues to recover from the impact of COVID-19.

The increase in operating expenses was principally due to higher non-cash share-based compensation expense, and to a lesser extent, the reversal of a bad debt provision in the fourth quarter of 2021, which had the impact of lowering operating expenses in the prior period, and also including some higher expenses in respect to being a public company. These were partially offset by higher capitalized engineering costs associated with the increased activity in (inaudible) at Lightspeed program.

Interest expense increased by $7 million in the fourth quarter compared to the same period in 2021. The increase in interest expense was primarily due to interest on the 2026 senior secured notes, which were issued in April 2021, partially offset by the impact of the maturity of one of our interest rate swaps in September 2021.

As Dan had mentioned, in March and April we repurchased our senior secured notes with a face amount of $60 million by way of open market purchases. These repurchases resulted in a gain in the fourth quarter of CA$21 million. We will also show a further gain in the second quarter of approximately $17.5 million. All of the notes repurchased will be cancelled. As Dan has also mentioned, we have authorization to purchase up to a further US$100 million face value of debt.

The gain on changes in fair value of financial instruments for the fourth quarter of 2022 reflects primarily changes in the fair values of our interest rate swaps and prepayment options on our notes. The loss on changes in fair value of financial instruments for the fourth quarter 2021 primarily reflected changes in the fair values of our interest rate swaps and prepayment options.

For the first quarter of 2022 the cash inflows from operating activities were $43 million and the cash flows generated from investing activities were $47 million. Included was $65 million by way of receipt of the remaining phase one U.S. C-band clearing process and with virtually all of the capital expenditures relating to a lower orbit constellation.

Guidance. As you will also have noted in our earnings release this morning, we are reiterating our previously stated 2022 guidance. Our guidance reflects a Canadian dollar to U.S. dollar exchange rate of 1.3. For 2022, Telesat expects its full-year revenues to be between $720 million and $740 million. Telesat expects Adjusted EBITDA to be between $520 million to $545 million in 2022.

With respect to expected capital expenditures, as Dan has also noted, we are continuing to work at this time to finalize our financing on contracts with our key suppliers. For now, we expect our 2022 cash flow 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. Once we have greater visibility around the construction and financing of our Telesat Lightspeed program, we will provide a further update on our anticipated capital expenditures for the year, which 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 under a revolving credit facility. Approximately $1 billion in cash was held in our unrestricted subsidiaries. In addition, we continued to generate a significant amount of cash from our ongoing operating activities.

At the end of the first quarter, leverage as calculated under the terms of our amended senior secured facilities was 5.67 times to one. Telesat has complied with all the covenants in our credit agreements and indentures. A reconciliation between our financial statements and financial covenant calculations is also provided in the report we filed this morning. Our 6-K provides the unaudited, interim, condensed, consolidated financial information in the MD&A. The non-guarantor subsidiaries shown are essentially the unrestricted subsidiaries with some minor differences.

That concludes our overall prepared remarks for the call and now we will be very happy to answer any questions you may have, and we will turn back to the operator.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines.

Your first question is from Jason Kim from Goldman Sachs. Please go ahead.

Julie, Goldman Sachs

Hi, this is Julie on for Jason.

On Lightspeed funding, what are the additional steps that need to happen in order to complete the financing?

We continue to hear about the supply chain and inflation issues across all markets. How are you thinking about your yearly investment needs now versus your initial plan?

Daniel Goldberg, President and Chief Executive Officer

Hi Julia, it's Dan Goldberg.

Let's see, a couple of things. Lightspeed financing, fundamentally we've been saying this for a while, the mission piece right now that we need to close on are the discussions that we're having with the export credit agencies, so I think we've said that. We've already sort of lined up, and these are Canadian dollars, there's like $4.2 billion of financing between the cash that we have, the contributions that we've made already, the commitments we have from the government of Canada, the government of Quebec, and things like that. We've talked about a Capex envelope for the program of about US$5 billion.

In any event, the heavy focus is concluding those discussions with the export credit agencies. The history here is we were, I think making good progress with the ECAs in Q4 and then early in Q4 we got bitten by these supply chain issues, which caused delays and some inflationary pressures on the program. If you've followed the history here, we spent a lot of Q4 and a good chunk of the early months of this year working with Thales to update the schedule, reformulate the program, and our other suppliers too.

Anyway, so in answer to the—but having now kind of updated the program and worked through those issues, we're now back reengaged with the export credit agencies, and so what I think said on our last call and what I said earlier this morning is that we're hoping that by the end of June we're going to have a pretty good sense of where we're sitting with the ECAs. That's kind of the timeline that we're trying to drive towards right now.

Then on the inflationary pressures, we've been dealing with those. I think that what we've done is we're moving forward with a constellation of—and this is the plan that we're speaking to the export credit agencies about, it's 188 satellites in orbit, plus 10 other in-orbit spares to provide some redundancy and resiliency. Obviously, all the ground facilities that are integrated with the network, and all the launch vehicles and the software platforms that we need, all of that is kind of covered in that kind of US$5 billion number.

That's how we're addressing it. It's a hugely capable kind of enterprise grade focus constellation. We feel good about it. That's where we are right now.

Julie, Goldman Sachs

Awesome. Thank you.

Two more questions. On Anik F3, it's good to see the partial renewal addition also leasing out the rest of capacity. I think in the past you've said that DTH contracts generally generate around I think CA$70 million of annualized revenue and EBITDA.

In the current construct, how much is Anik F3 satellite generating in revenue and EBITDA now, and how should we be thinking about that run rate for the next few years?

Daniel Goldberg, President and Chief Executive Officer

Yes, no, so you're right. We have said that our—just kind of a typical DTH contract sort of generates that sort of revenue profile, about CA$70 million. Yes, we're very pleased with the renewal that we got with DISH and probably even more pleased still how quickly we were able to get the rest of that capacity under contract and generating revenue.

We're not going to though, provide kind of a new run rate on Anik F3. We've given guidance for the year. Certainly, closing the DISH renewal and entering into that other big contract for all those cruise services makes us feel quite comfortable about the guidance that we've given. Andrew reiterated it just a few moments ago. But beyond that, we're not going to give kind of more granular information about what F3 is going to be throwing (phon) off going forward.

Julie, Goldman Sachs

Got it. Makes sense. Thank you.

Then on Nimiq 5, that's coming up for renewal in 2024. I know that's a few years out but in your view are there any differences between Nimiq 5 and Anik F3 in terms of the importance to your customers?

Daniel Goldberg, President and Chief Executive Officer

Yes, we think there are real qualitative differences, and we've talked about some of those with Anik when we were talking to the market about the Anik F3 renewal. Anik F3 was used to support services for DISH, and we talked about this a lot before, that really weren't kind of core to their central multichannel offering. It was used for kind of a more niche market. It was used for ethnic broadcast services, so mostly not English, and really served kind of a niche market.

That's not true really for any of our other DTH satellites. Nimiq 5 with DISH, which is very much kind of supporting their more core direct TV services that are kind of made widely available for their subscribers, and that would also be true for the other DTH contracts that we have with Bell, that we have with Shaw. So, F3 was, yes it was kind of different in that regard. It was providing important services but services that really weren't core to the main DTH offering of DISH.

Julie, Goldman Sachs

Thank you.

Then my last question is regarding the bond buyback program. Is there any reason for the size of US$100 million face value program for that was authorized? Then, your initial bond buyback focused on the unsecured bonds and are they going to be your focus going forward, I guess given where they're trading now?

Daniel Goldberg, President and Chief Executive Officer

As far as the amount, yes, I don't know, we just sort of felt that was appropriate. We look at the amount of cash that we have available for all the different things that we want to do and so, I don't know, there wasn't really any exact science to it. It just felt like the right amount. Obviously in the future if we change our minds and want to do something different, then we can do something different.

Then as far as kind of, I don't know, the tranches, I'd say we're sort of being openminded about that. Look, we're also, I should say, we're not committing to buy back any debt. We've been authorized to buy back debt. We made the purchases that we made in March and April.

I think it's good for the Company to have the flexibility to do it. We'll just be pretty transparent with everyone that we have that authorization but the fact that we have the authorization doesn't necessarily commit us to doing anything.

Julie, Goldman Sachs

Great. Thank you so much.

Daniel 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

Hello everyone. Thanks for taking my questions.

First, I wanted to ask, in terms of the, I guess reduction in scope of Lightspeed, can you talk about whether there are any—do you expect to use the full US$5 billion? For a one-third reduction in scope, obviously you're dealing with the increased cost of the overall program, but is there any scope for a reduction in the required funding?

Daniel Goldberg, President and Chief Executive Officer

I doubt it. I think we've—look, we're well advanced in the development of this program, and so it doesn't feel like it, Arun. We're not people that like to spend more than we need to, but I don't think so. Frankly, I think what we're doing is very capital efficient, when you just look at the amount of capacity that we're going to deploy and the amount of capital that's required to deploy that much capacity.

This constellation will have something like 10 terabits of capacity. It's more capacity than exists if you aggregate all the in-orbit GEO satellites. I mean, it's completely disruptive in terms of the capability that we're bringing.

I'd note, just in terms of capital efficiency, I think unlike some of the other lower orbit satellite programs that are moving forward, these satellites are real large, complex, capable satellites that have a service life of 10 years, plus another year just for launching, getting them into their final orbit, and for in-orbit testing and the like.

We actually feel—we didn't love obviously the inflationary pressures that we're seeing out there, but even with them, we think that what we're bringing to market is going to be disruptive in terms of the quality of service that it'll deliver and the price at which we can deliver it, still achieving the kinds of returns that we need to achieve. Anyway, that's a long-winded answer but the short answer is, no. I don't think there's really a lot of scope to bring that number in.

Arun Seshadri, Credit Suisse

Got it. Thank you for that, Dan.

Then it's just a broader question. Obviously, with the moving to the right of Lightspeed timing, you're obviously also seeing Kuiper come in at a similar time now. I think you had probably a one to two year lead over them, which has sort of gone by the wayside somewhat. Just first, your thoughts on that.

Second, given that Lightspeed has moved to the right, what are your current thoughts on the GEO satellite fleet and sort of the longer-term Capex envelope that you would need to sort of deploy in order to keep that business in good shape?

Daniel Goldberg, President and Chief Executive Officer

Sure, I'll start with your first question about Kuiper.

Look, we always believed that Amazon was serious about building up Kuiper and frankly, a one year head start or whatever, I don't think that's really that material in terms of our competitive positioning. We're building a constellation that's very much focused on and built for this kind of enterprise and government market that Telesat's been serving for the last 50 years.

For sure, Kuiper's going to be providing services to some of those verticals as well, but I think their constellation is really more optimized for the primary market that they're focused on serving, which is more the consumer broadband market.

It looks like right now they're not going to be having polar coverage. There's some limitations there. So, our business case is intact, fundamentally. It's a big, big market. We know this market well. We know the customers well. We've engineered our constellation to give us, and I think our customers, certain competitive advantages in the verticals that we're focused on: backhaul for ISPs and mobile network operators, the aero market, the maritime market, the government market. We're really happy—I didn't talk about it in my comments, but we landed that really interesting contract with NASA. That took place in Q2, but we announced it in connection—we mentioned it in this earnings release as well.

With the delay that we've had—and I would note, everyone's getting delayed. I haven't heard from a single satellite operator in the last, I don't know, 12 months, whether they're a new entrant, whether they're a longstanding operator, just everyone's kind of getting moved to the right a little bit, mostly for the same reasons that we've been moved to the right, these supply chain issues and whatnot. That's how we think about Kuiper.

Then on GEO and replacement Capex and whatnot, we're just kind of taking them one at a time. We're never going to replace a satellite unless we feel like we've got a sound business case to do it. When we invest money, it's always with a view towards achieving the kinds of returns that our shareholders have come to expect and that we've been able to generate over our fairly long history in this market.

That's what we're going to do going forward. We'd never say it's going to be all LEO going forward or we're going to replace every single one of our GEO satellites. We're really going to take them one at a time. As these satellites come up for renewal, we look at the existing book of business, we're engaged with the customers, and we make a judgment about whether or not it makes sense to do it. On the DTH side, that's going to be mostly about where we end up in conversations with DISH, Shaw, and Bell with respect to each of the satellites that we're using to support their services.

As we said before, there's some new technologies out there that might mean that we can extend the life of some of these satellites without having to do a full scale replacement. Intelsat was a bit of a pioneer, extending the life of one of their GEO satellites. We've looked at that technology, too.

We've also said in the past that, particularly for some of these DTH satellites, the current contract term for our customer comes up long before the end of life of the satellite comes up. I'm thinking of satellites like Nimiq 6 and Energy 1 (phon).

In any event, that's how we're thinking about it. We've also said in the past, look, we're still going to pursue if there are attractive opportunities to build new GEO satellites, never mind replacement. That's something that we're going to continue to think about, too, provided that there's a good, compelling business case that underpins it.

Arun Seshadri, Credit Suisse

Got it, thank you. That's all I had.

Operator

Thank you. The next question is from Raghav Garg from DoubleLine. Please go ahead.

Raghav Garg, DoubleLine

Yes, thank you for taking the question.

Can you just talk about the utilization? I saw it picked up from 80 percent to 84 percent, but can you tell us whether it's some reduction in supply or can you just walk us through that pickup in utilization?

Daniel Goldberg, President and Chief Executive Officer

The last bit of what you said trailed off for me, but I think Chris got it.

Chris DiFrancesco, Vice President, General Counsel and Secretary

I think he was talking about the increase in utilization. Is it a factor of increased usage or reduction in capacity?

Daniel Goldberg, President and Chief Executive Officer

Yes. No, it's a great question. We probably should have called this out. We took our Anik F1R satellite at the beginning of this year and put it in what we call inclined operations. You're kind of backing up on your station keeping a little bit to preserve fuel. It's something that satellite operators routinely do to extend the life of their satellites that are nearing the end of their lives. We have another satellite like that, Anik F1 that's been in inclined operation for quite some time.

But when we report utilization, we're reporting utilization on station capacity. It's a great question. I'm glad you asked it. What happened was we ended last year with an 80 percent utilization rate. We put Anik F1R into inclined operations in January probably of this year. When we did that, we then removed that satellite from our utilization calculation for station debt capacity. Anik F1R on average had lower utilization than on average the rest of the fleet. It had the effect when we removed it from the utilization calculation, it brought up the fleet-wide utilization to 84 percent, but if we corrected it and did an apples for apples comparison, it would have been flat. Utilization would have been 80 percent for Q1.

Thanks for asking it. In the future, if something like that happens, we'll do a better job of calling it out so that people don't have to wonder.

Raghav Garg, DoubleLine

Got it. Thank you.

Then a follow up, just trying to triangulate on DISH. I know you probably can't talk about the specifics but just looking at the 2023 backlog, it seems like it's only picked up an incremental $10 million between year-end and today.

Am I missing anything, just to get a sense of how big that contract and the maritime contract is, or is that the right way to think about it? If you can help me there, thanks.

Daniel Goldberg, President and Chief Executive Officer

Yes, no, another good question. We signed this contract in Q2, in April, and so it didn't get picked up in the Q1 backlog number.

Raghav Garg, DoubleLine

Got it.

Daniel Goldberg, President and Chief Executive Officer

So you can ask me again in Q2 when we report our Q2 numbers. But it's just up there right now because that backlog calculation gets done for contracts that are in place before the end of March 31. Yes, and that contract got signed in April.

Raghav Garg, DoubleLine

Very helpful and just last question.

The $750 million on the LEO backlog, how quickly do you expect that to ramp? Is getting the ECA deal a big piece of selling that capacity in the future, or what kind of timing can you think about, the ramp of the LEO capacity? Thank you.

Daniel Goldberg, President and Chief Executive Officer

Maybe just on the question, in terms of increasing the backlog you mean, or as opposed—yes increasing the backlog. Yes, for sure. I think our customers, we've already got a material amount of backlog on LEO with the $750 million that we've reported to date. But it's certainly the case that once our financing is in place, we've started the full scale production of the constellation, we'll be signing more contracts with customers.

Prelaunch, we're going to be very focused before any satellite is launched, to have that backlog number meaningfully higher than the $750 million where it sits today. We'll be reporting that along the way.

Raghav Garg, DoubleLine

Great. Thank you very much.

Daniel Goldberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Amer Tiwana from Imperial Capital. Please go ahead.

Amer Tiwana, Imperial Capital

Hi guys. I have two questions.

The first one is regarding guidance. I just wanted to unscramble it a little bit. You obviously got the partial renewal from DISH done and you were able to put some of the excess capacity or all of it from that satellite into a newer contract as well.

Does it mean that we could be looking towards the higher end of guidance as you move through the year? Are you confident that you can hit that, given that you've had these two positive things? Because I believe you said on the last call that if you didn't get the DISH contract, you'd be towards the low end of guidance. Just some comments around that would be helpful.

Daniel Goldberg, President and Chief Executive Officer

I'll take it. Andrew will probably kill me. But yes, your recollection is right. What we had said was that the guidance range that we gave kind of embraced the full range of outcomes with DISH and having gotten that renewal, and having entered into that other contract, yes, we feel quite comfortable that we're within the range, and here's the part where Andrew will kill me. Yes, probably more gives us a better feeling that we're trending more towards the upper end of the range. Still only the end of—what are we today, May 6—so still have a whole lot of ways to go through the year.

But when we said in our earnings release, we feel like we're off to a good start and can reaffirm the guidance, yes. We feel good about where we sit and it probably gives us a little bit more confidence that on balance we're yes, we're kind of more on the upper side than the lower side.

Andrew Browne, Chief Financial Officer

Sounds good, Dan.

Amer Tiwana, Imperial Capital

Okay.

Maybe if you can talk about broadly there is obviously delays all over the place on the LEO constellation. Is it right to assume that this is actually good for the GEO business and in that sense, is it possible that we could potentially see some more business come to the GEO side over the next coming years?

Just trying to understand the trajectory of the business. Obviously, it was declining at a higher single-digit rate. Now you're starting to see some stabilization on the revenue and EBITDA front. Just maybe talk about the opportunity that's out there for the GEO business in the near term.

Daniel Goldberg, President and Chief Executive Officer

Okay. Yes, actually I'll do the macro thing first maybe.

For the legacy satellite operators as a whole, and just yes, I think the longer these new disruptive constellations are kind of pushed to the right, it creates more opportunity for the GEO assets to remain full and hopefully we'll start to see some better pricing dynamics as asset utilization rates across the industry get tighter.

With respect to Telesat, we'll have to see. I had said in my opening comments that we're actually seeing an uptick in activity, but we can't always capture it, given that our utilization rate is pretty high. I think certainly the fact that we resold all of that Anik F3 capacity that came back to us so quickly is certainly a sign that there are, particularly in certain markets, getting to be some capacity shortages. You would think, if you believe in the laws of supply and demand, that those shortages should translate over time to some improved pricing dynamics. We haven't really seen it yet. We've seen it I'd say a little bit on the margins, in a good way, in some markets. Again, all these markets are not uniform.

For instance, it feels right now like there's capacity shortages building up on some of the key cruise markets, the Caribbean, maybe the Med. We don't have a ton of capacity there, whereas there are other markets still that, like Africa for instance, there still seems to be more supply than we as providers would want right now. On balance, it can't be a bad thing for the GEO operators, including Telesat, but we're not prepared to sit here right now and say yes, we're materially changing our outlook. But yes, on balance I think it's supportive. We'll put it that way.

Amer Tiwana, Imperial Capital

I think that's all I have. Thank you very much for your time.

Daniel Goldberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Brandon Karsch from Kennedy Lewis. Please go ahead.

Brandon Karsch, Kennedy Lewis

Thanks for taking the questions.

You've mentioned a couple times that you're seeing a lot of demand but you're actually having a hard time supplying it based on your utilization. But you're only at 84 percent utilization, so can you help me understand what the delta is there and what's preventing you from selling that other 16 percent? Is it just the location of your satellites, or is it meeting some redundancy in orbit?

Daniel Goldberg, President and Chief Executive Officer

Yes, no, it's exactly what I was just referring to. We have capacity that serves all sorts of different markets. Some of those markets, there's greater demand right now, and so I think where we probably have more excess capacity is in some of those areas that have been a little bit more challenging. I mentioned Africa a moment ago. We've got some outstanding capacity over Africa.

There are opportunities there but if that capacity were available over some other markets, we'd be able to sell it a whole lot more quickly. So, that's what it is, and I think candidly, if you look at our utilization rate, it's pretty favourable, I think, relative to probably the industry as a whole right now. If you look at probably just kind of utilization rates across the industry, I've got to believe it's lower than 80 percent right now.

That's what our challenge is and it's not like you throw in the towel. We're always trying to get to 110 percent but that's the reality of the situation.

I think if you go back and look at our utilization rates that we've been reporting, we report them every quarter and have for decades, I think we've done a good job. I think it's trended up a little bit, even through the pandemic and all of that. Anyway, that's what explains it. Also, I don't want to overstate it. It's not like we're besieged with demand right now that we can't satisfy.

I was just noting a trend which is, we are seeing an improvement in certain verticals and in certain geographies, which is good, but we can't always satisfy it. Now, case in point, with Ukraine right now, there has been heightened demand for some government services. There have been some users that have had to come off of Russian satellites that need to be accommodated on other satellites. Some of those requirements, folks have reached out to us on and we just simply don't have the available capacity to meet those requirements. So, that's an example of what I'm talking about.

Brandon Karsch, Kennedy Lewis

Okay, that's helpful.

Then I know you don't want to give specific numbers on new contracts on F3, but could you give me a sense generally of if you're trading from broadcast to enterprise on a given satellite for the same amount of capacity, how does pricing typically compare between those two use cases?

Daniel Goldberg, President and Chief Executive Officer

It's so kind of sui generis, the thing that we did with DISH. You can't extrapolate really from one to the other. Yes, I'm not trying to avoid the question. It's just they're—yes, I mean the DISH renewal, that's got its own dynamic around that and then these other—I mean, I'm looking at a colleague of mine for some help here but I'm sorry. It's hard to say.

If it were just some other—we had eight transponder come up. It was for, it's kind of more generic broadcast services. I'll pick a market, Latin America, or something like that. I don't think it's terribly dissimilar to what we would see if we were selling in the broadcast or video market, kind of writ large. But we put the dynamics around the DISH renewal in a different category.

Brandon Karsch, Kennedy Lewis

Okay, understood.

Then just a last one from me. It seems like you're seeing some benefit from aero and maritime coming back as the world continues to reopen. If we just look at where we are now for that vertical compared to where we were pre-COVID, how far back do you think we are at this point?

Daniel Goldberg, President and Chief Executive Officer

You know what, that's a great question and I wish our Chief Commercial Officer was here because—and I'm hoping that someone else in the room can help me here—but I saw a stat that said something like while only…

Unidentified Male Speaker

It was like 70 percent of the cruise.

Daniel Goldberg, President and Chief Executive Officer

While only 70 percent of the cruise are kind of back in the water, going out with passengers and whatnot, that the bandwidth requirements that they have was like…

Unidentified Male Speaker

More than 100 percent.

Daniel Goldberg, President and Chief Executive Officer

It was well over 100 percent of where they were, pre-pandemic. I mean, it doesn't take a rocket scientist to figure out why. Everyone just wants a whole lot more bandwidth. The bandwidth requirement was meaningfully higher at the end of Q1 than it was pre-pandemic, even though there are only about 70 percent of the cruise ships out there.

Here again, not a surprise. Everyone wants more bandwidth. That's kind of the inexorable trend and yes, and the pandemic certainly accelerated that. If you're out on a ship you need to have access to Zoom. Just all of that, you're using cloud services. So, that's kind of what it looks like, and we believe that's kind of the future of broadband connectivity demand. It's why we're building Telesat Lightspeed and it's why we're so bullish about it.

Brandon Karsch, Kennedy Lewis

Okay, great.

Just sounds like some room to run there still on the cruise side though, and what about the aero side?

Daniel Goldberg, President and Chief Executive Officer

I'd say, I haven't seen kind of direct numbers like that, but certainly, it's way back up. It's way back up, both obviously passengers in planes, and demand. I don't know if bandwidth demand has eclipsed where we were pre-pandemic. My gut is we probably have but I'm not sure. We're probably kind of back but we'll have a look at that, and we'll try to be prepared to talk about that on our next call.

Clearly, the dynamics are improving, which is why I called it out in my opening remarks. We've definitely been a beneficiary for some of that so far this year.

Brandon Karsch, Kennedy Lewis

Great. That's all for me. Thank you.

Daniel Goldberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Walt Piecyk from LightShed. Please go ahead.

Walt Piecyk, LightShed

Thanks.

Dan, you mentioned things being back on track with the ECAs. Can you just provide a little bit more colour on what that means and whether we should infer anything in terms of timing?

Daniel Goldberg, President and Chief Executive Officer

Well, what it means is that as we said before, back in October when we were informed by Thales that they couldn't support the schedule that they had previously shared with us, and when they also sort of warned us that there were also these pricing pressures, we had already been in very advanced discussions with the export credit agencies and we had to pause those discussions because the business case that they were being asked to underwrite needed to get updated as a result of the news that we heard from Thales.

When I say that we're reengaged with them, what I mean by that is we have a new schedule. We have a new—I should say a current plan, and we shared that with them probably right before Easter, which allowed us to unpause. And so, we're back at it with them. We've had multi hour sessions with them on technical updates, commercial updates, financing updates, regulatory, I mean everything. That's what I mean when I said that we're fully reengaged with them.

Then I said from a timing perspective, they've got work to do. They've got technical advisors, commercial advisors, and they've got processes that we need to respect. And so they're absorbing all the information that we've shared with them. What we said from a timing perspective is that we hope to have a good sense for where we're standing with them kind of around the end of Q2. Our Q2 is June 30 kind of thing, so that's where we are.

We've shared a lot of information. They're doing their work and we've told them that we want to get moving quickly. We think there's an awesome market here and we want to get at it. That's where things are.

Walt Piecyk, LightShed

Got it.

You also announced, I think, recently something with NASA on I believe it's related to the LEO project. But just in general, like as things develop going forward, ECA, Thales, as things kind of progress, where do you expect to have prelaunch success in terms of signing up contracts and how will that pace look over the next whatever, six to 12 months?

Daniel Goldberg, President and Chief Executive Officer

Well, I think verticals where we think that there's some good opportunities for prelaunch opportunities, it'll be on the terrestrial side. Broadband connectivity, that can be big. Rural broadband programs that Telesat Lightspeed is going to be really well-positioned to serve. It'll be working with mobile network operators, some of that.

Again, it's all rural, rural, rural. It will be network extension for ISPs and mobile network operators, we think in both developed and developing countries. We think that the maritime market is going to be another promising market for prelaunch deals.

Aero is probably a longer sales cycle, just given all the regulatory complexity around serving the aero market with all the certifications you need and how long it takes to deploy terminals on planes and all the requirements around that. I still think there are opportunities there to do prelaunch stuff and I think that Lightspeed is going to be revolutionary for the aero market, just given the flexibility of the network, the optical satellite links that we have, our ability, like I think no other system to concentrate gigabits and gigabits of capacity around airports and high density flight corridors.

Then on the government side, it'll be interesting. Governments have their own very Byzantine kind of procurement rules and cycles, but I'm still cautiously optimistic there. Obviously, with allied nations, certainly the activities in Ukraine right now have underscored the importance of resilient, ubiquitous, I think low latency, resilient satellite connectivity. I think that allied governments are showing a renewed interest in spending and in understanding how integral space is to, I hate to say it, but kind of modern warfare and whatnot.

It'll be interesting. I think that Lightspeed can be transformative for government users. How much of that we can do prelaunch, I think some. Obviously we're doing some really interesting work with (inaudible) right now. We're supposed to be launching two satellites, sort of like toward the end of this year to demonstrate the efficacy of these optical intersatellite links. We announced that deal with NASA. That's more kind of intersatellite communications, this time not with optical links but with RF.

And then as far as the pace and whatnot, I don't want to say right now. We're not going to throw out any backlog targets right now for Lightspeed, but look, I think it's amazing that we already have something like three-quarters of a billion of backlog and we haven't really started in earnest the full buildout of the constellation.

Walt Piecyk, LightShed

That's a very detailed, just to a certain extent, targeted view of the market. When you came up with your, in the presentation from several months ago, I suppose that you'd think that the constellation can address 1 percent of a $430 billion market. When you were contemplating that, was that kind of a thoughtful exercise built up from these again, this list of different opportunities that you had? Or was it just like, look, if we launch this much capacity up there, we're going to capture 1 percent. Can you give us a little more insight into that?

Daniel Goldberg, President and Chief Executive Officer

Yes, we don't roll like that. We have built a—I've got to think the most granular business case and demand model. We have divided the world into like, I don't know, is it like 100,000 little micro quadrants and in every single one of those quadrants we look at all the different verticals that we plan to serve and make a judgement about whether in that little micro quadrant, we make a judgement. Is fibre the best transmission medium to meet the requirement? Is it microwave? Is it some other satellite connectivity? That's how we've built our model up and soon we'll be engaging with all of you guys to help you understand what we've done.

No, this is not, "Yes! We'll invest $5 billion in Lightspeed. We'll have 10 terabits globally. Yes, we'll build it."

Walt Piecyk, LightShed

Maybe you should have said 1.1 percent and people might have taken it a little more to heart. That's—four billion of EBITDA.

Daniel Goldberg, President and Chief Executive Officer

Whatever but no, I mean, I cannot believe that there's anyone who has been more anal and forensic and rigorous…

Unidentified Male Speaker

Correct.

Daniel Goldberg, President and Chief Executive Officer

…in building up a demand model for every vertical and again, that's backhaul connectivity. Again, in every little micro quadrant around the Earth. That's aero. That's maritime. That's government. Then within aero, it's commercial. It's private jets. It's sizing every different jet. In maritime, it's cruise. It's maritime transport. It's high end yachts. It's smaller yachts. I mean, that's how we've done it.

Walt Piecyk, LightShed

Yes, it's just amazing that (inaudible) to focus on like small DISH renewals when there's a $4 billion target revenue.

Daniel Goldberg, President and Chief Executive Officer

Well, we understand. (Multiple speakers). Look, we look at kind of where the stock is trading right now and our market cap and just shake our heads. But you know, shame on us. We need to go out there. And I understand why people care about the DISH renewal, and we cared about it too, and I think we got a really good outcome there.

But we've got to get out there and share a whole lot more information on Lightspeed. We're presenting at two investor conferences this month and so yes, you'll be hearing a whole lot more from us.

It's why again, we're so bullish on this opportunity. We need to work with these expert credit agencies that we've been working with for some time. I can tell you the support that we've had from the government of Canada and the government of Quebec has been phenomenal and they've been great partners for us. They're foursquare behind what we're doing.

Now we've got to finish this work with the export credit agencies, get going and then go out and kind of proselytize, not just with the customer community who we've mostly been focusing our time and energy on but obviously to the investor community too.

Walt Piecyk, LightShed

Okay. Thank you.

Michael Bolitho, Director of Treasury and Risk Management

Okay. Thank you everyone. We've run out of our allotted time. Operator?

Operator

Yes, thank you.

Michael Bolitho, Director of Treasury and Risk Management

Dan, do you want to?

Daniel Goldberg, President and Chief Executive Officer

Yes, no, we've run out our time. I think my answers were on the long-winded/fulsome side but in any event, yes, we appreciate everyone's time this morning. We will be presenting at the Goldman Leveraged Finance conference later this month, the J.P. Morgan Equity conference in Boston later this month, so we're looking forward to speaking with everyone about what's been happening in the business and our plans.

We feel like we're off to a great start for the year. We had a really, I think positive Q1 and laid some good foundations for the rest of the year.

With that, we appreciate everyone's time, and we'll talk to you when we put out our second quarter numbers. Thank you.

Andrew Browne, Chief Financial Officer

Thank you. Cheerio.

Operator

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