CORPORATE PARTICIPANTS

Michael Bolitho
Director of Treasury and Risk Management

Dan Goldberg
President and Chief Executive Officer

Andrew Browne
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CONFERENCE CALL PARTICIPANTS

Walter Piecyk
LightShed

Marcello Chermisqui
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Brandon Karsch
Kennedy Lewis

Arun Seshadri
Credit Suisse

David Windley (phon)
Jefferies

Raghav Garg
DoubleLine Group

Analyst
Invescore

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the conference call to report the Fourth 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 Annual Report for the year ended December 31, 2022 on Form 20-F 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 Report filed earlier today 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.

Dan Goldberg, President and Chief Executive Officer

Okay. Thanks, Michael.

This morning, I'll share some thoughts on our financial results and give an update on the business. I'll then hand over to Andrew, who will speak to the numbers in detail and then we will open the call up to questions.

Looking at our financial performance for the quarter and the full year, I'm pleased with where we landed. We beat the guidance we gave at the outset of the year as well as the updated guidance we shared when we released our Q2 numbers. We also continue to run the business in a highly disciplined and focused manner, closing the year with an Adjusted EBITDA margin of roughly 75 percent and with $1.7 billion of cash on the balance sheet.

As we mentioned on our last call, the overall operating environment was pretty stable from a demand and pricing perspective, and I was pleased to see our capacity utilization tick up throughout the year. Our big headwind for 2022, and it will be a headwind for the first four months of this year too, was the DISH renewal on our Anik F3 satellite. As we've discussed previously, it was at a lower rate and for less capacity than the previous deal, and even though we promptly resold the balance of the capacity that DISH didn't renew, it was still the biggest contributor to the decline in revenue and Adjusted EBITDA we experienced last year.

Also worth noting was the revenue we recognized in Q4 from the contract we have with DARPA, the U.S. DoD's research arm. As we said before, the contract generated approximately $20 million in revenue and about an equal amount in expense, meaning it was essentially neutral at the EBITDA line and overall dilutive to margins. But, because that work is all about demonstrating to the U.S. government and to the market more broadly the efficacy and capabilities of optical inter-satellite links, which are a key feature of our Lightspeed satellites, it made good strategic sense for us to do that contract even though it was EBITDA neutral.

The last thing I'd note on our performance last year is something else we've discussed before, which was the anomaly we had on our Anik F2 satellite that shortened its station kept life. As we covered on our last call, I think we've done a really good job with our customers in upgrading ground infrastructure to extend Anik F2 services and where that wasn't enough, transitioning users who needed station kept capacity to other satellites, including an in orbit satellite we bought from another operator, other Telesat satellites and third party satellites as well.

As a result of all that excellent work, we expect to retain over 90 percent of the revenue we originally expected from Anik F2 this year, recognizing there's some additional Capex and opex we've incurred with the opex getting captured in our guidance for this year.

Press release we issued this morning sets out our 2023 guidance, and I know Andrew plans to will speak to that in his remarks. We're forecasting decreases in revenue and Adjusted EBITDA and I just wanted to flag here the two biggest contributors.

The first, as I mentioned a few moments ago, is the residual headwinds from the Anik F3 DISH renewal, which will show up in the first four months of this year. The second is an expected renewal with Bell for Nimiq 4, which comes up for renewal in early October this year. At this time, we expect Bell to renew all the DTH capacity on Nimiq 4 but at a materially lower rate than the current one. Those two renewals, DISH and Bell, account for approximately half of our anticipated revenue and Adjusted EBITDA decline for this year.

Now on the status of Telesat Lightspeed. On our Q3 earnings call, we reiterated we were in discussions with certain additional financing sources to cover the increased cost of the program and that we expected to have a better sense of where we stood on the financing around the end of the year. Unfortunately, we're not there yet.

That said, we continue to make progress with the various parties we're engaged with and we remain optimistic that we're going to secure the financing we need to move forward with the program, recognizing, of course, that there's no assurance that we'll ultimately get there. We know well that investors and others want clarity as to where we stand on Lightspeed financing and we hope to be in a position to provide that clarity soon.

Finally, we wanted to share that Telesat's Board has authorized up to US$200 million in cash for repurchases of our debt if Management determines that such repurchases are in the best interest of the Company.

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

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.

Telesat ended the year 2022 with reported revenues of $759 million, Adjusted EBITDA of $568 million and generated cash (audio interference).

Dan Goldberg, President and Chief Executive Officer

Give us a second. Go ahead, Andrew. I think (multiple speakers).

Andrew Browne, Chief Financial Officer

Sorry about that. Obviously, somebody was very excited to join. Anyway, I'll just go back a little bit at the beginning.

Telesat ended the year 2022 with reported revenues of $759 million, Adjusted EBITDA of $568 million and generated cash from operations of $229 million, with $1.7 billion of cash on the balance sheet at year end. As Dan has mentioned, we outperformed our 2022 financial guidance, which we increased and actually updated when we issued our second quarter results in August of last year.

In the fourth quarter 2022, Telesat reported revenues of $207 million, Adjusted EBITDA of $139 million and generated cash from operations of $69 million. For the fourth quarter of 2022 compared to the same period of 2021, revenues increased by $19 million to $207 million, operating expenses increased by $8 million to $80 million and Adjusted EBITDA decreased by $6 million to $139 million. The Adjusted EBITDA margin was 67.2 percent compared to 77.1 percent in the same period last year.

Between 2021 and 2022 changes in the U.S. dollar exchange rate had a positive impact of $8 million in revenues, a negative impact of $1 million in operating expenses and a positive impact of $7 million on Adjusted EBITDA. When adjusted for changes in foreign exchange rates, revenues increased by $11 million, operating expenses increased by $7 million and the noncash expense related to share based compensation decreased by $16 million. Overall results was a decrease in Adjusted EBITDA of $12 million.

Looking at revenues. The revenue increase was primarily due to the completion of equipment sales at DARPA, as Dan has mentioned, as well as higher revenues from aero and maritime customers. This was partially offset by a reduction in revenues upon renewal of a long term agreement with a North American DTH customer.

Opex, the increase in operating expenses were primarily due to higher equipment sales related to the DARPA program, as previously mentioned, partly offset by lower noncash share-based compensation and lower bonus expenses relating to 2021.

Interest expenses increased by $18 million in the fourth quarter when compared to the same period in 2021. The increase was due to an increase in interest rates in the U.S. Term Loan B facility combined with the foreign exchange impact on the conversion of U.S. dollar denominated debt. This was partially offset by the impact of the repurchase of retirement of senior unsecured notes in 2022.

As a reminder and as discussed previously, we repurchased notes with a principal amount of US$160 million in 2022. These repurchases resulted in a gain of CAD107 million. This also represents an annual interest savings of approximately $10.4 million. ForEx, in the fourth quarter, we recorded a gain in foreign exchange of $72 million as compared to a gain of $20 million in the fourth quarter of 2021. The gain for the three months ended 31st of December '22 was mainly the result of the stronger U.S. dollar to Canadian dollar compared to the spot rate as of September the 30th, '22 with the resulting in favourable impact on the translation of our U.S. dollar denominated debt.

Our net income for the fourth quarter of 2022 was $92 million compared to net income of $113 million in the prior year. The variation of $21 million was principally due to the recognition of U.S. C-band clearing payments in the fourth quarter of last year, partly offset by higher noncash foreign exchange gains compared to the same period last year, along with a lower tax expense.

Cash flows for the year ended 2022, the cash inflows from operating activities were $229 million, included was $65 million by way of receipt of the remaining phase one U.S. C-band clearing proceeds.

In terms of overall C-band proceeds, we have received approximately $85 million to date and expect further proceeds of approximately $260 million.

In terms of capital expenditures during 2022, virtually all are related to our Low Earth Orbit Telesat Lightspeed.

Guidance, as Dan has mentioned, and you've noticed in our earnings release, we have provided preliminary 2023 guidance. The guidance assumes the Canadian dollar to U.S. dollar exchange rate of 1.35.

Revenues for 2023, Telesat expects its full year revenues to be between $690 million and $710 million. Adjusted EBITDA, in terms of Adjusted EBITDA, Telesat expects to be between $500 million to $550 million.

Capex, we expect our 2020 cash flows used in investing activities to be in the range of $40 million to $70 million. 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.

To meet our expected cash requirements for the next 12 months, including interest payments and capital expenditures, we have approximately $1.7 billion of cash and short term investments at the end of December, as well as approximately $200 million of borrowings available under our revolver. Approximately $1 billion in cash is held in our unrestricted subsidiaries. In addition, we continue to generate a significant amount of cash from our ongoing operating activities.

As Dan has indicated also this morning, the Board has authorized up to US$200 million in cash from repurchases of our debt if Management determines repurchases to be in the best interest of the Company.

At the end of the fourth quarter, leverage as calculated under the terms of our amended senior secured credit facilities was 6.17 times to 1. Telesat has complied with all the covenants in our credit agreement and indenture. A reconciliation between our financial statements and financial covenant calculations is provided in the report we filed this morning; a 20-F provides the unaudited interim condensed consolidated financial information in the MDA. The non-guarantor subsidiary shown are essentially the unrestricted subsidiaries with minor differences.

I think that concludes our prepared remarks for the call, and now we’ll be more than happy to answer any questions you may have. With that, we'll turn back to the Operator.

QUESTION AND ANSWER SESSION

Operator

Thank you. Your first question is from Walter Piecyk from LightShed. Please go ahead.

Walter Piecyk, LightShed Partners

SG&A is something that obviously would start to escalate if you kind of proceeded with Lightspeed, same thing with Capex. Given these kind of ongoing delays in terms of getting the financing, should we just basically freeze expectations for valuation purposes on SG&A until we get to go ahead that you can actually get the financing, or do you guys have some confidence level that you start to engage in increased opex and Capex because you're optimistic that you're going to get this financing queued up for Lightspeed?

Dan Goldberg, President and Chief Executive Officer

Hey, Walter, It's Dan. Maybe I'll take a shot, and then Andrew can chime in as well.

In putting our budget together for the year and then giving the guidance, we're spending right now on the opex side moving forward with Lightspeed, right? We've been doing a lot of work on it, we've got a lot of people in the Company that are dedicated to it.

Our guidance, part Capex, for a second, but just our guidance on the EBITDA side takes into account that, yes, we're making investments. We're spending on the development of the Lightspeed program. We're confident that it's going to go forward and we're doing real work on it.

On the Capex side, I think Andrew was careful to say that we've guided to $40 million to $70 million a year, but said that more or less, we'll update our guidance once we've got Lightspeed fully underway because once it's fully underway, certainly, our Capex spending will look a lot different than the $40 million to $70 million. The $40 million to $70 million is just kind of spending outside of the full program moving forward.

Andrew, I don't know if you want to add anything to that?

Andrew Browne, Chief Financial Officer

Yes, look, I think as you said, Dan, in terms of Capex, we're very prudent. As Dan had said that as soon as we've got the go ahead for Lightspeed, we will come back indeed and talk about guidance for there.

On the SG&A perspective and we're very prudent. Indeed, as Dan had said, we are adding resources. But if you look at our implied guidance, in fact, that you see the increase in opex is pretty small year-on-year. We continue to be very, very prudent until we're—until we have the go ahead on Lightspeed.

Walter Piecyk, LightShed Partners

From a sum of the parts valuation standpoint, what would you say the percent mix of SG&A is to Lightspeed? The reason I ask it like my follow-on question is going to be at what point do you give up, meaning like either financing has changed your view of the revenue opportunity if the market has changed because of delays so that you can say, okay, we can at least rely back on a base valuation, which is based on a core EBITDA number, which is currently getting diluted by some of these investments on the opex side of X.

I guess there's two or really three parts to that question; percentage of opex that is that if—I know you're going to say this is not going to happen, but if for whatever reason, you just said, screw it on LEO, your opex can drop by X percent. Secondly, has the market revenue opportunity, which you outlined, I think, very well in a document that's, I think, now almost a year old or more? Third, why do you remain confident that this can happen, that Lightspeed can get to a point where we can move forward here?

Dan Goldberg, President and Chief Executive Officer

Andrew, do you want to…

Andrew Browne, Chief Financial Officer

Yes, in terms of the opex as we go through our program that what we're spending, we will capitalize and continue to do that up until if a determination was ever made about Lightspeed that it wouldn't go ahead. But we're totally confident as Dan has said that we will go ahead. Therefore, we see within the confines of our total operating box and even last year, we're off about $22 million in opex. Just to give you a sense of that, the big driver of that was indeed the cost of the DARPA program itself. Year-on-year, the incremental costs in relation to LEO is not that significant. We've got full plans, full business plans that indeed, in terms of attacking the market, customers rolling out the ground infrastructure, that once we have the green light to go ahead, then indeed, we will come back and we'll communicate that guidance to you to make it very, very clear.

Dan Goldberg, President and Chief Executive Officer

Yes, and maybe I'll offer some thoughts on kind of where we are with LEO and the optionality that we have around it. But we're not required to move forward with Lightspeed, right? There's no legal compulsion where Telesat has to move forward with Lightspeed. We're focused on Lightspeed because we think it's a great commercial opportunity. We think it's a great way to grow the business and to create a lot of equity value for our shareholders. Yes, it's taken us longer for sure than we had originally anticipated. But I continue to believe that the original investment thesis is totally intact, which is to say, there's a huge market for a well engineered, well executed, enterprise grade, enterprise-focused LEO constellation. If anything, I'm just more and more convinced of that with the passage of time, the importance of having low latency, a highly distributed network, achieving lower cost per bits, driving down the small user terminals, just everything that we've seen over the last while has, I don't know, confirmed for us that we're on the right path there. Certainly, all the conversations we're having with commercial customers, with government users, all of that. Certainly, I'd say the experience that we see in the Ukraine in terms of how the Starlink constellation, how crucial that's been to that conflict all go to reinforce the logic around having a LEO constellation and the strategic importance.

That's that, which is to say we're not seeing anything different in terms of commercial developments, technology developments, anything that persuades us that this isn't a good path. Why we have confidence that will ultimately get there? I think that was another question. We've got a ton of momentum on this. We've lined up already over $4 billion of financing commitments. We've already got something like $750 million worth of backlog. We've got strong support from our government; we've got strong support from our customers; we've got strong support from our Board. Yes, it's taking longer than we wanted, but all of those things, I think, make us feel confident that we're going to get there.

The last thing I'd say is if we don't for some reason, and I think that we will, but if we don't, look, we're still generating a significant amount of cash. We've got over $1.5 billion of cash on our balance sheet right now. It's not like we will have left ourselves in a horrible place. Lightspeed is what we're focused on. Lightspeed, I think, is still the right move for Telesat. I think that we're still, from a timing perspective, in a good place. But if for some reason that we can't anticipate right now something different happens then we'll revisit it. Anyway, that's a long winded answer, but they were good questions.

Walter Piecyk, LightShed Partners

Okay. Thank you.

Operator

Thank you. The next question is from Marcello from Ares. Please state your full name and proceed with your question.

Marcello Chermisqui, Ares Management

Hey, guys. This is Marcello Chermisqui from Ares. I had a couple of questions.

One was there's a new comment in the Form 20-F that you're now actively seeking to raise equity funding for Lightspeed. What kind of equity partner are you looking for? Is it just an investment fund to provide capital? Are you looking to partner with a satellite manufacturer or even another GEO or LEO network operator?

Dan Goldberg, President and Chief Executive Officer

Hey Marcello, it's Dan.

I don't think there's any new news there. We said, I think, on our Q2 call that because of cost increases on Lightspeed that we were in discussions with some potential equity investors, and we reiterated that on our last call. Yes. I don't think there's anything new there. What we said was that those investments, should they materialize, would be—they'd be at kind of the LEO level and they'd be subordinate to the other financing sources that we've been engaged with, including BPI, the French export credit agency, the Government of Canada and the Government of Quebec, all of which we've been in discussions for financing. I don't think there's anything new there.

Marcello Chermisqui, Ares Management

As it relates to the LEO development milestones, in order to maintain the U.S. spectrum authorizations, what are the key dates that we should keep in mind? I was under the impression the first date is next week in April. If you don't hit that date and cannot negotiate an extension, what potentially happens?

Dan Goldberg, President and Chief Executive Officer

There, I know the—what is it, an 20-F? It talks a little bit about regulatory considerations and whatnot. The regulatory stuff, I mean, we've got a number of applications in and the first processing round and the second processing round. There are regulatory activities at the FCC level. There are regulatory levels at the IQ level as well, and we've got lots of different filings there as well. I won't get into kind of the weeds on round one versus round two. But all to say that I'm pretty confident that when we're ready to move forward with Lightspeed, we're going to have the regulatory rights we need around the world to provide the services that we need to provide. I direct you to the 20-F. I know that we do have some disclosure around there, but that's how I'm thinking about it.

Marcello Chermisqui, Ares Management

As it relates to the GEO satellites, at what point do you have to make a decision whether you want to invest in new ones to replace aging satellites? I know you have the Capex guidance of $40 million to $70 million, but also in the 20-F, you increased the cost to launch in GEO satellite to $200 million to $500 million, which implies that you'd have to step up Capex if that's the path you want to take, or is there another path you would potentially think about?

Dan Goldberg, President and Chief Executive Officer

Yes. We'll take it kind of satellite by satellite. We're only going to replace a GEO satellite or launch an expansion GEO satellite or frankly spend any Capex if we are convinced we've got a strong business case for it. Whenever a satellite kind of comes up towards the end of its life, we have a hard look at what's the best way forward here.

There are some other things we can do. I mean there are some newer technologies out there that can extend the life of the satellite and we've been evaluating some of those as well. Right now, as you can tell, we don't have any plans right now to spend money this year at least on replacement GEO satellites. We're open to doing just that, though, when those satellites come up for renewal. I got to say we're open to building new GEO satellites and we've looked at opportunities from time to time to do that.

But yes, we'll just evaluate every business case kind of on a stand-alone basis and make sure that there is a strong kind of risk adjusted rate of return on that. But right now, as you can see, we don't have any Capex spending for replacement—or expansion GEO satellites right now in our plan for this year.

Marcello Chermisqui, Ares Management

To kind of segue like back to where Walter's question was earlier. If you did not end up pursuing Lightspeed, you have the $1.5 billion of cash. Is that potentially cash you would, I guess, bring back from that subsidiary to invest in GEO or how would you think about that?

Dan Goldberg, President and Chief Executive Officer

Yes, I'd probably rather not speculate too much right now on what alternative paths we could take. As I've said, our focus is on moving forward with Lightspeed and we're very bullish on that. But yes, to your point, could we bring cash back? Yes, we could. There's nothing I'm staring at our General Counsel. There's certainly nothing that prevents us from doing that. We'll cross that bridge if and when we get there. I think we've been running this business for a pretty long time. We've been pretty hard headed and pragmatic about how we use our cash and pretty disciplined around that.

Anyway, again, the focus right now is moving forward with Lightspeed. If for some reason that didn't happen, we'll chat with you guys then about what we might do with the cash that we've been building up.

Marcello Chermisqui, Ares Management

Great. Thanks so much.

Dan 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

Hi. Thanks for taking the questions.

Just want to turn back to '23 guidance here. You mentioned that half of it was from DISH and the Bell Canada renewal. Could you bucket the other half a little bit? How much of that is Anik F2 changes, any kind of degradation in the core business, FX or any other variances?

Dan Goldberg, President and Chief Executive Officer

Yes, it's a good question. The other pieces are that DARPA contract that we recognized in Q4, that was kind of a onetime arrangement with DARPA. We said that was about $20 million. That's another big piece of the revenue decline. Then beyond that, I mean, that right there accounts for three quarters of the downturn roughly. Beyond that, it's odds and ends here and there, some renewals may be at a lower rate, some lost renewals. It's just a whole bunch of other stuff that builds up to the balance of the decline.

Brandon Karsch, Kennedy Lewis

Okay. I thought the DARPA contract was about EBITDA neutral. I was wondering…

Dan Goldberg, President and Chief Executive Officer

The DARPA contract was—you're 100 percent right. The DARPA contract was EBITDA neutral. I was talking more at the revenue line. We do have some increased expense coming from some of the third party capacity we need to support customers on Anik F2. That's probably the biggest driver of some of the opex—some of the ups on the opex side, right. There are some downs on the opex side, but countervailing that, there are some increases. One of the large increases is third party capacity we need to accommodate customers on Anik F2 that we're continuing to support, yes.

But look, most of it's revenue driven, as you can see, and the big drivers there are DISH, the anticipated Bell renewal and then more of these other kind of—more other stuff that relates to the regular customer business.

Brandon Karsch, Kennedy Lewis

Okay. Would it be possible to quantify what the Anik F2 expense was and also maybe discuss some of your assumptions around the Bell renewal and what makes you so confident that you're, one, going to renew that, and two, you're going to get the prices that you're building into the budget here?

Dan Goldberg, President and Chief Executive Officer

Yes, I'll talk to Bell. I mean, candidly, I don't think we're going to give any more granularity on F2. I think we've given a lot of granularity on that already.

On Bell, yes, I mean, our confidence stems from the fact that we know them well, they're a big customer. We've been having a lot of conversations with them. This feels like the deal—what we baked into our guidance very much reflects the nature of the pretty detailed conversations that we've had with them about what this renewal would look like. That's what gives us the confidence there.

Brandon Karsch, Kennedy Lewis

On the bond buybacks, good to see that you reauthorized more buybacks, but it's been a few quarters since you've done any. But any reason that you've been holding off and has your appetite for that changed at all?

Dan Goldberg, President and Chief Executive Officer

It's like figuring out when you—public companies are so heavily regulated in terms of issuing securities, buying securities back. There were, I don't know, a lot of considerations out there at the time. We've always tried to be pretty clear with the market about what authority we've been getting from our Board and kind of what our intentions are just so everyone has a pretty good sense for how we're thinking about it.

I don't know—I mean, all I would say is there are kind of a kaleidoscope of factors out there that we need to take into account. We've taken those into account. The Board has increased our authorization in terms of what we can do in terms of debt repurchases. I think we've always said that we believe our debt trading at these levels, we think that current debt prices don't represent really fair value of the debt and we think that it could be a good use of cash that we have that builds up in the restricted group in particular.

Yes, in any event, we just wanted to make everyone aware that we've got this increased authorization from the

Board. If we think that it's the right thing to do that we'll go back out in the market and repurchase the debt. Not saying that we're going to but just letting everyone know that we've got the authority to do it. Yes, I just wanted the market to be aware of that.

Brandon Karsch, Kennedy Lewis

Okay. If I could just sneak one more in here. Just on the Lightspeed side, I appreciate that you say that you've had some momentum building, but it sounds like the commentary has been pretty similar to what we've heard the last couple of quarters. Maybe if there's anything else you could share, maybe at least do you think at this point, this incremental subordinated capital, do you think that's going to come from private investors or are you talking to government entities for that?

Dan Goldberg, President and Chief Executive Officer

I don't want to get into who the potential financing sources could be. I will say that we are in discussions with financing sources for the funding that we need. I feel pretty good about where those conversations are. Although, it ain't over until it's over, so no guarantees. Yes, I don't think I can offer that much more incremental insight. But only to say that, yes, personally, I remain optimistic that we're going to get the funding that we need to move Lightspeed forward. Yes, we're excited to do that.

Brandon Karsch, Kennedy Lewis

All right. That's all for me. Thank you.

Dan Goldberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Arun Seshadri from BNP Paribas. Please go ahead.

Arun Seshadri, BNP Paribas

Yes, hi. Thanks for taking my questions. Most have been asked.

Just on the Lightspeed topic, could I ask the question a little bit different way. I mean, have there been some new parties, either investors or partners, that have emerged in the last three months or six months that would make you more confident today than you would have been a few months ago?

Dan Goldberg, President and Chief Executive Officer

Hi Arun.

What I would say is I think there's a lot of interest in LEO right now, and there are a lot of parties that kind of share our vision that there's a big opportunity there. There aren't that many LEO operators out there that—if you are bullish on the opportunity that you can put money to work with, and I'd say that. I'd say, again, maybe just reiterate, we've already got a lot of our financing lined up, which gives us confidence that already a significant amount of the financing that we need, we already have a line on.

Yes, that's what I would say that we're in discussions with folks. I do think there are investors out there that are interested in supporting a project like ours, and we'll see if we get there with them.

Arun Seshadri, BNP Paribas

Got it. Thank you for that Dan.

As far as timing goes, how would you handicap the timing of an announcement on Lightspeed? I mean, would you say this is like a month or a couple of months away or do you think theoretically could be significantly longer?

Dan Goldberg, President and Chief Executive Officer

Look, having gotten this sort of wrong before, I'm just so loathe to—no, I am. It's not because I lack conviction that it's going to happen, but bringing this all to a close has definitely taken longer than I had anticipated. I don't want to say anything but I just don't want to—it's tempting. But yes, let us just keep working on it.

I think we're making progress, I think we'll be able to offer some clarity. I hate using terms like this, but in the near term. All I would say is I think we're doing all the right things. We still have a great opportunity here and we want to get it right. That's the other thing I'd say would be easy in some ways just to say, oh screw it. We've got all this cash on our balance sheet, we've already lined up all this money, we'll just start blowing our brains out and spending money. We haven't wanted to do it like that.

Anyway, stay tuned. I think we're making progress. And hopefully, we'll be able to say something more definitive again in the near term.

Arun Seshadri, BNP Paribas

One last thing on the Lightspeed topic. Is there—I mean, are there any additional changes in the scope of the overall project possible or probable as a result of potentially some new investors, etc., and finalizing the terms?

Dan Goldberg, President and Chief Executive Officer

Yes, it’s a good question. Potentially, there are opportunities to tweak some things. Maybe just to step back. Fundamentally, I think we have a really good design for a Lightspeed. It is a massively capable constellation that we've designed, it's capital efficient, it's much fewer satellites than the thousands of satellites that some of the other folks are deploying. We just don't think that we need to do that to effectively serve the enterprise and government market that we're focused on. I'd say fundamentally, the core building blocks of the project, couple of hundred satellites, process payloads, digital antennas, optical inter-satellite links, all of those things, I think, remain intact.

Is there a little tweaking that can be done here and there to maybe improve things a little bit further? Yes, I think so and we've been exploring some of that. Some of the investors have particular focuses in terms of markets that they're focused on. Yes, they do. There's potential tweaking that we can do to address their focus areas. But yes, beyond that, I'd say, again, fundamentally, the design that we've been talking to the market about, our customers about, remains intact.

Arun Seshadri, BNP Paribas

Got it. Thank you very much.

Dan Goldberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from David Windley (phon) from Jefferies. Please go ahead.

David Windley, Jefferies

Hey guys. Thank you very much for the time. I appreciate it. Most of mine have been answered, but just one or two others from me.

Could you maybe talk a little bit about the utilization increase, was that more a function of the anomaly or is there other stuff going on there?

Dan Goldberg, President and Chief Executive Officer

No, that’s a great question. I think we promised in the past, if utilization is meaningfully affected by a satellite coming out of service or something. No, I'm looking at one of my colleagues, who's totally close to this. No, it's just been hitting a lot of singles and doubles, frankly, quarter after quarter, just steadily filling up maybe some beams that in the past have had a little bit less utilization. I think we've got a very good team that is just constantly looking for ways to regroom the capacity. It's always the case in a business like ours that you sell out of capacity in some areas that are very hot and you have available capacity in other areas where there's just less demand. But the satellites have certain flexibility to swap capacity around, and you're always looking for opportunities to continue to do that.

That's what the utilization increases have come from, just in the trenches, making good careful capacity planning decisions. Demand, as we've said, has been pretty good and just, yes, chipping away at filling up. Look, our utilization is pretty high right now, 89 percent. I think if you look across the industry, that's got to be up there in terms of utilization. I do think we do a good job of making full use of the capacity that we're investing in. As you can see from all the cash we've been building up, it'd be easy for us to go out and buy two new GEO satellites and throw them up there. But yes, it's just kind of not the way we approach the business.

David Windley, Jefferies

Perfect. That’s great.

I appreciate all the colour around the Bell renewal later this year. Are there any other contracts that you can maybe point us to for maybe the early parts of '24 or any other bigger ones that you can maybe give us some colour on?

Dan Goldberg, President and Chief Executive Officer

Yes, I think the other kind of more meaningful stuff that comes up. We renewed DISH for two years and they've got an option to renew for an additional year. That would come up if memory serves kind of early Q2 next year, I think that's right. Beyond that, probably later, more like Q4— just looking at something, but Q4 next year, Nimiq 5 with DISH would be coming up for renewal. Those are I'd say the more meaningful ones that come up next.

David Windley, Jefferies

Perfect. Thank you.

One last one from me. But how should we be thinking about potential spectrum constraints on the Ka-band with other guys launching satellites pretty quickly? Is that something that could be an issue in five years' time or something like that, how should we be thinking about that?

Dan Goldberg, President and Chief Executive Officer

Yes, good question.

We've got a whole team that's dedicated to the regulatory rights and coordinating with other operators out there and whatnot. From everything that we see right now and all the analysis that we've been doing, we feel comfortable that we're going to have access to the spectrum that we need to operate Lightspeed in a way that allows us to achieve our business plan objectives, so yes.

Look, again, we've got a few hundreds of satellites that we're going to be using, they're very advanced. They have beams that are hopping and a lot of flexibility in terms of how we use the satellites, but it's something that we pay a lot of attention to. We believe that we're good in terms of our ability to operate the constellation and access the spectrum that we need.

David Windley, Jefferies

Is that something you think maybe becomes an industry wide problem maybe 10 years out or something, but just not with any current projections?

Dan Goldberg, President and Chief Executive Officer

Yes, hard to say. Spectrum is certainly a finite resource. At some point, that could become an issue for the foreseeable future I think. Yes, I think that we're in a good spot.

David Windley, Jefferies

Yes. Really appreciate the time. Thank you guys.

Dan Goldberg, President and Chief Executive Officer

Okay. Thank you.

Operator

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

Raghav Garg, DoubleLine

Hi. Thank you for taking the question.

SES has confirmed talks with Intelsat. Just wanted to get your thoughts on M&A in general with Viasat soon to be merging with Inmarsat and Eutelsat, OneWeb. Do you feel like do you need to do something or just be patient?

Dan Goldberg, President and Chief Executive Officer

Yes, it’s a great question.

We saw the reports this morning about rumours around SES and Intelsat. I can't say that those rumours are new and can't say that we were surprised by it, nor would I say that we're surprised by the M&A activity that's taking place in the sector. Our industry has gone through sort of cycles and it feels to me, and I think I've said on a prior call, feels to me that we're entering into another one of those cycles. We clearly are with the Inmarsat, Viasat merger pending. Eutelsat, OneWeb. We'll see if these rumours around SES and Intelsat are correct.

On balance, I think it's a good thing for the industry. It's something that we've been anticipating for a while and I think it will help rationalize certainly the supply side of the equation. For us, I'd say we'll be open minded about it. I think that the most important thing that any operator needs to do to compete is to have the most—have the best value proposition for your customers. I mean, but sounds like a truism, but I don't know it's true.

It's why we've been so focused on bringing Lightspeed forward, because we've been monitoring very closely the changes that we've been seeing in the customer community and the user applications, whether that's cloud, whether that's e-commerce or whether how the government wants to make use of space based infrastructure in the future. For us, that all points to a network that looks like Lightspeed. I think that's still the most important thing to get right as a satellite operator, having the offerings that the customers want today and that you think they're going to want in the future. I'd say that's our biggest focus right now.

Look, I mean, we've been pretty transparent with folks, there are headwinds in the satellite world right now and we've been seeing that on the DTH business, there's a massive opportunity on global broadband connectivity. If you look at where our industry is growing, and where I look where we're growing with Intelsat, it's those markets. Yes, I think if we get that right, bringing an advanced state-of-the-art infrastructure to meet the customers' requirements. I think we should be good. Does that mean that we would be close minded about inorganic opportunities? No. Anyway, that's how we think about it.

Raghav Garg, DoubleLine

Thank you. Last question on your capital structure.

You commented, obviously, where your debt trades, you can do these buybacks. But just a bigger picture question on how you plan to address your capital structure, you have a few years here. But obviously, the market is telling you, you can refinance your debt today. Just how do you plan to deal with the maturities given it's unlikely that LEO will be a meaningful contributor, if any, by the time your capital structure comes due?

Dan Goldberg, President and Chief Executive Officer

Maybe I'll say a few words about it, and then Andrew can say a few words about it as well.

First off, as you know, it's some years out. It's about four years out right now, we certainly have a fair amount of runway there. Two, we're generating still a meaningful amount of cash and we've been disciplined about what we've been doing with that cash, and we've got a lot of cash on our balance sheet right now. Three, you're right, assuming we move forward with Lightspeed, it's probably not the case that there's an enormous amount of EBITDA that's coming off of Lightspeed at the time that we're going to be needing to refinance. But I do expect that Lightspeed will be far along and that we will have secured a meaningful amount of customers.

Look, as I mentioned, we already have about three quarters of billion Canadian dollars in backlog on Lightspeed now, and we haven't even fully pulled the trigger on it. My expectation is that when it's time to raise money for Telesat in the future, either by issuing equity or debt, a lot of that's going to be tied to how investors think about the—yes, I mean, it's obvious the future prospects of the Company and I think the future prospects of the Company out in that timeframe out when that debt comes up for when it matures,
I think our prospects are going to be growing because I think we'll have executed well on Lightspeed and that our prospects will be quite bright. Then, as a result, our access to capital be that on the equity side or the debt side, I think we're going to be in a great place. To the point the conversation we were just having, there are a lot of changes taking place in the industry more broadly to the helm as kind of where we're going to be four years or so from now.

Anyway, I'd say that's how we're thinking about it. Then, of course, can we opportunistically be out there in the market or do something more fundamental in terms of our debt. Yes, potentially. I think we've got a lot of tools to address that in the future. That's how we think about it.

Andrew Browne, Chief Financial Officer

From my perspective, there's not much more I can add to that, that's pretty comprehensive. Indeed, that's the way we see it, $1.7 billion in cash, generated over $200 million this year alone, maturities are out 2026, 2027. I think that covered the way we see it. There's no more I could add.

Raghav Garg, DoubleLine

Great, thanks.

Michael Bolitho, Director of Treasury and Risk Management

Okay. We have time for one more question here, please.

Operator

Thank you. The last question will be from (inaudible) from Invescore. Please state your full name and proceed with your question.

Unidentified Male Speaker

Thanks for the time.

Just in terms of the delays in raising money for LEO. How is that impacting your supply agreements with the satellite manufacturers? Do those agreements have a drop dead date or do they need an expiration date at which point they would need to be renegotiated, or are they being renegotiated on an ongoing basis at this point?

Dan Goldberg, President and Chief Executive Officer

That's a great question.

The prime contractor that we've been engaged with is Thales. We received—and it's one of the things that for those of you who followed the Lightspeed story. When COVID hit and inflation hit, we needed to spend quite some time with Thales kind of rescoping the program and they had to go back out to their supply chain and get updated bids and all that, and it took a whole lot longer than we wanted. But we finally got all that and it was on that basis that we went back out to financing sources with an updated business plan.

I would say that from that time and based on our recent conversations with Thales, all the pricing that was put together as a result of that effort remains intact. Now they'll need to reconfirm their price to us. But in a recent discussion with them, we're getting comfort that the pricing for the constellation that we've been talking about is going to be consistent with the last pricing that we've heard from them. But it's a great question. I'd say the pricing for the other elements of the program, the big one would be launch vehicles and then some other elements around landing stations and user terminals. We feel confident also that those prices are consistent with the business case that we've been working with.

Unidentified Male Speaker

Great. Thank you.

Michael Bolitho, Director of Treasury and Risk Management

Okay.

Operator, well, thank you very much. Thank you all for participating in our full year results conference call, and we look forward to speaking with you again in the not too distant future when we release our Q1 numbers. Thank you very much.

Andrew Browne, Chief Financial Officer

Thank you very much. Cheerio.

Operator

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