MDA Space

First Quarter 2024 Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the MDA Space conference call and webcast. This call is being recorded on May 9, 2024 at 8:30 a.m. Eastern Time. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star followed by zero for operator assistance at any time.

Now I would like to turn the call over to Shereen Zahawi, Senior Director of Investor Relations at MDA Space. Please go ahead.

Shereen Zahawi — Senior Director, Investor Relations, MDA Space

Thank you, operator. Good morning and welcome to MDA Space First Quarter 2024 Earnings Call. Mike Greenley, our CEO, and Vito Culmone, our CFO, will lead today's call and share some prepared remarks before taking your questions.

Before we begin, I'd like to remind you that today's call will include estimates and other forward-looking information which may differ from actual results. Please review the cautionary language in today's press release and public filings regarding various factors, assumptions, and risks that could cause actual results to differ.

In addition, during this call we will refer to certain non-IFRS financial measures. Although we believe these measures provide useful supplemental information about our financial performance, these measures do not have any standardized meaning under IFRS and our approach in calculating these measures may differ from that of other issuers and, therefore, may not be directly comparable. Please see the Company's quarterly report and other public filings for more information about these measures, including reconciliations to the nearest IFRS measures.

And with that, it's my pleasure to turn the call over to Mike.

Mike Greenley — Chief Executive Officer, MDA Space

Thank you, Shereen. Good morning and thank you to those joining us today to discuss our first quarter 2024 financial results.

We are off to a solid start in 2024. In Q1, the team drove another quarter of strong performance as we continued to deliver on our customer commitments and grow our book of business. Our Q1 revenues totaled $209 million, driven by backlog conversion, with our backlog now standing at $3.3 billion at quarter end. Our adjusted EBITDA in the quarter was $42 million and adjusted EBITDA margin was a solid 20.1%. I'm very pleased with the team's performance during Q1. It exceeded the internal management plan for the quarter and the team did an excellent job in achieving these results. That management plan is the basis of our guidance for the year and we are reaffirming our previous 2024 full-year financial outlook which we provided with our Q4 2023 earnings release.

In terms of business activity, we secured a number of contract awards in the quarter, including a contract to deliver the fleet of MQ-9B SkyGuardian Remotely Piloted Aircraft Systems for the Canadian Armed Forces and subsequent to quarter end we received a $250 million contract extension from the

Canadian Space Agency to continue supporting robotics operations on the International Space Station until its planned retirement in 2030. In Q1, we also announced our rebranding to MDA Space, a natural brand evolution that further positions us to lead in a new era of space innovation. In addition, as part of our strategy to commercialize and productize our world-leading technology to meet changing market needs, we unveiled two new product brands. MDA AURORA is our new software-defined digital satellite product line that positions us to capitalize on the market transition from analog to digital satellite technology and MDA SKYMAKER is our full suite of scalable and modular space robotics and services that enables us to offer the world's most flight-proven capabilities to any mission or application in an efficient, adaptable, and highly accessible kit.

We were also pleased to see increased recognition for MDA Space and the progress we are making from industry and peers. To name a few, Fast Company Magazine recognized MDA Space in its prestigious, most innovative companies list for 2024. Our own Luigi Pozzebon, Vice President of Satellite Systems at MDA Space, was named an Executive of the Year by The Globe and Mail and I was humbled and honoured to accept the 2023 Satellite Executive of the Year recognition awarded by Via Satellite Magazine, a recognition of our team's effort in expanding our satellite business. In addition, our efforts to increase gender diversity earned us a spot on the Globe and Mail's Report on Business Magazine's Women Lead Here list. We're also added to the S&P TSX Composite Index earlier this year, an important milestone in our life as a public company. And most recently, we were selected as Employer of the Year by the University of Toronto's Professional Experience Year Co-op Program, a wonderful acknowledgment of the real and meaningful work and mentorship that our team provides our next generation of space leaders. Of course, none of this would have been possible without the hard work and dedication of the entire MDA Space team, who I'd like to thank and acknowledge.

I'll now give you a view of the industry, an update on MDA's three business areas, and pass it to Vito for a deep dive on the financials. In terms of the broader space market, that continues to expand, mature, and gain momentum, a few items are worth highlighting. Starting with the global space economy, a recently published report from the World Economic Forum estimates that the global space economy is now projected to reach $1.8 trillion by 2035, growing at 9% annually from 2023 to 2035 driven by increased reach of space across industries as the world becomes more connected, mobile, and informed. The backbone or core segment of the space economy, those areas where revenues accrue directly to space hardware and service providers, is projected to grow at 7% annually to $755 billion by 2035 from US$330 billion today, driven by both government and commercial investments to provide the underlying infrastructure and commercial applications.

For MDA Space, we are experiencing this momentum in the space market firsthand. The last couple of months have been busy for us with our teams participating in a number of industry conferences and trade shows, including Satellite 2024 in Washington, the National Space Symposium in Colorado Springs, and the GEOINT Symposium taking place this week in Florida. The pace and volume of business development at these global industry events continues to grow, reflecting the robustness of the space industry. MDA Space is increasingly in high demand with customers seeking to discuss how we can provide advanced technology and services to future missions and how our newly unveiled robotics and digital satellite products can meet evolving customer needs. Our business development teams report high levels of momentum and engagement.

South of the border, NASA announced in early April that it has selected three teams to advance the capabilities for a lunar terrain vehicle that Artemis astronauts will use to travel around the lunar surface and conduct scientific research. MDA Space is a member of the Lunar Dawn team, one of the three teams selected by an asset working alongside an impressive group of industry leaders led by Lunar Outpost and including Lockheed Martin, General Motors, and Goodyear, along with MDA Space. Leveraging MDA SKYMAKER, our role in the team will be to design the robust, versatile robotic arm and robotic interfaces that will enable the rover to transport and manipulate a variety of payloads. We are excited to be part of this important and historic program.

Globally, we continue to see increased interest in space exploration, with Switzerland, Sweden, and Slovenia being the latest countries to sign on to NASA's Artemis Accords, signaling their commitment to safe, long-term, and ethical space exploration. The latest entries bring the group size to 39 nations now with interest from many non-traditional spacefaring nations which are now building their own national space programs. This level of industry activity bodes well for MDA Space and our future opportunity funnel.

Now I'll turn to our three business areas. In satellite systems, we are seeing good momentum in this market with our teams working to advance multiple requests for communication satellite solutions and a growing number of constellation projects. We are seeing good activity levels from customers and our opportunity funnel remains strong and has grown in the last quarter. On the operational front, our teams are busy working on a number of programs. On the Telesat Lightspeed program, we continued to make good progress on ramp-up activities in Q1. We've now finalized our source selection for the subcontractors that we will engage and we'll be moving out on contracting with announcements expected over the next several weeks.

We are also making good progress on the engineering and program procurement activities for the new non-geostationary orbit satellite constellation we announced in Q4, awarded under our $180 million authorization to proceed contract. The constellation, valued at a minimum of $750 million, is expected to include a minimum of 36 MDA software-defined digital satellites, the MDA AURORA satellites. The definitive contract for the full constellation, for which MDA will be the satellite prime, is expected this year. Most of these constellations use our newly introduced software-defined satellite product line, MDA AURORA, and offer significant benefits to satellite operators looking to improve performance while at the same time driving time, cost, and complexity out of their LEO constellations.

We also continue to advance work on the Globalstar program. In Q1, the team progressed flight hardware production and FlatSat testing of the bus and payload systems. Additionally, following the completion of the satellite critical design review in Q3 of 2023, the team is currently progressing towards a spacecraft integration readiness review to take place this quarter. As you know, MDA is the satellite prime contractor to enhance Globalstar's LEO constellation through the addition of 17 satellites which support SOS features and direct-to-device communication on certain Apple products.

Moving to our geointelligence business, customer demand for our Earth observation offerings remains robust and we are seeing increased recognition of the role that commercial EO satellites can play to provide near real-time data and analytics to governments and private enterprise. In Q1, as I noted previously, we received a $74 million contract from General Atomics to deliver the fleet of MQ-9B SkyGuardian remotely piloted aircraft systems recently ordered by the Canadian Armed Forces. MDA Space will complete the assembly of the RPAS ground control stations at our Richmond, British Columbia facility and will also deliver the combat search-and-rescue radios for the program and design the ground control center information management system that controls how information flows, is secured, and shared.

We also continued to advance work on MDA CHORUS, our next-generation Earth observation constellation. Our team is currently advancing unit and subsystem level work for the platform, payload, and bus avionics, as well as building the ground segment subsystems and detailing constellation operation plans and processes. We continue to engage in active discussions with both new and existing customers on how CHORUS can help address their Earth observation data and analytics needs and are pleased with the response from customers. In terms of other notable programs, work on the Canadian Surface Combatant program, or CSC, one of our long-term government programs, is progressing in line with our expectations.

Moving to our robotics and space operations business, we continue to see good traction and activity levels on both the government and commercial fronts. On the government side, we continue to progress the design work of Phase B of the Canadarm3 contract, which we were awarded in early 2022, and that will see us completing the preliminary design of Canadarm3's robotic systems to be used aboard the NASA-led Lunar Gateway. In Q1, the team continued to make good progress towards the preliminary design review milestone with milestone completion for each element expected through Q2 and Q3 of this year.

We also continued to engage with the Canadian Space Agency regarding contract awards for the next phases of work on Canadarm3, including the advanced detailed design, detail design, and manufacture integration and test phases of work. And subsequent to quarter end, we received a $250 million contract extension from the CSA to provide engineering support to the International Space Station robotics, including Canadarm2, as part of Canada's commitment to support the ISS until its retirement in 2030.

On the commercial side, we are exploring a number of opportunities to incorporate our robotic technology on applications to support space exploration and mobility. During the quarter, we unveiled MDA SKYMAKER, our new suite of space robotics built to meet the diverse needs of our customers' most ambitious missions in an efficient, adaptable, and highly accessible kit, making this offering particularly attractive to commercial customers. The immediate industry response to MDA SKYMAKER has been exciting and encouraging.

Shifting to operations, we continued our hiring efforts to support the anticipated revenue ramp-up, adding approximately 100 new hires over the last 12 months. With more than 300 highly-skilled MDA staff, with more than 3,000 highly-skilled MDA staff today, we have the people and talent to help propel our growth and give us the scale to execute on the market opportunities we see emerging.

In Q1, the team completed the move to our new global headquarters and Space Robotics Center of Excellence in Brampton, Ontario. The purpose-built facility features state-of-the-art labs, manufacturing, R&D, and assembly integration and test facilities. The Center of Excellence also houses a unique space robotics mission control center, enabling MDA to provide critical on-orbit operations capabilities to commercial and government customers worldwide. We are looking forward to hosting grand opening ceremonies most likely in 2025, once we are fully settled in.

To recap, we are pleased with our performance this quarter, with momentum building across our operations. Our team is energized and we remain laser focused on our priorities: a strong focus on execution, converting opportunities in our funnel, and expanding our leadership in core markets while maintaining strong profitability and a healthy balance sheet to help us fund our growth initiatives.

With that, I'll hand it over to Vito to walk us through the detailed financials.

Vito Culmone — Chief Financial Officer, MDA Space

Thank you, Mike, and good morning, everyone. For my update, I'll walk you through our Q1 financial results and provide a little more colour on our 2024 outlook.

As Mike noted, overall Q1 was a strong quarter for MDA and we're pleased with how the team is executing. In the quarter we saw healthy revenue growth, solid profitability, and a record backlog at quarter end, which all bode well for our performance in 2024.

Total revenues for the first quarter were $209.1 million. This represents a $7.2 million or 3.6% increase over the same period last year, primarily driven by higher revenues from our robotics and space operations business. By business area, revenues in satellite systems of $87 million in Q1 2024 were $700,000, or 0.8% lower compared to the same quarter in 2023, driven by completion of various programs in 2023 offset by ramp-up of new programs in 2024. In robotics and space operations we saw healthy year-over-year growth with revenues of $70.6 million in the quarter, representing $7.7 million or a 12.2% increase versus Q1 of last year. The growth is largely attributed to higher volume of work performed on the Canadarm3 program. Lastly, revenues in our geointelligence business of $51.5 million in the quarter represents an increase of $200,000, or 0.4% year over year, representing steady work volumes on program.

Moving to gross profit and, as a reminder, gross profit represents our revenues less cost of revenue, which includes material, labour, allocated overhead, SR&ED credits, and depreciation. For Q1 2024, gross profit was $57.9 million, representing a $9.3 million or a 13.8% decrease over the same period last year, driven by program mix and higher depreciation expense as new assets come into service. Gross margin in the latest quarter was 27.7%, which is very much in line with our expectations, reflecting mix and higher depreciation expense, and compares to 33.3% for the same period in 2023.

Q1 on operating expenses of $42.7 million were slightly above last year's metric of $40.7 million, reflecting higher SG&A spend to support growing work volumes, including higher spend on business development and bid and proposal activities, higher share-based compensation expense due to additional RSU and PSU grants throughout 2023, offset somewhat by slightly lower R&D expenses due to timing of spend on proprietary technologies.

Adjusted EBITDA in the latest quarter was $42 million compared to $48.9 million in Q1 of 2023, representing a decrease of $6.9 million or 14.1% year over year. Adjusted EBITDA margin of 20.1% in Q1 2024 is consistent with the Company's full-year margin guidance of 19% to 20% and compared to 24.2% in the same period last year. The year-over-year change was largely in line with the variance in gross margin over the same period, driven by evolving program mix.

Adjusted net income in the latest quarter was $18.1 million compared to $26.5 million in Q1 2023, the year-over-year decrease of $8.4 million or 31.7% is again predominantly driven by the previously noted variance in gross margin over the same period. Adjusted diluted earnings per share of $0.15 in Q1 2024 compared to $0.22 in Q1 of last year, driven by the reduction in adjusted net income.

Moving to backlog, we ended the quarter with $3.3 billion in backlog, representing an increase of 169% compared to Q1 2023 and 7% over Q4 of 2023. The sequential growth in backlog was driven by new order bookings in the quarter, including the previously mentioned RPAS awards in our geointelligence business as well as a number of contract awards in our satellite systems and robotics business, partially offset by continued conversion of our backlog into revenue.

Moving on to investing activities, we remained focused on making the right investments in the business to support our strategic growth initiatives. In Q1 2024 we spent $40.2 million on capital expenditures, in line with the levels of spending we reported last year. During the quarter we collected cash proceeds of $7.4 million related to the sale of our terrestrial nuclear assets, the Calian Group. We also made an $11.6 million payment related to three months of notes payable on demand against the acquisition of SatixFy Space Systems UK Limited, the digital payload division of SatixFy Communications Ltd., which we closed in Q4 of 2023. There are four months of payments remaining in 2024 with the remaining US$2 million holdback to be released to the seller in 2025.

Cash from operations during the quarter generated $24.7 million compared to cash generation of $45.8 million in Q1 of 2023. Operating cash flow in Q1 was impacted by slightly higher use of working capital and higher cash interest paid in the period, again, all in line with expectations.

Moving to our balance sheet, we ended the quarter with net debt of $439.3 million and available liquidity of $185.6 million. During Q1, we exercised the accordion feature on our senior credit facility, which increased the size of the credit facility by $100 million. Net debt to trailing 12-month adjusted EBITDA ratio at quarter end stood at 2.6x. The increase in leverage versus Q4 2023 metric of 2.4x reflects our continued investments in strategic growth initiatives to support future growth. In summary, this was a very solid quarter and our business continues to perform in line with our expectations. We are encouraged and energized by the positive momentum we're seeing across our businesses.

Turning to outlook, as Mike noted, we are reaffirming our 2024 financial outlook and we are well positioned to capitalize on strong customer demand and robust market activity given our diverse and proven technology and product offerings. For fiscal 2024, we continue to expect full-year revenues to be $950 million to $1,050 million, representing robust year-over-year growth of approximately 25%, at midpoint of guidance. We expect full-year adjusted EBITDA to be $190 million to $210 million, representing approximately 19% to 20% adjusted EBITDA margin. We expect capital expenditures to be $210 million to $230 million in 2024, primarily comprising of growth investments to support CHORUS and the previously outlined growth initiatives across our three business areas.

Turning to Q2 of 2024, we expect revenues to be $215 million to $225 million as we continue to execute on our backlog. As previously indicated, we expect revenue growth to accelerate second half of 2024 as we ramp up work volume on a number of programs, including Telesat Lightspeed, where we're currently finalizing the onboarding of suppliers and expect to see more meaningful revenue contributions from suppliers and subcontractors in the second half of 2024 as that program continues to ramp up. We remain focused on disciplined execution and leveraging of our capabilities and technology to grow profitably in line with our long-term plan.

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

Mike Greenley — Chief Executive Officer, MDA Space

Thank you, Vito. Operator, I think we'll open it up to questions please.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a prompt that your hand has been raised. Questions will be taken in the order received. Should you wish to cancel your request, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. Please note that you may only ask one question and kindly re-queue if you have a follow up. Once again, that is star one should you wish to ask a question.

Your first question is from Konark Gupta from Scotiabank. Please ask your question.

Konark Gupta — Analyst, Scotiabank

Thanks, operator. Good morning, everyone. Good morning, Mike. You guys have a lot of opportunities ahead of you and you kind of mentioned, obviously, you've been on a hiring spree over the last few quarters, clearly to support that. I just want to understand, like in terms of production ramp up and taking on some more orders, where do you see the bottlenecks right across the system? And like even if you don’t see it today, like what exactly are you doing in terms of contingency planning should there be bottlenecks down the road?

Mike Greenley — Chief Executive Officer, MDA Space

Yep, I can take that a bit. We don’t see any bottlenecks, but in terms of the continuously planning and building capacity for the future, we obviously have a strong forecasting system and we look out into the future and make sure that we are ramping up on both people, facilities, and subcontractors, as Vito noted, to be able to execute on the programs moving forward. Hiring continues at pace, as you noted. We did about 900 people we talked about hiring last year. I didn’t say it out loud, but we’ve already hired over 400 people this year and it’s only been the first quarter. So we continue to be very successful in bringing talent into the business.

The big facility expansion activity that we’re involved in right now is in satellite systems to ensure that we can move to a higher volume production facility for our MDA AURORA digital satellite product. That project has been initiated over the next 18 months. That project will be executed so that, you know, as we’re entering 2026, we’re going to be in a position to be able to produce two satellites a day at volume of that new product. With that capacity, we will have certainly more than the existing order book and lots of room to be able to accommodate the orders coming in our pipeline. So we’re doing that in advance and in anticipation of the volumes that we expect to see in the future based on our activities in our pipeline today. Make sense?

Konark Gupta — Analyst, Scotiabank

Yeah. Thanks. That's great, actually. Perfect. Thank you. And then in terms of labour, there's been some negotiations going on, I guess, with Unifor here in Canada. Any updates on those negotiations? And any other kind of unions where there's a bit of an issue, call it, in terms of the contracts coming up for renewal or negotiations progressing? Maybe some, I don't know, pinch points in terms of negotiations not going as good as you would have expected?

Mike Greenley — Chief Executive Officer, MDA Space

Yeah, everything is trucking along. I think if we start with the overall labour situation, I've already mentioned on it, we have an expanding business. We have an attractive work environment. We are hiring at pace, like I've indicated, with 900 last year and already over 400 this year. So we're attracting really good talent into the Company. MDA as a business, it's a very unique work opportunity to be able to work on the projects that we have. We have a strong, solid compensation framework that includes good base salaries that are market competitive and excellent benefits and we have a really strong program to make sure that we've got a nice, equitable and fair compensation system across the business.

In the company we have a range of non-represented and represented personnel. You're mentioning labour and unions and the like and associations, we have those. And from time to time those folks, in their collective bargaining agreements, will exercise their right to be able to strike and use that as one of their tools in the negotiations process within our employer/labour relations activities. So that occurs. We respect that right. We do have one strike that's ongoing at the moment and we'll continue to work that through and we would expect that to be resolved over the coming weeks. There are multiple unions and associations in the company. We negotiated successfully two very large collective bargaining agreements last year with all of our engineering populations and we'll have a couple more to go as we go through this year related to technicians and assemblers. So it's just part of the normal ongoing work and when those associations choose to exercise their right to strike, we respect that, and it's just part of the process.

Konark Gupta — Analyst, Scotiabank

Makes sense. Perfect. Thanks. I'll turn the call over.

Operator

Thank you. Your next question is from Kristine Liwag from Morgan Stanley. Please ask your question.

Kristine Liwag — Analyst, Morgan Stanley

Good morning, everyone. Vito, Mike, it's great to see all the contracts that you're winning I was wondering, at this point you've got a fairly robust backlog with a lot of visibility, you're clearly winning contracts. How are the cash terms of incremental contracts? How are they versus the existing ones you have? We have another quarter here of negative free cash flow. Are the cash terms getting better for these incremental wins to help your cash situation?

Vito Culmone — Chief Financial Officer, MDA Space

Hi, Kristine. It's Vito. We're very proud of our operating agreements and our negotiated agreements with our customers. That's something that, from a cash profile perspective, hasn't been embedded in the business for years. So the negative cash flow that you're referring to, not only in this quarter but in previous quarters, obviously reflects to our strategic capital investments that we're making in the business. When you look at the operating cash flow for the quarter, we were actually positive this quarter with working capital essentially in neutral. So these new agreements that you're referring to, whether it be obviously Lightspeed coming on or the ATP that we signed, focus on operating cash flow is clearly key for us as we move forward and I have a high degree of confidence that working capital requirements will be largely neutral as we grow this business. So that's very positive.

With respect to 2024, where we expect, we obviously expect significant operating cash flow throughout the course of the year, we will continue to be free cash flow negative for total 2024 to the tune of $100 million to $130 million, $140 million. Again, that's driven by the capital investments that we're making, strategic investments, largely CHORUS and others, and all very manageable within our capital structure framework. I don't expect leverage to get over the 3x level during the course of the year and, if it does, just very small level. So we're really happy with our capital structure and our facilities. You may have heard in my prepared remarks we triggered the accordion for $100 million, just significant robust support by the banks, which is very, very important, oversubscribed. So yeah, we're feeling really, really good about, obviously, the capacity and balance sheet we have to support this very impressive growth profile for the organization here over the next few years.

Kristine Liwag — Analyst, Morgan Stanley

Thanks, Vito. That's very helpful. And if I could do a second question on robotics. I mean MDA SKYMAKER. I mean presumably you're targeting more commercial customers as well as the traditional government customers. Can you talk about what's rolled up in this product line and give us a sense of demand from commercial players for your robotics products? I mean there seems to be a number of ISS replacement concepts under development. Just trying to understand how far in advance they might be ordering from you and what the size of the opportunity is.

Mike Greenley — Chief Executive Officer, MDA Space

Yeah. So, the nature of the MDA SKYMAKER product line is to ensure that we have a solid range of commercial products available for the market set up as a, ah, you heard me use the word 'kit' a bunch, but in terms of making sure that we all have the main components for a broad range of robotic systems that we can click together available on a commercial basis. That's for a broad range of opportunities in the commercial market in space. You had mentioned commercial and government, but it's mainly commercial, to ensure that we're able to address that market.

You mentioned commercial space stations. Yes, there are commercial space stations under development and we would be wanting to engage those in our pipeline. There are commercial businesses that are being developed to do on-orbit servicing of satellites, on-orbit assembly of satellites. There are potential future markets for spacecraft that would have proximity operations and robotics that could be applied in the military sector. That would be a government example. In addition to a lot of activity coming up on the moon with the 39 countries now signing up to the Artemis Accords and the global community progressing towards the moon to be able to have humans on the moon and have habitats, the new rover programs that I mentioned that we're a part of on the moon with the MDA SKYMAKER product. There will be a range of applications on the lunar surface for robotic systems as well. So, all of these are going on. It's a good, robust pipeline.

We're in a fortunate situation that, as that commercial market evolves, you asked about timing. It will evolve over the next couple of years. We get to really hunker down and work on Canadarm3, get a lot of growth and lift from that as we work on the AI-based robotics for Gateway, and then spinoff these commercial derivatives and SKYMAKER for the broader commercial market opportunity as it emerges over the next couple of years.

Kristine Liwag — Analyst, Morgan Stanley

Great. Thank you for all the colour and I'll keep it there. Thanks.

Mike Greenley — Chief Executive Officer, MDA Space

Okay. Thanks, Kristine.

Operator

Thank you. Your next question is from David McFadgen from Cormark Securities. Please ask your question.

David McFadgen — Analyst, Cormark Securities

Okay, great. Yeah, a couple of questions. You talked about ramping up work for Telesat, but I don't believe Telesat has announced that they've signed definitive agreements with the governments yet, or maybe I'm wrong. Can you give us an update on that?

Mike Greenley — Chief Executive Officer, MDA Space

I think that Telesat's earnings call is tomorrow morning, so I think we should focus on what they have to stay there and make sure that Telesat communicates Telesat news. From our perspective, as we know we're under contract, we know we've made our source selections, and we know that we are moving out in terms of awarding contracts to our suppliers as we go through the next several weeks.

David McFadgen — Analyst, Cormark Securities

Okay. So just on the Globalstar contract, is that expected to basically finish in 2024?

Mike Greenley — Chief Executive Officer, MDA Space

No, it will go to 2025. I think that contract was awarded in February/March time frame and it was sort of a three-year contract, so it'll leak into 2025.

David McFadgen — Analyst, Cormark Securities

Okay. And just on that ATP contract, I mean do you expect to convert this into a full [inaudible] contractor role in H1 this year or H2?

Mike Greenley — Chief Executive Officer, MDA Space

Yeah, that's interesting. I don't think I could predict that. I wouldn't want to pin that H1/H2, Q2/Q3. It'll certainly be in that zone. But it's really based on customer behaviour and activity. We're working away on it under the authorization to proceed and we're engaged, obviously, with the customer on the definitive contract. That is work that progresses for sure. But it will be largely based on customer pacing in terms of when, in their minds, everything is finalized. But the Q2/Q3 zone is the zone to think about for sure.

David McFadgen — Analyst, Cormark Securities

Okay. And then just on backlog, obviously you added a fair amount to the backlog, over $400 million there. I was just wondering if you can give us some details as to what goes in the goes in the growth there in the backlog. I guess the $250 million contract you announced today with CSA is in there. Just can give us some colour?

Mike Greenley — Chief Executive Officer, MDA Space

Well for sure, in the Q1 backlog for sure there'll be some RPAS activity in there, there will be a little bit of robotics activity and stuff that's in there. I think that probably the $250 million might not have been in the quarter. That might have actually been in April, yeah, that'll be a Q2 order. We talk about it because it's been announced prior to this earnings call, but that $250 million number would be part of the Q2 numbers.

Vito Culmone — Chief Financial Officer, MDA Space

And David also, in the Q1 order profile of the $400 million you referenced, there's a $100 million to $150 million subsequent adjustment to the Lightspeed order. And you'll always see us continue to tweak that as we move through, even as we move through Q2 here, and that just reflects refinement in scoping as the teams have worked very diligently together. And as Mike has said, we are moving out, so tremendous progress here, both in Q4 and into Q1 in finalizing the design, the contact, the scoping, pricing elements and whatnot. So there's about $100 million to $150 million of Lightspeed further increases, if you will, reflected in that Q1 order profile.

David McFadgen — Analyst, Cormark Securities

So am I to understand then that the Telesat Lightspeed contract for you is now $2.2 billion to $2.3 billion?

Vito Culmone — Chief Financial Officer, MDA Space

That's what's currently sitting in backlog, correct.

David McFadgen — Analyst, Cormark Securities

Okay. All right. So, given you're going to put the CSA $250 million contract into backlog in Q2, should we expect that backlog could grow again in Q2 sequentially?

Vito Culmone — Chief Financial Officer, MDA Space

Yes.

Mike Greenley — Chief Executive Officer, MDA Space

Yeah, sorry, your brain starts to calculate how much backlog are you going to burn in Q2, right, at the same time.

Vito Culmone — Chief Financial Officer, MDA Space

[Inaudible]

David McFadgen — Analyst, Cormark Securities

Okay. So it's still expected to grow sequentially?

Vito Culmone — Chief Financial Officer, MDA Space

Exactly. We expect [inaudible] quarter-over-quarter backlog increases here.

David McFadgen — Analyst, Cormark Securities

Okay. No, that's pretty good. Okay. All right. That's it for me, thanks.

Mike Greenley — Chief Executive Officer, MDA Space

Thanks, David.

Operator

Thank you. Your next question is from Ken Herbert from RBC Capital Markets. Please ask your question.

Steve Strackhouse — Analyst, RBC Capital Markets

Good morning, everyone. This is Steve Strackhouse on for Ken Herbert. Your bookings in the quarter were really nice. Just kind of following up on the backlog conversation, can you maybe discuss how your new bookings, maybe starting with the Canadarm3 extension and then potential future contracts that you're looking to bid, kind of just how those can affect your margin profile?

Mike Greenley — Chief Executive Officer, MDA Space

So I think there are a few things there. I think, like in terms of our overall margin profile, I don't think we would have anything to say about changing our margin profile. We talked for the last three years consistently about guiding towards an 18% to 20% margin rate profile. We have, I realize, exceeded that a bunch in the last few years, but we continue to talk and guide, like we're doing this year, in the 19% to 20% range. And as you saw, Q1 was a 20% range. So there's nothing that we would want to say that would we would want to change expectations on margin rate.

In terms of the nature of the bookings that have just occurred, we just kind of talked about that. We had the unmanned vehicle booking, we had the additional adjustments to the Lightspeed backlog in the quarter, and then the $250 million is our next dollop, or probably final dollop I guess, of recurring revenue that has been recurring for the last 25 years almost. We talk about having a sort of $30 million to $50 million a year of recurring revenue in terms of our support to Canadarm2 and related operations on the International Space Station and that $250 million is the next top up to that to get us to International Space Station going out of service in the 2030 time frame. And so that's actually, like we just said, an April or Q2 booking, it's just that we talk about it right now because it's occurred subsequent to quarter end.

In terms of the future pipeline, like we have a strong future pipeline in general. We talk about that as being a $17 billion-plus pipeline. It remains so. It continues to obviously get new entries into it. We don't provide details on specific pursuits, but it continues to be a robust $17 billion-ish pipeline, which would have an order window over the next five years.

Steve Strackhouse — Analyst, RBC Capital Markets

With regard to some of that $17 billion pipeline, do you find that you're becoming any more selective on some of the contracts that you're bidding for, better margins, or are you still just kind of thinking about it in terms of long-term growth?

Mike Greenley — Chief Executive Officer, MDA Space

I think that we get selective for sure, but probably more selective based on ensuring the solidity of the customers, to make sure that the customers are solid, that they've got their financing, that what they're interested in is in strong alignment with our offering. With the introduction of product lines in terms of MDA SKYMAKER in robotics and MDA AURORA in satellite systems, we're seeing a great pipeline emerging of customers with strong business cases, with financing, that their requirements align with our product lines and so that all fits well. So those decisions are based, those selections, I guess, are based on picking solid customers to really work with and pursue and invest in that align well with our business. To be honest, it’s not a margin-driven conversation, but because the opportunities align with our product base, the productization of us will give us opportunities over time, like several years. As things get more productized, then you get more learning, you get more opportunities for volume, and you would get some margin expansion opportunities, but I’m just being dead honest with you, that’s not the driving force of our decision making in the pipeline. Our driving forces to make sure we’ve got solid customers to work with that line up with our offering.

Steve Strackhouse — Analyst, RBC Capital Markets

That’s great. Thanks. I’ll leave it there.

Operator

Thank you. Once again, should you have a question, please press star one. Your next question is from Thanos Moschopoulos from BMO Capital Markets. Please ask your question.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Hi. Good morning. Could you comment on the level of certainty with respect to your forecast for Telesat Lightspeed in 2024? What I mean is that, if the stars were to align, is there an opportunity for the revenue contribution to be significantly higher than you’re currently assuming? Or just given the time frame involved for ramping up the program and bringing on some contractors and so forth, does that kind of mitigate the opportunity for exceeding what you currently forecasting?

Mike Greenley — Chief Executive Officer, MDA Space

I think right now at this time we would just be holding to our guidance for the year. Like there's really nothing much to talk about beyond that. Lightspeed is a key part of our profile for the year. We've incorporated that in our business plan and our guidance and we continue to hold to the guidance, as Vito indicated in his remarks.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Okay. With respect to the Canadian lunar rover program, can you remind us as far as the time frame for a potential decision for a prime contract award from the government?

Mike Greenley — Chief Executive Officer, MDA Space

Yeah. That comes in phases. And so the initial phase that, there's the three teams that are working on it now will be like a 12- to 18-month first phase there that everyone will work through and then subsequent phases will result in down-select activity. I don't have in my head, just off the top of my head, the target date for final, final award date, so that's something I need to go and get in my head. So I'm sorry about that.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Finally, at the recent satellite industry conference, a lot of talk about the direct-to-handset market. You obviously have some involvement there with Globalstar. Just curious on your take on that market, you know, when you look at your pipeline, does that encompass a number of such opportunities? Are there still some challenges that need to be worked out from [inaudible] perspective as far as business models and so forth or are there active discussions with operators looking to deploy that kind of service?

Mike Greenley — Chief Executive Officer, MDA Space

Yeah. So the direct-to-device market is, I'll just start by saying it's real. It's expanding, I think, in terms of people's thinking about the feasibility and the importance of the direct-to-device market as we move forward into the future. We have opportunities for sure in our pipeline, multiple ones, related to the direct-to-device market. In addition, following that to the Internet of Things market, which is also very interesting in terms of people looking at wanting to put up space networks to connect to and track everything, whether that be agriculture vehicles or cars or logistics or anything. So the direct-to device market, followed by the Internet of Things market, are both strong market opportunities to come, that are starting to emerge in the pipeline, but we would expect to actually continue to expand as we go forward into the future.

Thanos Moschopoulos — Analyst, BMO Capital Markets

Great. I'll pass the line. Thanks.

Mike Greenley — Chief Executive Officer, MDA Space

Thanks.

Operator

Thank you. There are no further questions at this time. Please proceed for the closing remarks.

Mike Greenley — Chief Executive Officer, MDA Space

Okay. Well, thanks, folks, for your time this morning. We look forward to updating you on our progress during our next earnings call in August. Thanks again and have a great day.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect.