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Andrew Browne
Chief Financial Officer

David Wendling
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CONFERENCE CALL PARTICIPANTS

Edison Yu
Deutsche Bank

David McFadden
Cormark Securities

Chris Quilty
Quilty Space

Walter Piecyk
LightShed

Sean Mahoney
Bank of America

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the conference call to report the second quarter 2024 financial results for Telesat.

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

I would now like to turn the meeting over to Mr. James Ratcliffe, Vice President of Investor Relations. Please go ahead, Mr. Ratcliffe.

James Ratcliffe, Vice President Investor Relations

Thank you, Paul, and good morning, everyone.

This morning we filed our quarterly report for the period ending June 30, 2024, on Form 6-K with the SEC and on SEDAR+. Our remarks today may contain forward-looking statements. There are risks that Telesat's actual results may differ materially from the results contemplated by the forward-looking statements as a result of known and unknown risks and uncertainties. For a discussion of known risks, please see Telesat's Annual Report and updates filed with the SEC. Telesat assumes no responsibility to update or revise these forward-looking statements.

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

Daniel Goldberg, President and Chief Executive Officer

Thanks, James, and good morning, everyone.

Q2 and the first six months of this year have unfolded consistent with our expectations. As a result, we're reaffirming all of our guidance for the year and keeping focused to make sure we meet those objectives.

When we hosted our first quarter call in early May, we indicated we were seeking to conclude our Lightspeed funding agreements with the governments of Canada and Quebec by the end of this summer. This is obviously a key priority for us. I'm happy to say that we've had good and sustained engagement with government representatives, and we are optimistic that we remain on track to achieve this timing. We'll make a separate announcement once the definitive funding agreements are concluded.

Beyond that, we're making strong progress executing on the Lightspeed program. As MDA, our Prime Satellite contractor, noted on its earnings call last week, they've now selected and onboarded 90 percent of the suppliers for the Lightspeed program, and they remain on track for their full year ramp-up plan. We've increased our own head count since the start of the year by nearly 20 percent as we staff up to execute on Lightspeed, and the team is making excellent progress on the program.

As we noted in today's earnings release, our focus this year remains twofold. For our GEO activities, the emphasis is on maximizing EBITDA and cash flow by doing what we can to mitigate anticipated revenue declines and rigorously managing our cost structure. On LEO it's all about execution, closing our funding agreements, staffing up, building out all the various elements of the Lightspeed network, including the satellites, the ground infrastructure and the software that we need, and commercializing it in the key verticals we're focused on. I'm very pleased with the progress we're making in all of those areas.

We're hugely bullish on our prospects in the market as well as our ability to deliver an extraordinary value proposition for our customers and significant value creation for our shareholders. With that, I'll hand over to Andrew and then look forward to taking any questions.

Andrew Browne, Chief Financial Officer

Thank you, Dan, and good morning, everyone. I would now like to focus on highlights from this morning's press release and filings.

In the second quarter of 2024, Telesat reported consolidated revenues of $152 million and Adjusted EBITDA of $103 million. The first six months of 2024 the Company generated $66 million in cash from operations, ending the second quarter with $1.4 billion of cash.

For the second quarter of 2024 and compared to the same period in 2023, revenues decreased by $27 million to $152 million. Operating expenses increased by $5 million to $56 million, and Adjusted EBITDA decreased by $35 million to $103 million. The Adjusted EBITDA margin was 67.8 percent as compared to 77.1 percent in the fourth (phon) quarter of 2023. The revenue decrease for the quarter was primarily due to reduction in services and a lower rate on the renewal of a long-term agreement with a North American direct-to-home customer as well as lower revenues from certain mobility and Latin American customers.

The increase in operating expenses is primarily due to higher wages and benefits, bad debt expense, and costs associated with consulting contracts, partially offset by lower non-cash share-based compensation and higher capitalized engineering expense associated with Telesat Lightspeed.

Interest expense decreased by $7 million during the second quarter when compared to the same period in 2023. The decrease in interest expense was primarily due to the repurchase of notes and Term Loan B. This was partly offset by an increase in the interest rate on the U.S. term loan facility.

In the second quarter, we recorded a loss on foreign exchange of $34 million as compared to a gain of $67 million in the second quarter of 2023. The loss for the three months ended June 30, 2024, was mainly the result of the strengthening U.S. dollar, the Canadian dollar spot rate through the quarter as compared to the spot rate as of December 31, 2023, and the resulting unfavourable impact on the translation of our U.S. dollar-denominated debt.

Our net income for the second quarter was $129 million compared to net income of $519 million for the same period in the prior year. The change was primarily due to the one-time recognition of C-band clearing income in the second quarter of 2023, along with the impact of the foreign exchange loss, as I had mentioned earlier.

For the six months ended June 30, 2024, cash inflows from operating activities were $66 million, and capital expenditures were $334 million in the same period, almost all of which were related to Telesat Lightspeed.

Actual cash used in investment activities was $220 million in the first six months of the year. Certain capital expenditures were incurred late in the second quarter and subsequently accrued. This is reflected in the increase in trade and other payables at quarter end.

Guidance. As you will also have noted in our earnings release this morning, we have reaffirmed our 2024 guidance. This guidance assumes a Canadian dollar to U.S. dollar exchange rate of CAD1.35. For 2024 Telesat still expects its full year revenues to be between $545 million and $565 million.

In terms of operating expenses, excluding share-based compensation, we are still looking to spend between $80 million to $90 million attributed to Telesat Lightspeed.

Adjusted EBITDA, Telesat still expects to be between $340 million to $360 million. As promised, we are also showing our GEO and LEO results separately and is reflected in Note 4 of our financial statements filed on Form 6-K.

In respect to expected capital expenditures, we continue to expect our 2024 cash flows used in investing activities to be in the range of $1 billion to $1.4 billion, which is nearly all related to expected Telesat Lightspeed CapEx.

To meet our expected cash requirements for the next 12 months, including interest payments and capital expenditures, we have approximately $1.4 billion of cash and short-term investments at the end of June as well as approximately US$200 million of borrowing capacity available on the revolving credit facility. Approximately $1.2 billion in cash was held in our unrestricted subsidiaries at the end of the quarter. In addition, we continue to generate a significant amount of cash from our ongoing operating activities.

At the end of the second quarter, total leverage ratio as calculated under the terms of the amended senior secured credit facilities was 5.61 times. Telesat is in compliance with all the covenants in our credit agreement and indentures.

In terms of our debt repurchases, we have reported year-to-date an amount of US$262 million at a cost of US$120 million, including accrued interest. This includes an amount of US$43 million purchased after quarter end. Combined with the debt repurchases completed in 2022 and 2023, we've now repurchased a total principal amount of US$849 million at a cost of $459 million, including accrued interest. This also results in interest savings of approximately $55 million annually.

Including the repayment in 2020 of approximately US$356 million of Term Loan B, our overall debt has been reduced now by approximately 36 percent, or $1.2 billion.

A reconciliation between our financial statements and financial covenant calculations is provided in the report we filed this morning. Our 6-K provides the unaudited interim condensed consolidated financial information and MD&A. The non-guarantor subsidiaries shown are essentially the unrestricted subsidiaries with minor differences.

So, that concludes our prepared remarks for the call, and now we'll be very happy to answer any questions you may have. With that, I will turn back to the Operator for the question-and-answer session. Thank you.

QUESTION AND ANSWER SESSION

Operator

Thank you very much. We will now take questions from the telephone lines. If you have a question, please press star, one, on the device's keypad. You also can cancel your question at any time by pressing star, two. Again, please press star, one, at this time if you have a question. There will be a brief pause while the participants register. We thank you for your patience.

We have the first question from Edison Yu from Deutsche Bank. Please go ahead, your line is open.

Edison Yu, Deutsche Bank

Good morning, thank you for taking our questions. First, I just want to clarify that the negotiations are on track. Are you basically saying that it will conclude in the next couple of weeks based on your kind of end of the summer timeline?

Daniel Goldberg, President and Chief Executive Officer

Yes, that's effectively right. Our expectation is that in the next couple of weeks we will conclude the agreements and make a separate announcement about that.

Edison Yu, Deutsche Bank

Understood. Is there anything that still needs to be worked out, or is this sort of more the right people got to make the right signatures, or is there anything kind of outstanding?

Daniel Goldberg, President and Chief Executive Officer

No, as I said in my prepared remarks, we've had really good engagement with the government representatives. These are representatives from the Government of Canada and the Government of Quebec. There are a good number of agreements that need to get concluded in order to document all the different features of the funding arrangements.

At this point in time, I don't see any significant impediments or obstacles in getting this done in the coming weeks. So yes, we're just—it's a big funding arrangement with multiple agreements, and we're just working through all that, but there's nothing kind of extraordinary about what remains to get done.

Edison Yu, Deutsche Bank

Gotcha. Switching to the guidance on the CapEx, obviously implies a pretty substantial step-up, even at the low end of the range. I guess, how do we think about what determines if you end up closer to $1 billion, closer to $1.4 billion, and what sort of drives (phon) the delta?

Daniel Goldberg, President and Chief Executive Officer

Andrew, do you want to take that?

Andrew Browne, Chief Financial Officer

Yes, sure. If you look at our flow of CapEx in the second quarter, it's approximately about $309 million or so. So, if you kind of multiply that by 3, you actually get to a billion from a mathematical perspective. That's why we feel pretty comfortable where we are with the range.

Daniel Goldberg, President and Chief Executive Officer

Yes, and maybe I would just add that it's a sign that the program is on track. I mentioned, again in my prepared remarks, that MDA, who's the prime and is going to be the beneficiary of so much of our capital spending this year and next, they've done a great job of getting all their suppliers online. They're placing orders, and they're moving out exactly as we would like them to. So yes, we felt everything we're seeing tells us that we're going to be tracking the guidance. As Andrew said, there was a big spend in Q2, and everything we're seeing is showing good progress and that our suppliers will achieve the milestones they need to achieve in order to unlock the payments that we've sort of budgeted for.

Edison Yu, Deutsche Bank

Thank you. I'll jump back in the queue.

Daniel Goldberg, President and Chief Executive Officer

Okay, thanks.

Operator

Thank you. The next question is from David McFadden from Cormark Securities. Please go ahead, your line is open.

David McFadden, Cormark Securities

All right, thank you. I have a couple of questions. Can you just give us an update on where you stand with respect to negotiating that one DTH customer? I believe the contract's up for renewal this fall.

Daniel Goldberg, President and Chief Executive Officer

Yes. Thanks, David. Just for everyone's benefit, we've got a renewal with EchoStar on our Nimiq-5 satellite that comes up in early October, and we've said that on our last two calls, I think, that we've been engaged with EchoStar.

So, we're not done yet. I've mentioned before we know EchoStar well. We have good relationship with them. We've done business with them for a very long time. We've certainly had a number of exchanges, but we're not done yet. My expectation, obviously, with this renewal coming up in about two months' time, we'll be landing on a resolution pretty soon. Certainly, I think that by the time we do our Q3 call we'll be able to provide a lot of detail around where we landed, but at this point in time, still having discussions with them.

David McFadden, Cormark Securities

Okay, and then maybe a couple of questions on Lightspeed. In terms of definitive agreements, you've signaled that you expect to have them signed by the end of summer. Is that with both the Government of Canada and the Government of Quebec? Because I think in the past, you were primarily referring to the Government of Canada.

Daniel Goldberg, President and Chief Executive Officer

Yes, no. It's our expectation that it'll be with both of them. Again, that's why it's taken a little while. Again, we're tracking the timeframe that we'd envisioned a few months ago when we put out our Q1 numbers. But because it is the Government of Canada, it is the Government of Quebec. We also have this vendor financing, and so all of that needs to get done. It takes a little bit longer than if it were, one, just a purely commercial kind of funding syndicate, and two, yes, with this government funding, there are kind of special considerations.

So yes, it will be with the Government of Canada, with the Government of Quebec, and it all feels like it's moving in the right direction. I have to say, just because I'm a former lawyer, it ain't over 'til it's over, but we're highly confident that we're going to get there in the coming weeks.

David McFadden, Cormark Securities

Okay, and then can you update us on your total spend to date on Lightspeed?

Daniel Goldberg, President and Chief Executive Officer

Andrew?

Andrew Browne, Chief Financial Officer

Looking at the half year, as we said, we've spent $334 million in total, of which cash is $220 million, and the balance has indeed been reflected in the accounts payable that we see on the balance sheet.

Daniel Goldberg, President and Chief Executive Officer

Those are Canadian dollars, right, Andrew? Just…

Andrew Browne, Chief Financial Officer

Yes, correct. Canadian dollars, correct.

David McFadden, Cormark Securities

So, I think the budget for Lightspeed is $3.5 billion. Well, that's your last number. So you've spent CAD334 million so far on the project all in?

Daniel Goldberg, President and Chief Executive Officer

Yes.

David McFadden, Cormark Securities

Okay.

Daniel Goldberg, President and Chief Executive Officer

Oh wait, no, no, no. That's just what we've done so far this year. (Multiple speakers) Yes, but we've been making investments in the program for the past few years, including payments with launch providers, a lot of the nonrecurring engineering investment that gotten made, user terminal development, just kind of across the board. Andrew, I don't know if you want to say anything more about that.

Andrew Browne, Chief Financial Officer

Yes. No, I can. If you go all the way back to the development, back to 2020, on a Canadian dollar basis, looking at CapEx, it's about $980 million CapEx is what we have spent doing all of the work that we have done to get where we are today.

Daniel Goldberg, President and Chief Executive Officer

And currency?

Andrew Browne, Chief Financial Officer

In Canadian dollars.

David McFadden, Cormark Securities

Okay. All right, that's great. Thank you.

Daniel Goldberg, President and Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Chris Quilty from Quilty Space. Please go ahead your line is open.

Chris Quilty, Quilty Space

Hey, guys. Congratulations, you put up better results than I was expecting for Q2. But that begets the question, you maintained full year guidance. Did you see anything that was pulled forward into Q2, maybe just first question?

Daniel Goldberg, President and Chief Executive Officer

No, the quarter unfolded like we expected.

Chris Quilty, Quilty Space

All right. I, therefore, kind of didn't model back half down as much as perhaps I should have to stay at kind of midpoint of the guidance. But putting aside Nimiq-5, which I had already accounted for, when you look at the base of the business, are there any other large contract roll-offs, or the other issues you've identified, Maritime and Latin America, are those getting better or worse?

Daniel Goldberg, President and Chief Executive Officer

I think, look, we gave guidance at the outset of the year. Like in any year, there are always puts and takes. In the main, the year has been unfolding like we expected. There were some renewals that we didn't think we were going to get that we did. There were some things that we thought would roll off in a certain timeframe. We still think they're going to roll off, but they're rolling off a little bit later. Then equally, there are some things that played out in a way that was probably worse than what we thought.

One of the things I'd note, and we flag it in the 6-K, is our customer Xplore, which is a Canadian rural broadband provider that serves its customers with a mix of satellite, terrestrial wireless, and fibre. Xplore is going through a restructuring process right now, and as a result, we've bumped up our bad debt provision in the quarter, and we're trimming our expectations for what we'll do with them for the rest of this year.

I'd say that was one that we didn't anticipate when we gave our guidance at the outset of the year, but that's something that will be a bit of a headwind in the second half of the year and potentially next year as well.

Chris Quilty, Quilty Space

Remind me, Dan, because that was—they bought all the ViaSat and Hughes Canadian payloads for ViaSats 1 and 2. You guys were involved in the deal, if I can say, as sort of a middleman through that contract, if I remember correctly, so I wasn't expecting there was a Hughes revenue or margin contribution on that.

Daniel Goldberg, President and Chief Executive Officer

No, not really, but you're right. You're right in the sense that XPlore uses satellite capacity from Telesat, ViaSat and Hughes. But no, we didn't act as a middleman for any of that. We owned the Canadian payload for ViaSat-1 and we did a long-term deal with XPlore to use that payload, but they did their own direct deals with Hughes and ViaSat for their other capacity so that that doesn't flow through our P&L.

Chris Quilty, Quilty Space

Okay, I got it partly right. Okay.

Daniel Goldberg, President and Chief Executive Officer

Well, that's usually better than I do, so that's pretty good.

Chris Quilty, Quilty Space

All right. Second question for Andrew, I guess, spending a billion dollars in the back half of the year is no small feat for the government, but for Telesat, that's a big chunk of money. Clearly, people are not building stuff at that rate. How much of that should we think of as prepayments to—and how does that flow through MDA to the supplier base in terms of the revenue contribution on the other side? If you can give us (multiple speakers).

Daniel Goldberg, President and Chief Executive Officer

So maybe, Chris, I'll take this one. I won't speak to MDA's revenue recognition or, I mean, talk to them about that. But our suppliers need the money. They're ordering equipment right now. I mean, don't forget, we're launching satellites two years from now, which means that those satellites are going to be getting built in the coming months. They're ordering—you name it, solar rays. I'm sitting here with my CTO. Help me out, Dave.

David Wendling, Chief Technical Officer

Okay, so all of the various components on the spacecraft. The mechanical, the propulsion system, solar rays, (multiple speakers). All that.

Daniel Goldberg, President and Chief Executive Officer

A hundred percent. People are building stuff. The supply chain is building stuff. They're ramping up, they're spending money. As much as I would like to think that everyone wants to do Telesat a great big favour, in my experience, all these companies want money before they start spending money. So that's the flow of funds. Here again—and I'm somebody that is really squeamish about spending money. But the reality is, we're hitting the schedule, and they're moving out. The worry would be if we weren't spending the money, then our schedule, to me, and to other people that know this industry, it wouldn't be credible. The reality is, yes, we're spending a lot of money over the next 24 months because people are buying stuff and building stuff, and that's exactly what's going on.

Chris Quilty, Quilty Space

Great. Speaking of stuff, I have to ask. It's a Company, but also an industry question around your selection of TSAT (phon) for your optical terminal. I think you were involved with Inerac (phon) on a couple of phases of DARPA Space-BACN. Obviously, that technology is absolutely critical to the sort of performance and economic returns you expect. Can you perhaps give us a little soliloquy on the process there?

Daniel Goldberg, President and Chief Executive Officer

Yes. Our world-class, long-standing CTO, Dave Wendling, is sitting in the room with me, but I'll take the first crack at this, Dave, and you can come around.

So yes, these optical inter-satellite links are a key part of the constellation and for everything on the constellation, whether that's the onboard processor, the antennas, the digital antennas, or these optical links. We're always trying to make the right choice between cost, capability, and kind of reliability, heritage and whatnot. There are a lot of folks right now that are coming forward with good optical technology in space. We worked with MDA in making the selection, so that's something else I'd note. This was kind of a joint determination between Telesat and MDA.

The reality is we landed on TSAT because they kind of most checked the box on those different variables; performance, reliability, cost, schedule, all of that. So, TSAT has good heritage here. They have a very good capable optical link. At the end of the day, it was a competitive process, and at the end of the day, we and MDA judged that TSAT was the best vendor for it.

It's not a black mark against any of the other companies out there that are making optical links. We felt like we had a number of good alternatives, but at the end of the day, TSAT got over the line for us. Dave, I don't know if there's anything else.

Dave Wendling, Chief Technical Officer

No, I think you said it well, Dan. I just note that it was a very disciplined down selection and selection process in the final analysis, Dan. So, as you said, TSAT came out on top and we're very comfortable with it.

Chris Quilty, Quilty Space

Final question. Listening to the MDA call the other day, clearly, you're top of heap with them, but they apparently have a new undisclosed customer that's sort of grown in size very quickly. This would lead someone to believe it might be a government customer, which tends to exert priority. I'm speculating, but these are the things we've seen happen before. Do you have any concerns? I know they're ramping up to a capacity of like 2,000 satellites a year, but they're ramping up. Is their growing book of business concerning (inaudible)?

Daniel Goldberg, President and Chief Executive Officer

So, the short answer is no. They're right down the street from us, about an hour and a half away from us. We know MDA well. Our teams are well integrated. We've got a lot of former MDA employees here. They probably have a couple of former Telesat employees on their side. We have, I'd say, a really good working relationship with MDA at all the different levels kind of throughout our organizations. We've worked with MDA for decades, not as a satellite prime, principally on the antenna side and whatnot, although they've been building satellites for years and years.

So no, we don't have any concern. We're in close contact with them as they ramp up their staff, as they ramp up the supply chain. We, including myself, meet with them on a regular cadence, which is not to say that we're relaxed and complacent. This is a huge program for us. It's a huge program for them. Both of us need this program to be successful. I like that dynamic where we both have a lot of skin in the game.

But no, I mean it's something that we're going to keep monitoring very, very closely. But no, I feel good right now about where they are on the ramp-up and how our teams are engaging and the like. If we feel differently about that, we'll let you know.

Chris Quilty, Quilty Space

Great, thanks.

Daniel Goldberg, President and Chief Executive Officer

Thanks, Chris.

Operator

Thank you. The next question is from Walter Piecyk from LightShed. Please go ahead, your line is open.

Walter Piecyk, LightShed

Thanks, Dan. Just first, a quick follow-up on one of Chris's questions with regard to you had the strength in the first half of the year relative to guidance. Are you basically assuming that EchoStar is a zero in terms of revenue for the fourth quarter as they kind of work through their cash issues? Is there some probability associated with that when you put together your guidance numbers?

Daniel Goldberg, President and Chief Executive Officer

Well, when we put together our guidance, and we said this before, it captured a range of outcomes with EchoStar, and we haven't changed any of those assumptions in terms of what those range of outcomes could be. So no, the back half of the year and our thinking about it hasn't deteriorated because we've learned something new, or our thinking has changed about EchoStar from where we stood at the outset of the year when we gave the guidance.

I guess the other thing I'd say is, yes, we all track what's going on in the sector, including what's going on with EchoStar. The reality is, the direct home satellite business is obviously still generating a significant amount of cash flow at EchoStar. To date, Nimiq-5 is being fully used by EchoStar. My expectation is to the extent that they renew with us, then that will be a reflection that Nimiq-5 is still an important part of their distribution infrastructure, and they'll find a way to pay for that because it's important that they continue to provide service to their DTH customers and continue to enjoy the benefit of that cash flow. My expectation is that they'll find a way to make sure that their paying us.

just pausing here. Are we still online? Okay. Sorry, there. Our screen was flickering here. I wasn't sure if we had lost the line.

Walter Piecyk, LightShed

No, that was a good response. Maybe it was just flickering positive (inaudible). I mean, look, they have to generate some level of free cash flow in one element of the business, and they can't switch off on Nimiq-5, and you got to get—why not just put a gun to their head then and just not let them off the hook for a lower renewal?

Daniel Goldberg, President and Chief Executive Officer

Well, I mean, look, with all of our customers, you try to frame things in kind of a win-win way as best you can. You don't always get there. But we've been working with EchoStar for nearly 20 years now, and we have a good relationship with them. We've talked about this before. We all know it. The direct-to-home satellite business is facing real secular headwinds. We try to work with—whether it's Bell or EchoStar or Shaw, try to work with them to sustain that business because there still are millions of households across North America that rely on those services.

Walter Piecyk, LightShed

No, I agree. I just feel like on this renewal, however, many years it's going to be, also longevity of the sat itself. It's like this is the last one. Five years from now, if there are a couple of million subs (phon) lower, then they're not going to be maybe as nice to you as you're sounding like you want to be nice to them in this (inaudible). In other words, like, this could be the last negotiation of your 20-year relationship, so why not like just squeeze in for everything you can?

Daniel Goldberg, President and Chief Executive Officer

Yes, I don't know. We've been doing this for a long, long time. It's not how we approach our customers in the market.

Anyway, stay tuned. We're going to conclude one way or another, our renewal discussions with them, and then we'll be able to provide an update on that in a couple of months' time.

Walter Piecyk, LightShed

(Inaudible) on the LEO. Now that MDA is kind of talking about it more, obviously, there's seemingly more confidence in the market that the project's moving forward. Has this opened up any additional pre-sales on the enterprise side? I realize obviously the launch is still a couple of years out but wondering if you've got any kind of additional commitments.

To that end, in terms of the market size beyond enterprise, what Globalstar and Apple have done on this recent phone—again, getting back to the direct-to-device, I know this is not the target market that you want, but is there any rethinking in that in terms of direct-to-device? I mean, I think the Sky Go announcement yesterday with the new Pixel phone, there seems to be a market developing, I mean, using the Globalstar stuff. It's been great in the holes (phon) of coverage that exist. Just curious if the thought process has changed in terms of trying to attack that market.

Daniel Goldberg, President and Chief Executive Officer

It's a great question, but no, it hasn't. The reality is the spectrum that Lightspeed's operating on, the Ka-band spectrum, is ideal for broadband connectivity, but it's not ideal for direct device, providing a broadband connection, even a narrowband connection to a handheld smartphone. We believe the market that the verticals that we're focused on are great opportunities for us. They're large, they're deep, they're fast growing, and we've optimized the constellation to serve that market. The frequencies are really well suited to serve that market. So no, that remains the focus.

Then, as far as pre-sales activities, Lightspeed's moving forward. I mean, if anyone still has any questions about that, I don't know what to say. But we're obviously spending money, MDA's ordering stuff, and we're all ramping up our staff. I mean, Lightspeed's going forward. I think the customer community understands that. We've got salespeople and business development people running all around the world, engaged with the customers that we know well in these different verticals. Nothing to announce right now, but (multiple speakers).

Walter Piecyk, LightShed

I know you only announce, like, material contracts, but could you at least comment whether there have been incremental bookings that maybe they're not significant enough to call out (multiple speakers). Have there been any bookings since the last earnings call?

Daniel Goldberg, President and Chief Executive Officer

No, but it wasn't our expectation that there would be any. We're having good engagement with really good prospective users in the key verticals that we're focused on, aero, marathon, government, enterprise. It wasn't my expectation that we'd be announcing anything since putting out our Q1 numbers. But the market knows what we're building. Users are excited about it.

There's a clear validation that the customer community is highly receptive to LEO. You see the traction that StarLink is getting, and we think that we're bringing something really compelling to the market.

So anyway, stay tuned, and we'll be very transparent about the orders we're getting right now. We've got about $750 million of take-or-pay commitments on Lightspeed, which we do not include when we talk about the CAD1.1 billion of backlog that we report in the earnings release. The Lightspeed backlog is separate and apart from that. As that moves, we'll report on it, and we'll talk about the wins that we have, and the like.

Walter Piecyk. LightShed

Great. Thank you.

Daniel Goldberg, President and Chief Executive Officer

Thanks.

Operator

Thank you. The next question is from Sean Mahoney from Bank of America. Please go ahead, your line is now open.

Sean Mahoney, Bank of America

Hi, thanks for taking the questions. First, I noticed a large working capital outflow for the restricted group and a large working capital benefit for the unrestricted group in the quarter. So just wondering, does that reflect any intercompany flows, or is it just a coincidence that those numbers largely offset? Or did you use the remaining unsub investment capacity, as you indicated you would on the last call?

Unidentified Male Speaker

Yes, so that's the investment down from Telesat Canada into the unrestricted group. From a timing perspective, it's just showing up top in operations. But next quarter, you'll see it down as an investment in.

Sean Mahoney, Bank of America

Okay, got it. Thank you. Then, for GEO OpEx, Q2 was up sequentially. It seems like at least part of that was due to the bad debt expense associated with Xplore that you expand as well as higher professional fees. How should we think about run rate GEO OpEx? Should we look more sort of like Q1, or do you expect to continue to incur higher bad debt expense with Xplore or higher professional fees for some time?

Andrew Browne, Chief Financial Officer

If you look at our GEO business overall, we'll will point out our actual EBITDA margin is 80 percent, which is pretty high, pretty significant. We said on our last call we were expecting GEO OpEx to be down 4 percent in our plans, and that's contained within the guidance, and that's still what we are actually sticking to now.

On the bad debt, I just shared the bad debt amount delta is about $2 million to $3 million, so on a grand scale, it's not that sort of material. But as we said on our last call, in terms of OpEx, and as Dan has alluded to in spending money, we are pretty judicious on what we do and how we spend money, which is good. As I say, that's what we said in our call. (Inaudible)

Sean Mahoney, Bank of America

Okay, got it. Then, on the bad debt expense that you mentioned, it looks like it went up like $3.3 million in the quarter, so call it $1.1 million a month. Are you still recognizing revenues from Xplore and just kind of offsetting that with bad debt expense?

Unidentified Male Speaker

Yes, we are currently recognizing revenue at Xplore. They're making partial payments, so we continue to recognize revenue until we know more about what their plan is going forward.

Sean Mahoney, Bank of America

Okay, and can you quantify, like, what their remaining obligations are, I guess, under the contract, like how much of your backlog includes the Xplore obligations?

Daniel Goldberg, President and Chief Executive Officer

Yes, we'll help you out there. So, John, remind me. It goes out until...

Unidentified Male Speaker

January 2027.

Daniel Goldberg, President and Chief Executive Officer

Yes, so it would be '25 and '26. It's probably order of magnitude about CAD40 million of backlog that's in that $1.1 billion. You should also know that about a third of that was prepayment, and so when we recognize revenue from Xplore each quarter, about a third of it is just non-cash deferred revenue. But that's what it is, Sean.

Sean Mahoney, Bank of America

Okay, got it. Thanks. Then, the last one. I know a few people have asked, so I'll just try it one more time, on the guidance. The low end of the guidance implies second half revenues of about $240 million (inaudible) $40 million a month, and you did $305 million, or about just north of $50 million per month in the first half. I know that there's the renewal with EchoStar that comes up, I think, I can't remember if it's September or October. But in the past, you've said that those DTH birds are about $70 million a year. Could be more, could be less. But just wondering if you could help us understand, like, the drop-off of at least—or I guess even if you lost a hundred percent of that EchoStar contract (audio interference) still assuming some pretty steep declines in the rest of the business in the second half of the year. Thanks.

Daniel Goldberg, President and Chief Executive Officer

I'm looking at Andrew (audio interference) I'll take this. How we thought about the year, certainly, even if this renews, we expect that it will be at a materially lower rate. We've captured different outcomes with DISH that explain part of the decline. We've got this issue with

Xplore. We'll see where we land on that. So, it's things like that.

I would note also, there's—we take a look at all of our business activities periodically. We're giving consideration to selling a non-core business that we own, and that could potentially get done in the near term, so it would be impactful for this year. It contributes revenue. It doesn't contribute a whole lot of EBITDA to us. But if we were to do that, it would weigh somewhat on the top line, at least. So, it's all those kinds of things.

Then yes, we gave a range, right? I mean, there's a low end of the range, there's a high end of the range. Andrew, do you want to add anything to that?

Andrew Browne, Chief Financial Officer

Yes, indeed. If you look at the OpEx, as we know, as Dan said, we're hiring people, so our OpEx in LEO, our investment in LEO from the people perspective is going to increase. If you look at our segmentation, our operating expenses for the six months were about $32.8 million, and our guidance we've given for OpEx for LEO is between $80 million to $90 million. So, that will also kind of play in overall as to what the potential increase in OpEx in the second half versus first half. So, that plays in right down to the Adjusted EBITDA as well, and I will say we are prudent as well in what we do.

Daniel Goldberg, President and Chief Executive Officer

Maybe one other thing that James is pointing out to me that—and now that we've broken out our GEO and LEO numbers separately, it's easier for you guys all to see that we recognized revenue in LEO for the first half of the year, and that's chunky, non-linear kind of revenue. It was the consulting contract that we had. I think this one was with NASA.

Andrew Browne, Chief Financial Officer

NASA, correct.

Daniel Goldberg, President and Chief Executive Officer

Which there's more revenue recognition in the front part of the year than there is in the back part. Here again, it's not contributing a whole lot of EBITDA, but it will impact the top line.

So anyway, Sean, it's all of those things. But there's certainly nothing that—other than the Xplore restructuring that's going on, we don't know where that's going to land—there's nothing about how the second half of the year is shaping up that's really anything different than the way we were thinking about the second half of the year at the outset of this year when we gave our guidance.

Andrew Browne, Chief Financial Officer

If you look at the segmentation breakout we've done, which I think is very useful and very transparent, the issues we just mentioned about the OpEx (inaudible) the revenues in LEO, you can actually see that quite clearly, particularly pertaining to the first three months.

Sean Mahoney, Bank of America

Okay, got it. Thank you. Then, just the last one for me, based on what you've said, that non-core asset that you mentioned, is that in the restricted group, and can you give us any sense for, like, order of magnitude of what you expect to sell that for? Is that like $5 million, $10 million, or are we talking $100 million or…

Daniel Goldberg, President and Chief Executive Officer

Yes, so one, it is in the restricted group. It's certainly not material from an EBITDA perspective because, as I mentioned, it's pretty much EBITDA neutral for us.

Then, in terms of top line contribution order of magnitude it's kind of in the CAD10-plus million contribution to the top line. So, that's what it looks like.

Oh, and then in terms of proceeds, we can't say yet because we don't have anything to share yet, but it's not going to be really material. But any proceeds that we do get from that activity if we sell it will come into the restricted group.

Sean Mahoney, Bank of America

Okay, thanks. That's all for me.

Daniel Goldberg, President and Chief Executive Officer

Okay, thank you.

Operator

Thank you. There are no further questions registered at this time. I will turn the call back to Dan Goldberg.

Daniel Goldberg, President and Chief Executive Officer

Okay, Operator, thank you very much, and thank you all for joining us this morning. We look forward to chatting with you again when we release our Q3 numbers. So, 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 line at this time, and we thank you for your participation.
